Dear Sirs, Shareholders and Stakeholders,

I present you an individual annual report of ZE PAK S.A. and a consolidated report of ZE PAK S.A. Capital Group. I hope that you will pay your attention not only to financial results, but also to a lot of other useful information included in the annual reports, and the knowledge, which you will acquire, will make it possible to assess the current situation of the Company and the Group. We made every effort to fairly and comprehensively present the image of ZE PAK S.A. in the previous year, and to outline the prospects and challenges that await us in the nearest and further future.

The financial data for the previous year are naturally only a photograph of the past state, the image of which the investors have already largely assessed by a change in the valuation of shares of ZE PAK S.A. on the Stock Exchange in 2016. I understand a significant increase in valuation of the Company as a sign of acceptance for the strategy which was adopted by the Management Board last year. Our main objective has been to optimise a business model of ZE PAK S.A. Group in all the aspects of its activity. Last year, it especially involved the area of costs and investments. According to the Management Board's opinion, the present time is far from comfort for conventional electricity generators. For several years, we have been witnesses of changes in the market functioning conditions. We have experienced changes both in the area of energy generation technology as well as the legislation and legal changes shaping the future model of the energy market. We think that in difficult times, it is particularly important to take care for the cost discipline, thus, you will certainly notice a significant decrease in the costs of the Group's activity.

We also believe that the uncertainty, which results from the current market conditions, is not a signal encouraging to capital-intensive investments, however, we optimistically look forward to proposals for "Power Market" solutions.

With the beginning of 2016, we completed the modernisation of two units in the Pątnów I Power Plant. The substantive expenditure that the Group incurred in the previous years allows to extend the prospects of the activity of the upgraded assets. In order to maintain stable energy supplies, we need to be provided with access to brown coal deposits. The Group's power plants constitute a significant element of the Public Power System, and on the basis of the local raw material, we contribute to the creation of the country's energy security. Therefore, in our plans we relied on declarations of the national authorities related to the significance of creating this security.

We are aware of the fact how important for our Stakeholders: Employees, Local Community, Business Partners and also for you – Shareholders, is to obtain the licence for the extraction of brown coal from the Ościsłowo open pit. The company continues to carry out any actions aimed at obtaining the relevant decisions in order to conduct mining activities in accordance with its strategy, the objective of which is to provide undistorted operation of the Company's *generation assets. We always emphasise that we want to implement our difficult business ventures in a sustainable manner, taking into account the business of our Shareholders, Employees, and the social and natural environment, therefore, we have offered a range of solutions that allow to maintain a secure impact of the Ościsłowo open pit on the environment.*

A new challenge in the coming year will include the preparation for the closure of the Adamów Power Plant activity, the end of which falls on January 2018. This process must be conducted by the Company in accordance with the applicable legal provisions, in particular, on the natural environment protection, and in such a way as to identify and reduce the associated possible economic and social risks for the Company and the region.

To conclude, I would like to briefly refer to the achieved results in the past year. The revenues of ZE PAK S.A. Capital Group in 2016 amounted to PLN 2.7 billion, which means a decrease in relation to the previous year by 8.5%. However, the revenues for the sale of generated energy remained at a similar level, and the decrease was mainly related to the revenues from the sale of energy from trading. The Group's EBITDA in 2016 amounted to PLN 593.6 million, which means an increase by 20% in relation to 2015. The Group recorded a net profit of PLN 250.3 million. It is difficult to refer to the dynamics of the increase in relation to 2015 due to the fact that the result was then subject to an impairment write-down against the value of assets and amounted to PLN (– 1.88) billion. However, after excluding the write-down, the Group's net result for 2016 increased five times in relation to the result recorded in 2015.

We would like to cordially thank all of you, owing to whom the Company achieved so much in 2016 – our Shareholders and Clients, and all Employees of ZE PAK S.A. Capital Group. Thank you for your trust, which you place in us.

President of ZE PAK S.A. Management Board

Adam Kłapszta

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board and Shareholders' Meeting of Zespół Elektrowni Pątnów – Adamów – Konin S.A.

Report on the Audit of the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements for the year ended 31 December 2016 of Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Group'), with parent's company Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') registered office located in Konin, ul. Kazimierska 45, which comprise the consolidated statement on financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2016 to 31 December 2016 and the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').

Responsibilities of the Management Board and Members of the Supervisory Board for the consolidated financial statements

The Management Board is responsible in accordance with the Accounting Act dated 29 September 1994 ('the Accounting Act'), regulations issued on the basis of the Accounting Act for the preparation of the consolidated financial statements and fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and related Interpretations announced in the form of European Commission regulations ('International Financial Reporting Standards as adopted by European Union') and other applicable laws. The Management Board is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act the Management Board and Members of the Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to express an opinion on accompanying consolidated financial statements based on our audit.

We conducted our audit in accordance with chapter 7 of the Accounting Act and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments ('National Auditing Standards'). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

In accordance with National Auditing Standard 320 point 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, paragraph the accompanying consolidated financial statements:

- give a true and fair view of the financial position of a Group as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by European Union and accounting policies;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of consolidated financial statements and the Company's Articles of Association.

Report on Other Legal and Regulatory Requirements

Report on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management Board is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition the Company's Management Board and Members of the Supervisory Board are obliged to state that Directors' Report ('Director's Report') meet the requirements of the Accounting Act.

In connection with the audit of the consolidated financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states ('the Decree on current and periodic information') and whether they are consistent with the information contained in the accompanying consolidated financial statements. Our responsibility was also to report, based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act and the Decree on current and periodic information and that the information derived from the accompanying consolidated financial statements reconciles with the Directors' Report. Based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the consolidated financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

Warsaw, 21 March 2017

Key Certified Auditor

Piotr Chęciek
Certified Auditor
No. 13253

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN S.A. CAPITAL GROUP

LONG-FORM AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

GENERAL NOTES

1. Background

The holding company of the Capital Group (hereinafter 'the Group' or 'the Capital Group') is Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the holding company', 'the Company').

The holding company was incorporated on the basis of a Notarial Deed dated 29 December 1994. The Company's registered office is located in Konin at Kazimierska 45 Street.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards and, based on the article 55.5 of the Accounting Act dated 29 September 1994 ('the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000021374 on 21 June 2001.

The Company was issued with tax identification number (NIP) 665-00-01-645 on 17 September 1993 and statistical number (REGON) 310186795 on 14 December 2000.

The principal activities of the holding company are as follows:

- production and distribution of electric energy;
- production and distribution of heat (steam and hot water).

The scope of activities of the Group's subsidiaries, jointly controlled entities and associates are similar to this of the holding company and include the following activities:

- execution of construction works and installations in the field of engineering;
- property management;
- repair and maintenance of electric appliances;
- research and technical analysis;
- holding activity;
- coal mining;
- purchase and delivery of biomass;
- IT services.

As at 31 December 2016, the Company's issued share capital amounted to 101,647 thousand zlotys. Equity as at that date amounted to 2,143,658 thousand zlotys.

(in thousand zlotys)

In accordance with information in note 28 of summary of significant accounting policies and other explanatory notes to the accompanying consolidated financial statements, the ownership structure of the Company's issued share capital as at 31 December 2016 was as follows:

	Number of shares	Number of votes	Par value of shares (in PLN)	% of issued share capital
Zygmunt Solorz Żak (indirectly) through: Elektrim S.A. , Embud sp. z o.o., Trigon XIX Fundusz Inwestycyjny Zamknięty, Argumenol Investment Company Limited	26,200,867	26,200,867	52,401,734	51,55%
Nationale - Nederlanden OFE	5,068,410	5,068,410	10,136,820	9,97%
Towarzystwo Funduszy Inwestycyjnych PZU SA	3,081,567	3,081,567	6,163,134	6,06%
OFE PZU "Złota Jesień"	2,664,378	2,664,378	5,328,756	5,24%
Other	13,808,325	13,808,325	27,616,650	27,18%
	--------------	--------------	---------------	----------
Total	50,823,547	50,823,547	101,647,094	100,00%
	========	========	=========	======

The following changes took place in the ownership structure of the Company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

- on 14 March 2016 IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych has sold 5.000.000 ordinary bearer shares series A to Argumenol Investment Company Limited,
- on 19 May 2016 IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych has sold 4.000.000 ordinary bearer shares series A to Argumenol Investment Company Limited,
- on 19 October 2016 Towarzystwo Funduszy Inwestycyjnych PZU SA has bought 550.000 ordinary bearer shares series A,
- w dniu 17 listopada 2016 Otwarty Fundusz Emerytalny PZU "Złota Jesień" has bought 150.000 ordinary bearer shares series A.

There were no movements in the share capital in the reporting period.

As at 21 March 2017, the holding company's Management Board was composed of:

Adam Kłapszta	- President
Aneta Lato-Żuchowska	- Vice President
Zygmunt Artwik	- Vice President
Elżbieta Niebisz	- Vice President

During the reporting period as well as from the balance sheet date to the date of the opinion there were changes in the Company's Management Board as described below:

- on 11 February 2016 Supervisory Board has appointed Mr Aleksander Grad as President of the Management Board, starting from 18 February 2016,
- on 8 April 2016 Supervisory Board has appointed Mr Adam Kłapszta as Vice President of the Management Board, effective from that date,
- on 17 June 2016 Mr Aleksander Grad has resigned from his position as President of the Management Board,
- on 17 June 2016 Supervisory Board has delegated Vice President of the Management Board Mr Adam Kłapszta to temporarily perform the duties of President of the Management Board,
- on 26 October 2016 Mr Adrian Kaźmierczak has resigned from his position as Vice President of the Management Board,
- on 26 October 2016 Supervisory Board has appointed Mrs Katarzyna Sobierajska as Vice President of the Management Board, effective from that date,
- on 3 March 2017 Supervisory Board has appointed Mr Adam Kłapszta, Vice President of the Management temporarily performing the duties of President of the Management Board, as President of The Management Board,
- on 3 March 2017 Mrs Katarzyna Sobierajska and Mr Tomasz Zadroga have resigned from their positions as Vice Presidents of the Management Board,
- on 3 March 2017 Supervisory Board has appointed Mrs Elżbieta Niebisz as Vice President of the Management Board, effective from that date.

2. Group Structure

As at 31 December 2016, the Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Przedsiębiorstwo Serwisu Automatyki i Urządzeń „EL PAK" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„Elektrownia Pątnów II" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„PAK – Holdco" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„PAK Infrastruktura" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„PAK Górnictwo" sp. z o.o.	full consolidation	no requirement to audit financial statements	-
„Energoinwest Serwis" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„PAK Kopalnia Węgla Brunatnego Konin" SA	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„PAK Kopalnia Węgla Brunatnego Adamów" SA	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„Aquakon" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„Eko-Surowce" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„PAK-Volt" SA	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
EL PAK Serwis sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.

There were changes to the list of consolidated companies when compared to the prior year. In 2015 companies „PAK Centrum Usług Informatycznych" sp. z o.o. w likwidacji, „PAK Centrum Badań

Jakości" sp. z o.o. w likwidacji and Ochrona Osób i Mienia „ASEKURACJA" sp. z o.o. were closed, also shares were sold: in 2015 shares of KWE sp. z o.o. and in 2016 shares of Centrum Zdrowia i Relaksu „Verano" sp. z o.o..

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by Supervisory Board of the Group Company on 31 May 2016 to audit the Group's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009.

Under the contract executed on 17 August 2016 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2016.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an unqualified auditors' opinion dated 21 March 2017, stating the following:

'To the Supervisory Board and Shareholders' Meeting of Zespół Elektrowni Pątnów – Adamów – Konin S.A.

Report on the Audit of the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements for the year ended 31 December 2016 of Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Group'), with parent's company Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') registered office located in Konin, ul. Kazimierska 45, which comprise the consolidated statement on financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2016 to 31 December 2016 and the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').

Responsibilities of the Management Board and Members of the Supervisory Board for the consolidated financial statements

The Management Board is responsible in accordance with the Accounting Act dated 29 September 1994 ('the Accounting Act'), regulations issued on the basis of the Accounting Act for the preparation of the consolidated financial statements and fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and related Interpretations announced in the form of European Commission regulations ('International Financial Reporting Standards as adopted by European Union') and other applicable laws. The Management Board is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act the Management Board and Members of the Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to express an opinion on accompanying consolidated financial statements based on our audit.

We conducted our audit in accordance with chapter 7 of the Accounting Act and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments ('National Auditing Standards'). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

In accordance with National Auditing Standard 320 point 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, paragraph the accompanying consolidated financial statements:

- give a true and fair view of the financial position of a Group as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by European Union and accounting policies;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of consolidated financial statements and the Company's Articles of Association.

Report on Other Legal and Regulatory Requirements

Report on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management Board is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition the Company's Management Board and Members of the Supervisory Board are obliged to state that Directors' Report ('Director's Report') meet the requirements of the Accounting Act.

In connection with the audit of the consolidated financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states ('the Decree on current and periodic information') and whether they are consistent with the information contained in the accompanying consolidated financial statements. Our responsibility was also to report, based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act and the Decree on current and periodic information and that the information derived from the accompanying consolidated financial statements reconciles with the Directors' Report. Based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the consolidated financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.*'*

We conducted the audit of the consolidated financial statements during the period from 17 August 2016 to 21 March 2017. We were present at the holding company's head office from 17 August 2016 to 26 August 2016 and from 13 February 2017 to 17 March 2017.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness[1] of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 21 March 2017, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete;
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements;

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by Robert Klimacki, key certified auditor no. 90055, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqalified opinion on the consolidated financial statements for the year ended 31 December 2015. The consolidated financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 28 June 2016.

The consolidated financial statements of the Group for the financial year ended 31 December 2015, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 7 July 2016 with the National Court Register.

[1] Translation of the following expression in Polish: "*rzetelność i jasność*"

(in thousand zlotys)

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2014 – 2016. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2016 and 31 December 2015.

	2016	**2015**	**2014**
Total assets	4,801,300	4,974,381	6,867,688
Shareholders' equity	2,143,658	1,884,823	3,819,717
Net profit/ loss	250,286	-1,879,808	78,484
Return on assets	5,21%	-37,79%	1,14%
$\frac{\text{Net profit/ loss x 100\%}}{\text{Total assets}}$			
Return on equity	11,68%	-99,73%	2,05%
$\frac{\text{Net profit/ loss x 100\%}}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin	9,25%	-63,77%	2,93%
$\frac{\text{Net profit/ loss x 100\%}}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	0,87	1,00	0,98
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
Liquidity III	0,28	0,30	0,30
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
Debtors days	17 days	22 days	21 days
$\frac{\text{Trade debtors x 365}}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Creditors days	30 days	9 days	24 days
$\frac{\text{Trade creditors x 365}}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			

(in thousand zlotys)

	2016	2015	2014
Inventory days	17 days	12 days	35 days
Inventory x 365 / Costs of finished goods, goods for resale and raw materials sold			
Stability of financing	73,59%	74,67%	82,44%
(Equity + long-term provisions and liabilities) x 100% / Total liabilities, provisions and equity			
Debt ratio	55,35%	62,11%	44,38%
(Total liabilities and provisions) x 100% / Total assets			
Rate of inflation:			
Yearly average	-0,6%	-0,9%	0,0%
December to December	0,8%	-0,5%	-1,0%

4.2 Comments

The following trends may be observed based on the above financial ratios:

- Return on assets increased to 5,21% in 2016 in comparison with -37,79% in 2015 and 1,14% in 2014.
- Return on equity increased to 11,68% in 2016 in comparison with -99,73% in 2015 and 2,05% in 2014.
- Profit margin increased to 9,25% in 2016 in comparison with -63,77% in 2015 and 2,93% in 2014.
- Liquidity I amounted to 0,87 as at 31 December 2016 and was lower in comparison with 1,00 as at 31 December 2015 and 0,98 as at 31 December 2014.
- Liquidity III amounted to 0,28 as at 31 December 2016 and was lower in comparison with 0,30 as at 31 December 2015 and as at 31 December 2014.
- Debtors days ratio amounted to 17 days in 2016 and decreased in comparison with 22 days in 2015 and in comparison with 21 days in 2014.
- Creditor days ratio amounted to 30 days in 2016 and increased in comparison with 9 days in 2015 and 24 days in 2014.
- Inventory days ratio amounted to 17 days in 2016 and increased in comparison with 12 days in 2015 and decreased in comparison with 35 days in 2014.
- Stability of financing ratio amounted to 73,59% as at 31 December 2016 and decreased in comparison with 74,67% as at 31 December 2015 and 82,44% as at 31 December 2014.
- Debt ratio amounted to 55,35% as at 31 December 2016 and decreased in comparison to 62,11% as at 31 December 2015 and 44,38% as at 31 December 2014.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2016 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 6 of the additional notes and explanations to the consolidated financial statements of the Group for the year ended 31 December 2016, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2016 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 10 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2016.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2016.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

In the audited consolidated financial statements for the year ended 31 December 2016 there was no goodwill.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 0 thousand zlotys as at 31 December 2016. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 28 and 29 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2016 and include the financial data for the period from 1 January 2016 to 31 December 2016.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

During the financial year the Group did not sell any shares in subordinated entities.

6. Items which have an impact on the Group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year period ended 31 December 2016.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting that would have resulted in the modifications in the auditors' opinion.

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2016 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the 'Directors' Report for the period from 1 January 2016 to 31 December 2016 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information contained in it take into account the provisions of 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states and they are consistent with the information contained in the accompanying financial statements. We have also concluded, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, that the Directors' Report does not include material misstatements. We have read also the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report of the Capital Group. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the consolidated financial statements.

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

Warsaw, 21 March 2017

Key Certified Auditor

Piotr Chęciek
Certified Auditor
No. 13253

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA
CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
ALONG WITH THE OPINION OF THE INDEPENDENT STATUTORY AUDITOR

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

21 MARCH 2017

TABLE OF CONTENTS

(in zloty thousand)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2016

	Note	*year ended 31 December 2016*	*year ended 31 December 2015*
Continuing operations			
Sales revenue	*13.1*	**2 704 711**	**2 947 816**
Cost of goods sold	*13.6*	(2 241 353)	(4 651 152)
including impairment loss of fixed assets and mining assets	*19.1*	-	*(1 896 189)*
Gross profit / (loss)		**463 358**	**(1 703 336)**
Other operating revenues	*13.2*	26 461	29 966
Selling and distribution expenses	*13.6*	(4 360)	(4 920)
Administrative expenses	*13.6*	(108 634)	(111 323)
Other operating expenses	*13.3*	(5 392)	(6 209)
Gross profit / (loss) from operations		**371 433**	**(1 795 822)**
Finance income	*13.4*	9 117	6 496
Finance costs	*13.5*	(72 672)	(43 909)
Profit / (loss) before tax		**307 878**	**(1 833 235)**
Income tax expense (taxation)	*15.1*	(57 592)	(46 573)
Net profit / (loss) for the period from continuing operations		**250 286**	**(1 879 808)**
Discontinued operations			
Profit/ (loss) for the period from discontinued operations		-	-
Net profit / (loss) for the period		**250 286**	**(1 879 808)**
Net profit/ (loss) attributable to equity holders of the parent		247 674	(1 881 086)
Net profit/ (loss) attributable to non-controlling interests		2 612	1 278

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Andrzej Krzemiński
/President of the Board/	/Vice President of the Board/	/ Vice President of the Board /	/ Vice President of the Board /	/ Chief Accountant /

Profit / loss per share (in zloty):			
Basic, for profit for the period attributable to equity holders of the parent	17	4,87	(37,01)
Basic, for profit for the period from continuing operations attributable to equity holders of the parent	17	4,87	(37,01)
Diluted, for profit for the period attributable to equity holders of the parent	17	4,87	(37,01)
Diluted, for profit for the period from continuing operations attributable to equity holders of the parent	17	4,87	(37,01)

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Andrzej Krzemiński
/President of the Board/	/Vice President of the Board/	/ Vice President of the Board /	/ Vice President of the Board /	/ Chief Accountant /

(in zloty thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	*year ended 31 December 2016*	*year ended 31 December 2015*
Net profit / (loss) for the period		**250 286**	**(1 879 808)**
Other comprehensive income			
Items to be reclassified to the profit / (loss) in subsequent reporting periods:			
Cash flow hedges	*14*	5 996	7 160
Exchange differences on translation of foreign entities		-	103
Other	*15.1, 14*	(1 139)	(1 360)
Income tax on other comprehensive income		4 857	5 903
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods			
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:			
Profits / (losses) on provisions for post-employment	*14*	4 613	246
Income tax on other comprehensive income	*15.1, 14*	(876)	(47)
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		3 737	199
Net other comprehensive income		**8 594**	**6 102**
Comprehensive income for the period		**258 880**	**(1 873 706)**
Comprehensive income attributable to equity holders of the parent		256 268	(1 874 984)
Comprehensive income attributable to non-controlling interests		2 612	1 278

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Andrzej Krzemiński
/President of the Board/	/Vice President of the Board/	/ Vice President of the Board /	/ Vice President of the Board /	/ Chief Accountant /

(in zloty thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31December 2016

	Note	*31 December 2016*	*31 December 2015*
ASSETS			
Non-current assets			
Tangible fixed assets	*19*	3 391 246	3 475 229
Investment property		2 337	2 363
Intangible assets	*21*	119 282	17 389
Assets of removing overburden and other mining assets (long-term)	*22*	80 524	92 748
Other long-term financial assets	*23.1*	11 945	13 752
Other long-term non-financial assets	*23.2*	5 726	10 027
Deferred tax assets	*15.3*	90 998	102 615
Total non-current assets		**3 702 058**	**3 714 123**
Current assets			
Short-term intangible assets	*21*	273 036	354 389
Inventories	*25*	105 296	157 515
Trade and other receivables	*26*	246 025	268 123
Income tax receivables		10 227	2 743
Short-term financial derivatives (assets)	*33.4*	296	-
Other short-term financial assets	*23.1*	77 317	76 979
Other short-term non-financial assets	*23.2*	28 776	12 497
Assets of removing overburden and other mining assets (short-term)	*22*	-	1 309
Amounts due from customers under long-term construction contracts	*13.8*	8 168	3 349
Cash and cash equivalents	*27*	350 101	383 354
Total current assets		**1 099 242**	**1 260 258**
TOTAL ASSETS		**4 801 300**	**4 974 381**

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Andrzej Krzemiński
/President of the Board/	/Vice President of the Board/	/ Vice President of the Board /	/ Vice President of the Board /	/ Chief Accountant /

	Note	*31 December 2016*	*31 December 2015*
LIABILITIES AND EQUITY			
Equity			
Share capital	*28*	101 647	101 647
Supplementary capital	*29*	1 028 647	2 542 060
Revaluation reserve from valuation of hedging instruments		(7 084)	(11 941)
Other reserve capital	*29.1*	3 472	5 877
Retained earnings / Accumulated losses		769 302	1 128 266
Net profit / (loss)		247 674	(1 881 086)
Equity attributable to equity holders of the parent		**2 143 658**	**1 884 823**
Equity attributable to non-controlling interests		-	-
Total equity		**2 143 658**	**1 884 823**
Non-current liabilities			
Interest-bearing loans and borrowings	*30*	587 851	924 519
Long-term employee benefits	*24.1*	48 587	77 674
Trade and other long-term financial liabilities	*33.2*	5 069	80 751
Long-term financial derivatives (liabilities)	*33.4*	4 294	8 943
Long-term subsidies	*33.5*	43 302	51 068
Other long-term provisions and accruals	*31*	312 253	334 879
Deferred tax liability	*15.3*	388 359	351 862
Total non-current liabilities		**1 389 715**	**1 829 696**
Current liabilities			
Trade and other short-term financial liabilities	*33.1*	302 662	237 505
Current portion of interest-bearing loans and borrowings	*30*	421 958	386 543
Short-term financial derivatives (liabilities)	*33.4*	5 759	7 349
Other non-financial liabilities	*33.3*	116 431	122 553
Current income tax liability		166	5 228
Short-term employee benefits	*24.1*	6 503	8 783
Short-term subsidies	*33.6*	6 670	12 774
Amounts due to customers under long-term construction contracts	*13.8*	3 990	10 080
Other short-term provisions and accruals	*31*	403 788	469 047
Total current liabilities		**1 267 927**	**1 259 862**
Total liabilities		**2 657 642**	**3 089 558**
TOTAL LIABILITIES AND EQUITY		**4 801 300**	**4 974 381**

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Andrzej Krzemiński
/President of the Board/	/Vice President of the Board/	/ Vice President of the Board /	/ Vice President of the Board /	/ Chief Accountant /

CONSOLIDATED STATEMENT OF CASH FLOWS

(in zloty thousand)

For the year ended 31 December 2016

	Note	*year ended 31 December 2016*	*year ended 31 December 2015*
Cash flow from operating activities			
Profit /(loss) before tax		307 878	(1 833 235)
Adjustments for:			
Depreciation and amortization	*27*	207 829	380 935
Interests and shares in profits		44 717	25 012
(Profit) / loss on foreign exchange differences		10 752	2 784
(Profit) / loss on investing activities		15 219	1 079
(Increase) / decrease in receivables	*27*	3 123	16 102
(Increase) / decrease in inventories	*27*	52 219	79 601
Increase / (decrease) in payables except for loans and borrowings	*27*	(5 117)	(88 567)
Change in provisions, prepayments, accruals and employee benefits	*27*	239 186	268 209
Income tax paid		(24 074)	5 033
Allowances for emission of CO_2		(315 533)	(287 229)
Impairment loss of fixed assets and mining assets		-	1 896 189
Other		(148)	1 223
Net cash flow from operating activities		**536 051**	**467 136**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		3 723	559
Purchase of property, plant and equipment and intangible assets		(195 352)	(409 858)
Proceeds and expenses relating to other financial assets	*27*	7 773	19 122
Purchase of other financial assets	*27*	-	(24 909)
Dividends received		60	49
Interest received		6	6
Other		82	60
Net cash flow from investing activities		**(183 708)**	**(414 971)**

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Andrzej Krzemiński
/President of the Board/	/Vice President of the Board/	/ Vice President of the Board /	/ Vice President of the Board /	/ Chief Accountant /

Cash flow from financing activities			
Payment of finance lease liabilities		(15 038)	(13 029)
Proceeds from loans and borrowings and debt securities		12 295	336 925
Repayment of loans and borrowings and debt securities		(334 211)	(232 422)
Dividends paid		-	(60 988)
Interest paid		(48 632)	(53 383)
Other		(1 428)	(1 218)
Net cash flow from financing activities		**(387 014)**	**(24 115)**
Net increase / (decrease) in cash and cash equivalents		**(34 671)**	**28 050**
Cash and cash equivalents at the beginning of the period	*27*	**383 318**	**355 268**
Cash and cash equivalents at the end of the period		**348 647**	**383 318**

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Andrzej Krzemiński
/President of the Board/	/Vice President of the Board/	/ Vice President of the Board /	/ Vice President of the Board /	/ Chief Accountant /

(in zloty thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Note	*Issued capital*	*Reserve capital*	*Revaluation reserve of financial instruments*	*Other reserve capital*	*Retained earnings / Accumulated losses*	*Exchange differences on translation of foreign entities*	*Total*	*Non-controlling interest*	*Total Equity*
As of 1 January 2016		**101 647**	**2 542 060**	**(11 941)**	**5 877**	**(752 820)**	**-**	**1 884 823**	**-**	**1 884 823**
Net profit for the period		-	-	-	-	247 674	-	247 674	2 612	250 286
Total other comprehensive income		-	-	4 857	-	3 737	-	8 594	-	8 594
Total income for the period		**-**	**-**	**4 857**	**-**	**251 411**	**-**	**256 268**	**2 612**	**258 880**
Distribution of profits from previous years		-	(1 513 413)	-	(2 405)	1 515 818	-	-	-	-
The effect of the settlement of a put option on the shares of non-controlling interests	*29.3*	-	-	-	-	2 612	-	2 612	(2 612)	-
Other changes		-	-	-	-	(45)	-	(45)	-	(45)
as of 31 December 2016		**101 647**	**1 028 647**	**(7 084)**	**3 472**	**1 016 976**	**-**	**2 143 658**	**-**	**2 143 658**

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Andrzej Krzemiński
/President of the Board/	/Vice President of the Board/	/ Vice President of the Board /	/ Vice President of the Board /	/ Chief Accountant /

(in zloty thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Nota	*Issued capital*	*Reserve capital*	*Revaluation reserve of financial instruments*	*Other reserve capital*	*Retained earnings / Accumulated losses*	*Exchange differences on translation of foreign entities*	*Other components of other comprehen sive income*	*Total*	*Non-controlling interest*	*Total Equity*
As of 1 January 2015		**101 647**	**2 398 399**	**(17 741)**	**5 877**	**1 331 425**	**110**	**-**	**3 819 717**	**-**	**3 819 717**
Net profit for the period		-	-	-	-	(1 881 086)	-	-	(1 881 086)	1 278	(1 879 808)
Total other comprehensive income		-	-	5 800	-	199	-	103	6 102	-	6 102
Total income for the period		**-**	**-**	**5 800**	**-**	**(1 880 887)**	**-**	**103**	**(1 874 984)**	**1 278**	**(1 873 706)**
Distribution of profits from previous years		-	143 661	-	-	(143 661)	-	-	-	-	-
Dividend		-	-	-	-	(60 988)	-	-	(60 988)	-	(60 988)
The effect of the settlement of a put option on the shares of non-controlling interests	*29.3*	-	-	-	-	1 278	-	-	1 278	(1 278)	-
Other changes		-	-	-	-	13	(110)	(103)	(200)	-	(200)
As of 31 December 2015		**101 647**	**2 542 060**	**(11 941)**	**5 877**	**(752 820)**	**-**	**-**	**1 884 823**	**-**	**1 884 823**

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Andrzej Krzemiński
/President of the Board/	/Vice President of the Board/	/ Vice President of the Board /	/ Vice President of the Board /	/ Chief Accountant /

THE RULES (POLICIES) OF ACCOUNTING AND ADDITIONAL EXPLANATORY NOTES

1. General information

The Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the Group") consists of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the parent company", "the Company", "ZE PAK SA") and its subsidiaries (see Note 2). The Group's consolidated financial statement covers the year ended 31 December 2015 and includes comparative data for the year ended 31 December 2014. The parent company is entered into the Register of Entrepreneurs of the National Court Register kept by the District Court Poznań – Nowe Miasto and Wilda in Poznań, IX Commercial Division of the National Court Register, under the KRS number 0000021374.

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

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

The main activities of the Group are:

1) generation and sale of electricity,
2) generation and sale of heat (steam and hot water),
3) lignite extraction.

(in zloty thousand)

2. Composition of the Group

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

Entity	*Seat*	*Scope of activities*	*Percentage share of the Group in capital as of*	
			31 December 2016	*31 December 2015*
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and construction services	100,00%	100,00%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń „EL PAK" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services with regard to servicing industrial automation systems and electrical equipment	100,00%	100,00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production and distribution of electricity from the unit 464 MW	100,00%*	100,00%*
„PAK – Holdco" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activities	100,00%	100,00%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction works with regard to engineering structures not elsewhere classified	100,00%	100,00%
„PAK Górnictwo" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Lignite mining	100,00%	100,00%
„Energoinwest Serwis" sp. z o.o.	62-510 Konin ul. Przemysłowa 75	Repair and construction services	100,00%*	100,00%*
„PAK Kopalnia Węgla Brunatnego Konin" SA	62-540 Kleczew ul. 600-lecia 9	Lignite mining	96,23%*	96,23%
„PAK Kopalnia Węgla Brunatnego Adamów" SA	62-700 Turek ul. Uniejowska 9	Lignite mining	98,41%	98,41%
„Aquakon" sp. z o.o.	62-610 Sompolno Police	Production and sale of mineral waters	92,57%*	92,57%*
„Eko-Surowce" sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Railway transport of lignite, sale of lignite	96,23%*	96,23%*
„PAK-Volt" SA	00-834 Warszawa ul. Pańska 77/79	Sale of electricity	100,00%	100,00%
„EL PAK Serwis" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and service of electric devices and machinery	100,00%*	100,00%*

* *Entities where ZE PAK SA is partly or in total indirectly shareholder through other companies from the ZE PAK SA Group*

As of 31 December 2016, the share in the general number of votes held by the Group in subsidiaries is equal to the Group's share in capitals of these subsidiaries.

3. Composition of the Management Board of the parent company

As of the day of publication of statement the Management Board composition is as follows:

- Adam Kłapszta President of the Board,
- Aneta Lato-Żuchowska Vice President of the Board,
- Zygmunt Artwik Vice President of the Board,
- Elżbieta Niebisz Vice President of the Board,

During a meeting on 11 February 2016, the Supervisory Board of the Company adopted a resolution to appoint Mr. Aleksander Grad to the composition of the Management Board of the Company with effect from 18 February 2016 and entrusted him with the position of the Chairman of the Management Board.

During a meeting on 08 April 2016, the Supervisory Board of the Company adopted a resolution to appoint Mr. Adam Kapszta to the composition of the Management Board of the Company and entrust him with the position of the Vice-President of the Management Board. The resolution became effective upon its adoption.

On 17 June 2016 Mr. Aleksander Grad stepped down as the Chairman of the Management Board and a Member of the Company's Board. In connection with this situation, the Supervisory Board of the Company began a procedure of appointing a new Chairperson of the Management Board. Until the completion of that procedure, the Supervisory Board entrusted the management of the Management Board activities to Mr. Adam Kłapszta, the Vice-President of the Management Board of the Company, who posted the position of the President of the Management Board from 17 June 2016.

On 26 October 2016, Mr. Adrian Kaźmierczak stepped down as the Vice-President of the Management Board of the Company. At the same time, during a meeting held on 26 October 2016, the Supervisory Board of the Company appointed Ms. Katarzyna Sobierajska as the Vice-President of the Management Board. The resolution on the appointment became effective upon its adoption.

On 3 March 2017, by the resolution of the Supervisory Board of the Company, Mr. Adam Kłapszta, who previously held the position of the Vice-President of the Management Board of the Company acting as the President of the Management Board, was appointed as the President of the Management Board of the Company. The resolution on entrusting the function of the President of the Management Board of the Company entered into force upon its adoption.

During a meeting of the Supervisory Board held on 3 March 2017, Ms. Katarzyna Sobierajska and Mr. Tomasz Zadroga stepped down from the positions of the Vice-Presidents of the Management Board of the Company as of 3 March 2017.

On 3 March 2017, the Supervisory Board of the Company appointed Ms. Elżbieta Niebisz to the position of the Vice-President of the Management Board. The resolution on the appointment became effective upon its adoption.

4. Approval of the financial statement

This consolidated financial statement was approved for issuing by the Management Board on 21 March 2017.

5. Essential values based on professional judgement and estimates

5.1. Professional judgement

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

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

Capitalisation of foreign exchange differences

Due to executed investments, the Group's companies use external financing sources.

The borrowing costs, which can be directly allocated to the implementing investments, are capitalized in the value of the capital work in progress until the commissioning of the capital work to use.

The companies capitalize the foreign exchange differences related to the received credits and loans in the foreign currency to the extent to which they represent an adjustment to the interest costs. The Group uses the cumulative approach in the scope of capitalisation of external borrowing costs. The cumulative approach considers an investment as a whole. That is why the amount of foreign exchange differences possible to be capitalised as an adjustment of external financing costs in the reporting period may be subject to changes together with changes in exchange rates in the period of investment.

- ***Classification of lease contracts***

The Group classifies the lease as operating or financial one based on the assessment of the extent to which the risk and benefits of ownership of the leased asset come to the lessor and to the lessee. This assessment is based on the economic content of each transaction.

- ***Identification of embedded derivatives***

At each balance sheet date, the Group's management assesses whether under the contracts, there are economic characteristics and risk specific to the embedded derivative in a foreign currency, which are not closely related to the economic characteristics and risk of the host agreement.

5.2. Uncertainty of estimates

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

Loss in fixed assets

As a result of analyses conducted as of 31 December 2016, the Group identified the existence of circumstances, which would indicate possible loss in value of the asset components, in the form of the balance sheet net value of the Group's assets higher than the value of its market capitalisation. In relation to the above fact, the Group conducted value impairment tests of components of fixed assets. On the basis of the conducted tests, it was stated that there is a need to identify the Impairment write-downs against tangible fixed assets. Information about the conducted test is presented in note 19.1.

Evaluation of provisions for employee benefits

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

Estimate was developed on the basis of following main assumptions:

- discount rate 3.5%
- estimated inflation rate 2.5%
- estimated salary increase rates depending on the company, in the range from 0% to 3%

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

	(+) increase by 1 percentage point	*(-) decrease by 1 percentage point*
discount rate	(3,315)	3,830
salary increase rates	3,512	(2,805)

Component of deferred tax assets

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

Fair value of financial instruments

The fair value of financial instruments, for which there is no active market, is determined using relevant measurement techniques. When selecting relevant methods and assumptions, the Group is guided by professional judgement. The way of determination of the fair value of particular financial instruments was presented in note 10.10.

Capitalisation of overburden stripping costs in the production phase

In cases justified by IFRIC 20, the Group capitalizes overburden stripping costs during the operation phase of an open pit mine. The basis for cost capitalisation is meeting the following conditions: the Group is likely to achieve future economic benefits associated with overburden stripping, the Group is able to identify the part of a coal seam, to which access was facilitated and the costs associated with overburden stripping regarding that part of the seam can be credibly appraised. The Group verifies the estimates regarding the above criteria on a regular basis, in order to ensure correct cost capitalisation.

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

On a periodic basis, the Group verifies the settlement periods of assets related with overburden stripping and other mining assets, on the basis of current forecasts regarding the open pit exploitation.

Payment in shares

In order to settle employee shares, it was accepted that the start date of vesting for the shares was the date of the Company's commercialisation, and the date of granting entitlements to the shares was the date of the final hanging of the lists with the number of shares granted to PAK Kopalnia Węgla Brunatnego Konin SA. and PAK Kopalnia Węgla Brunatnego Adamów SA's employees. Fair value of the programme on the day of the acquisition of control was determined on the basis of the fair value of PAK Kopalnia Węgla Brunatnego Konin SA and PAK Kopalnia Węgla Brunatnego Adamów SA companies. The process of acquisition of shares by entitled employees begun in February 2013 and lasted until 20 October 2014. The price of shares redemption was specified in PAK KWB Konin and PAK KWB Adamów's shares sale agreements dated 28 May 2012 and was established at the level of the price of purchase of shares of earlier purchased shares of mines index-linked by the consumption products and services price indicator.

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

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

Revenue recognition

The Group uses the percentage of work completion method at settlement of long-term contracts. Use of this method requires from the Group estimation of proportions of completed works to all services to be performed.

On every balance sheet date, the Group updates the budgeted estimates of total revenues and costs of realised projects. The projected contract-related loss is recognised as costs of the period, when it was recognised in accordance with IAS 11.

Depreciation rates

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

Uncertainty associated with tax settlements

Regulations regarding the goods and services tax, the corporate income tax and the burden associated with social insurance are subject to frequent changes. These frequent changes result in the lack of relevant benchmarks, incoherent interpretations and few established precedents, which could be applied. The binding legislation also contains ambiguities, which create differences in the opinions, in terms of legal interpretation of tax legislation, both, between state authorities, as well as state authorities and the enterprises.

Tax settlements and other areas of activity (for example customs or foreign currency issues) can subjected to inspection by the authorities, which are entitled to impose large penalties and fines, and all additional tax liabilities, resulting from the inspection, must be paid together with high interest. These circumstances cause the tax risk in Poland to be higher than in countries with a more mature tax system.

As a consequence, the amounts shown and disclosed in financial statements can be changed in the future, as a result of the ultimate decision by a tax audit authority.

Amendments to the Tax Code were introduced on 15 July 2016 in order to reflect the provisions of the General Anti-Abuse Regulation (GAAR). The GAAR is supposed to prevent the creation and abuse of artificial legal structures, formed in order to avoid paying taxes in Poland. The GAAR defines tax evasion as an activity conducted mainly with the aim to obtain a tax benefit, contradictory in current circumstances to the subject matter and goal of the tax law regulations. According to GAAR, such an activity does not result in obtaining a tax benefit, if the manner of activity was artificial. All events of (i) unjustified division of operations, (ii) involvement of intermediaries, despite a lack of economic or business justification, (iii) elements mutually cancelling or compensating each other and (iv) other activities of a similar effect to the previously mentioned, can be treated as a prerequisite for the existence of artificial activities subject to GAAR provisions. The new regulations will require a much wider judgement when assessing the tax implications of individual transactions.

The GAAR clause shall be applied in relation to transactions made after it came into effect and to transaction, which were conducted prior to the GAAR entering into force but for which the benefits were or still are achievable after the date of entry into force. The implementation of the above regulations will enable Polish tax audit authorities to question the legal agreements and arrangements executed by the taxpayers, such as group restructuring and reorganisation.

The Group recognizes and measures assets or liabilities for current and deferred income tax by applying the requirements of IAS 12 *Income tax*, on the basis of the profit (tax loss), taxation base, unsettled tax losses, unused tax relief and tax rates, taking into account the uncertainties associated with tax settlements.

In the case of uncertainty whether a tax authority would and to what extent accept tax settlement of a transaction, the Group recognises these settlements taking into account the uncertainty assessment.

Receivable impairment write-downs

On the balance sheet date, the Group evaluates whether there is objective evidence of the loss in value of the financial assets component or a group of financial assets. If the asset component value possible to recover is lower than its balance sheet value, a given entity establishes an impairment write-down to the level of current value of planned cash flows.

Provision for the liquidation fixed tangible asset components

The group creates provisions for the liquidation of tangible assets in the event of such an obligation or undertaking such a liability by the Group’s management. The provision is created in the amount resulting from the received offers concerning liquidation of components of tangible fixed assets. The Group updates the value of the provision on every balance sheet date. The value of the provision due to liquidation of components of tangible fixed assets is discounted on every balance sheet date. Provisions for the disassembly of the Adamów Power Plant assets is not created due to the lack of a legal obligation. The content of the integrated permit granted to the Adamów Power Plant for conducting the operations does not include a clause on the necessity to create provisions for liquidating the assets. The provision is described in note 31.3.2.

Provisions for the liquidation of ash storage yards

The Group creates the provision for liquidation of ash dumps due to a legal obligation resulting from the integrated approval entries. The basis of estimation are developments, technical and economic analyses developed by the Group, as well as received external offerings for planned directions of reclamation. At the end of each reporting period, the Group updates the value of the provision. The provision is described in note 31.3.2.

Reclamation provisions and other related to mining activity

The Group creates both, the provision for reclamation costs related to current extraction of coal on a given open pit, and the provision for costs of the final excavation. The provision is created on the basis of the estimates of future reclamation costs, as well as assumed start and finish dates of reclamation, on the basis of reports by independent experts estimating reclamation costs on the order of the Management Board, as well as internal estimates of the Group, and is discounted on every balance sheet date. The provisions are described in note 31.3.3.

Valuation of energy certificates

The Group recognises the energy certificates of origin (green certificates) due to the energy production from renewable energy, gas, and peak load co-generation sources according to the fair value at the end of the month, in which they were produced. On the balance sheet date, the Group appraises certificates of origin to the net value possible to achieve – for green certificates on 31 December 2016 to the price of 37.76 zloty /MWh. A write-down against the certificate value is created in case the sale price possible to achieve, diminished by the disposition costs, is lower than the historical production cost.

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

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

Emissions in the ZE PAK SA Group in 2015 amounted to 12,257,921 tonnes of CO_2.

As for 1 January 2016, the Group had purchased EUAs in the amount of 12,257,586 tons.

During 2016, the Group successively purchased CO_2 emission allowances. At the same time, in February 2016, the Group received free EUAs for heat for 2016 (Art. 10A of the ETS Directive) in the amount of 101,259 EUAs. Next, in April 2016, the Group received free EUAs due to derogation for 2015 (Art. 10c of the ETS Directive) in the amount of 329,417 EUAs and the Group redeemed CO_2 emissions for 2015 in the amount of 12,257,921 tons of CO_2. Given the above, the status of EUA units in the Group after the write-offs was 5,905,424 EUAs.

In the remaining quarters of 2016, the Group made further purchases for the purposes of 2016, thus, the total purchase of EUAs in the Group, which were added to the account in the EU register in 2016 was 13,390,500 EUAs, and the status of EUAs in the Group after all the above operations, on 31 December 2016, was 13,820,841 EUAs.

As for 31 December 2016, the Group created a provision for the allowances in relation to the actual emission size for the period from 1 January 2016 till 31 December 2016.

Details concerning the provision for liabilities due to the redemption of greenhouse gases emission allowances and certified emission reduction units were presented in note 31.3.1.

Restructuring provision

The Group did not create any restructuring provisions associated with the closure of the Adamów Power Plant and KWB Adamów, since the Management Board believes, there were no premises arising from IAS 37 as of 31 December 2016. Should the requirements of IAS 37 be satisfied, such provisions shall be created

6. Basis for development of the interim condensed consolidated financial statement

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

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

This consolidated financial statement is presented in Polish zloty (zloty) and all values, unless shown otherwise, are expressed in thousands of zloty.

As for 31 December 2016, the short-term liabilities of the Group exceeded the current assets by zloty 168,685 thousand. Given the drawn up long-term financial projections indicated the generation of positive cash flows, the consolidated financial statement was developed under the assumption of continuing the activity over a period of at least 12 months after the balance sheet date. On the day of approving this financial statement, it cannot be stated that there are circumstances indicating a threat to the continuation of the activities by the Group's companies, whereas, there are operations regarding the allocation of specified types of activity between the Group's companies. The indicated actions will not impact the limitations of the scope of the business activity conducted by the ZE PAK SA Capital Group. With regard to the information included in note 43, the Management Board of the Company does not recognise the threats to the operational continuation of the companies constituting the Group.

6.1. Statement of compliance

This consolidated financial statement was developed in conformity with the International Financial Reporting Standards ("IFRS"), approved by the EU ("EU IFRS"). At the date of approval of this report for publishing, taking into account the EU's ongoing process of implementation of IFRS standards and the Group's activities in the field of the accounting policies applied by the Group, the IFRS policies differ from the EU IFRS ones. The company used the opportunity, present in the case of the using the International Financial Reporting Standard approved by the EU, to apply amendments to the IFRS 2 and IFRS 3, which are a part of the Amendments resulting from the review of IFRS 2010-2012 from annual periods beginning on 1 January 2016. EU IFRS covers standards and interpretations adopted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

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

6.2. Functional currency and financial statements currency

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

7. Amendments to the used accounting policies and to comparative data

The accounting (policy) rules applied for the development of this financial statement are coherent with the ones used for the development of the Company's financial statement for the year concluded on 31 December 2015, except the one shown below. The following amendments to the IFRS were applied in this financial statement according to their date of entry into force, however, they did not have a significant impact on the presented and disclosed financial information, did not apply to the transactions concluded by the Group or the Group decided not to use the new valuation options:

- Amendments resulting from the review of IFRS 2010-2012, covering the amendments to IFRS 2 *Share-based Payment*, amendments to IFRS 3 *Business Combinations*, amendments to IFRS 8 *Operating Segments*, amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, amendments to IFRS 13 *Fair Value Measurement* and amendments to IAS 24 *Related Party Disclosures*, amendments do IFRS 7 *Financial Instruments: Disclosures* and amendments do IAS 19 *Employee Benefits*
- Amendments resulting from reviewing IFRS 2012-2014, covering the amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, amendments to IAS 34 Interim Financial Reporting
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception and
- Amendments resulting from reviewing IAS 2012-2014, covering the amendments to IFRS 7 Financial Instruments: Disclosures and amendments to IAS 19 Employee Benefits

The Group did not decide on the earlier application of any other standard, interpretation, or amendment, which were issued but are not yet effective in light of the European Union regulations.

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

- IFRS 9 Financial Instruments (issued on 24 July 2014) – applicable to annual periods beginning on 1 January 2018 or later,
- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – as per the decision of the European Committee, the approval process for the standard in the preliminary version will not be initiated prior to the standard being issued in the final version – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2016 or later,
- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014), covering the amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) – applicable to the annual periods beginning on 1 January 2018 or later,
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014) – works leading to the approval of these changes were delayed indefinitely by the EU - the effective date was delayed indefinitely by IASB,
- Amendments to IFRS 16 Leases (issued on 13 January 2016) – until the day of approval of this financial statement not approved by the EU - applicable to the annual periods beginning on 1 January 2019 or later,
- Amendments to IFRS 4 Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’ (issued on 12 September 2016) – until the day of approval of this financial statement not approved by the EU - applicable to the annual periods beginning on 1 January 2018 or later,
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2017 or later,
- Amendments to IAS 7 Disclosure Initiative (issued on 29 January 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2017 or later,
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,
- The amendments resulting from a review of IFRS 2014-2016 (issued on 8 December 2016) – until the day of approval of this financial statement not approved by the EU – Amendments to IFRS 12 are applicable to annual periods beginning on 1 January 2017 or later, while the Amendments to IFRS 1 and IAS 28 are applicable to the annual periods beginning of 1 January 2018 or later,
- Interpretation of IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,

- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,

The Group did not decide on the earlier application of any of the standards, which were issued by did not enter into force. Due to the planned implementation dates for IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers on 1 January 2018, and IFRS 16 – Leases, as of the annual period beginning on 1 January 2019, as for the approval date of this consolidated financial statement, the Group is in the process of analysing the impact of the above IFRSs on the accounting principles applied by the Group.

As for 31 December 2016, the Group has not yet obtained reliable estimates of the impact of implementing the a/m IFRSs on the consolidated financial statement. The Group is planning to conduct thorough analyses and calculations in the scope of the implementation of IFRS 9 and IFRS 15 in 2017, and IFRS 16 in 2018.

9. Change of estimates

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

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

The effect of estimate changes on the value of impairment write-downs for tangible fixed assets was shown in note 19.1

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

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

In the calculation of the revenue due to compensation, the change of estimates relates primarily to changes in the sale prices and purchase of energy on the Commodity Power Exchange and balancing market, the volume of energy production and purchase of energy in order to meet sale plans as well as the interest rate of the 5-year government bonds and the NBP deposit rate, affecting the discount rate. The value of the yearly impairment due to compensations for 2016 is (+) zloty 88.35 million. The principles of recognition of revenue for compensations to cover stranded costs are described in note 10.28.4.

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

In relation to assets for deferred tax, write-downs were prepared for each balance sheet day, which was further described in note 15.3.

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

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

10. Significant accounting rules

10.1. Consolidation rules

This consolidated financial statement includes the financial statement of Zespół Elektrowni Pątnów – Adamów – Konin SA as well as financial statements of its subsidiaries, developed each time for the year concluded on 31 December 2016. The financial statements of the entities controlled by it (subsidiaries), after the taking into account the adjustments to ensure compliance with IFRS, are prepared for the same reporting period as the parent company's statement, using consistent accounting rules, based on uniform accounting policies applied for transactions and economic events of a similar nature. In order to eliminate any differences in the applied accounting methods, adjustments are implemented.

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

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

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

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

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

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

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

10.2. Investments in associates and joint ventures

The associates are entities, which are influenced directly by the parent company or through its subsidiaries, and which are neither its subsidiaries nor joint ventures.

Joint ventures constitute contractual arrangements, under which two or more parties undertake a business activity that is subject to joint control.

The financial year of associates, joint ventures, and the parent company is the same. Associates and joint ventures apply accounting rules included in the Act. Before calculating the share of associates and joint ventures in net assets, relevant adjustments are made, in order to make the financial data of these entities comply with IFRSs applied by the Group.

The Group's investments in associates and joint ventures are included in the consolidated financial statement using the equity method. According to the equity method, the investment in the associate or joint venture is initially recognised in accordance with the cost, and then adjusted to reflect the Group's share in the financial result and other complete revenue of the associate or joint venture. If the Group's share in losses of the associate or joint venture exceeds the value of its shares in this entity, the Group discontinues recognising its share in further losses. Additional losses are recognised only to the extent relevant to the legal or customary obligations adopted by the Group or payments made on behalf of the associate or joint venture.

An investment within the associate or joint venture is recognised using the equity method from the date on which the entity acquired the status of a joint venture or associate. On the day of making an investment in the associate or joint venture, the amount by which the value of the investment costs exceeds the Group's share in the net fair value of the identifiable assets and liabilities of this entity is recognised as the value of the company and is included in the balance sheet value of the investment. The amount by which the Group's share in the net fair value of the identifiable assets and liabilities exceeds the cost of the investment, is directly recognised in the financial result in the period in which the investment was made.

When assessing the need for recognition of the value impairment of the Group's investment in the associate or joint venture, the requirements of IAS 39 are applied. If necessary, the entire balance sheet amount of the investment is tested for the value impairment in accordance with IAS 36 "Value Impairment of Assets" as a single component of assets, comparing its recoverable value with the balance sheet value. The recognised value impairment is part of the value balance sheet of the investment. A reversal of the value impairment is recognised in accordance with IAS 36 to the extent that is relevant to the further increase in the recoverable value of the investment.

The Group ceases to apply the equity method on the day when the investment is no longer the associate or joint venture and when it is classified as the one for sale. The difference between the balance sheet value of the associate or joint venture at the date of cessation of the use of the equity method and the fair value of the retained shares and profits from the partial disposal of shares in the entity is taken into account when calculating the profit or loss on the sale of the associate or joint venture.

The Group continues to apply the equity method, if the investment in an associate becomes an investment in a joint venture, or the other way around: if the investment in a joint venture becomes an investment in an associate. In case of such changes of the ownership shares, the revaluation is not performed.

If the Group reduces the share in the associate or joint venture, but it still settles the share using the equity method, it partially transfers to the financial result the profit or loss, which were previously recognised in other comprehensive income, corresponding to the decrease in the share, if the profit or loss is subject to reclassification to the financial result at the time of sale of the related assets or liabilities.

10.3. Calculation of items denominated in a foreign currency

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

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

(in zloty thousand)

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

	31 December 2016	*31 December 2015*
EUR	4,4240	4,2615
GBP	5,1445	5,7862
USD	4,1793	3,9011

10.4. Tangible fixed assets

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

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

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

Type	*Period*
Buildings and structures	2 - 61 years
Machinery and technical devices	2 - 61 years
Means of transport	2 - 39 years
Other fixed assets	2 - 26 years

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

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

Commenced investments relate to fixed assets under construction or assembly and are reported in accordance with the acquisition or production costs reduced by potential impairment write-downs for the loss in value. The fixed assets under construction are not subject to redemption until the completion of their construction and putting the fixed asset into operation. Financing costs subject to capitalisation are also a value element of fixed assets under construction. The question of their capitalisation is described in more detail in note 10.12.

10.4.1. Fixed assets intended for sale

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

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

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

If the Group is committed to implement the sales plans for the sale of investments in the joint venture or associate, or part of such an investment, an investment or part of it intended for sale are classified as meant for sale after the fulfilment of the above-mentioned criteria, and the Group discontinues the use of the equity method of accounting for part of the investment classified as meant for sale. The other part of the investment in an associate or joint venture, which is not classified as intended for sale, is still settled using the equity method. The Group discontinues using the equity method at the time of sale, if the sale transaction causes a loss of significant influence on the associate or joint venture.

After the sale transaction, the Group settles retained shares in accordance with IAS 39, unless these shares enable a further classification of this entity as an associate or joint venture; in such case, the Group still continues to apply the equity method.

10.5. Investment properties

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

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

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

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

10.6. Assets concerning stripping and other mining assets

Assets concerning overburden stripping and other mining assets include activated costs incurred in the pre-production phase of the mine, in particular:

- expenses related to the creation of sharing excavation,
- the asset associated with the creation of the provision for reclamation, in the part in which it relates to the removed overburden within the frameworks of works connected with the excavation of the initial excavation,
- the asset associated with the creation of provisions for large, one-off costs related to the areas on which open-pit mining proceeds.

In any case, the Group settles activated costs on a straight-line basis in the period of the economic usability of the duration of particular open pits (the exploitation period adopted for particular open pits). The adopted depreciation periods and depreciation methods are periodically reviewed, at least at the end of each financial year. The assets related to the removal of overburden and other mining assets with the economic usability of less than 12 months are classified within short-term assets.

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

10.7. Expenses related to exploration and evaluation of mineral resources

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

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

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

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

10.8. Intangible assets

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

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

Intangible assets with an indefinite useful life and those that are not in use are subject to the annual value impairment test, with respect to particular assets or at the level of the cash generating unit.

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

Research and development costs

Research costs are recognised in the profit or loss at the time they are incurred. The expenses incurred on the development works executed within the framework of a given venture are transferred to a subsequent period, when it can be assumed that it will be recovered in the future. After the initial recognition of expenses for the development works, a historical cost model is applied, which requires the asset components to be recognised according to the acquisition prices/production costs reduced by the accumulated depreciation and accumulated impairment write-downs against the loss in value. The capitalised expenses are depreciated by the expected period of obtaining revenue from the sale of a given venture.

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

	Concessions, patents and licenses	*Computer software*	*Other*
Periods of use	5 years	2 years	5 years

Applied depreciation method	Straight-line method	Straight-line method	Straight-line method
Internally produced or acquired	Acquired	Acquired	Acquired
The value impairment test	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.

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

The company also shows the CO_2 emission allowances received or acquired for own needs, as intangible assets.

A detailed description of the accounting policy in respect of CO_2 emission allowances was included in note 10.27.

10.9. Leasing

The Group as a lessee.

Financial lease agreements, which substantially transfer all risks and benefits related to holding a leased asset onto the Group, are recognised in the financial situation statement on the lease commencement date according to the lower of the two following values: the fair value of the fixed asset constituting a subject of the lease or the current value of minimal lease payments. Lease payments are allocated between the financial costs and reduction of the balance of the lease liabilities in a way that allows the obtaining of a constant interest rate on the remaining unpaid liability. Financial costs are recognised in profit or loss, unless the capitalisation requirements are met.

The principles of depreciation of fixed assets used under financial leasing should be coherent with the principles used for depreciation of the Group's own assets subject to depreciation. In the event of a lack of sufficient certainty that the lessor will obtain a tenure prior to the end of the lease period, fixed assets used under financial lease agreements are depreciated over the shorter of the two periods: the estimated useful life of a fixed asset or the lease term. The lease agreements, under which the lessor substantially retains all the risks and benefits of ownership of the leased asset, are classified as operating lease agreements. Lease payments under the operating lease agreement and subsequent lease instalments are recognised as operating costs in profit or loss on a straight-line basis over the lease term.

Conditional lease payments are recognised as a cost in the period in which they become due.

10.10. Fair value measurement

The Group measures financial instruments such as instruments available for sale, derivative instruments at the fair value, at each balance sheet date. In addition, the fair value of financial instruments measured in accordance with the depreciated cost was included in note 41.

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

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

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

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

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

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

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

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

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

Summary of essential procedures for the fair value measurement

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

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

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

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

10.11. Loss in value of non-financial fixed assets

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

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

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

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

10.12. Borrowing costs

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

10.13. Financial assets

Financial assets are classified into the following categories:

- Financial assets maintained to the maturity date,
- Financial assets measured at the fair value by the financial result,
- Loans and receivables,
- Available-for-sale financial assets

Financial assets maintained until the maturity date,

Financial assets maintained to the maturity date are the financial assets quoted in the active market, and which are not derivative instruments with definite or possible to define payments as well as with the fixed maturity date, which the Group intends and has the possibility to hold to that time, other than:

- determined at the initial recognition as measured at the fair value by the financial result,
- determined as available-for-sale,
- meeting the definition of loans and receivables.

Financial assets maintained to the maturity date are measured at the depreciated cost using the effective interest rate method. Financial assets held to the maturity date are classified as long-term assets if their maturity exceeds 12 months from the balance sheet date.

Financial assets measured at the fair value by the financial result

The component of financial assets measured at the fair value by the financial result is a component that meets one of the following conditions:

a) it is classified as held for trading. The components of financial assets are classified as held for trading, if they are:
   - principally acquired for the purpose of selling in a short period of time,
   - part of the portfolio of identified financial instruments that are managed together and for which there is a probability to generate profit in a short period of time,
   - derivatives, except for the derivatives that are part of hedge accounting and financial guarantee contracts,

b) in accordance with IAS 39, classified into this category upon the initial recognition.

The financial assets measured at the fair value by the financial result are measured at the fair value taking into account their market value at the balance sheet date without the sale transaction costs. Changes in the value of these financial instruments are recognised in the income statement as financial revenues or costs. If the contract contains one or more embedded derivatives, the whole contract can be classified as financial assets measured at the fair value by the financial result. It does not apply to cases where the embedded derivative does not significantly influence the cash flows of the contract or it is clear without conducting or after a superficial analysis that if a similar hybrid instrument was firstly considered then separating the embedded derivative would be prohibited. Financial assets at the initial recognition can be classified to the category measured at the fair value by the financial result if the following criteria are met: (i) such classification eliminates or significantly reduces inconsistency in terms of recognition or valuation (accounting mismatch); or (ii) assets are a part of a group of financial assets, which are managed and measured on the basis of the fair value, in accordance with a documented risk management strategy; or (iii) financial assets contain embedded derivatives that should be recognised separately. Neither as of 31 December 2016 nor 31 December 2015, any financial assets were classified to the categories measured at the fair value by the financial result.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. They are included in current assets, if their maturity date does not exceed 12 months from the balance sheet date. The granted loans and receivables with the maturity date exceeding 12 months from the balance sheet date are classified as fixed assets.

Assets available for sale

The available-for-sale financial assets are the financial assets which are not derivatives, and which were classified as available for sale or those that do not belong to any of the three previously mentioned categories. Financial assets available for sale are recognised in accordance with the fair value increased with the transaction costs that can be directly attributed to the acquisition or issue of the component of financial assets. In the event of a lack of exchange quotations on the active market and if it is not possible to reliably determine their fair value using alternative methods, the available-for-sale financial assets are measured at the acquisition price adjusted by the impairment writ-down for the loss in value. The positive and negative differences between the fair value of the available-for-sale assets (if there is a market price established on the active market or if their fair value can be determined by some other reliable method), and their acquisition price, after deduction of the deferred tax, are included in other comprehensive income. The decrease in value of the available-for-sale assets caused by the loss in value is recognised as a financial cost.

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

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

In a situation, in which the Group:

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

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

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

10.14. Loss in value of financial assets

At the balance sheet date, the Group evaluates whether there are objective prerequisites of the loss in value of the component of financial assets or the group of financial assets.

10.14.1. Assets recognised in accordance with the depreciated cost

If there are objective prerequisites that a loss in value of the granted loans and receivables, measured in accordance with the depreciated cost, occurred, then the cost of the impairment write-down for the loss in value equals to the difference between the balance sheet value of the component of financial assets (excluding future credit losses that have not been incurred yet), discounted using the initial (i.e. determined at the initial recognition) effective interest rate method. The balance sheet value of the asset component is decreased using a write-down account. The amount of the loss is recognised in profit or loss.

The Group firstly evaluates whether there are objective prerequisites for the loss in value of the individual financial assets which are individually significant, as well as prerequisites of the loss in value of the financial assets that individually are not significant. If the conducted analysis shows that there are no objective prerequisites for the loss in value, regardless of whether it is significant or not, the Group includes this component to the group of financial assets with similar credit risk characteristics and jointly assesses in terms of the loss in value. The assets that are individually assessed for the loss in value, and for which the impairment write-down for the loss in value was recognised, or it was considered that the current write-down will not change, are not taken into account in the total assessment of the group of assets in terms of the loss in value.

If the impairment write-down for the loss in value decreased in the next period, and the decrease can be objectively associated with an event occurred after the impairment write-down recognition, then the previously recognised impairment write-down is reversed. The subsequent reversal of the impairment write-down for the loss in value is recognised in profit or loss to the extent, in which as of the date of reversal, the balance sheet value of the component of assets does not exceed its depreciated cost.

10.14.2. Financial assets stated at cost

If there are the objective prerequisites that the loss in value of the unquoted equity instrument, which is not stated in accordance with the fair value, because its fair value cannot be reliably determined, of the equity instrument, which is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment write-down for the loss in value is determined as the difference between the balance sheet value of the component of financial assets and the current value of the estimated future cash flows, which are discounted using the current market rate of return for similar financial assets.

10.14.3. Available-for-sale financial assets

If there are objective prerequisites that there was a value of a financial asset component available for sale was impaired, then the amount constituting the difference between the asset component acquisition price (decreased by any repayments of the capital and depreciation) and its fair value, decreased by any impairment write-downs against the component value loss, previously recognised in profit or loss, is derecognised from the equity and transferred to profit or loss. The reversal of the impairment write-down for the loss in value of the equity instruments classified as available for sale cannot be recognised in profit or loss. If the fair value of the debt instrument available for sale increases during the next period, and this increase can be objectively associated with an event occurred after recognition of the impairment write-down for the loss in value in profit or loss, then the amount of the reversible impairment write-down is recognised in profit or loss.

10.15. Other non-financial assets

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

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

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

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

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

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

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

10.16. Embedded derivatives

Embedded derivatives are separated from the contracts and treated as derivatives, if the following conditions are met:

- the economic characteristics and risks of the embedded instrument are not closely related to the economic characteristics and risks of the contract, to which a given instrument is embedded;
- a separate instrument with the same performance conditions as the embedded instrument would conform to the definition of the derivative;
- a hybrid (complex) instrument is not stated at the fair value, and the changes of its fair value are not recognised in profit or loss.

The embedded derivatives are stated in a similar way as separate derivatives, which are not treated as hedging instruments.

The scope, in which, according to IAS 39, the economic characteristics and risks specific to the embedded derivative in a foreign currency are closely related to the economic characteristics and risks appropriate for the host agreement (the basic contract) also covers the situations, when the currency of the host agreement is a typical currency for the purchase or sale contracts of non-financial items on the market of a given transaction.

The Group assesses whether a given embedded derivative is separated at the time of its initial recognition.

10.17. Financial derivative instruments and securities

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

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

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

Within the hedge accounting, securities are classified as:

- the fair value hedge securing against the risk of changes in the fair value of a recognised component of assets of liabilities, or

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

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

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

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

In addition, the Group secures the cash flow associated with purchasing CO_2 emission allowances in the form of short-term forward contracts.

Due to the fact that contracts for the purchase of non-financial assets are concluded in order to secure own needs, they are excluded from the scope of IAS 39.

10.17.1. Fair value security

The fair value hedge is a hedge against changes in the fair value of a recognised component of assets or liability, or an unrecognised substantiated future liability, or a separated part of such a component of assets, liability or substantiated future liability, which can be attributed to a specific type of risk, and which could influence profit or loss. In case of hedging the fair value, the balance sheet value of the hedged item is adjusted with profits and/or losses for changes of the fair value, resulting from the hedged risk, the hedging instrument is measured to the fair value, and profits or losses for the hedging instrument and the hedged item are recognised in the profit or loss.

If an unrecognised substantiated future liability is designated as a hedged item, the subsequent cumulative changes of the fair value of the substantiated future liability resulting from the hedged risk are recognised as an asset component or a liability, and arising profits or losses are included in the profit or loss. Changes of the fair value of the hedging instrument are also recognised in the profit or loss.

The Group discontinues to use the hedge accounting principles, if a hedging instrument expires, is sold, terminated, or executed, and if the hedge fails to fulfil the criteria of hedge accounting, or if the Group revokes the hedging relationship. Any adjustment of the balance sheet value of the hedged financial instrument, to which the depreciated cost method is applied, is subject to depreciation, and the write-offs are recognised in the profit or loss. The depreciation can begin as soon as the adjustment is made, however, not later than at the time of ceasing the adjustment of the item hedged with changes of the fair value resulting from the hedged risk.

10.17.2. Cash flow security

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

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

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

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

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

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

10.18. Inventories

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

The costs incurred on bringing each component of inventories to its current location and condition – both with regard to the current and previous year – are recognised as follows:

- production fuel - weighted average method
- spare parts and other materials - weighted average method

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

Certificates of energy origin

Energy origin certificates received free of charge due to the production from renewable, gas, and co-generation sources are shown according to the fair value at the end of the month, in which they were produced. The outgoings of energy origin certificates are measured according to the FIFO method.

10.19. Trade receivables and other receivables

The delivery and service receivables are recognised and stated according to initially invoiced amounts, including the write-down against doubtful receivables. The write-down against receivables is estimated when the recovery of the full number of receivables is no longer probable.

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

Other receivables include, in particular, receivables for settlements with employees.

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

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

10.20. Cash and cash equivalents

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

The balance of cash and cash equivalents in the consolidated statement of cash flows consists of the above-mentioned cash and cash equivalents, decreased by the unpaid overdraft facilities.

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

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

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

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

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

10.22. Trade liabilities and other financial liabilities

Short-term liabilities for deliveries and services are stated in the payable amount.

Financial liabilities, which are measured at the fair value by the financial result, include financial liabilities intended for trading as well as financial liabilities initially classified to the categories measured to the fair value by the financial result. Financial liabilities are classified as intended for trading if they were acquired for the purpose of selling in the near future. Derivatives, including separated embedded instruments, are also classified as designed for trading unless they are considered effective hedging instruments. Financial liabilities at the initial recognition can be classified in the categories measured at the fair value by the financial result if the following criteria are met: (i) this classification eliminates or significantly reduces inconsistency of treatment when both the valuation and principles of recognising losses or profits are subject to other regulations; or (ii) liabilities are part of the group of financial liabilities, which are managed and measured on the basis of the fair value, in accordance with a documented risk management strategy; or (iii) financial liabilities contain embedded derivatives that should be recognised separately. Neither as of 31 December 2016 nor 31 December 2015, any financial assets were classified to the categories measured at the fair value by the financial result.

The financial liabilities measured at the fair value by the financial result are measured at the fair value taking into account their market value at the balance sheet date without the sale transaction costs. Changes in the fair value of these instruments are recognised in profit or loss as costs or financial revenues.

Other financial liabilities, which are not financial instruments measured at the fair value by the financial result, are measured in accordance with the depreciated cost using the effective interest rate method.

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

10.23. Other non-financial liabilities

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

10.24. Sharing profits for employee purposes and special funds

In accordance with the Polish economic practice, the stockholders/shareholders of entities can distribute the profits for employee purposes in the form of making a contribution to a social fund or other special funds. In the financial statement, in accordance with IFRS, this part of the profit distribution is recognised as operating costs of the period, in which the profit distribution was approved by a Shareholders Meeting, due to the fact that the Groups Companies are burdened with neither legal nor customary obligation to this type of the profit distribution.

10.25. Share-based payments

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

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

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

The own share-based payments resulting from the entitlement of the PAK Kopalnia Węgla Brunatnego Konin SA and PAK Kopalnia Węgla Brunatnego Adamów SA employees to the free acquisition of the companies' shares on the basis of the Act of 30 August 1996 on the commercialisation and privatisation are recognised in accordance with the above rules. The Group recognises the costs of employee benefits for to this reason from the date of taking control over PAK Kopalnia Węgla Brunatnego Konin SA and PAK Kopalnia Węgla Brunatnego Adamów SA On the other side, the Group recognises the share-based payment programmes in the item of the retained profits, at the same time, allocating a part to the non-controlling shareholders' equity.

10.26. Provisions

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

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

In particular, the Group creates the following provisions:

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

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

- retirement or disability benefits, payable at the time of retirement,
- death benefits for families of deceased employees,
- coal benefits for employees of PAK KWB Konin and PAK KWB Adamów

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

- **Provision for the liquidation of fixed asset components**

The provision for liquidation of fixed assets is created in the event of the legal obligation occurrence or making the commitment by the management board of the Group. The provision is created on the basis of estimates of the future liquidation costs based on available offers related to the fixed assets liquidating services, taking into account the rules set out in IFRIC 1. The discount effect is recognised in the income statement.

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

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

- **Provision for the submission to the redemption of certificates of origin of energy**

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

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

- **provisions for the liabilities due to the emissions of greenhouse gases and provisions for the redemption of certified emission reductions (EUA)**

The provision for liabilities due to the emission of greenhouse gases included in the system of emission allowances is created only when the actual production shows a shortage of emission allowances in respect of the allowances granted for the whole reporting period.

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

- in a part covered by the allowances held at the balance sheet date – in the value of the held allowances, i.e. purchased at the balance sheet value, received in the zero value.
- in the part uncovered by the allowances on the balance sheet date – at the lower of the market values of the allowances required to satisfy the obligation and a possible penalty.

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

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

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

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

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

The Group, within run activities, is obliged to restore to the original condition, or to rebuild damages caused by the mine operations. Due to this, the Group creates the provision for projected costs, to pay which it is obliged on the basis of concluded agreements. Estimates concerning projected costs related to the mine operations are updated on every reporting date. The creation of the provision is recognised, on the other side, within the framework of mining assets.

10.27. CO_2 emission allowances

The CO_2 emission allowances obtained free of charge are recognised in the financial statement as allowances intended for own needs at a zero value in the intangible assets item. The emission allowances and their equivalents purchased by the Group for own needs are recognised as intangible assets. These allowances are measured at the acquisition price. The provision for liabilities due to the emission of greenhouse gases included in the system of emission allowances is created only when the actual production emission shows a shortage of emission allowances in respect of the allowances granted for the entire reporting period. This provision is created according to the FIFO principle.

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

The provision is created in the amount of:

- in a part covered by the allowances held on the balance sheet date – in the value of the held allowances, i.e. purchased at the balance sheet value, received in the zero value.
- in a part uncovered by the allowances possessed on the balance sheet date – at the lower of the market values of the certificates required to satisfy the obligation on the balance sheet date and a possible penalty.

10.28. Revenues

Revenues are recognised to the extent that it is probable that the Group will achieve economic benefits associated with the transaction, and the amount of revenues can be reliably measured. Revenues are recognised at the fair value of the received or receivable payment, after deduction of the value added tax (VAT), as well as excise tax and discounts. Revenues are also recognised according to the below criteria.

10.28.1. Sale of goods and products

Revenues are recognised if the significant risk and benefits of the equity related to goods and products were transferred to the buyer and the amount of revenues can be reliably measured.

Sales revenues also include the sales revenues of green and red certificates. At the time of production, the certificates of origin held for sale are included in the sales revenues, and therefore, in order to avoid inflating revenues at the time of selling, the costs of selling certificates are recognised as an adjustment of the sales revenues.

10.28.2. Provision of Services

Revenues from services are recognised on the basis of the extent of their completion.

The percentage progress status for the services completion is determined as a relation between the incurred costs and estimated costs, which are necessary to complete the order.

If it is impossible to reliably estimate the contract results, then the revenues generated due to this contract are recognised only to the amount of incurred costs which the Group expects to recover.

10.28.3. Contracts for construction services

The construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use.

If it is possible to reliably estimate the outcome of the contract for a construction service, the revenues and costs related to the contract for a construction service are recognised as the revenues and costs according to the extent of the contract execution at the end of the reporting period.

The contract performance progress is obtained by determining the share of contract costs, incurred due to the works executed until the valuation date, in the estimated total contract costs.

When the outcome of a contract cannot be estimated reliably:

a) negative revenues should be recognised only to the extent of incurred contract costs, which have a probability of being recovered; and

b) the contract costs are recognised as a cost for the period, in which they were incurred.

When it is probable that the total contract costs will exceed the total contract revenue, the expected loss shall be immediately recognised as an expense.

The gross payable amount from the employers for the works under the contract is recognised in the financial situation statement as assets and the gross amount payable to the employers for the works under the contract - as liabilities.

10.28.4. Revenues from compensation for stranded costs

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

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

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

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

10.28.5. Government subsidies

In the event of a justified certainty that a grant will be acquired and all the associated requirements will be satisfied, then the government grants are recognised as per their fair value.

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

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

10.29. Costs

Cost of goods sold

The cost of goods sold includes:

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

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

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

10.30. Other operating income and costs

Other operating income and costs include items mainly related to:

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

10.31. Revenues and financial costs

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

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

The entities present revenues and costs for the foreign exchange differences after compensation, and the Group separately.

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

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

10.32. Taxes

10.32.1. Current tax

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

10.32.2. Deferred tax

For the purpose of financial reporting, the deferred tax is provided, using the balance liability method in relation to all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their balance sheet value presented in the financial statement.

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

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

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

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

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

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

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

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

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

10.32.3. Value added tax and excise tax

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

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

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

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

10.33. Net profit per one share

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

10.34. Acquisition under joint control

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

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

10.35. Obligation to purchase non-controlling interests

The Company's obligation to redeem the employee shares is recognised at the date of taking control, and refers to situations in which employees have the option of selling shares. According to the selected policy, non-controlling interests receive the allocation of the result and other total incomes in the subsequent reporting periods. At the end of every reporting period, the adjustment of non-controlling interest takes place, as if they were acquired while simultaneously recognising the liability due to the option to redeem shares. The difference between the value of the non-controlling shares derecognised at the reporting date and the recognised financial liability is included in the position of retained profits.

11. Acquisitions of ventures

In the period between 1 January 2016 and 31 December 2016, there were no new acquisitions of ventures.

12. Operating segments

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

Therefore, there are following operating segments:

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

The Group ZE PAK SA also performs other kinds of activities included in the "Other" column. In 2015, there is the Eko – Surowce sp. z o.o. and Aquakon sp. z o.o. companies' activity.

Transaction prices used in transactions between operating segments are determined on the basis of commercial principles, like in transactions with non-related entities.

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

The Board monitors separate results of the operating activities of segments in order to decide on allocation of resources, evaluation of this allocation's outcomes, and the results of activities. The basis of assessment of the results of activities is profit or loss on the operating activity and EBITDA.

Segments' results for periods concluded on 31 December 2016 and 31 December 2015 are presented below:

(in zloty thousand)

Year ended 31 December 2016

	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sales revenue to external customers	1 742 513	8 103	67 815	878 419	7 861	-	2 704 711
Sales revenue between segments	434 773	823 774	243 879	5	94 635	(1 597 066)	-
Sales revenue	**2 177 286**	**831 877**	**311 694**	**878 424**	**102 496**	**(1 597 066)**	**2 704 711**
Cost of goods sold	(1 875 674)	(695 462)	(297 418)	(869 559)	(103 973)	1 600 733	(2 241 353)
Gross profit / (loss)	**301 612**	**136 415**	**14 276**	**8 865**	**(1 477)**	**3 667**	**463 358**
Other operating income	6 787	18 835	1 237	1	303	(702)	26 461
Selling and distribution expenses	(2 726)	-	-	(470)	(1 164)	-	(4 360)
Administrative expenses	(37 625)	(41 576)	(20 875)	(4 589)	(3 971)	2	(108 634)
Other operating expenses	(1 959)	(2 684)	(769)	(42)	(75)	137	(5 392)
Finance income	5 628	3 389	221	277	6	(404)	9 117
Finance costs	(56 484)	(16 368)	(160)	(2)	(62)	404	(72 672)
Profit before tax	**215 233**	**98 011**	**(6 070)**	**4 040**	**(6 440)**	**3 104**	**307 878**
Income tax expense	(35 607)	(19 333)	(824)	(731)	(507)	(590)	(57 592)
Net profit/loss for the period from continuing operations	**179 626**	**78 678**	**(6 894)**	**3 309**	**(6 947)**	**2 514**	**250 286**
Profit / (loss) from operating activities, without financial operations and income tax	**266 089**	**110 990**	**(6 131)**	**3 765**	**(6 384)**	**3 104**	**371 433**
Depreciation / Amortization	112 206	105 323	6 796	71	1 974	(4 671)	221 699
Change in impairment	-	455	-	-	-	-	455
EBITDA	**378 295**	**216 768**	**665**	**3 836**	**(4 410)**	**(1 567)**	**593 587**

(in zloty thousand)

Year ended 31 December 2015

	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sales revenue to external customers	1 720 664	9 554	149 318	1 059 431	8 849	-	2 947 816
Sales revenue between segments	455 484	902 473	309 825	5	118 562	(1 786 349)	-
Sales revenue	**2 176 148**	**912 027**	**459 143**	**1 059 436**	**127 411**	**(1 786 349)**	**2 947 816**
Cost of goods sold	(3 994 742)	(861 313)	(416 741)	(1 047 413)	(118 286)	1 787 343	(4 651 152)
Gross profit / (loss)	**(1 818 594)**	**50 714**	**42 402**	**12 023**	**9 125**	**994**	**(1 703 336)**
Other operating income	3 147	26 835	869	173	452	(1 510)	29 966
Selling and distribution expenses	(3 209)	(6)	-	(581)	(1 124)	-	(4 920)
Administrative expenses	(44 996)	(34 938)	(22 322)	(5 109)	(3 958)	-	(111 323)
Other operating expenses	(4 120)	(1 604)	(416)	(10)	(293)	234	(6 209)
Finance income	5 317	1 450	360	390	14	(1 035)	6 496
Finance costs	(24 018)	(20 466)	(420)	(6)	(34)	1 035	(43 909)
Profit before tax	**(1 886 473)**	**21 985**	**20 473**	**6 880**	**4 182**	**(282)**	**(1 833 235)**
Income tax expense	(33 117)	(6 833)	(4 575)	(1 322)	(780)	54	(46 573)
Net profit/loss for the period from continuing operations	**(1 919 590)**	**15 152**	**15 898**	**5 558**	**3 402**	**(228)**	**(1 879 808)**
Profit / (loss) from operating activities, without financial operations and income tax	**(1 867 772)**	**41 001**	**20 533**	**6 496**	**4 202**	**(282)**	**(1 795 822)**
Depreciation / Amortization	253 706	132 901	8 599	147	2 727	(4 375)	393 705
Change in impairment	1 880 000	16 189	-	-	-	-	1 896 189
EBITDA	**265 934**	**190 091**	**29 132**	**6 643**	**6 929**	**(4 657)**	**494 072**

(in zloty thousand)

13. Revenues and costs

13.1. Sales revenue

	year ended 31 December 2016	*year ended 31 December 2015*
Revenues by type		
Electricity	1 611 297	1 604 406
Electricity resold from the market	737 746	906 021
Energy certificates of origin	812	33 901
Construction contracts	59 506	141 398
Compensation related to PPAs termination	207 158	173 435
Heat	60 541	60 874
Other	29 186	30 091
Excise	(1 535)	(2 310)
Total revenues by type	2 704 711	2 947 816

Revenues by territory	*year ended 31 December 2016*	*year ended 31 December 2015*
Poland	2 685 820	2 945 322
UE countries	17 121	1 613
Outside UE	1 770	881
Total revenues by territory	2 704 711	2 947 816

13.2. Other operating revenues

	year ended 31 December 2016	*year ended 31 December 2015*
Compensations received	3 650	997
Tax return on civil law transactions	117	-
Reversal of write-downs against receivables	-	7
Grants received	12 940	11 878
Reversal of provisions for costs and losses and liabilities write-off	7 323	8 002
Other	2 431	9 082
Total other operating income	26 461	29 966

The greatest components of the "Other" item in 2016 are depreciation of fixed assets purchased from the mine liquidation fund in the amount of zloty 348 thousand, return of compensation for occupation of land for mining purposes in the amount of zloty 286 thousand, redemption of the impairment write-down for materials in the amount of zloty 220 thousand, return of court costs in the amount of zloty 100 thousand.

(in zloty thousand)

13.3. Other operating expenses

	year ended 31 December 2016	*year ended 31 December 2015*
Loss on the sale of property, plant and equipment	1 384	519
Creation of provisions	527	998
Impairment write-down against receivables	438	148
Compensations paid	371	84
Loss on liquidation of fixed assets	33	9
Electricity-related damages	160	217
Donations given	229	259
Cost of trade unions	103	188
Cost of shortages and damages	158	663
Other	1 989	3 124
Total other operating expenses	5 392	6 209

The main components of the "Other" item in 2016 are legal and enforcement proceedings costs in the of zloty 565 thousand, property tax for previous years in the amount of zloty 268 thousand, compensatory benefits in the amount of zloty 261 thousand, utilisation costs in the amount of zloty 206 thousand.

13.4. Finance income

	year ended 31 December 2016	*year ended 31 December 2015*
Interest income	4 919	3 522
Dividends	60	49
Foreign exchange gains	-	1 649
Other	296	-
Total Finance income	3 842	1 276
Interest income	9 117	6 496

The main component of the "Other" item in 2016 is the profit from the sale of 25% of the shares in the Verano sp. z o.o. Company by PAK KWB Konin SA in the amount of zloty 2,784 thousand and the revenues from the forward foreign exchange contract in ZE PAK SA in the amount of zloty 1,011 thousand.

(in zloty thousand)

13.5. Finance costs

	year ended 31 December 2016	*year ended 31 December 2015*
Interest expenses	37 667	16 838
Valuation and realization of financial derivatives	7 379	8 426
Foreign exchange losses	12 782	5 893
Power units utilisation provision discount	429	416
Reclamation provision discount	7 682	8 019
Other	6 733	4 317
Total finance costs	72 672	43 909

The “Other” item in 2016 presents mainly fees regarding unused credit and bank guarantees in ZE PAK SA and PAK KWB Konin in the amount of zloty 4,054 thousand and the reversal of the discount of actuarial reserves in PZ KWB Adamów i PAK KWB Konin in the amount of zloty 1,093 thousand as well as the reversal of the discount of the provision for mining damage in PAK KWB Konin in the amount of zloty 372 thousand.

13.6. Costs by type

	year ended 31 December 2016	*year ended 31 December 2015*
Depreciation / Amortisation	221 699	393 705
Impairment write-downs against property, plant and equipment	455	1 896 189
Impairment write-downs against inventories	10 188	12 930
Materials	336 435	435 014
External services	66 041	100 786
Taxes and charges, excluding excise duty	204 688	211 623
Costs of allowances for emission of CO_2	311 328	320 216
Employee benefits	488 005	538 579
Other costs by type	48 354	16 597
Cost of goods for resale and raw materials sold and resale of electricity from the market	747 216	879 147
Total cost by type	2 434 409	4 804 786
Items included in cost of goods sold	2 241 353	4 651 152
Items included in selling and distribution expenses	4 360	4 920
Items included in administrative expenses	108 634	111 323
Change in the stocks of finished goods	77 800	35 557
Cost of goods and services for internal needs	2 262	1 834

(in zloty thousand)

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

	year ended 31 December 2016	*year ended 31 December 2015*
Items included in the cost of manufacture of sold products:		
Fixed assets depreciation	182 044	328 408
Depreciation of mining asset	14 384	42 187
Intangible assets depreciation	875	1 009
Impairment of inventory	11 859	12 839
Impairment of tangible fixed assets and mining assets	(1 338)	1 896 189
Impairment of intangible assets	1 338	-
	209 162	2 280 632
Items included in selling and distribution costs:		
Fixed assets depreciation	85	8
	85	8
Items included in administrative costs		
Fixed assets depreciation	23 878	21 412
Intangible assets depreciation	433	681
Impairment of tangible fixed assets	455	-
	24 766	22 093

13.8. Construction agreements

	year ended 31 December 2016	*year ended 31 December 2015*
Revenues from contracts for construction services recognised in the period	59 506	141 398
Revenues invoiced in the period	48 597	137 931
Balance sheet valuation	10 909	3 467
Costs applied in the period	51 153	140 189
Expected losses due to the contracts recognised in the period	-	15
Release of provision for contract losses	(78)	-
Results due to performance of the contracts included in the period	8 431	1 194

(in zloty thousand)

	year ended 31 December 2016	*year ended 31 December 2015*
Gross amount payable by contracting parties due to works resulting from the contract	8 168	3 349
Gross amount paid to contracting parties due to works resulting from the contract	3 990	10 080

The Group's companies – Przedsiębiorstwo Remontowe "PAK Service" sp. z o.o. and Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych "EL PAK" sp. z o.o. execute contracts for construction services.

14. Components of other comprehensive income

Components of other total revenues present as follows:

	year ended 31 December 2016	*year ended 31 December 2015*
Cash flow securities		
Profits (losses) for the period	7 379	(8 426)
Adjustment resulting from reclassification of profits (loses) included in the profit or the loss	(1 383)	15 586
Gross cash flow securities for the period	**5 996**	**7 160**
Income tax concerning cash flow securities	(1 139)	(1 360)
Net cash flow securities for the period	**4 857**	**5 800**
Actuarial gross profits (losses) concerning provisions for post-employment employee benefits	**4 613**	**246**
Income tax concerning actuarial profits (losses)	(876)	(47)
Actuarial net profits (losses) concerning provisions for post-employment employee benefits	**3 737**	**199**
Gross exchange rate differences from foreign currency conversion	**-**	**-**
Income tax concerning exchange rate differences from foreign currency conversion	-	-
Net exchange rate differences from foreign currency conversion	**-**	**-**
Other	**-**	**103**
Other gross comprehensive income	**10 609**	**7 509**
Income tax concerning other comprehensive income	**(2 015)**	**(1 407)**
Other net comprehensive income	**8 594**	**6 102**

(in zloty thousand)

15. Income tax

15.1. Tax load

The main components of tax load for the year ended 31 December 2016 and 31 December 2015 are as follows:

	year ended 31 December 2016	*year ended 31 December 2015*
Included in the profit or the loss		
Current income tax		
Current income tax load	11 491	7 960
Deferred income tax load		
Related to creation and reversal of temporary differences	45 541	38 390
Other changes	560	223
Tax load in the consolidated profit or loss	**57 592**	**46 573**
Included in the consolidated statement of the comprehensive income		
Net profit (loss) tax due to revaluation of cash flow securities	(1 139)	(1 360)
Actuarial allowance concerning actuarial profits/losses	(876)	(47)
Tax advantage/(tax load) included in comprehensive income	**(2 015)**	**(1 407)**

(in zloty thousand)

15.2. Fixing of an effective tax rate

The agreement of income tax on the gross financial result before taxation according to the statutory tax rate with the income tax calculated according to the effective tax rate of the Group for the year ended on 31 December 2016 and 31 December 2015 is as follows:

	year ended 31 December 2016	*year ended 31 December 2015*
Gross profit before taxation from continuing operations	**307 878**	**(1 833 236)**
Tax at the statutory tax rate applicable in Poland, amounting to 19%	**58 497**	**(348 315)**
Adjustment concerning the current income tax from previous years	1	(268)
Not included tax losses	(4 639)	29 459
Usage of the tax losses not recognised earlier	(22)	-
Permanent differences and temporary differences on which were not recognized the asset and the reserve for deferred tax	4 387	363 139
Revenues permanently not constituting the tax base	(170)	(689)
Change related to the different tax rate in Germany (30%)	168	(66)
Others	(630)	3 313
Tax at an effective tax rate of 18.71% (in 2015 (2.54%)).	**57 592**	**46 573**
Income tax in profit and loss account	**57 592**	**46 573**

(in zloty thousand)

15.3. Deferred income tax

Deferred income tax results from following items:

			Consolidated profit and loss account for the year ended	
	31 December 2016	*31 December 2015*	*31 December 2016*	*31 December 2015*
Deferred tax asset				
Balance sheet provisions	127 581	142 348	(13 890)	1 536
Overburden and other mining assets	7 571	7 129	442	7 149
Interest and exchange rate differences	11 377	10 838	539	(2 584)
Hedging instruments	1 910	3 096	(46)	(55)
Valuation of non-terminated agreements for building services	1 726	3 996	(2 270)	(1 732)
Tax loss from previous years	35 964	12 342	23 622	(41 240)
Impairment write-down against inventories	1 936	1 781	155	196
Impairment write-down against receivables	714	1 465	(751)	(4 731)
Impairment write-downs against fixed assets	-	81	(81)	(45)
Difference between the carrying amount and tax value of fixed assets	3 537	1	3 536	(26)
Settlements with employees	5 139	5 991	(852)	(922)
Other	39 487	43 135	(3 648)	8 031
Total	236 942	232 203	6 756	(34 423)
Provision under deferred income tax				
Difference between the balance sheet value and the tax value of fixed assets	436 426	383 797	52 629	415
Receivables under PPAs	16 787	10 888	5 899	(1 847)
Energy certificates	2 615	12 315	(9 700)	(13 472)
Interest and exchange rate differences	2 531	1 538	993	(359)
Valuation of non-terminated construction agreements	2 247	2 209	38	(1 293)

(in zloty thousand)

Accrued receivables under contractual penalty fees	-	824	(824)	-
Mining asset	-	251	(251)	(597)
Purchased CO_2 allowances	73 632	69 624	4 008	21 460
Other	65	4	61	(339)
Total	534 303	481 450	52 853	3 968

After offsetting the balances at the level of the Group companies, the deferred tax is presented as:

Asset	**90 998**	**102 615**		
Provision	**388 359**	**351 862**		
The total load of deferred tax:			(50 129)	(39 797)
− in correspondence with the total income			(2 015)	(1 407)
− in correspondence with the financial result			(48 114)	(38 390)

In the deferred tax asset item, the main items in 2016 consist of zloty 12,589 thousand of the provision for the liability in relation to the Zarządca Rozliczeń company in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2015, the amount was zloty 13,539 thousand), zloty 8,352 thousand is a valuation of preferential loans in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2015, the amount was zloty 8,629 thousand), zloty 11,954 thousand is the provision for redemption of CO_2 emission allowances in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2015, the amount was zloty 13,728 thousand).

The following is the status of the tax settlements of the Group's companies for tax losses as of 31 December 2016, taking into account the deferred tax.

Tax losses, in accordance with the applicable Polish regulations of the tax law, may be deducted from future taxable income earned by the Company in the next five tax years. However, the amount of deduction in any of these years must not exceed 50% of the loss amount.

As of 31 December 2016, Elektrownia Pątnów II sp. z o.o showed the tax loss in the amount of zloty 9,312 thousand. The Company created the tax asset for the deferred tax from the tax loss for 2016.

As of 31 December 2016, the legal opportunity to deduct 50% of the unsettled tax loss for 2011 in the amount of zloty 88,517 thousand is time-barred. The Company took into account the accounting effects of the entire tax loss for 2011's limitation by impairment write-downs against tax asset in the financial results for 2013 and 2015. Therefore, the final limitation of the tax loss for 2011 remained without an effect on the financial result of 2016.

As of 31 December 2015, Elektrownia Pątnów II sp. z o.o showed the tax profit in the amount of zloty 19,486 thousand.

As of 31 December 2015, the cumulative amount of unsettled tax losses amounted to zloty 187,402 thousand:

- for the tax year of 2010, the amount of zloty 10,369 thousand;
- for the tax year of 2011, the amount of zloty 177,033 thousand, including zloty 88,517 to be settled in 2016.

As of 31 December 2015, the company analysed opportunities of settlement of tax loses on the basis of the executed and budgeted tax results. In relation with the inability to deduct part of the tax loss for 2010 and the entire tax loss for 2011, the company made an impairment write-down against the deferred tax asset's amount amounting to zloty 24,820 thousand in the books of 2015; the net value of the asset amounted to 0 as of 31 December 2015.

As of 31 December 2016, PAK KWB Konin SA shows the following unsettled tax losses:

- for the tax year of 2012, the amount of zloty 12,679 thousand;
- for the tax year of 2013, the amount of zloty 8,729 thousand;
- for the tax year of 2015, the amount of zloty 919 thousand;

In the current period, PAK KWB Konin SA settled the part of the tax loss for 2012 in the amount of zloty 28,769 thousand, for 2013 in the amount of zloty 8,729 thousand, and for in the amount of zloty 919 thousand. As of 31 December 2016, the deferred income tax asset is zloty 52,786 thousand.

As of 31 December 2016, PAK KWB Adamów SA does not show unsettled tax losses. In the current period, the Company settled the part of the tax loss for 2012 in the amount of zloty 4,168 thousand and the tax loss for 2014 in the amount of zloty 47 thousand. The deferred income tax asset is zloty 27,731 thousand.

As of 31 December 2016, ZE PAK SA shows the unsettled tax losses asset for 2013-2014 in the amount of zloty 24,414 thousand and the tax loss asset for 2016 in the amount of zloty 133,230 thousand. On the basis of the forecast positive tax results, deferred tax assets were created in the full amount that, according to the Company, will be settled in subsequent tax years.

16. Social services fund assets and liabilities of the Intercompany Social Insurance Fund (MFŚS)

The Act of 4 March 1994 (as amended) on the Company Social Insurance Fund as amended states that the Social Insurance Fund is formed by employers employing more than 20 full-time employees. The Group forms such a fund and makes periodical write-offs based on the amounts agreed with trade unions. In addition, the Group's companies contribute some social assets to the Fund. The aim of the Fund is to finance social activities, loans granted to the Group's employees and other social costs.

The subsidiaries, PAK KWB Konin, PAK KWB Adamów, El PAK Serwis, EKO-Surowce, PAK-Volt, Energoinwest-Serwis, Aquakon, do not belong to the Intercompany Social Insurance Fund.

(in zloty thousand)

The Group compensated the assets of the Fund with their obligations to the Fund because these assets do not constitute separate assets of the Group. According to the above fact, the net balance as of 31 December 2016 is zloty 6,983 thousand (as of 31 December 2015 – zloty 6,5810 thousand respectively).

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

	31 December 2016	*31 December 2015*
Loans granted to the employees	4 221	6 339
Cash	10 612	9 961
Liabilities due to the Fund	(7 850)	(9 719)
Balance after compensation	6 983	6 581

	year ended 31 December 2016	*year ended 31 December 2015*
Write-offs for the Fund in the financial period	9 530	9 217

17. Profit / (loss) per one share

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

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

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

	31 December 2016	*31 December 2015*
Net profit / (loss) on continued activities of the parent company's shareholders	247 674	(1 881 086)
Profit / (loss) on abandoned activities of the parent company's shareholders	-	-
Net profit / (loss) of ordinary shareholders used for calculation of diluted profit / (loss) per one share	247 674	(1 881 086)
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547

The below table shows the profit / (loss) per one share in Polish zlotys for the year ended 31 December 2016 and 31 December 2015 presented in the profit and loss account.

(in zloty thousand)

	year ended 31 December 2016	*year ended 31 December 2015*
Basic and diluted profit / (loss) per share for the financial year attributable to equity holders of the parent	4,87	(37,01)
Basic and diluted profit / (loss) per share from continuing operations attributable to equity holders of the parent	4,87	(37,01)

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

18. Paid and proposed for payment dividends

In 2015, the ZE PAK SA Group recorded a net loss. Therefore, in 2016, the ZE PAK Group did not pay the dividend.

In 2015, the dividend for 2014 was paid in the amount of zloty 60,988, which meant that the amount of zloty 1.20 was per one share.

(in zloty thousand)

19. Tangible fixed assets

Year ended 31 December 2016

	Land and perpetual usufruct	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2016	224 845	1 927 606	3 968 357	70 298	28 563	1 119 880	7 339 549
Direct purchase	47	25	1 532	332	703	60 920	63 559
Repairs	-	-	3 155	-	-	58 213	61 368
Transfer from fixed assets under construction	11 750	88 537	894 553	-	205	(995 045)	-
Sale and liquidation	(1 433)	(1 806)	(5 354)	(1 015)	(389)	(17)	(10 014)
Gross value as at 31 December 2016	235 209	2 014 362	4 862 243	69 615	29 082	243 951	7 454 462
Depreciation and impairment write-downs as at 1 January 2016	5 431	1 024 186	1 994 014	30 556	19 012	791 121	3 864 320
Depreciation write-down for the period	2 508	53 378	138 718	9 269	2 134	-	206 007
Impairment write-down	-	51 530	634 082	-	-	(686 950)	(1 338)
Sale and liquidation	(7)	(991)	(3 491)	(904)	(380)	-	(5 773)
Depreciation and impairment write-downs as at 31 December 2016	7 932	1 128 103	2 763 323	38 921	20 766	104 171	4 063 216
Net value as at 1 January 2016	219 414	903 420	1 974 343	39 742	9 551	328 759	3 475 229
Net value as at 31 December 2016	227 277	886 259	2 098 920	30 694	8 316	139 780	3 391 246

(in zloty thousand)

Year ended 31 December 2015

	Land and perpetual usufruct	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2015	214 184	1 889 661	3 929 392	69 177	26 985	815 781	6 945 180
Direct purchase	1 104	2 594	5 917	9 472	2 234	396 173	417 494
Repairs	-	-	8 027	-	-	(8 027)	-
Transfer from fixed assets under construction	10 800	40 551	29 564	115	637	(81 667)	-
Sale and liquidation	(1 243)	(5 200)	(4 543)	(8 466)	(1 293)	(2 380)	(23 125)
Gross value as at 31 December 2015	224 845	1 927 606	3 968 357	70 298	28 563	1 119 880	7 339 549
Depreciation and impairment write-downs as at 1 January 2015	3 809	442 030	1 128 551	25 703	16 128	29 341	1 645 562
Depreciation write-down for the period	1 628	98 577	237 091	9 405	3 127	-	349 828
Impairment write-down	-	485 797	631 022	489	912	761 780	1 880 000
Sale and liquidation	(6)	(2 218)	(2 650)	(5 041)	(1 155)	-	(11 070)
Depreciation and impairment write-downs as at 31 December 2015	5 431	1 024 186	1 994 014	30 556	19 012	791 121	3 864 320
Net value as at 1 January 2015	210 375	1 447 631	2 800 841	43 474	10 857	786 440	5 299 618
Net value as at 31 December 2015	219 414	903 420	1 974 343	39 742	9 551	328 759	3 475 229

As of 31 December 2016, the balance sheet value of fixed assets, under financial lease agreements, is zloty 61,365 thousand (as of 31 December 2015 – zloty 74,530 thousand).

Lands and buildings of the balance sheet value of zloty 368,122 thousand (as of 31 December 2015 – zloty 365,536) are covered by a mortgage established to secure bank credits of the Group (note 36).

The value of capitalised external financing costs for the year concluded on 31 December 2016 was zloty 3,211 thousand (in the year concluded on 31 December 2015, it was zloty 11,766 thousand).

Moreover, the Group sold post-mining land of the net value of zloty 21 thousand.

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

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

As mentioned in note 5.2., the main prerequisite to analyse the value impairment of the components identified by the Management Board is the steady lower market value of the Group's net assets than their balance sheet value. Additional prerequisites, which the Management Board took into account when assessing the need for the test, were the prerequisites resulting from market conditions in the environment, in which the companies in the Group run activities, out of which the most important are:

- continuing low electricity prices (due to, among others, growing wind generation, a change in the rules for the provision of operational power reserve services);
- decreasing prices of energy certificates of origin generated in renewable energy sources ("green certificates") due to the oversupply of property rights of renewable energy;
- increasing fluctuations of the CO_2 emission allowances' prices (caused by the aggravating climate policy of the European Union).

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

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

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

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

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

The final settlement of this programme and, eventually, receipt of additional funds within the annual adjustment for 2025 and the final adjustment are planned in 2026.

The brown coal mines, PAK KWB Konin SA and PAK KWB Adamów SA, conduct the business at several open pits.

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

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

- ZE PAK SA
- Elektrownia Pątnów II sp. z o.o.
- PAK KWB Konin SA
- PAK KWB Adamów SA

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

Conducting the value impairment test of fixed assets, the Group based on the financial model for 2014-2047 reflecting strategic priorities of the parent company – ZE PAK SA

The tests were conducted on 31 December 2016, evaluating cash generating units' use value.

The conducted valuation includes all the elements required by the IAS 36 provisions.

In ZE PAK SA, one cash-generating unit (CGU) was determined, in which the following generation assets operate:

- the Pątnów I power plant – operation time until 31 December 2030
- the Adamów power plant – 31 December 2018
- the Konin-header power plant – operation time until 30 June 2020
- the Konin biomass unit power plant – operation time until 31 December 2047.

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

- the forecast of the electricity prices with the division into BASE, PEAK and OFFPEAK was adopted on the basis of the Report on the energy market in Poland prepared for ZE PAK SA by an independent external consultant;
- production assumptions result from the adopted investment and a renovation programme of ZE PAK SA. Reduction of electricity generation from brown coal and maintenance of generation for biomass-fired boiler are assumed.
- in the structure of total revenue in 2016-2017, on average, 85% are revenues from own and purchased electricity. From 2018, due to the exclusion of production in the Adamów Power Plant, total revenue will decrease by 40% in relation to 2017. In 2021, another decrease will take place when the units 5 and 6 as well as the boiler part in the Konin Power Plant do not work,
- the Company assumed the use of the free CO_2 emission allowances in the amount resulting from Article 10a of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003,
- the costs of brown coal purchased for generation were specified on the basis of the delivery schedule and the prices agreed with the appropriate schedules in financial projections of the subsidiaries,
- the effects of restructuring costs for the withdrawal of the old units in the Konin and Adamów Power Plants were taken into account,
- the new mechanisms of model changes of the Polish market including the introduction of the capacity market (electricity and power) and/or mechanisms guaranteeing a return on investments (contracts of differences) were not taken into account,
- the weighted average cost of capital after taxation (WACC) in the projection period at the level of 7.37% (in 2015, also 7.22%) was adopted.

In the case of Elektrownia Pątnów II sp. z o.o., due to the participation of this unit in the programme of coverage of stranded costs (PPA), there were no indications of value impairment of tangible fixed assets requiring testing for this CGU.

Like in relation to the other CGUs operating within the segments: Repairs, Sales and Other, indications of a possible value impairment of assets were not identified as well.

(in zloty thousand)

The basis of tests for both brown coal mines is long-term financial projections including periods of operation of both mines and their particular open pits, which were agreed with assumptions accepted in the ZE PAK SA's model. Adjusting the financial projections of mines to periods of operation of the generating units results from the assumption that the only recipient of the coal is the companies of the Capital Group.

The financial projections for PAK KWB Konin SA and PAK KWB Adamów SA were built taking into account the following parameters:

- the volume of production (extraction of coal) and revenue were determined on the basis of forecasts of the main recipients of coal that is ZE PAK SA and Elektrownia Pątnów II sp. z o.o. and the projected price curve of coal,
- stripping and extraction of coal were developed according to the schedule of utilisation of current and predicted open pits,
- the level of investment expenses enabling to build new open pits ensuring supplying the power plants and maintaining specified production capacities during their operation was accepted,
- the effects of employment restructuring processes were taken into account,
- costs of the following events were included:
  - costs of reclamation of open pits
  - pension provisions
  - costs of compensations due to the group dismissals
  - revenues from sale of the asset after the end of open pit utilisation.
- weighted average cost of capital after taxation (WACC) in the projection period for PAK KWB Adamów SA at 7.5% (in 2015, 7.5%) and for PAK KWB Konin SA at the level of 8.0% (in 2015, 7.9%) was adopted; the higher discount rate reflects the higher risk associated with the operation of PAK KWB Konin SA in the long term (longer perspective of the forecast), in particular in relation to investment activities related to the development of new brown coal deposits.

The tests were conducted as of 31 December 2016.

On the basis of the conducted tests, it was found that there is no need for recognition of impairment write-downs of the tangible fixed assets for the CGU ZE PAK SA, the CGU PAK KWB Adamów SA, and for the CGU PAK KWB Konin SA. Based on the test results, it was also not necessary to recognise the additional impairment write-downs of the CGU ZE PAK SA assets. On the basis of the carried out analysis and test results, an increase in the estimated service potential of fixed assets for CGU ZE PAK SA was not determined, therefore, the reversal of previously recognised impairment write-downs in the amount of zloty 1,880,000 thousands was not conducted. In relation to the information in note 43, the sensitivity analysis of the value impairment tests of tangible fixed assets was conducted at assuming the lack of postponements in the planned schedules of construction and exploitation of coal from the Ościslowo open pit.

As of 31 December 2016	*the tested value*	*stated the impairment of the asset*	*the value after the excerpt*
ZE PAK SA	1 433 913	0	1 433 913
Total	1 433 913	0	1 433 913

Sensitivity analysis

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

(in zloty thousand)

Zespół Elektrowni Pątnów-Adamów-Konin SA	*(+) increase by 1.0 percentage points*	*(-) decrease by 1.0 percentage points*
weighted average cost of capital	(22 m)	23 m
	(+) increase by 1%	(-) decrease by 1%.
change in sales revenues (electricity price)	68 m	(68 m)
	(+) increase by 5%	(-) decrease by 5%.
change in cost of sales (price of 1 EUA)	(52 m)	52 m

PAK KWB Konin SA	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
weighted average cost of capital	(64 m)	73 m
	(+) increase by 1%	(-) decrease by 1%
change in sales revenues	46 m	(46 m)

In the case of a decrease in revenues from sales by 1.2 % in a perspective of the forecast as the other parameters of the recoverable value determination remain unchanged and in case of increase of the weighted average cost of capital by 0.83 percentage points, while the other model parameters are unchanged, the recoverable value of the CGU would be equal to the balance sheet value.

PAK KWB Adamów SA	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
weighted average cost of capital	3 m	(3 m)
	(+) increase by 1%	(-) decrease by 1%
change in sales revenues	2 m	(2 m)

In the case of a decrease in revenues from sales by 4.0% in a perspective of the forecast as the other parameters of the recoverable value determination remain unchanged, and in case of a decrease of the weighted average cost of capital by 1.9 percentage points, while the other model parameters are unchanged, the recoverable value of the CGU would be equal to the balance sheet value.

20. Lease

20.1. Liabilities under financial lease agreements and lease agreement with purchase option

Fixed assets used on the basis of financial lease agreements include mostly cars, tracked dozers and loaders, tractors, and trailers.

As of 31 December 2016, and 31 December 2015, future minimal lease payments due to financial lease agreements and lease agreements with purchase option, as well as current value of minimal net lease payments are as follows:

	as at 31 December 2016		as at 31 December 2015	
	minimum payments	*present value of payments*	*minimum payments*	*present value of payments*

Up to 1 year	7 572	7 189	15 065	14 246
1 to 5 years	4 249	3 962	11 155	11 250
Over 5 years	-	-	-	-
Total minimal lease payments	11 821	11 151	26 220	25 496
Minus finance expenses	(670)	-	(724)	-
Present value of minimal lease payments, including:	11 151	11 151	26 151	25 496
Short-term	7 171	7 189	15 031	14 246
Long-term	3 980	3 962	11 120	11 250

(in zloty thousand)

21. Intangible assets

Long-term intangible assets – year ended 31 December 2016

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2016	12 054	19 558	1 949	395	33 956
Transfer EUA	(14 671)	-	-	-	(14 671)
Increases	-	-	(26)	-	(26)
Decreases	117 120	1 982	75	36	119 213
Gross value as of 31 December 2016	114 503	21 540	1 998	431	138 472
Depreciation and impairment write-downs as at 1 January 2016	-	14 525	1 719	323	16 567
Depreciation write-down for the period	-	1 080	207	21	1 308
Impairment write-down	-	1 338	-	-	1 338
Decreases	-	-	(23)	-	(23)
Depreciation and impairment write-downs as at 31 December 2016	-	16 943	1 903	344	19 190
Net value as at 1 January 2016	12 054	5 033	230	72	17 389
Net value as at 31 December 2016	114 503	4 597	95	87	119 282

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

(in zloty thousand)

Long-term intangible assets – year ended 31 December 2015

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2015	76 538	18 549	1 847	384	97 318
Transfer EUA	(76 538)	-	-	-	(76 538)
Increases	-	(1)	(200)	-	(201)
Decreases	12 054	1 010	302	11	13 377
Gross value as of 31 December 2015	12 054	19 558	1 949	395	33 956
Depreciation and impairment write-downs as at 1 January 2015	-	13 286	1 475	294	15 055
Depreciation write-down for the period	-	1 239	422	29	1 690
Impairment write-down	-	-	-	-	-
Decreases	-	-	(178)	-	(178)
Depreciation and impairment write-downs as at 31 December 2015	-	14 525	1 719	323	16 567
Net value as at 1 January 2015	76 538	5 263	372	90	82 263
Net value as at 31 December 2015	12 054	5 033	230	72	17 389

In the EUA Transfer, the Group presents transfer of CO2 allowances between long-term and short-term intangible assets. .

(in zloty thousand)

Short-term intangible assets

	31 December 2016	*31 December 2015*
	CO_2 Emission units (EUA)	*CO_2 Emission units (EUA)*
Gross value as of 1 January	354 389	176 957
Purchase of EUA	258 365	275 175
Redemption of EUA	(354 389)	(174 281)
Transfer of EUA	14 671	76 538
Gross value as of 31 December	273 036	354 389
Redemption and impairment as of 1 January	-	-
Impairment write-down of a period	-	-
Depreciation and impairment write-down as of 30 December	-	-
Net value as of 1 January	354 389	176 957
Net value as of 31 December	273 036	354 389

22. Assets for overburden removal and other mining assets

As of 31 December 2016, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets in PAK KWB Konin in the amount of zloty 79,612.

	31 December 2016	*31 December 2015*
Status as of 1 January	94 057	150 457
Increases	-	(16 189)
Decreases	1 306	1 976
Depreciation for the period	(455)	-
Impairment (change)	(14 384)	(42 187)
Status as of 31 December:	80 524	94 057
– long-term	80 524	92 748
– short-term	-	1 309

(in zloty thousand)

23. Other assets

23.1. Other financial assets

	31 December 2016	*31 December 2015*
Deposits for debt service security	76 484	74 789
Investments and deposits	2 540	2 709
Investments and FLZG and FRZG deposits	7 810	7 637
Shares	167	2 451
Other	2 261	3 145
Total other financial assets:	89 262	90 731
– short-term	77 317	76 979
– long-term	11 945	13 752

The main component of the "Other" item in 2016 is the shares of Wielkopolskie Centrum (Wielkopolska Logistics Centre) in PAK Serwis sp. z o.o. in the amount of zloty 418 thousand and loans granted to employees in PAK KWB Konin SA in the amount of zloty 444 thousand.

23.2. Other non-financial assets

	31 December 2016	*31 December 2015*
VAT receivables	22 184	4 031
Insurance	1 561	1 519
Other receivables from the state budget	-	1 783
Other accruals	98	-
Delivery prepayments	3 359	6 235
Prepayments for intangible assets	905	813
Prepayments for assets under construction	187	1 834
Prepayments for tangible assets – land	5 880	5 848
Other	328	461
Total other non-financial assets:	34 502	22 524
– short-term	28 776	12 497
– long-term	5 726	10 027

The greatest components of the item of other prepayments are the settlements related to license fees in the amount of zloty 956 in ZE PAK SA and the settlements of valuation of fixed assets held for sale in the amount of zloty 908 thousand in PAK KWB Konin SA.

(in zloty thousand)

24. Employee benefits

24.1. Pension benefits and other post-employment benefits

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

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

	Provision for pension, retirement, and survival benefits	*Anniversary premiums*	*Subsidies to electricity/coal benefits*	*Total*
as of 1 January 2016	**42 310**	**16 352**	**27 794**	**86 456**
Current service cost	2 103	1 543	-	3 646
Interest costs	1 020	425	723	2 168
Actuarial profits and losses	(2 535)	(299)	(1 823)	(4 657)
Paid benefits	(4 079)	(2 351)	(2 982)	(9 412)
Past service cost	(10 527)	(12 584)	-	(23 111)
Other	-	-	-	-
as of 31 December 2016	**28 292**	**3 086**	**23 712**	**55 090**
Long-term provisions	25 159	2 547	20 881	48 587
Short-term provisions	3 133	539	2 831	6 503

	Provision for pension, retirement, and survival benefits	*Anniversary premiums*	*Subsidies to electricity/coal benefits*	*Total*
as of 1 January 2015	**49 973**	**65 302**	**31 832**	**147 107**
Current service cost	2 849	(939)	-	1 910
Interest costs	1 210	961	828	2 999
Actuarial profits and losses	1 671	(6 556)	(1 772)	(6 657)
Paid benefits	(6 056)	(26 854)	(3 094)	(36 004)
Past service cost	(7 088)	(15 398)	-	(22 486)
Other	(248)	(164)	-	(412)
as of 31 December 2015	**42 311**	**16 352**	**27 794**	**86 457**
Long-term provisions	38 831	14 144	24 699	77 674
Short-term provisions	3 480	2 208	3 095	8 783

The main factor of the decrease in the value of provisions for jubilee awards was an agreement with the trade unions in the Group in terms of liquidation of jubilee awards in the Collective Labour Agreement.

(in zloty thousand)

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

	Year ended 31 December 2016	*Year ended 31 December 2015*
discount rate	3,5%	2,6%
expected inflation rate	2,5%	2,5%
expected remuneration growth rate	depending on company in range from 0 % to 3 %	depending on company in range from 0 % to 3 %

25. Inventories

	31 December 2016	*31 December 2015*
Production fuel	9 161	14 745
Spare parts and other materials	74 608	67 019
Certificates of origin of energy	21 406	75 532
Goods	121	219
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	105 296	157 515

Certificates of origin of energy due to the energy production from renewable energy sources, gas sources, and peak load co-generation are presented according to fair value at the end of the month, in which they were produced.

As of 31 December 2016, the Group possessed in total, according to entries in the records, 353,874.513 MWh of property rights of green certificates and the produced green energy, which is not yet verified by ERO, of which 134,408.902 MWh are the already obtained property rights, while 186,300.887 MWh are the green power production in July, August, September, October, and November 2016 awaiting for confirmation in the ERO, and 33,164.724 MWh are the production of December 2016 awaiting for submission of an application by the Company. The Company submitted the application for granting property rights for July to PSE SA on 23 August 2016, for August – on 19, for September – on 11 October; for October – on 17 November; for November – on 15 December; for December – on 10 January 2017. In 2016, the Group received the outstanding certificates for 2015 in the number of 115,301.589 MWh for production in the fourth quarter of 2015, and 174,206.391 MWh for production in the first half of 2016. During the current reporting period, the Group performed production from renewable sources and, in the balance sheet, presented the green certificates at prices current at the end of each month.

The impairment write-down against the inventory value as of 31 December 2016 in the amount of zloty 9,845 thousand concerns revaluation of rights in possession of the Company on 31 December 2016 to the unit price in the amount of 37.76 zloty /MWh.

(in zloty thousand)

26. Trade receivables and other receivables

	31 December 2016	*31 December 2015*
Trade receivables	126 793	179 735
Receivables due to compensation related to the termination of the PPAs	88 350	57 307
Receivables due to security of purchase of electricity in the balancing market	8 674	7 826
Other receivables	22 208	23 255
Net receivables	246 025	268 123
Write-down of receivables impairment	41 947	41 840
Gross receivables	287 972	309 963

In the other receivables line, as of 31 December 2016, the Group presents mainly receivables due to the security deposit in the amount of zloty 15,091 thousand.

Terms of transactions with affiliates are presented in the note 37.

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

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

As of 31 December 2016, receivables due to supplies and services and other receivables in the amount of zloty 41,947 thousand (as of 31 December 2015: zloty 41,840 thousand) were included in the write-off. Changes in the receivables impairment write-downs were as follows:

	31 December 2016	*31 December 2015*
Impairment write-down as of 1 January	41 840	41 995
Increase	568	857
Use	(315)	(5)
Redemption	(146)	(1 007)
Impairment write-down as of 31 December	41 947	41 840

The following is an analysis of receivables due to supplies and services and other receivables, which, as of 31 December 2016 and 31 December 2015 were expired, but were not considered to be non-collectible and are not included in the write-off.

			Expired, but collectible				
	Total without write-down	*Not expired*	<30 days	30-60 days	60-90 days	90-120 days	>120 days
31 December 2016	246 025	217 297	10 135	6 929	5 246	2 507	3 911
31 December 2015	268 123	238 152	18 515	7 964	1 067	211	2 214

(in zloty thousand)

27. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 31 December 2016 amounts to zloty 350,101 thousand (as of 31 December 2015: zloty 383,354 thousand).

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

Structure of cash

	31 December 2016	*31 December 2015*
Cash in hand and at bank:	229 498	238 019
Short-term deposits	120 603	145 335
Total cash and cash equivalents in the balance sheet	350 101	383 354
Foreign exchange differences	(1 454)	(36)
Total cash and cash equivalents in cash flow statement	348 647	383 318

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

	31 December 2016	*31 December 2015*
Depreciation:		
Depreciation shown in the income statement	221 699	393 705
Settlement of subsidies	(2 877)	(1 786)
Depreciation shown in the cash flow statement	(10 993)	(10 984)
depreciation shown in cash flow statement	207 829	380 935

The settlement of sale-and-lease-back concerns an excess due to sale of assets components and lease them back in PAK KWB Konin. The amount of zloty 10,993 thousand adjusted for depreciation (in 2015, the amount of zloty 10,984 thousand).

(in zloty thousand)

	31 December 2016	*31 December 2015*
Receivables:		
Balance sheet change in trade receivables and other receivables	22 098	(14 146)
Balance sheet change in other long and short-term non-financial assets	(11 978)	42 859
Balance sheet change in amounts due from clients under PPAs	(4 819)	6 698
Change in advances for fixed assets under construction	(1 637)	(17 203)
Other changes	(541)	(2 106)
Change in receivables shown in the cash flow statement	3 123	16 102

	31 December 2016	*31 December 2015*
Liabilities:		
Balance sheet change in trade liabilities and other financial liabilities, long and short-term	(10 524)	(140 688)
Balance sheet change in other non-financial liabilities	(6 123)	(11 461)
Balance sheet change in amounts paid to clients under PPAs	(6 090)	(10 165)
Change in liabilities under investment settlements	57 179	47 704
Purchase of debt securities	5 030	-
New lease agreements and payment of lease liabilities	15 192	6 157
Change in liabilities under purchase of allowances of emission CO_2	(59 951)	-
Other changes	170	19 886
Change in liabilities shown in the cash flow statement	(5 117)	(88 567)

(in zloty thousand)

	31 December 2016	*31 December 2015*
Change in provisions, prepayments and accruals and employee benefits:		
Change in provisions and prepayments	(87 883)	156 683
Change in long and short-term employee benefits	(31 367)	(60 651)
Decrease of provision from redemption EUA	354 389	174 281
Change in actuarial provisions indicated in other comprehensive income	4 613	246
Other changes	(566)	(2 350)
Change in provisions, prepayments and accruals and employee benefits	239 186	268 209

In the item of expenditures and receipts associated with other financial assets were presented inflows and outflows of the cash earmarked for debt service and received guarantees..

28. Share capital and others capitals

28.1. Share capital

Share capital	*31 December 2016*	*31 December 2015*
50 823 547 shares with a nominal values of zloty 2 each	101 647	101 647
	101 647	101 647

28.1.1. Shares nominal value

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

28.1.2. Shareholders rights

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

28.1.3. Shareholders with significant share

	31 December 2016	*31 December 2015*
Elektrim SA		
share in capital	0,39%	0,39%
share in voting right	0,39%	0,39%
Embud sp. z o.o.		
share in capital	1,16%	1,16%
share in voting right	1,16%	1,16%
Trigon XIX Fundusz Inwestycyjny Zamknięty		
share in capital	19,68%	19,68%

(in zloty thousand)

share in voting right	19,68%	19,68%
Argumenol Investment Company Limited		
share in capital	30,32%	12,61%
share in voting right	30,32%	12,61%
Nationale - Nederlanden OFE		
share in capital	9,97%	9,97%
share in voting right	9,97%	9,97%
Towarzystwo Funduszy Inwestycyjnych PZU SA		
share in capital	6,06%	-
share in voting right	6,06%	-
OFE PZU Złota Jesień		
share in capital	5,24%	-
share in voting right	5,24%	-
IPOPEMA 116 Fundusz Inwestycyjny Zamknięty		
share in capital	-	17,71%
share in voting right	-	17,71%
Others		
share in capital	27,18%	38,48%
share in voting right	27,18%	38,48%
	100,00%	100,00%

According to the Company's knowledge on the basis of notifications submitted by the shareholders.

29. Supplementary capital

As of 31 December 2016, the structure of the supplementary capital origin in the amount of zloty 1 028 647 thousand is as follows:

- from the sale of shares above their nominal value 380 030
- created in accordance with the articles of association above the statutory (minimum) value 521 904
- other 126 713

29.1. Other reserve capitals

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

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

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

(in zloty thousand)

29.2. Non-divided financial result and restrictions on payment of the dividend

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

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

In the Group, as of 31 December 2016, the full amount of non-divided profit (including the equivalent of reserve and supplementary capitals created within the division of profits in the previous years) is subject to the restriction on payment of dividend. The following conditions are the basis of such an assumption:

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

As of 31 December 2016, there are no other restrictions on the payment of the dividend.

29.3. Non-controlling interest

	Year ended 31 December 2016	*Year ended 31 December 2015*
At the beginning of the period	-	-
Acquisition - defining non-controlling interest at the acquisition date	30 971	30 971
Employee share program - correction of the original settlement	(955)	(955)
The result of subsidiaries in a given year - attribution to non-controlling interests	2 612	1 278
Settlement PUT options - the recognition of the commitment to purchase employee shares	(30 971)	(30 971)
Settlement PUT option - recognition of the difference between the value of non-controlling interest and obligation at end of period	(1 657)	(323)
Total	-	-

Allocation of the result to the non-controlling interests

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

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

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

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

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

As of 31 December 2016, the remaining amount on the purchase of PAK KWB Konin SA and PAK KWB Adamów SA amounted to zloty 6,061 thousand.

(in zloty thousand)

30. Interest-bearing loans and borrowings

Short term	*Maturity*	*31 December 2016*	*31 December 2015*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	142 567	136 548
Overdraft facility at BRE Bank in the amount of zloty 9 700 thousand; interest rate at WIBOR 1M + bank margin	21.04.2016	-	9 580
Overdraft facility at BZ WBK in the amount of zloty 65 000 thousand; interest rate at WIBOR 1M + bank margin	30.06.2017	28 670	64 385
Investment loan from BZ WBK SA in the amount of zloty 46 463 thousand; interest rate at WIBOR 1M + bank margin	31.12.2016	-	12 438
Credit services agreement in mBank SA to amount of zloty 61 590 thousand – discounting of bills of exchange, interest rate at WIBOR 1M + bank margin	30.06.2016	-	3 851
Bank BPH SA – loan agreement in the amount of zloty 67 000 thousand	31.05.2017	63 061	50 884
Overdraft facility at Millennium Bank in the amount of zloty 76 500 thousand; interest rate at WIBOR 3M + bank margin	31.12.2017	28 765	28 765
Syndicated investment loan in amount of zloty 577 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.03.2020	146 260	67 642
Syndicated overdraft facility in amount of zloty 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.03.2020	12 369	12 300
Overdraft facility in amount up to 1 000 thousand zloty 30.05.2017	31.05.2017	266	150
TOTAL		**421 958**	**386 543**

Long term	*Maturity*	*31 December 2016*	*31 December 2015*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	244 556	360 627
Overdraft facility at Millennium Bank in the amount of zloty 76 500 thousand; interest rate at WIBOR 3M + bank margin	31.12.2017	-	28 765

(in zloty thousand)

Syndicated investment loan in amount of zloty 577 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.03.2020	283 045	465 400
Syndicated overdraft facility in amount of zloty 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.03.2020	60 250	69 727
TOTAL		**587 851**	**924 519**

On 13 March 2014, ZE PAK SA concluded the Corporate Credit Agreement with mBank, BGK, Millennium, PEKAO SA and PKO BP banks in the amount of zloty 1,200,000 thousand. The credit was divided into two parts, the A Credit in the amount of zloty 1,110,000 thousand for modernisation of units 1-4 in the Pątnów I power plant, the B Credit in the amount of zloty 90,000 for the purpose of refinancing the IOS credit repaid on 2 January 2014. Interest of the A and B Credits amounts to WIBOR 3M plus the bank's profit margin. On 30 June 2016, the Annex No. 3 to the credit agreement, under which the unused A credit part was released was signed. Therefore, the amount of the used credit as of 30 June 2016 is zloty 667,000 thousand (including the A credit in the amount of zloty 577,000 thousand and the B credit in the amount of zloty 90,000 thousand). In connection with a decrease in the credit limit to be used, the repayment schedule also changed. Both the A Credit and the B Credit will be completely repaid on 20 March 2020. As a result of changes in estimates of future payments related to the debt service, the existing financial liability balance sheet value was recalculated. The effect of the liability valuation adjustment in the amount of about zloty 8 million will be prospectively recognised in the remaining term of the corporate credit repayment.

31. Provisions and accruals

31.1. Accruals

	31 December 2016	*31 December 2015*
Bonus and holiday leave provision	29 371	35 624
Insurance company compensations	16	41
Audit of the financial statement	570	393
Others	1 886	1 717
Total	31 843	37 775
short-term	31 843	37 775
long-term	-	-

(in zloty thousand)

31.2. Change in provisions

	Provision for EUA redemption	*Provision for the fixed assets liquidation costs*	*Provision for the reclamation of ash storage yards*	*Provision for the long-term contract loss*	*Provision for the certificates of origin of energy redemption*	*Reclamation provisions and other provisions related to mining activities*	*Other*	*Total*
as of 1 January 2016	354 389	16 419	1 698	148	9 449	330 561	53 487	766 151
increase	313 105	429	-	86	7 838	1 676	1 500	324 634
decrease	(354 389)	-	(693)	(221)	(9 449)	(24 400)	(17 435)	(406 587)
as of 31 December 2016	313 105	16 848	1 005	13	7 838	307 837	37 552	684 198
long term	-	16 848	755	-	-	287 966	6 684	312 253
short term	313 105	-	250	13	7 838	19 871	30 868	371 945
as of 1 January 2015	176 957	14 671	4 025	98	6 056	343 828	66 357	611 992
increase	351 713	1 748	-	64	9 449	10 718	4 509	378 201
decrease	(174 281)	-	(2 327)	(14)	(6 056)	(23 985)	(17 379)	(224 042)
as of 31 December 2015	354 389	16 419	1 698	148	9 449	330 561	53 487	766 151
long term	-	16 419	1 005	-	-	307 111	10 344	334 879
short term	354 389	-	693	148	9 449	23 450	43 143	431 272

31.3. Description of significant titles of provisions

31.3.1. The provision for liabilities due to the emission of greenhouse gases and provisions for the redemption of certified emission reductions (EUA)

The Group recognises the provision for the redemption of greenhouse gases emission allowances and certified emission reductions (EUA).

Since 1 January 2013, the next reporting period of 2013 – 2020 concerning emission allowances has been applicable. This period's assumption is granting the Group the free EUA allowances resulting from the production of heat. Although, power engineering was additionally covered by opportunity of derogation. Derogation resulting from Article 10c of the ETS Directive is based on granting additional free allowances, provided that declared investment expenses for investments reported to the National Investment Plan are paid. The ZE PAK SA submits to the Ministry of the Environment the annual material and financial statements from investment expenses paid for tasks reported to the National Investment Plan, applying for granting free EUAs for the subsequent reporting years at the same time.

On 30 September 2016, the Company submitted a material and financial statement to the Ministry of Environment regarding the free EUAs under article 10c for the incurred investment expenses in the period from 1 July 2015 to 30 June 2016. However, due to the uncertainty in terms of the creation of a dual-commodity market, including the power market, which will impact directly the modernisation of units nos. 3 and 4 in the Pątnów Power Plant, the Company did not apply for the free allowances.

In 2015, the emission in the ZE PAK SA Group amounted to 12,257,921 tonnes of CO_2.

As of 1 January 2016, the Group possessed the purchased EUAs in the number of 12,257,586 tonnes.

At the same time, in February 2016, the Group received free EUAs for heat for 2016 (acc. to Art. 10A of the ETS Directive) in the amount of 101,259 EUAs. Then, in April 2016, the Group received free EUAs for derogation of 2015 (Art. 10C of the ETS Directive) in the number of 329,417 EUA and redeemed the CO_2 emission for 2015 in the number of 12,257,921 tonnes of CO_2.

Throughout 2016, the Group was successively purchasing the CO_2 emission allowances for the needs of 2016, thus the total purchase of EUAs in the Group, which were credited to the account on the European Union register in 2016, was 13,390,500 EUAs, and the stock of EUAs in the Group after all the above described operations as of 31 December 2016 was 13,820,841 EUAs.

The provision for the burden of core operating activities for the purchased CO_2 emission allowances, which the Group wants to present for the redemption for 2016, is being created. As the actual redemption of allowances happens, the provision created earlier will be used.

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

The Group creates the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the "Integrated Permits." The basis of estimation of the provision size are specialised studies and technical and economical expert reports developed by domestic services or external experts. The value of the provision is estimated and verified on every balance sheet date on the basis of current cost estimates and a discount. As of 31 December 2016, the created provision amounted to zloty 1,005 thousand.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group creates the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 31 December 2016, the provision due to this amounted to zloty 16,848 thousand.

31.3.3. Reclamation provisions and other provisions related to mining activities

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

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

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

The provision for the liquidation of facilities and reclamation of mining areas, and due to preparation of exploration areas in PAK KWB Konin and PAK KWB Adamów according to the status as of 31 December 2016 amounted to zloty 307,837 thousand and decreased in comparison with the year concluded on 31 December 2015 by zloty 22,724 thousand. While calculating the provision, the Group accepted the following assumptions: the discount rate at the level of 3.5%, inflation at the level of 2.5%.

31.3.4. Provision for redemption of energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation. As of 31 December 2016, the provision due to this amounted to zloty 7,838 thousand.

31.3.5. Other provisions

In PAK KWB Konin, the main items of other reserves as of 31 December 2015 are: provisions for mining damage in the amount of zloty 12,980 thousand, the provisions for pending legal proceedings in the amount of zloty 425 thousand. In PAK KWB Adamów: provisions for permanent taking out of production for the final reservoir of the Adamów open pit in the amount of zloty 15,828 thousand, the provision for mining damage in the amount of zloty 3,881 thousand, the provisions for legal proceedings in the amount of zloty 684 thousand. In addition, in El PAK and PAK SERWIS, the provisions for warranty repairs in the amount of zloty 2,237 thousand.

32. CO2 emission allowances

Since 1 January 2013, the next reporting period of 2013 – 2020 concerning emission allowances has been applicable. This period's assumption is granting the Group the free EUA allowances resulting from the production of heat. Although, power engineering was additionally covered by opportunity of derogation. Derogation resulting from Article 10c of the ETS Directive is based on granting additional free allowances, provided that declared investment expenses for investments reported to the National Investment Plan are paid.

In December 2013, the Ministry of Environment issued the sample of a material and financial statement, which is sent annually by the ZE PAK SA Capital Group to the Ministry in the scope of incurred investment expenses for investment tasks reported to the National Investment Plan in order to use derogation for power engineering within Article 10c of the ETS Directive. For the incurred investment expenses from 1 July 2014 to 30 June 2015, the Group submitted the material and received 329,417 free EUAs that the Group were credited to the Group's account in April 2016 and were used for redemption of the emission for 2015.

Since 2015, there has been a change in the way of the publication of information on free CO_2 emission allowances. According to the new Act of 12 June 2015 on the CO2 emissions trading scheme, the minister competent for the environment issues, after approval of a list of systems generating electricity with the number of emission allowances planned to be granted to these systems in a given year of a settlement period by the European Commission, publishes information on the number of emission allowances, which in a given year of a settlement period will be issued to the systems generating electricity in the Public Information Bulletin. Therefore, in 2016, there appeared information that ZE PAK SA Group will receive 329,417 of EUAs for 2015 acc. to the Art. 10c (derogation) and 101,259 EUAs for 2016 acc. to Art. 10A of the Directive for heat production.

For the Elektrownia Pątnów II sp. z o.o.'s system, a specified number of CO_2 emission allowances was allocated. However, for this system, any investment task that would cover receivables for CO_2 emission allowances were not reported to the National Investment Plan, so allocation of free EUA units for this system depends on expenses for tasks conducted for the systems of ZE PAK SA.

(in zloty thousand)

It should be also noted that in 2014, the purchase of ERUs under the current settlement period, which were then used by the Company for redemption for 2014, and at the same time, the Company used the opportunity to purchase 11% EUAs in order to exchange them for cheaper CERs or ERUs (10% from the period of 2008 – 2012, and 1% from the period of 2013 – 2020), and at the same time, it finished the exchange of EUAs to CERs or ERUs in the period of 2013 – 2020.

In 2015, the emission in the ZE PAK SA Group amounted to 12,257,921 tonnes of CO_2.

As of 1 January 2016, the Group possessed the purchased EUAs in the number of 12,257,586 tonnes. In February 2016, the Group received free EUAs for heat for 2016 (acc. to Art. 10a) in the amount of 101,259 EUAs. Then, on 22 April 2016, the Group received 329,417 free EUAs pursuant to Art. 10c for 2015.

Also in April 2016, the Group, in the period from 1 to 25 April this year, redeemed the CO_2 emission for 2015. ZE PAK SA redeemed 9,907,506 EUAs for 2015, while Elektrownia Pątnów II sp. z o.o. redeemed 2,535,415 EUAs.

After the redemption, 5,905,424 EUAs purchased in the period from January to April 2016 and the part of old inventory, which was transferred to the redemption of the emission for 2016, remained in the Group.

In the remaining quarters of 2016, the Group was further purchasing for the needs of 2016, thus the total purchase of EUAs in the Group, which were credited to the account on the European Union register in 2016, was 13,390,500 EUAs, and the stock of EUAs in the Group after all the above described operations as of 31 December 2016 was 13,820,841 EUAs.

On 30 September 2016, the Company submitted a material and financial statement to the Ministry of Environment regarding the free EUAs under article 10c for the incurred investment expenses in the period from 1 July 2015 to 30 June 2016. However, due to the uncertainty in terms of the creation of a dual-commodity market, including the power market, which will impact directly the modernisation of units nos. 3 and 4 in the Pątnów Power Plant, the Company did not apply for the free allowances.

In tables below, carbon dioxide emission allowances granted in the scope of the National Allocation Plan for Allowances, purchased on the secondary market with division into the part used for their own purposes and the one sold in periods concluded on 31 December 2016 and 31 December 2015 were presented.

CO2 emission allowances in the year ended 31 December 2016

(in tons)		***Zespół Elektrowni Pątnów-Adamów-Konin SA***	***„Elektrownia Pątnów II" sp. z o.o.***
	Emission of CO_2	9 428 262	2 027 836
EUA	Balance at the beginning of the period	9 689 990	2 567 596
	Purchased	12 687 500	703 000
	Free of charge	430 676	-
	Redemption*	(9 907 506)	(2 350 415)
	Sale	-	-
	Exchange	-	-
	Balance at the end of the period	12 900 660	920 181

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

(in zloty thousand)

CO2 emission allowances in the year ended 31 December 2015

(in tonnes)		*Zespół Elektrowni Pątnów-Adamów-Konin SA*	*„Elektrownia Pątnów II" sp. z o.o.*
	Emission of CO_2	9 907 506	2 350 415
EUA	Balance at the beginning of the period	10 697 412	2 571 207
	Purchased	6 714 785	2 485 000
	Free of charge	2 363 357	-
	Redemption*	(10 085 564)	(2 488 611)
	Sale	-	-
	Exchange	-	-
	Balance at the end of the period	9 689 990	2 567 596

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

33. Trade liabilities, other liabilities and accruals

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

	31 December 2016	*31 December 2015*
Trade liabilities	186 493	111 622
Liabilities due to the put option	6 061	6 061
Investment liabilities	12 814	68 882
Liabilities to employees due to salaries	15 325	18 234
other	81 969	32 706
total	302 662	237 505

In the other liabilities line as of 31 December 2016, the Group presents mainly liabilities due to financial lease in the amount of zloty 7,189 thousand (zloty 14,435 thousand in 2015), liabilities due to financial lease in the other liabilities item amounted to zloty 18,033 thousand, liabilities related to settlement of adjustment of PPA for 2008, on the basis of the judgement of the Court of Appeal in Warsaw of 4 November 2014 and an agreement on 2 October 2014 concluded between the Pątnów Power Plant II and Zarządca Rozliczeń (Claims Manager) in the amount of zloty 66,573 thousand (zloty 4,964 thousand). The remaining amount in the other liabilities item as of 31 December 2016 concerns mostly settlements with employees and deductions from the pay roll amounting to zloty 5,315 thousand (zloty 3,023 in 2015) and settlements due to security amounting to zloty 1,579 thousand (zloty 435 thousand in 2015).

Liabilities due to the put option concern obligation of ZE PAK to redeem the employee shares pursuant to the PAK KWB Konin and PAK KWB Adamów's shares sale agreement, in case when employees request for re-sale. The agreement's provisions determine the price and term of redemption. In accordance with IFSR, ZE PAK recognised the obligation to redeem shares owned by non-controlling interests on the day of the acquisition of control. In relation with the ongoing process of the employee shares redemption, as of 31 December 2016, the remaining liability amount is zloty 6,061 thousand.

(in zloty thousand)

Principles and terms of payment of above financial liabilities:

Terms of transactions with affiliates are presented in the note 37 of additional information and explanations.

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

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

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

	31 December 2016	*31 December 2015*
Liability due to financial lease	3 962	11 909
Short-term liabilities to other entities – over 12 months	483	1 375
Other	624	67 467
Total	5 069	80 751

33.3. Other non-financial liabilities

	31 December 2016	*31 December 2015*
VAT tax liabilities	13 637	20 551
Liabilities due to environmental charges	48 650	53 893
Liabilities due to the excise tax	543	701
Liabilities due to social insurance	24 373	26 964
Personal income tax	6 200	6 797
Other budget liabilities	7 405	89
Advanced payments for deliveries	4 299	265
Service charge	10 771	12 768
Other	553	525
Total	116 431	122 553

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

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

(in zloty thousand)

33.4. Derivative financial instruments

	31 December 2016	*31 December 2015*
Instruments securing floating interest rates (SWAP)	10 053	16 292
Other currency options	-	-
Total	10 053	16 292
short-term	5 759	7 349
long-term	4 294	8 943

In the balance sheet assets, in the item of financial derivatives, there is the contract of a forward type, which protects of the EUR exchange rate related to the purchase of CO2 allowances. The face amount of the hedged transaction is EUR 3,000. The current net market value of the contract as of 31 December 2016 is zloty 296 thousand..

33.5. Grants and deferred income (long-term)

	31 December 2016	*31 December 2015*
Long-term settlement of sale-and-lease-back	-	5 163
Long-term grants	43 006	45 600
Other	296	305
Total	43 302	51 068

33.6. Grants and deferred income (short-term)

	31 December 2016	*31December 2015*
Short-term preferential loans	5 163	10 984
Short-term settlement of sale-and-lease-back	1 502	1 786
Short-term grants	5	4
Other	6 670	12 774

34. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in the note below, as of 31 December 2016, the Group did not possess other contingent liabilities, granted guarantees, and sureties.

34.1. Court proceedings

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

The affiliate, Elektrownia Pątnów II sp. z o.o., receives compensation for the coverage of the stranded costs pursuant to the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity. The revenue due to compensation is successively included in the obtained rights to compensation to the end of the period of their application. In order to estimate the value of revenue assigned to a given period, the company estimates in order to determine a ratio of estimated stranded costs to the total sum of obtained, returned, and expected discounted annual advanced payments (including annual advanced payments obtained so far), annual adjustments, and a projected final adjustment.

Elektrownia Pątnów II sp. z o.o., in accordance with the accepted policy of accounting, on the basis of the built financial model, in 2014 and 2015, recognised revenues for compensation in respective amounts of zloty 99,223 thousand and zloty 173,435 thousand.

The high disproportion between income from compensation for 2014 and 2015 results from the fact that revenues in 2014 were once adjusted (reduced by zloty 81.5 million), as an effect of the judgement, which was unfavourable for the company, of the Court of Appeal in Warsaw of 4 November 2014 on the adjustment of stranded costs for 2008. The details of this issue were chronologically described below.

On the basis of the decision of the President of the Energy Regulatory Office SA (“the ERO President”), issued on 31 July 2009, the company was obliged to return the compensation scheme administrator, Zarządca Rozliczeń SA., the amount of zloty 52,493 thousand, due to the adjustment of stranded costs for 2008. The company’s Management Board did not agree with the ERO President’s decision and appealed to the Regional Court of Warsaw – Court for Protection of Competition and Consumers (“SOKiK”). On 23 September 2009, the Court decided about suspension of the execution of the part of the decision, and ordered to pay the amount of zloty 26,493 thousand.

On 1 December 2010, the Court for Protection of Competition and Consumers decided about a dismissal of the company's appeal against the ERO President's decision, acknowledging legitimacy of his arguments.

On 9 February 2011, the Company submitted the appeal to the Court of Appeal in Warsaw contesting the judgement of the Court of First Instance.

On 11 October 2012, the Court of Appeal issued a beneficial judgement for the company changing the judgement of the Court of First Instance and the ERO President’s decision of 31 July 2009. At the same time, the Court determined the amount of the annual adjustment of the stranded costs for 2008 for Elektrownia Pątnów II sp. z o.o., which Zarządca Rozliczeń SA is obliged to pay to Elektrownia Pątnów II sp. z o.o. in the amount plus zloty 29,082 thousand. The judgement of the Court of Appeal is legally binding. Due to the above, on 17 October 2012, Elektrownia Pątnów II sp. z o.o. summoned Zarządca Rozliczeń SA to pay a judged amount of the adjustment for 2008, and to return the amount of zloty 26,493 thousand paid by Elektrownia Pątnów II Sp. z o.o. due to partial execution of the decision of the ERO President pursuant to the Court for Protection of Competition and Consumers decision of 23 September 2009. The request for payment was issued for the total amount of zloty 55,576 thousand. On 22 October 2012, Zarządca Rozliczeń SA paid the above-mentioned amount to the Company's account.

On 22 February 2013, the ERO President submitted a cassation appeal from the judgement of the Court of Appeal in Warsaw before the Supreme Court.

On 22 May 2014, the Supreme Court during a closed-door hearing issued a judgement overruling the judgement of the Court of Appeal in Warsaw of 11 October 2012 and referred the proceedings to that court for judicial review.

On 4 November 2014, the Court of Appeal in Warsaw issued a judgement dismissing the appeal of Elektrownia Pątnów II sp. z o.o. against the judgement of the Regional Court in Warsaw – the Court for Protection of Competition and Consumers of 1 December 2010 upholding the ERO President’s decision of 31 July 2009 determining the amount of the annual adjustment of stranded costs for 2008 for Elektrownia Pątnów II sp. z o.o., which Elektrownia Patnów II sp. z o.o. is obliged to return to Zarządca Rozliczeń SA, in the amount of (-)zloty 52,493 thousand. Elektrownia Pątnów II sp. z o.o. included the Court’s judgement in the statement for three quarters of 2014 taking into account previous settlements of the Parties in the subject case, that is including the necessity to return the amount of zloty 29,082 thousand obtained by Elektrownia Pątnów II sp. z o.o. from Zarządca Rozliczeń SA, by virtue of the judgement of the Court of Appeal of 11 October 2012.

As a result of the judgement, Elektrownia Pątnów II sp. z o.o. decreased the revenues due to the PPA settlements in 2014 by zloty 81.5 million.

On 15 April 2015, Elektrownia Pątnów II sp. z o.o. submitted a cassation appeal from this judgement.

On 24 February 2016, the Supreme Court refused to accept the cassation appeal of Elektrownia Pątnów II sp. z o.o. against the judgement of the Court of Appeal in Warsaw of 4 November 2014 on compensation for the coverage of stranded costs for 2008 for examination. The judgement of the Supreme Court closes the proceedings on compensation for the coverage of stranded costs of Elektrownia Pątnów II sp. z o.o. for 2008.

The judgement of the Court of Appeal in Warsaw of 4 November 2014 is legally binding and is subject to execution by Elektrownia Pątnów II sp. z o.o. In accordance with the arrangements made between Elektrownia Pątnów II sp. z o.o. and Zarządca Rozliczeń SA, the amount being the dispute subject is subsequently repaid to Zarządca Rozliczeń SA according to the adopted payment schedule.

Proceedings due to failure to perform obligation to maintain stocks of fuel

On 17 September 2008 and 29 May 2009, the ERO President initiated proceedings on imposing a pecuniary penalty on the ZE PAK SA company due to failure to perform the obligation to maintain fuel stocks securing continuity of electricity and heat supplies to recipients as of 31 December 2007, 31 March 2008, 1 July 2008, 1 September 2008, 1 October 2008, 1 November 2008, 1 December 2008, 1 January 2009, 1 February 2009, and 1 March 2009.

On the basis of the decision of the ERO President of 28 December 2010, the pecuniary penalty, due to failure to perform the obligation to maintain fuel stocks in the quantity securing continuity of electricity and heat supplies to recipients, was imposed on ZE PAK SA in 2008 and 2009 in the amount of zloty 1,500 thousand. At the beginning, the Company created the provision for the costs of the penalty in the full amount in 2010, which it then redeemed in 2015 in connection with the penalty payment.

On 30 January 2014, the Court for Protection of Competition and Consumers decided about a dismissal of the company's appeal against the ERO President's decision. On 30 April 2014, the Company submitted the appeal to the Court of Appeal in Warsaw.

On 13 May 2015, the Court of Appeal in Warsaw dismissed the Company’s appeal against the judgement of the Court for Protection of Competition and Consumers of 30 January 2014, which resulted in upholding the decision of the ERO President. On 11 December 2015, the Company submitted a cassation appeal from the judgement of the Court of Appeal of Warsaw of 13 May 2015 before the Supreme Court.

The proceedings are not completed.

Proceedings in case of the excise tax excess payment

In light of the regulations mandatory within the European Union, especially regulations of Article 21 paragraph 5 of the Energy Directive, in relation to Article 6 paragraph 1 of the Horizontal Directive, after 1 January 2006, the object of excise tax is sale of energy at the last stage of trade, i.e. sale by the distributor to the final recipient (consumer). Taxation with this tax does not cover an earlier stage of trade, e.g. between the producer of electricity and its distributor. In this case, the tax obligation arises at the time of supply of electricity to the consumer.

Due to the above fact, pursuant to Article 75 § 1, in relation to Article 75 § 2 of the Act of 29 August 1997 – Tax Ordinance (Polish Journal of Laws of 1997; Dz.U. no. 137, item 926, as amended), ZE PAK SA submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008, as well as January and February 2009 for the total amount of zloty 626 000 thousand, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK SA are not subject to the excise tax. Particular applications were recognised at the following levels: the Customs Office in Kalisz, the Customs Chamber in Poznań, and, currently, the Provincial Administrative Court in Poznań, as well as the Supreme Administrative Court.

In relation to the decisions of the Administrative Courts in the cases of other energy companies in the subject of the overpaid excise tax, ZE PAK SA, in cooperation with a tax advisor, analysed the resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011, where the Supreme Administrative Court recognised that the pass-through of the tax load to the price excludes the possibility of refunding the overpayment. The justification of the resolution allows for the assumption of the risk that tax authorities will dismiss any claims regarding the refunding of overpayments indicating that the tax proceeding is not appropriate for such type of claims. In such case, it is possible to seek them under civil law, as a result of which expiration (on the grounds of civil law this term is 3 years) becomes a significant issue. In relation to the above fact, on 10 February 2012, ZE PAK SA submitted to the District Court of Warszawa Śródmieście a summons for the State Treasury for a conciliatory hearing for the amount of approx. zloty 626 406 thousand and thus stopped the statute of limitation. A conciliatory settlement was not reached since during the hearing of 16 April 2012, the representatives of the Treasury did not agree to settle. Simultaneously, the Company, waiting for the results of the tax proceedings regarding the previously submitted application for overpayment, submitted in writing, on 14 September 2012, in the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic analysis, the purpose of which was to demonstrate whether the Company suffered loss related to the payment of excise tax to which it was not obliged. The Company's opinion is that the submitted document also applies to other overpayment applications from the entire period embraced by the proceedings, i.e. between January 2006 and February 2009. Ultimately, all applications were included in the cause lists of the Provincial Administrative Court (WSA) and the Supreme Administrative Court (NSA). As of the date of development of this statement, the status of the proceeding is as follows:

- Twenty-two cases for the period of January 2006 – November 2007 (excluding November 2006) were conducted again from the start by the Head of the Customs Office, after the cases returned from the Supreme Administrative Court. The Company included monthly economic analyses of suffering the prejudice. After the negative decisions of the Head of the Customs Office and then of the Head of Customs Chamber, complaints were submitted to the Provincial Administrative Court in Poznań, Hearings before the Provincial Administrative Court in Poznań took place on 4 and 18 November 2015. In all cases, negative judgements for the Company were issued. In February 2016, the Company submitted cassation appeals to the Supreme Administrative Court.
- 14 proceedings for the period of December 2007 – February 2009 (excluding July 2008) on 26 January 2017, hearings took place before the Provincial Administrative Court in Poznań. In all the cases, the Company's appeals against the Customs Chamber in Poznań were dismissed. The Company submitted applications for a written justification of the judgement, which were obtained on 7 March 2017, to the Provincial Administrative Court. Currently, the Company analyses justifications and prepares the applications of cassation appeals to the Supreme Administrative Court.
- the proceeding for November 2006 was concluded with a negative judgement of the Supreme Administrative Court of 8 December 2011.
- the proceeding for July 2008 reached the recognition of our cassation appeal by the Supreme Administrative Court. On the hearing on 29 April 2015, the Supreme Administrative Court dismissed the Company's cassation appeal and pointed out that it fully agrees with the Provincial Administrative Court in Poznań in the judgement, against which the cassation appeal was submitted

The Company will take further actions depending on the provisions of the issued decisions.

In the case of EP II, the proceeding for all periods (one case) was included in the cause lists of the Provincial Administrative Court after the decision of the Head of Customs Chamber, which was negative for the Company. The Company does not have analyses because it did not run activities in 2001 and there is no comparative data. On 4 November 2015, a hearing in the Provincial Administrative Court took place. On 18 November 2015, a negative judgement was given. On 8 February 2016, the Company filed a cassation appeal to the Supreme Administrative Court.

Proceedings on determining the amount of the annual adjustment of stranded costs for 2015

On 29 March 2016, the President of the Energy Regulatory Office initiated ex officio administrative proceedings in order to determine the amount of the annual adjustment of stranded costs for 2015 for Elektrownia Pątnów II sp. z o.o. On 28 July 2016, the ERO President issued a decision, according to which it determined a positive adjustment of stranded costs in the amount of zloty 57,310 thousand for Elektrownia Pątnów II sp. z o.o.

On 30 September 2016, Zarządca Rozliczeń SA paid the amount resulting from the ERO President's decision to Eletrownia Pątnów II sp. z o.o.

The proceedings are completed.

Proceedings on release from the obligation of selling electricity pursuant to Article 49a paragraph 2 of the Act – Energy Law.

On 27 January 2016, Elektrownia Pątnów II sp. z o.o., submitted a request to the ERO President for release from the obligation of selling electricity pursuant to Article 49a paragraph 2 of the Act – Energy Law in relation to 60% of net electricity generated in the generating unit of Elektrownia Pątnów II as the one sold for the need for long-term liabilities arising from agreements concluded with financial institutions in order to implement investments related to electricity generation for the period from 1 January 2017 to 31 December 2019.

On 2 May 2016, the ERO President issued a positive decision completely in favour of the request of Elektrownia Pątnów II sp. z o.o., and released it from the obligation, referred to in Article 49a paragraph 2 of the Act – Energy law in relation to 60% of the production volume for the period from 1 January 2017 to 31 December 2019.

The proceedings are completed.

Proceedings on failure to comply with the obligations referred to in Article 49a paragraph 1 and 2 of the Act – Energy law.

On 27 September 2016, the President of the Energy Regulatory Office initiated administrative proceedings against Elektrownia Pątnów II sp. z o.o. on its failure to comply with the obligations, referred to in Article 49a paragraph 1 and 2 of the Act – Energy law, i.e. obligation of selling electricity generated in the period from 1 January 2012 to 31 December 2012 by means of the so-called pubic trading.

On 12 October and 21 December 2016, Elektrownia Pątnów II sp. z o.o. sent the appropriate explanations and its position in the above-mentioned issue to the ERO President.

The proceedings are in progress.

Dispute between PAK KWB Konin SA and FUGO SA concerning liquidated damages and unjust enrichment

Until now, PAK KWB Konin SA has not obtained the copy of the above-mentioned suit, because of which it must be assumed that any claims of FUGO SA will be a basis to use the institution of limitation of claims.

On 26 June 2008, the Agreement for “Disassembly, transport, assembly of two SRs 1800-type bucket wheel excavators from the mine in liquidation “As Pontes” Endesa Generacion SA (Spain)” was concluded between PAK KWB Konin SA and FUGO SA (Leader) consortium and SKW Biuro Projektowo -Techniczne Sapkowski, Kanczewski, Wocka General Partnership pursuant to the Public Procurement Law.

The primal deadline of the agreement execution in the scope of the first excavator – until 31 October 2009, and, in case of the second excavator – until 31 January 2010, was then changed pursuant to the annex of 16 February 2009 in the scope of

the first excavator – until 31 May 2010, and in case of the second excavator – until 31 August 2010.

At the request of PAK KWB Konin SA of 29 July 2010, the Guarantor, HDI-Gerling Polska Towarzystwo Ubezpieczeń SA, on the basis of paragraph 5 of the Proper Performance of the Contract Guarantee No. 3018763/8402 of 23 November 2009, paid to PAK KWB Konin SA the amount of zloty 762 thousand due to failure to execute within the term by obliged FUGO SA – Consortium Leader, in the composition of: FUGO SA and SKW Biuro Projektowo -Techniczne Sapkowski, Kanczewski, Wocka General Partnership, the Agreement of 26 June 2008, included in the guarantee in the scope of the first excavator.

Furthermore, at the request of PAK KWB Konin SA of 20 October 2010, the Guarantor, HDI-Gerling Polska Towarzystwo Ubezpieczeń SA, paid to PAK KWB Konin SA the amount of zloty 2,349 thousand due to liquidated damages for the period from 16 September 2010 to 25 October 2010 due to delay of the execution by obliged FUGO SA, Consortium Leader, in the composition of: FUGO SA and SKW Biuro Projektowo-Techniczne Sapkowski, Kanczewski, Wocka General Partnership, the Agreement of 26 June 2008, included in the guarantee – in the scope of the first excavator.

Then, PAK KWB Konin SA, on the basis of the debit note of 26 May 2011 in the amount of zloty 2,762 thousand, burdened FUGO SA with remaining liquidated damages of the Agreement of 26 June 2008. Due to the lack of payment of the above-mentioned receivables, PAK KWB Konin SA deducted from remuneration entitled to FUGO SA due to execution of the agreement.

It cannot be disputed that execution of the Agreement of 26 June 2008 was delayed.

On 14 May 2012, FUGO SA company submitted to the District Court in Konin a summons for a conciliatory hearing for the amount of zloty 12,896 thousand. The amount consists of the following claims:

- the amount of 5,872 thousand due to unjust enrichment,

• the amount of 7,024 thousand due to remuneration for performance of the extended scope of works related to the above mentioned agreement.

The Management Board of PAK KWB Konin SA refused to reach a conciliatory settlement and considered the claims unjustified. In this situation, the proceedings of the summons were concluded with the Court's statement that the Conciliatory Settlement was not reached and conclusion of the proceedings on 26 September 2012.

On the day of development of this statement, PAK KWB Konin SA cannot exclude the FUGO SA submission to the common court of law with the claim for payment of indicated amounts.

The proceedings in the case of the environmental decision issued in favour of PAK KWB Konin SA concerning the Tomisławice brown coal deposit

PAK KWB Konin SA is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomisławice. On 7 August 2007, the Head of the Wierzbinek Commune issued an environmental decision regarding the lignite open cast. On 5 December 2008, this decision was contested by nine physical persons supported by the Greenpeace organisation due to alleged major infringement of the regulations of the law. On 25 March 2009, the Self-government Appeal Court dismissed the application to reverse the environmental decision. The plaintiffs applied for the judicial review. On 4 May 2009, after the judicial review, the Self-government Appeal Court sustained its previous decision. The plaintiffs again appealed against the environmental decision. On 5 May 2010, the Provincial Administrative Court in Poznań decided that the environmental decision, pursuant to which the license for the extraction of lignite at the Tomisławice deposit was granted, infringes the regulations of the law in a major manner. PAK KWB Konin SA and the Self-government Appeal Court submitted an appeal against this judgement. On 21 March 2012, the Supreme Administrative Court revoked the contested decision of the Provincial Administrative Court in Poznań and handed over the case for the judicial review. On 6 November 2012, the Provincial Administrative Court in Poznań announced the decision revoking the decision of the Self-government Appeal Court of 25 March 2009 on dismissing the statement of invalidity of the environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open pit by PAK KWB Konin SA On 7 January 2013, PAK KWB Konin SA submitted a cassation appeal from the described decision. After the review on the hearing on 7 October 2014, the Supreme Administrative Court dismissed the PAK Kopalnia Węgla Brunatnego Konin SA's cassation appeal from the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 revoking the decision of the Self-government Appeal Court in Konin of 25 March 2009 dismissing the statement of invalidity of the environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open pit.

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court. On 1 October 2015, the Self-government Appeal Court issued a decision to suspend the proceedings on the statement of invalidity of the environmental decision issued by the Head of the Wierzbinek Commune in connection with the unfinished European Commission proceedings against the Polish government on breach of the provisions concerning the environment protection in connection with the lignite deposit in Tomisławice.

The decision of the Supreme Administrative Court in Warsaw of 7 October 2014 does not invalidate the environmental decision issued by the Head of the Wierzbinek Commune and does not halt the extraction and utilisation works at the Tomisławice open pit. The environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune is still in legal transactions, and until the issue of a final judgement by the Self-government Appeal Court, it exerts legal effects.

34.2. Tax settlements

Tax settlements and other regulated areas of activities (for example, customs or foreign exchange matters) may be the subject of inspection of the administrative authorities entitled to impose high penalties and sanctions. The lack of reference to fixed legal regulations in Poland causes ambiguities and inconsistencies of the laws in force. Common differences in opinions as to the legal interpretation of the tax law, both inside national authorities, as well as between them and companies, cause uncertainty and conflicts. Such phenomena result in the significantly higher tax risk in Poland than these normally existing in the countries of a more developed tax system.

Tax settlements may be subject to inspection for a period of five years, starting from the end of the year of the tax payment. As a result of the conducted inspections, the current tax settlements of the Group may be increased by additional tax liabilities. In the Group's opinion, as of 31 December 2016 and 31 December 2015, appropriate provisions for the recognised and calculable tax risk were created.

(in zloty thousand)

35. Liability repayment securities

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

As of 31 December 2016 and 31 December 2015, the Group had liabilities protected with its assets and other protections of payment of liabilities:

Liabilities secured with the entity's assets

	31 December 2016		*31 December 2015*	
Kind of liabilities, guarantees, and sureties	*Security amount*	*Currency*	*Security amount*	*Currency*
EL PAK SERWIS sp. z o.o.				
1. Payment-bid security				
1.1. Agreement with PAK KWB KONIN SA electrical services	3	zloty	3	zloty
"Elektrownia Pątnów II" sp. z o.o.				
1. Registered and financial pledges				
1.1. Registered and financial pledges on rights of bank account agreements of Elektrownia Pątnów II sp. z o.o. in PEKAO and mBank banks	400,000	EUR	400,000	EUR
1.2. Registered and financial pledges on rights of bank account agreements of Elektrownia Pątnów II sp. z o.o. in PEKAO and mBank banks	339,750	zloty	339,750	zloty
2. Mortgage				
2.1. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 for mBank SA	400,000	EUR	400,000	EUR
2.2. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 for mBank SA	339,750	zloty	339,750	zloty
3. Registered pledge				
3.1. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	400,000	EUR	400,000	EUR
3.2. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	339,750	zloty	339,750	zloty
"PAK – HOLDCO" sp. z o.o.				
1. Registered and financial pledges on shares in affiliates				
1.1. Registered and financial pledges on shares held by PAK Holdco in Elektrownia Pątnów II sp. z o.o. for mBank SA	400,000	EUR	400,000	EUR
1.2. Registered and financial pledges on shares held by PAK Holdco in Elektrownia Pątnów II sp. z o.o. for mBank SA	339,750	zloty	339,750	zloty
2. Registered pledge				
2.1. Registered pledge on a group of items and rights of PAK Holdco sp. z o.o.	400,000	EUR	400,000	EUR
2.2. Registered pledge on a group of items and rights of PAK Holdco sp. z o.o.	339,750	zloty	339,750	zloty
"PAK Infrastruktura" sp. z o.o.				

1. Registered pledge				
1.1. Registered pledge on a group of items and rights of PAK Infrastruktura sp. z o.o.	400,000	EUR	400,000	EUR
1.2. Registered pledge on a group of items and rights of PAK Infrastruktura sp. z o.o.	339,750	zloty	339,750	zloty
PAK Kopalnia Węgla Brunatnego Konin SA				
1. Registered and financial pledges				
1.1. Registered pledge on machines and devices, including assignment of insurance policy	100,500	zloty	100,500	zloty
1.2. Registered pledge on receivables of agreements of lignite sales to Elektrownia Pątnów II Sp. z o.o. (Millennium Bank)	122,400	zloty	122,400	zloty
1.3. Transfer of title to one excavator, including assignment of insurance policy	-	zloty	46,942	zloty
2. Mortgage				
2.1. Mortgage on the right of perpetual usufruct	100,500	zloty	100,500	zloty
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Bank deposit				
1.1. Bank deposit above the guaranteed amount	672	zloty	1,013	zloty
2. Payment-bid security				
2.1. Cash-transfer	255	zloty	8	zloty
Zespół Elektrowni Pątnów-Adamów-Konin SA				
1. Registered and financial pledges				
1.1. Financial pledge on cash on bank accounts of ZE PAK SA in banks: mBank, BGK, PEKAO SA, PKO BP, Millennium due to the credit of zloty 667 million of 13.03.2014	2,040,000	zloty	2,040,000	zloty
2. Registered and financial pledges on shares in affiliates				
2.1. Registered and financial pledges on shares held by ZE PAK SA in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO Sp. z o.o. for mBank SA (ZE PAK as a guarantor of the "Pątnów II"project)	339,750	zloty	339,750	zloty
2.2. Registered and financial pledges on shares held by ZE PAK SA in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO Sp. z o.o. for mBank SA (ZE PAK as a guarantor of the "Pątnów II"project)	400,000	EUR	400,000	EUR
3. Mortgage				
3.1. Contractual joint ceiling mortgage established on real estate in Konin consisting of plots of lands with nos. 89/20, 89/53, 89/57, 89/55, 89/56 and 89/21, and on a real estate in the Municipality of Kazimierz Biskupi consisting of plots of lands nos. 148/26, 148,28 and 148/34, for which the District Court in Konin keeps land and mortgage registers with nos. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272	2,040,000	zloty	2,040,000	zloty
4. Registered pledges				
4.1. Registered pledge on a group of items and rights of ZE PAK (power units no. 1-4 in the Pątnów Power Plant) for the mBANK bank due to the credit of zloty 667 million of 13.03.2014	2,040,000	zloty	2,040,000	zloty
4.2. Registered pledge on bank accounts of ZE PAK SA established for the mBank bank due to the credit of zloty 667 million of 13.03.2014	2,040,000	zloty	2,040,000	zloty

Other securities of liabilities

	31 December 2016	*31 December 2015*

(in zloty thousand)

Kind of liabilities, guarantees, and sureties	*Security amount*	*Currency*	*Security amount*	*Currency*
"Elektrownia Pątnów II" sp. z o.o.				
1. Assignment				
1.1. Assignment from the Framework Electricity Sales Agreement no. TPE/HOU/2009/0082 concluded on 30.04.2009 between EPII and TAURON Polska Energia SA including Transaction Agreements for 2015 concluded in 2014	-	zloty	236,716	zloty
1.2. Assignment from the Framework Electricity Sales Agreement no. SPOT/127/EPII/Inter Energia/2009 concluded on 9.12.2009 between EPII and Inter Energia SA including Transaction Agreements for 2015 concluded in 2014	-	zloty	66,251	zloty
1.3. Assignment from the Framework Electricity Sales Agreement no. TPE/HOU/2009/0082 concluded on 30.04.2009 between EPII and TAURON Polska Energia SA including Transaction Agreements for 2016	121,381	zloty	-	zloty
1.4. Assignment from the Framework Electricity Sales Agreement no. SPOT/127/EPII/Inter Energia/2009 concluded on 9.12.2009 between EPII and Inter Energia SA including Transaction Agreement for 2016	62,024	zloty	-	zloty
1.5. Assignment from the insurance policy no. 908200170153/908200174148	-	EUR	658,705	EUR
1.6. Assignment from the insurance policy no. 908200170155/908200174154	659,763	EUR	-	EUR
PAK Kopalnia Węgla Brunatnego Konin SA				
1. Guarantees				
1.1. Guarantee of Bank Przemysłowo Handlowy SA	4,000	zloty	4,000	zloty
1.2. Guarantee of Bank Przemysłowo Handlowy SA	-	zloty	4,800	zloty
2. Sureties				
2.1. Zakład opieki zdrowotnej i Medycyny Pracy "MED._ALKO" [in Polish: the Health Care and Occupational Medicine Facility MED ALKO]	-	zloty	800	zloty
2.2. Surety of the credit amounting to zloty 1 million for AQUAKON sp. z o .o.	1,000	zloty	1,000	zloty
2.3. Surety of the credit amounting to zloty 1 million for Eko-Surowce sp. z o .o.	1,000	zloty	1,000	zloty
3. Assignment				
3.1. Assignment of receivables of 1.6 million monthly of the value of monthly ordered lignite supplies to ZE PAK resulting from the agreement (mBANK bank)	-	zloty	19,200	zloty
3.2. Assignment of receivables of 3 million monthly of the value of monthly ordered lignite supplies to ZE PAK resulting from the agreement (mBANK bank)	-	zloty	36,000	zloty
3.3. Assignment of receivables of 120 million annually of the value of monthly ordered lignite supplies to ZE PAK (BPH bank)	120,000	zloty	120,000	zloty
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Guarantees				
1.1. Performance Bond	6,590	zloty	12,133	zloty
1.2. Retention Bond	279	EUR	781	EUR
1.3. Retention Bond	4,264	zloty	3,246	zloty
1.4. Payment Guarantee	11	zloty	4	zloty
1.5. Performance Bond	195	EUR	-	EUR

(in zloty thousand)

1.6. Advance Payment Guarantee	5,658	zloty	134	zloty
2. Sureties				
2.1. Surety for ENERGOINWEST SERWIS in Bank Millennium SA	-	zloty	4,800	zloty
2.2. Surety for ENERGOINWEST SERWIS in Bank BGŻ BNP PARIBAS SA	-	zloty	1,500	zloty
3. Bills of exchange				
3.1. Blank bill of exchange for PAK KWB KONIN SA	148	zloty	148	zloty
4. Assignment				
4.1. Debt assignment agreement for repair and maintenance services from ZE PAK SA	273,602	zloty	-	zloty
4.2. Debt assignment agreement on UM140076 agreement from ZE PAK SA	3,209	zloty	-	zloty
4.3. Debt assignment agreement on UM160041 and UM160043 agreements from ZE PAK SA	630	zloty	-	zloty
4.4. Debt assignment agreement on UM160010, UM160012 and UM160036 agreements from Elektrownia Pątnów II sp. z o.o.	2,089	zloty	-	zloty
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Guarantees				
1.1. Insurance Performance Bonds	3,407	zloty	5,388	zloty
1.2. Insurance Bid Security Payment Guarantee	120	zloty	560	zloty
1.3. Insurance Receivables Payment Guarantee due to use of fleet cards of PKN ORLEN SA	-	zloty	33	zloty
2. Other				
2.1. Transfer of title to fixed assets securing the insurance guarantee	-	zloty	702	zloty
Zespół Elektrowni Pątnów-Adamów-Konin SA				
1. Sureties				
1.1. Surety of ZE PAK for PAK KWB Konin due to the investment credit in the BZ WBK bank in the amount of zloty 46,463 thousand	-	zloty	23,839	zloty
1.2. Surety of ZE PAK for PAK KWB Konin due to the overdraft facility in the BZ WBK bank in the amount of zloty 56,700 thousand	65,000	zloty	65,000	zloty
1.3. Surety of ZE PAK for PAK KWB Konin due to the working capital facility in the Millennium bank in the amount of zloty 76,500 thousand	76,500	zloty	76,500	zloty
1.4. Surety of ZE PAK for PAK KWB Adamów due to the overdraft facility in the BZ WBK bank in the amount of zloty 10,000 thousand	-	zloty	10,000	zloty
2. Assignment				
2.1. Assignment from the insurance agreement of property of the Pątnów Power Plant and assignment from insurance of the investment entitled "Modernisation of Units 1-4 in the Pątnów Power Plant" due to the credit of zloty 667 million of 13.03.2014 for the mBANK bank	1,200,000	zloty	1,200,000	zloty
2.2. Assignment from electricity sales agreements with ENERGA Obrót, PAK-Volt, RWE Polska, Tauron and PSE Operator due to the credit of zloty 667 million of 13.03.2014 for the mBANK bank	-	zloty	1 200 000	zloty
2.3. due to the credit of ENEA Trading, ENERGA Obrót, PAK-Volt, GET En Tra, RWE Polska and PSE Operator due to the credit of zloty 667 million of 13.03.2014 for the mBANK bank	1,200,000	zloty	-	zloty
3. Other				
3.1. Power of attorney to bank accounts of ZE PAK SA in mBANK, PEKAO SA, BGK, PKO BP and Millennium banks due to the credit of zloty 667 million of 13.03.2014	1,200,000	zloty	1,200,000	zloty

(in zloty thousand)

3.2. Statement on submission to enforcement in the PEKAO SA bank due to the overdraft facility in the amount of zloty 40.0 million of 20.12.2005	60,000	zloty	-	zloty
3.3. Power of attorney to the bank account of ZE PAK SA in the PEKAO SA bank due to the overdraft facility in the amount of zloty 40.0 million of 20.12.2005	40,000	zloty	80,000	zloty
3.4. Statement on submission to enforcement due to the credit of zloty 667 million of 13.03.2014	2,040,000	zloty	2,040,000	zloty
3.5. Statement on submission to enforcement in the PKO BP bank due to the overdraft facility in the amount of zloty 90.0 million of 25.08.2006	135,000	zloty	-	zloty
Energoinwest Serwis sp. z o.o.				
1. Guarantees				
1.1. Performance and Retention Bonds of PZU SA	389	zloty	-	zloty

36. Obtained guarantees and sureties

Kind of liabilities, guarantees, and sureties	*31 December 2016 Obtained in zloty*	*31 December 2016 Obtained in EUR*	*31 December 2015 Obtained in zloty*	*31 December 2015 Obtained in EUR*
"Elektrownia Pątnów II" sp. z o.o.				
1. Guarantees				
1.1. Payment guarantees	10,158	-	10,891	-
1.2. Performance bonds	4,144	-	3,425	-
1.3. Advanced Payment Refund Guarantees	291	-	-	-
"PAK Infrastruktura" sp. z o.o.				
1. Guarantees				
1.1. Performance bonds	-	34	-	-
PAK - Volt SA				
1. Guarantees				
1.1. Alpiq Energy - bank guarantee securing the payment valid until 26.01.2017	19,482	-	-	-
1.2. Polenergia - bank guarantee securing the payment valid until 25.01.2017	9,321	-	-	-
Energoinwest Serwis sp. z o.o.				
1. Guarantees				
1.1. Performance and Retention Bonds of PZU SA	389	-	620	-
2. Sureties				
2.1. Multi-product limit agreement in Bank BGŻ secured by Pak Serwis	-	-	4,800	-
2.2. Overdraft facility in the Millennium bank secured by Pak Serwis	-	-	1,500	-
PAK Kopalnia Węgla Brunatnego Konin SA				
1. Sureties				
1.1. Surety of ZE PAK SA	76,500	-	76,500	-
			65,000	
1.2. Surety of ZE PAK SA	65,000	-	-	-
1.3. Surety of ZE PAK SA	-	-	26,223	-
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Bills of exchange				

(in zloty thousand)

1.1. Blank bill of exchange from Fabryka Wentylatorów FAWENT SA	338	-	169	-
2. Guarantees				
2.1. Retention Bonds	2,889	-	2,519	40
2.2. Performance Bonds	1,736	-	1,212	-
2.3. Advanced Payment Refund Guarantee	738	-	-	-
Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektr. EL PAK sp. z o.o.				
1. Guarantees				
1.1. Performance and retention bonds (cash payment)	181	-	409	-
1.2. Insurance and bank performance bonds	1,017	-	2,656	-
Zespół Elektrowni Pątnów-Adamów-Konin SA				
1. Bills of exchange				
1.1. Bills of exchange	2,525	363	27,500	363
2. Guarantees				
2.1. Payment guarantees	8,551	-	49,774	351
2.2. Performance bonds	36,958	-	5,692	-
2.3. Advanced Payment Refund Guarantees	5,929	-	-	-
3. Sureties				
3.1. Sureties*	-	-	211,143	17,550
EKO Surowce sp. z o.o.				
1. Sureties				
1.1 Overdraft facility in Bank BPH SA secured by PAK KWB Konin SA in the amount of zloty 1 million	1,000	-	-	-
AQUAKON sp. z o.o.				
1. Sureties				
1.1 Overdraft facility in Bank BPH SA secured by PAK KWB Konin SA in the amount of zloty 1 million	1,000	-	-	-

*sureties in the amount of zloty 211,143 thousand concern the agreement No. 1/2009 of 30 July 2009 with Foster Wheeler Energia Polska sp. z o.o.

37. Information about related entities

The following table presents total amounts of transactions concluded with affiliates for the current and next financial years:

Related entity		*Sales to related entities*	*Purchase from related entities*	*Receivables from related entities*	*Liabilities towards related entities*
Elektrim SA	2016	-	121	-	-
	2015	-	120	-	-
Megadex Serwis Sp. z o.o.	2016	1	47 182	210	5 432
	2015	13	118 668	509	7 859
Polkomtel sp. z o.o.	2016	120 642	4 530	15 400	891
	2015	48 939	3 841	7 891	1 532
Laris Investments sp. z o.o.	2016	501	974	217	22

(in zloty thousand)

	2015	405	970	211	-
Total	**2016**	**121 144**	**52 807**	**15 827**	**6 345**
	2015	**49 357**	**123 599**	**8 611**	**9 391**

37.1. Loan granted to a member of the Management Board

Both in the financial year ended 31 December 2016 and in the one ended 31 December 2015, the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff.

37.2. Other transactions involving members of the Management Board

Both in the financial year ended 31 December 2016 and in the one ended 31 December 2015, there were no transactions with members of management and supervisory staff.

37.3. Remuneration of chief executive staff of the Group

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

	Year ended *31 December 2016*	Year ended *31 December 2015*
Management Board of the parent company		
Short-term employee benefits	2 989	2 737
Benefits for termination of the contract of employment	28	1 394
Supervisory Board of the parent company		
Short-term employee benefits	1 095	1 040
Management Boards of subsidiaries		
Short-term employee benefits	5 453	6 179
Long-service bonuses	-	406
Post-employment benefits	-	18
Benefits for termination of the contract of employment	-	18
Supervisory Board of subsidiaries		
Short-term employee benefits	14	7
Post-employment benefits	-	1
Total	9 579	11 800

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

	Year ended *31 December 2016*	Year ended *31 December 2015*
Short-term employee benefits	15 389	16 533
Long-service bonuses	96	1 404
Post-employment benefits	7	27

(in zloty thousand)

Benefits for termination of the contract of employment	247	63
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	15 739	18 027

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

The following table presents the remuneration of an entity entitled to audit accounts paid or due to the year ended 31 December 2016, and for the year ended 31 December 2015, divided into types of services:

	Year ended *31 December 2016*	Year ended *31 December 2015*
Mandatory audit of the consolidated financial statement	212	215
Other attestation services	104	102
Total	316	317

39. Goals and rules of financial risk management

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

The Group also concludes transactions with the use of derivatives, above all, the contracts for a change in interest rates (interest rate swaps). The goal of these transactions includes the interest rate risk management arising within the Group's activities, and resulting from financing resources used by it.

The rule which is applied by the Group currently and through the whole period included in the statement is non-conducting of the exchange of financial instruments.

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

39.1. Interest rate risk

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

The Group uses financial liabilities, mostly variable rate credits and loans.

In order to minimise interest rate risk, the Group concludes contract for interest rates change (interest rate swaps), within which it agreed to change, within specified time intervals, the difference between the amount of interests calculated according to the fixed and the variable rate of the agreed main amount. The transactions are to protect incurred financial liabilities.

Interest rate risk – the sensitivity gap

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

(in zloty thousand)

Classes of financial instruments	**31 December 2016**		**Interest rate risk sensitivity study as of 31 December 2016**							
			WIBOR				***EURIBOR***			
			WIBOR + 62		***WIBOR - 62***		***EURIBOR + 18,92***		***EURIBOR - 18,92***	
	Carrying amount	***Value at risk***	***Profit / loss***	***Other comprehensive income***	***Profit / loss***	***Other comprehensive income***	***Profit / loss***	***Other comprehensive income***	***Profit / loss***	***Other comprehensive income***
Other financial assets	89 262	86 834	68	-	(68)	-	143	-	(143)	-
Trade and other receivables	246 025	-	-	-	-	-	-	-	-	-
Derivative financial instruments	296	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	350 101	350 101	1 399	-	(1 399)	-	235	-	(235)	-
Interest-bearing loans and borrowings	(1 009 809)	(1 009 809)	(3 861)	-	3 861	-	(732)	-	732	-
Trade payables and other financial liabilities	(307 731)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(10 053)	(10 053)	-	-	-	-	-	587	-	(587)
Total	**(641 909)**	**(582 927)**	**(2 394)**	-	**2 394**	**-**	**(354)**	**587**	**354**	**(587)**

(in zloty thousand)

Classes of financial instruments	**31 December 2015**		**Interest rate risk sensitivity study as of 31 December 2015**							
			WIBOR				***EURIBOR***			
			WIBOR + 66		***WIBOR – 66***		***EURIBOR + 30,95***		***EURIBOR - 30,95***	
	Carrying amount	***Value at risk***	***Profit / loss***	***Other comprehensive income***	***Profit / loss***	***Other comprehensive income***	***Profit / loss***	***Other comprehensive income***	***Profit / loss***	***Other comprehensive income***
Other financial assets	90 731	85 135	75	-	(75)	-	228	-	(228)	-
Trade and other receivables	268 123	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	383 354	383 354	2 321	-	(2 321)	-	98	-	(98)	-
Interest-bearing loans and borrowings	(1 311 062)	(1 311 062)	(5 371)	-	5 371	-	(1 539)	-	1 539	-
Trade payables and other financial liabilities	(318 256)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(16 292)	(16 292)	-	-	-	-	-	1 670	-	(1 670)
Total	**(903 402)**	**(858 865)**	**(2 975)**	**-**	**2 975**	**-**	**(1 213)**	**1 670**	**1 213**	**(1 670)**

39.2. Currency risk

The Group is exposed to the currency risk due to concluded transactions. Such risk also concerns credit and loan liabilities. In 2016, the Group's companies did not apply the instruments to mitigate the risk arising from changes in exchange rates, except for ZE PAK SA, which secured the EUR exchange rate for part of the flows related to the purchase of CO_2 emission allowances. In order to secure the exchange rate, the forward transactions with the settlement date in December 2016 and January 2017 were applied.

The potential possible changes of currency rates were calculated on the basis of annual volatilities implied for currency options quoted on the interbank market for a given pair of currencies from the balance sheet date.

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

(in zloty thousand)

	31 December 2016		**Analysis of sensitivity to interest rate risk as of 31 December 2016**			
			EUR/PLN			
Classes of financial instruments			**EUR/PLN + 7,75%**		**EUR/PLN - 7,75%**	
			4,7669		**4,0811**	
	Carrying amount	***Value at risk***	***Profit / loss***	***Other comprehensive income***	***Profit / loss***	***Other comprehensive income***
Other financial assets	89 262	75 813	5 875	-	(5 875)	-
Trade and other receivables	246 025	3 754	291	-	(291)	-
Derivative financial instruments	296	-	-	-	-	-
Cash and cash equivalents	350 101	124 422	9 643	-	(9 643)	-
Interest-bearing loans and borrowings	(1 009 809)	(387 123)	(30 002)	-	30 002	-
Trade payables and other financial liabilities	(307 731)	(60 927)	(4 722)	-	4 722	-
Derivative financial instruments	(10 053)	-	-	-	-	-
Total	**(641 909)**	**(244 061)**	**(18 915)**	**-**	**18 915**	**-**

	31 December 2015		**Analysis of sensitivity to interest rate risk as of 31 December 2015**			
			EUR/PLN			
Classes of financial instruments			**EUR/PLN + 7,15%**		**EUR/PLN - 7,15%**	
			4,5662		**3,9568**	
	Carrying amount	***Value at risk***	***Profit / loss***	***Other comprehensive income***	***Profit / loss***	***Other comprehensive income***
Other financial assets	90 731	73 776	5 275	-	(5 275)	-
Trade and other receivables	268 123	176	13	-	(13)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	383 354	31 747	2 270	-	(2 270)	-
Interest-bearing loans and borrowings	(1 311 062)	(497 175)	(35 548)	-	35 548	-
Trade payables and other financial liabilities	(318 256)	(381)	(27)	-	27	-
Derivative financial instruments	(16 292)	-	-	-	-	-
Total	**(903 402)**	**(391 857)**	**(28 017)**	**-**	**28 017**	**-**

39.3. Commodity prices risk

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

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

	2016		2015	
	Volume (tonnes)	*Consumption cost (in zloty thousand)*	*Volume (tonnes)*	*Consumption cost (in zloty thousand)*
Fuel				
Lignite	12 549 649	755 463	12 510 143	760 747
Forestry biomass	367 137	51 962	349 015	75 073
Agricultural biomass	94 785	22 876	136 336	48 665
Heating oil	13 963	19 473	12 886	19 885
Sorbent	235 717	17 643	177 289	14 889

39.4. Credit risk

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

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

The main recipients of electricity include the companies with a significant position in the electricity trade sector, such as Energa Obrót, Tauron Polska Energia, Alpiq Energy, and Innogy Polska. The transactions concluded on the exchange market are settled on a day-to-day basis by the Towarowa Giełda Energii SA company, which minimises the credit risk.

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

39.5. Liquidity risk

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

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

The tables below present financial liabilities of the Group as of 31 December 2015 and 31 December 2014 according to the maturity date based on contractual non-discounted payments.

(in zloty thousand)

31 December 2016	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	100 041	329 180	634 191	-	1 063 412
Trade payables and other financial liabilities	240 997	61 665	5 069	-	307 731
Derivative financial instruments	14 446	3 716	3 973	-	22 135
	355 484	**394 561**	**643 233**	**-**	**1 393 278**

31 December 2015	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	64 021	326 041	794 375	235 284	1 419 721
Trade payables and other financial liabilities	217 145	20 360	80 726	25	318 256
Derivative financial instruments	1 948	5 080	8 867	-	15 895
	283 114	**351 481**	**883 968**	**235 309**	**1 753 872**

(in zloty thousand)

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

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

31 December 2016	*On demand*	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Inflows	-	(154)	(365)	(302)	-	(821)
Outflows	-	1 516	3 716	3 973	-	9 205
Net amount	-	(1 670)	(4 081)	(4 275)	-	(10 026)
Discounted using appropriate interbank rates	**-**	**(1 671)**	**(4 088)**	**(4 294)**	**-**	**(10 053)**

31 December 2015	*On demand*	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Inflows	-	(32)	(283)	(57)	-	(372)
Outflows	-	1 948	5 080	8 867	-	15 895
Net amount	-	(1 980)	(5 363)	(8 924)	-	(16 267)
Discounted using appropriate interbank rates	**-**	**(1 981)**	**(5 368)**	**(8 943)**	**-**	**(16 292)**

(in zloty thousand)

40. Financial instruments

40.1. Fair values of particular classes of financial instruments

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

Financial assets	Category according to IAS 39	*31 December 2016*	*31 December 2015*	*31 December 2016*	*31 December 2015*	*Level of the fair value hierarchy for needs of disclosures*
Other financial assets	PiN	89 262	90 731	89 262	90 731	2
Trade receivables and other receivables	PiN	246 025	268 123	246 025	268 123	2
Derivative financial instruments	WwWGpWF	296	-	296	-	2
Cash and cash equivalents	UdtW	350 101	383 354	350 101	383 354	1
Financial liabilities						
Interest-bearing bank credits and loans, including:		1 009 809	1 311 062	1 009 809	1 311 062	3
long term	PZFwgZK	587 851	924 519	587 851	924 519	
short term	PZFwgZK	421 958	386 543	421 958	386 543	
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	307 731	318 256	307 731	318 256	2
Derivative financial instruments	WwWGpWF	10 053	16 292	10 053	16 292	2

Used abbreviations:

UdtW – Financial assets maintained to the maturity date,
WwWGpWF – Financial assets/liabilities evaluated in the fair value by the financial result,
PiN – Loans and receivables
DDS – Financial assets available for sale,
PZFwgZK – Other financial liabilities evaluated according to the depreciated cost.

(in zloty thousand)

As of 31 December 2016 and 31 December 2015, the Group had following financial instruments evaluated in the fair value:

	31 December 2016	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	296	-
Derivatives hedging liabilities	-	-	10 053	-

	31 *December 2015*	Level *1*	Level *2*	Level *3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	16 292	-

In the period ended 31 December 2016 and the one ended 31 December 2015, there were no shifts between the level 1 and the level 2 of the fair value hierarchy, and none of instruments was shifted to the level 3 of the fair value hierarchy

(in zloty thousand)

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

Year ended 31 December 2016

	Revenues /(costs) due to interests (including effect of valuation with depreciated cost)	*Profits / (losses) due to exchange rate differences*	*Redemption / (creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	4 724	1 355	-	-	-	6 079
Other short-term financial assets	11	2 753	1	-	(33)	2 732
Deliveries and services receivables	113	(34)	(113)	-	-	(34)
Other receivables	72	49	-	-	45	166
Derivative instrument	-	-	-	1 306	-	1 306
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(34 703)	(16 607)	-	-	(4 049)	(55 359)
Deliveries and services liabilities	(80)	(296)	-	-	-	(376)
Other financial liabilities (without instruments)	(632)	-	-	-	-	(632)
Derivative instruments	-	-	-	(7 379)	-	(7 379)
Other liabilities	(2 250)	(3)	(9 650)	-	(1 047)	(12 950)
Total	(32 745)	(12 783)	(9 762)	(6 073)	(5 084)	(66 447)

The increase in liabilities on credits and loans (long- and short-term) on 31 December 2016 in relation to the value on 31 December 2016 results from recognition since January 2016 of interest on the ZE PAK SA corporate credit of 14 March 2014 in the income statement, while in 2015, the interest was capitalised in the investment value. The second cause of the increase in this item in 2016 included foreign exchange differences, which significantly increased in Elektrownia Pątnów II [Pątnów II Power Plant] due to the corporate credit valuation of EUR 240 million from 2011 in accordance with the higher exchange rate of EUR/PLN.

(in zloty thousand)

Year ended 31 December 2015

	Revenues /(costs) due to interests (including effect of valuation with depreciated cost)	*Profits / (losses) due to exchange rate differences*	*Redemption / (creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	4 066	(2 048)	-	-	-	2 018
Other short-term financial assets	(771)	619	2	-	(312)	(462)
Deliveries and services receivables	4	20	(78)	-	-	(54)
Other receivables	245	-	-	-	-	245
Derivative instrument	-	-	-	-	-	-
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(13 332)	(1 956)	-	-	(712)	(16 000)
Deliveries and services liabilities	(318)	(880)	-	-	2	(1 196)
Other financial liabilities (without instruments)	(1 000)	-	-	-	-	(1 000)
Derivative instruments	-	-	-	(8 426)	-	(8 426)
Other liabilities	(2 189)	-	(6 203)	-	(1 108)	(9 500)
Total	(13 295)	(4 245)	(6 279)	(8 426)	(2 130)	(34 375)

(in zloty thousand)

40.3. Interest rate risk

The below table presents the interest rate gap constituting the Group's exposure to interest rate risk and concentration of this risk divided into currencies and kind of interest rate taking into account the effect of protection transactions Interest Rate Swap exchanging the stream of cash interest payments based on the variable EURIBOR rate for the fixed rate in EUR.

	Type of interest rate	*Carrying amount as of 31 December 2016*	*Carrying amount as of 31 December 2015*
Financial assets at interest rate risk – zloty	Fixed	-	-
	Variable	236 701	362 966
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	200 708	105 523
Financial liabilities at interest rate risk – zloty	Fixed	-	-
	Variable	622 686	813 887
Financial liabilities at interest rate risk – Other currencies	Fixed	193 703	248 947
	Variable	193 420	248 228
Net exposure – zloty	Fixed	-	-
	Variable	(385 985)	(450 921)
Net exposure – Other currencies	Fixed	(193 703)	(248 947)
	Variable	6 815	(142 705)

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

40.3.1. Hedging

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

In the tables shown below, basic parameters of derivative transaction indicates as security instruments, including periods, when cash flows due to cash flow securities and when they will influence the financial result, as well as their fair value in zloty as of 31 December 2016 and 31 December 2015 are presented.

Instrument type	*Nominal value in the transaction currency [euro]**	*Fair value in zloty*	*Expected duration of hedged item's realisation*
	31 December 2016	*31 December 2016*	*31 December 2016*
IRS transaction	43 785	(10 053)	in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019

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

Instrument type	*Nominal value in the transaction currency [euro]**	*Fair value in zloty*	*Expected duration of hedged item's realisation*
	31 December 2015	*31 December 2015*	*31 December 2015*
IRS transaction	58 418	(16 292)	in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019

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

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

	Year ended 31 December 2016	*Year ended 31 December 2015*
Opening balance	(14 742)	(21 902)
Effective part of profits / losses on a security instrument	(1 278)	(1 217)
Amounts charged to the income statement, including:	(7 274)	(8 377)
– adjustment of costs of interest	(7 274)	(8 377)
– adjustment under ineffective hedging	-	-
Closing balance	(8 746)	(14 742)
Deferred tax assets – recognized in the revaluation reserve	1 662	2 801
Closing balance including deferred tax	(7 084)	(11 941)

In 2016, the Group's companies did not apply the instruments to limit the risk arising from changes in exchange rates, with the exception of ZE PAK SA, which secured the EUR exchange rate for part of the flows related to the purchase of CO_2 emission allowances. In order to secure the exchange rate, the forward transactions with the settlement date in January 2017 were applied. The below table presents a summary of the active forward transactions as of the balance sheet date for the purchase of EUR currency.

Type of concluded transactions	*Currency cross*	*Transaction amount (nominal value in euro thousand) 31 December 2016*	*Net market value (fair value in zloty thousand) 31 December 2016*	*Maturity*
Purchase of EUR transaction (forward)	(EUR/PLN)	3 000	296	January 2017

The Group also secures the risk of changing the prices of CO2 emission allowances using forward transactions to purchase the allowances for its own needs. The following table presents a summary of the active forward transactions as of the balance sheet date.

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions*	*Currency of transactions*	*Maturity*
Forward transaction	3 997 000	30 180	EUR	Up to 1 year

(in zloty thousand)

41. Capital management

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

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. In year, ended 31 December 2016 and 31 December 2015, there were no introduced amendments to goals, rules and processes applying in this area.

The Group monitors the balance of its capitals using the leverage ratio, which is calculated as a relation of net debt to the sum of capitals enlarged with net debt. The Group's Principles state that this rate was within the range of 20-60%. The Group includes interest bank credits and loans, liabilities due to supplies and services, and other liabilities, decreased by the cash and cash equivalents in the net debt. The capital includes the equity decreased by reserve capitals due to unrealised net profits.

	31 December 2016	*31 December 2015*
Interest-bearing credits and loans	1 009 809	1 311 062
Derivative financial instruments (liabilities)	10 053	16 292
Trade liabilities and other financial liabilities	307 731	318 256
Minus cash and its equivalents	350 101	383 354
Net debt	977 492	1 262 256
Equity	2 143 658	1 884 823
Capitals from revaluation of security instruments	(7 084)	(11 941)
Total capital	2 150 742	1 896 764
Net capital and debt	**3 128 234**	**3 159 020**
Leverage ratio	31,25%	39,96%

42. Employment structure

The average employment in the Group for the years ended 31 December 2016 and 31 December 2015 was developing as follows:

	Year ended 31 December 2016	*Year ended 31 December 2015*
Management Board of the parent company	5	4
Management Board's of the Group's entities	23	25
Administration	377	338
Sales department	62	61
Production division	5 278	5 872
Other	616	730
Total	6 361	7 030

(in zloty thousand)

43. Significant events after the balance sheet date

Discussions between the Management Board and the social party

On 8 February 2016, trade unions acting in ZE PAK SA reported, under the Act of 23 May 1991 on resolution of collective disputes, requests related to, among others, new components of the remuneration system, severance payments and work safety.

The Management Board of the Company refused to execute the trade unions' requests. The Company's Management Board considered unacceptable the trade unions' requests on introducing new components to the remuneration system, according to Article 4 paragraph 2 of the Act on resolution of collective disputes. The consequence of a failure to take into account the requests includes the occurrence of a collective dispute between ZE PAK SA, as an employer, and trade unions, as representation of employees, since 8 February 2016. So far, no agreement on the collective dispute related to the letter of the trade unions of 8 February 2016 has been concluded.

On 12 May 2016, the Company's Management Board decided to liquidate the Employee Pension Fund ("EPF"), which was one of the topics of the talks conducted with the social party. The fund will be liquidated with a 12-month notice period. In relation to the EPF termination, the Company submitted a request to the PFSA for deleting the fund from the employee pension funds. Currently, the administrative proceedings on deleting the fund is in progress.

On 18 January 2017, the trade unions operating in the Company submitted another letter under the Act of 23 May 1991 on resolution of collective disputes, containing requests regarding, among others, statutory bonus, return of the unpaid contributions to the EPF, and development of the support programme for the Adamów Power Plant's employees. The Company's Management Board replied to the requests of the trade unions by presenting its position on individual requests along with invoking the relevant arguments in support of the taken position, by pointing to, among others, illegitimacy of some requests or the consequences of the regulation in the provisions of Article 4 of the Act on resolution of collective disputes concerning the inadmissibility of conducting a collective dispute. Currently, the talks between the Company's Management Board and the social party in relation to the requests applied by the letter of 18 January 2017 are in progress.

Decision of the Regional Director of Environmental Protection on the Ościsłowo open pit

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director of Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017 refusing to determine the environmental conditions for the project titled: „Wydobycie węgla brunatnego i kopalin towarzyszących z Odkrywki Ościsłowo" ["Extraction of brown coal and associated minerals from the Ościsłowo Open Pit"]. The decision of RDOŚ in Poznań is not final. The decision is subject to the appeal to the Chief Director of Environmental Protection brought via RDOŚ in Poznań within 14 days from the receipt date. PAK KWB Konin SA will appeal against the issued decision in an appropriate manner. According to the assessment of the Company's Management Board, there are real premises to expect that the appeal of PAK KWB Konin SA will be considered positively. According to the Company, the issued decision is devoid of substantive arguments and has not been supported by the expert's reports confirming the negative impact on the environment in case of applying the solutions proposed by PAK KWB Konin SA.

As of the date of this statement development, in the Company's Management Board opinion, the risk of not meeting the construction schedule and the commencement of exploitation of the Ościsłowo open pit is negligible; if, however, that risk materialises, the changes concerning the production plans of the Group in future years would be relevant, including a situation, in which they would have an effect on estimates of future expected cash flows generated by the Group's generation assets.

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Andrzej Krzemiński
/President of the Board/	/Vice President of the Board/	/ Vice President of the Board /	/ Vice President of the Board /	/ Chief Accountant /

ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA
CAPITAL GROUP

MANAGEMENT BOARD'S REPORT
FROM THE CAPITAL GROUP'S OPERATIONS IN 2016

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

21 MARCH 2017

TABLE OF CONTENTS:

1. SELECTED FINANCIAL DATA

Particular financial consolidated data	*zloty thousand* 12 months of 2016 period from 01.01.2016 to 31.12.2016	*zloty thousand* 12 months of 2015 period from 01.01.2015 to 31.12.2015	*euro thousand* 12 months of 2016 period from 01.01.2016 to 31.12.2016	*euro thousand* 12 months of 2015 period from 01.01.2015 to 31.12.2015
Sales revenue	2 704 711	2 947 816	618 121	704 410
Operating profit/loss	371 433	(1 795 822)	84 885	(429 130)
Profit/Loss before tax	307 878	(1 833 235)	70 361	(438 070)
Net profit/loss for the period	250 286	(1 879 808)	57 199	(449 199)
Net profit attributable to equity holders of the parent	247 674	(1 881 086)	56 602	(449 504)
Total comprehensive income	258 880	(1 873 706)	59 163	(447 741)
Net cash flow from operating activities	536 051	467 136	122 506	111 627
Net cash flow from investing activities	(183 708)	(414 971)	(41 984)	(99 161)
Net cash flow from financing activities	(387 014)	(24 115)	(88 446)	(5 763)
Net increase / (decrease) in cash and cash equivalents	(34 671)	28 050	(7 924)	6 703
Net profit per share (in zloty/euro per share)	4,87	(37,01)	1,11	(8,84)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	As of 31.12.2016	*As of 31.12.2015*	*As of 31.12.2016*	*As of 31.12.2015*
Total assets	4 801 300	4 974 381	1 085 285	1 167 284
Non-current assets	3 702 058	3 714 123	836 812	871 553
Current assets	1 099 242	1 260 258	248 472	295 731
Total equity	2 143 658	1 884 823	484 552	442 291
Share capital	101 647	101 647	22 976	23 852
Share capital attributable to equity holders of the parent	2 143 658	1 884 823	484 552	442 291
Total liabilities	2 657 642	3 089 558	600 733	724 993
Non-current liabilities	1 389 715	1 829 696	314 131	429 355
Current liabilities	1 267 927	1 259 862	286 602	295 638
Book value per share (in zloty/euro per share)	42,18	37,09	9,53	8,70
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

Above financial data were converted into EUR according to the following exchange rates:

- particular items of statement of comprehensive income (Profit & loss account) and statement of cash flows (Cash flow) – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the last working day of every month of the reporting period starting from 1 January 2016 to 31 December 2016, which is 4.3757 euro/zloty and starting from 1 January 2015 to 31 December 2016, which is 4.1848 euro/zloty;
- particular items of the Statement of financial position (Balance sheet) according to average euro/zloty exchange rate published by the National Bank of Poland as of 30 December 2016, which is 4.4240 euro/zloty and as of 31 December 2015, which is 4.2615 euro/zloty.

2. DESCRIPTION OF THE COMPANY AND OF THE CAPITAL GROUP

2.1. Basic information on the Company and the Capital Group

Basic information on the Company

Zespół Elektrowni Pątnów – Adamów – Konin SA (hereinafter referred to as ZE PAK, ZE PAK SA or Company) operates in the form of a joint-stock company, pursuant to the regulations of the Code of Commercial Companies as well as other regulations of the generally applicable Polish law. The Company was established as result of transformation of Zespół Elektrowni Pątnów – Adamów – Konin state-owned company with registered office in Konin into a company wholly owned by the State Treasury under the business name of Zespół Elektrowni „Pątnów – Adamów – Konin" Spółka Akcyjna. The deed of transformation was signed on 29 December 1994 in the presence of the notary public Elżbieta Brudnicka from the Notarial Office in Warsaw. On 31 December 1994, the Company was entered into the commercial register section "B" by the District Court in Konin under number RHB 847. Based on the decision of the District Court in Poznań, 22nd Commercial Department of KRS dated 21 June 2011, the Company was entered into the Register of Entrepreneurs. Currently the Company is entered into the Register of Entrepreneurs kept by the District Court Poznań Nowe Miasto i Wilda, IX Commercial Department, under the KRS number 0000021374. The Company was established for an unlimited period of time.

Name:	Zespół Elektrowni „Pątnów – Adamów – Konin" Spółka Akcyjna
Legal status:	stock company
Abbreviated name:	ZE PAK SA
Registered office and address:	ul. Kazimierska 45, 62-510 Konin, Polska
Telephone number:	+48 63 247 30 00
Fax number:	+48 63 247 30 30
Website:	www.zepak.com.pl
Email address:	zepak@zepak.com.pl
KRS number:	0000021374
REGON number:	310186795
NIP number:	665-000-16-45

According to the Company's Articles of Association, the primary subject of the Company's operations is the production and sales of electricity as well as the production and sales of heat. The Company produces energy from conventional sources as well as by biomass combustion. The Company can conduct operations within the territory of the Republic of Poland as well as abroad.

The Company's shares are listed on the regulated market operated by Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange). The Company's shares are dematerialised and marked by Krajowy Depozyt Papierów Wartościowych SA (National Depository for Securities) with the following stocks code: ISIN PLZEPAK00012.

In 2016, the share capital of ZE PAK SA has been not changed. As of 31 December 2015 amounts to zloty 101 647 094.00 and is divided into 50 823 547 bearer shares class A with a face value of zloty 2.00 each, which represent 50 823 547 votes at the Company's General Meeting, comprising 100% of the total votes at the Company's General Meeting.

The Company has no branches (establishments).

Basic information about Capital Group

As of 31 December 2016 the ZE PAK Capital Group (hereinafter referred to as the "Group", "Capital Group" the "ZE PAK SA Group") is composed of a dominant entity Zespół Elektrowni Pątnów – Adamów – Konin SA (hereinafter referred to as "ZE PAK SA" or "Company") and thirteen subsidiaries i.e. Elektrownia Pątnów II sp. z o.o., PAK – Volt SA, PAK Kopalnia Węgla Brunatnego Adamów SA (hereinafter referred to as the "PAK KWB Adamów SA"), PAK Kopalnia Węgla Brunatnego Konin SA (hereinafter referred to as the "PAK KWB Konin SA"), Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o. (hereinafter referred to as the "PAK SERWIS sp. z o.o."), Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK sp. z o.o. (hereinafter referred to as the "EL PAK sp. z o.o."), EL PAK Serwis sp. z o.o., Aquakon sp. z o.o., Eko-Surowce sp. z o.o., Energoinwest SERWIS sp. z o.o., PAK Górnictwo sp. z o.o., PAK – HOLDCO sp. z o.o., PAK Infrastruktura sp. z o.o. Consolidation covers all the above-mentioned companies.

The companies which are of the biggest importance for the Group due to the scale of their operations are: ZE PAK SA and Elektrownia Pątnów II sp. z o.o., dealing with production of electricity and heat, and PAK KWB Adamów SA and

PAK KWB Konin SA, dealing with lignite mining. Apart from the core business, the Group comprises also other companies which perform e.g. construction and erection works, maintenance works, provide services, deal with production and trade to meet demand from and offer complex services for industry.

The production facilities of the Group include four lignite-fired power plants located in the central part of Poland in the Wielkopolskie voivodship. These are: Pątnów II which is equipped with a supercritical power unit, Pątnów I, Adamów and Konin equipped additionally with power unit with biomass fired boiler. Total installed gross power output of the production facilities of the Group was 2506 MWe as of 31 December 2016.

The Group's mining assets are concentrated in three companies: PAK KWB Konin SA, which currently operates on Jóźwin, Tomisławice and Drzewce open casts, PAK KWB Adamów SA, which operates on Adamów open casts as well as PAK Górnictwo sp. z o.o. which executes works related to identification of lignite deposits in the areas of Poniec-Krobia and Oczkowice in the southern Wielkopolskie Province.

Majority of the Group's sales revenue is derived from sale of electricity (both generated within the Group and purchased for resale). This is supplemented by revenues from sale of heat, certificates of Energy origin (green and red certificates) and from construction contracts. An additional sales revenue, which depends on the level of electricity prices on the market as well as the volume of generated electricity, is revenue from termination of long-term contracts for sale of electricity (Power Purchase Agreements), generated by Elektrownia Pątnów II sp. z o.o. Group having in its structure lignite mines, provides with an access to continuous supplies of lignite for its own power plants located in the direct vicinity of open pits. The vertically integrated Group allows for optimization of lignite inventories and supplies while coordinating lignite extraction with its requirements for this fuel. The requirements for biomass are satisfied by the suppliers of this raw material.

Structure of the ZE PAK Group as at 31 December 2015 presents Picture 1

The Company outside the Capital Group has shares in Zakłady Pomiarowo-Badawcze Energetyki Energopomiar Sp. z o.o. with registered office in Gliwice, providing measurement, research and consulting services related to the Energy market. ZE PAK SA has 1 share with a value of zloty 151 201.01 in the aforementioned company, comprising 2.81% of the total capital.

The main shareholder makes the Group affiliated with other entities, in which Zygmunt Solorz has substantial direct or indirect share.

Picture 1: Structure of the Group as of 31 December 2016

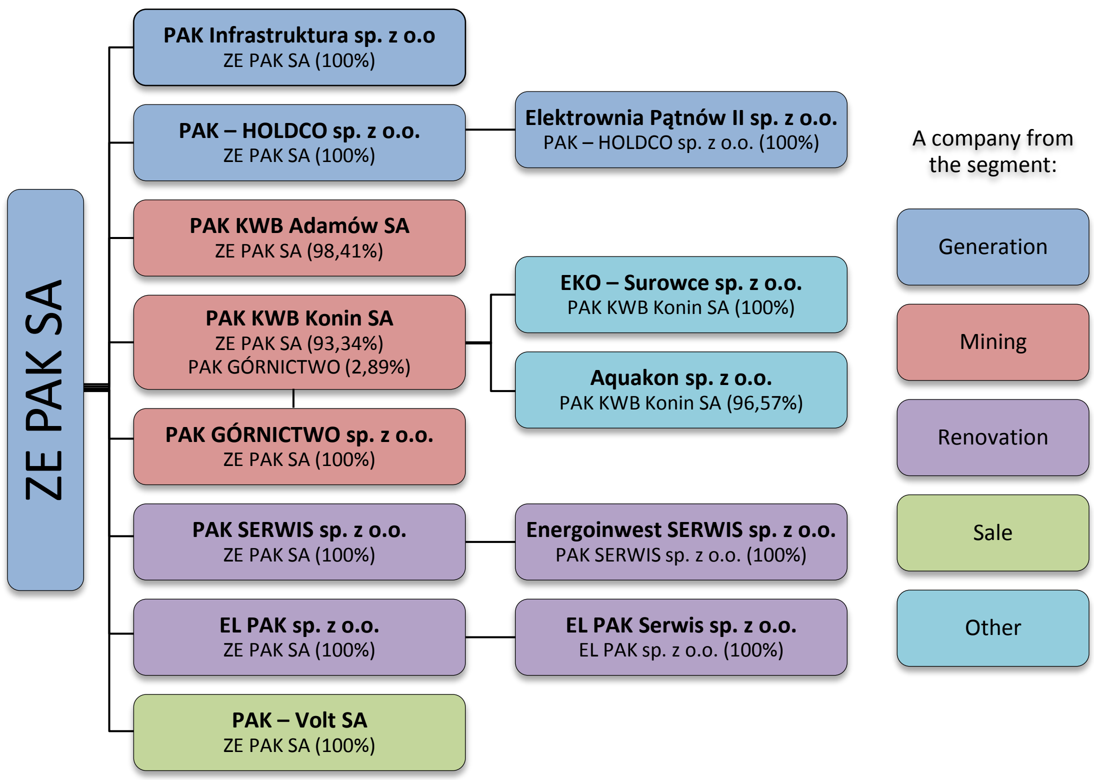


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	*Registered office*	*Scope of operations*	*Group's share in the capital in percent*	
			31.12.2016	*31.12.2015*
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%	100,00%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń „EL PAK" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services related to industrial automatics and electric appliances maintenance	100,00%	100,00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric energy production and distribution from the 464 MW power unit	100,00%*	100,00%*
„PAK – HOLDCO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activity	100,00%	100,00%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100,00%	100,00%
„PAK GÓRNICTWO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Exploration and recognition of lignite	100,00%	100,00%
Energoinwest Serwis sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Construction and repair services	100,00%*	100,00%*
PAK Kopalnia Węgla Brunatnego Konin SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	96,23%*	96,23%
PAK Kopalnia Węgla Brunatnego Adamów SA	62-700 Turek ul. Uniejowska 9	Lignite extraction	98,41%	98,41%
„Aquakon" sp. z o.o.	62-610 Sompolno Police	Mechanical services, repairs, reclamation of land, production and trade of mineral water	92,57%*	92,57%*
Eko-Surowce sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Vulcanization services, sale of lignite	96,23%*	96,23%*
PAK – Volt SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
EL PAK Serwis sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and maintenance of electric equipment, repair and maintenance of machines.	100,00%*	100,00%*

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

2.2. Basic rules and changes to basic rules of ZE PAK SA capital group management

In order to provide appropriate solutions for key issues related to management of the Capital Group, in which ZE PAK SA is the parent company and, at the same time, the owner of capital, seeking a satisfactory return on the funds engaged, a separate Legal and Organisational Department was established within the organisational structure of the Company. The main task of this Department is supervision over the operations of the ZE PAK Capital Group and other companies in which the Company holds shares. This unit coordinates the consistency of the operations of all entities in the Group and monitors their compliance with the legal regulations in force as well as the interests of the whole Capital Group. The Department is subject to direct sovereignty of Vice President of the Management Board involved in Corporation issues.

According to the policy of the Group, in the key subsidiaries, the members of the Management Boards ZE PAK SA are Members of these companies Management Boards, and in other companies of the Group are members of the Supervisory Boards. In addition, in order to ensure proper functioning of the corporate governance body, the Management Board of ZE PAK SA recommends to the Supervisory Board of ZE PAK SA, the candidature of other Supervisory Board members of the Group companies.

In the organisational structure of the Company, organisational division units that bring together organisational units of the Company (departments, offices, divisions, etc.) managed by individual members of the Management Board of ZE PAK SA are created. The Supervisory Board divides internally the competencies among the members of the Management Board by entrusting a Management Board member with a specific organisational division unit. The members of the Management Board of ZE PAK SA co-operate, agree, and coordinate the actions regarding the

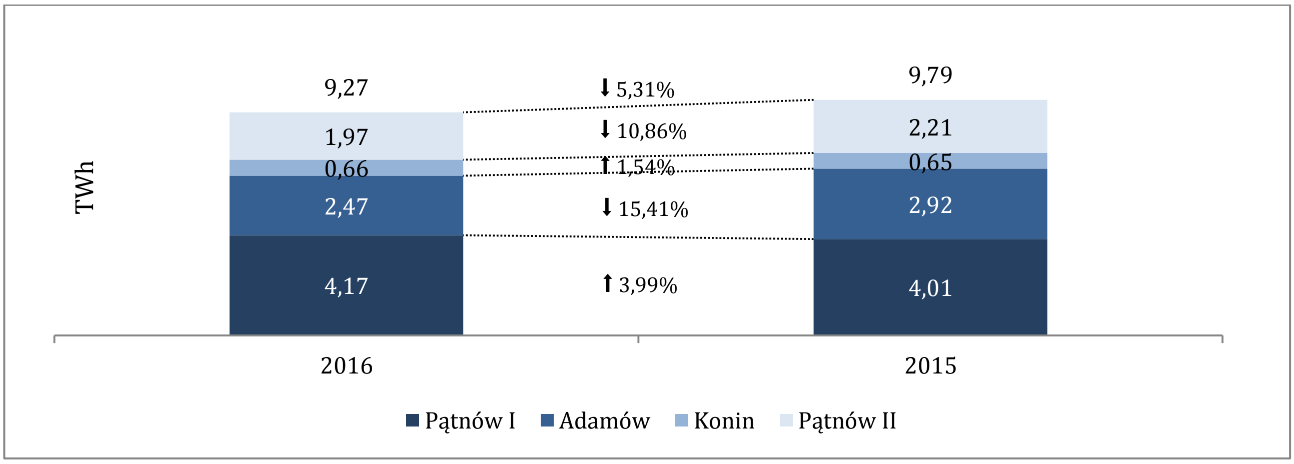
Company's matters as well as secure proper co-operation of the organisational division units and units managed by them. The areas of the Company's activity managed by individual members of the Management Board are defined by the Company's organisational regulations specifying the Company's organisation of the enterprise. In relation to the changes in the Management Board's composition, which took place on 3 March 2017, the internal division of competences between the currently incumbent members of the Management Board of ZE PAK SA will be made.

2.3. Basic products, goods, services, markets and sources of supply characteristics.

The Company's operations are focused in several areas. The main area is doubtlessly generation of electricity, lignite extraction, electricity wholesale trading, which is supplemented by sales of energy certificates, operations undertaken to ensure an adequate amount of CO2 allowances as well as generation and sales of heat. In addition, the Group also includes other companies, which are engaged, among others, in: carrying out construction and assembly works, maintenance works, services, production and trade operations for the purpose of satisfying their own needs as well as providing comprehensive services to the industry. In 2016, the Group mainly conducted its operations in the Polish market. The only exception included operations related to transactions regarding the CO2 allowances, which were executed between ZE PAK and EPII as well as foreign partners.

The Group is the fifth largest producer of electricity in Poland and second largest producer of electricity generated from lignite. The share of all of the Group's power plants in the entirety of electricity produced in Poland amounts to 6.3%. The net electricity production in the Pątnów I power plant was equal to 4.17 TWh in 2016, while in the Adamów, 2.47 TWh, in Konin 0.66 TWh and Pątnów II power plant - 1.97 TWh, The total electricity production in all power plants of the Group in 2016 was lower by 5.31% in comparison to the year before. Total energy production in all the Company's power plants in 2016 was lower by 5.31% compared to the previous year. When taking into account the entire country, in 2016, there was a decrease in the energy production from brown coal at a comparable level, that is by c. 4.4%. In the ZE PAK Group, the production economics, operator's requirements, and geological conditions in the mines supplying the coal to the power plants decide primarily about the generation distribution in particular power plants. In 2016, in the Pątnów I power plant in 2016, the production increased slightly. In the Konin power plant, it remained at a similar level and in the Adamów and Pątnów II power plants, it decreased. The major overhauls, to which the 464 MW was subjected to in the fourth quarter, was the cause of the decrease in production in the Pątnów II power plant.

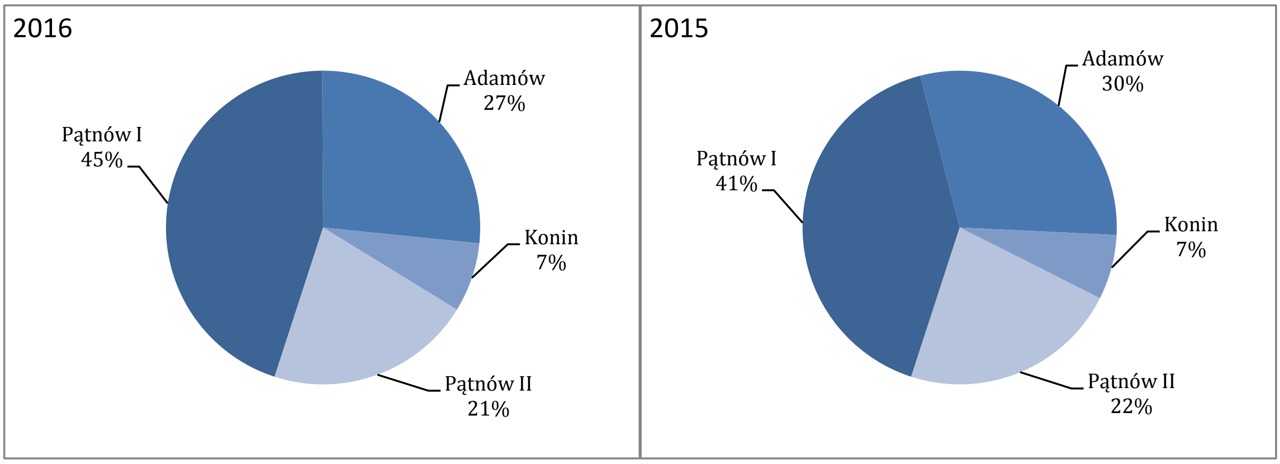
*Chart 1: Electricity net production**



* *Net electricity production together with the electricity production from the units 1 and 2 in the Pątnów I during the investment.*

Source: internal data

Chart 2: Structure of generation between power plants

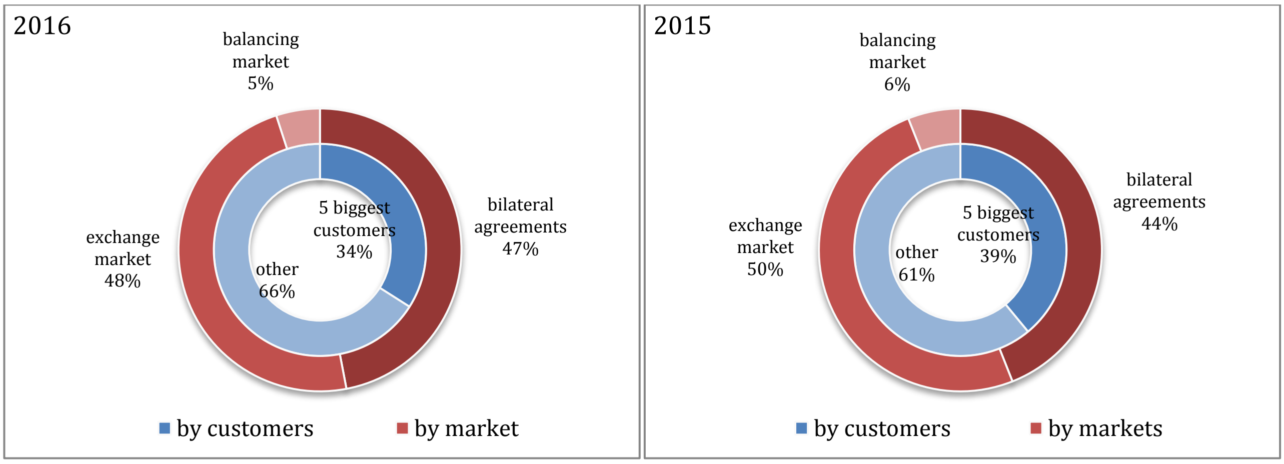


Source: internal data

In 2016 the Group sold 13,51 TWh of electricity, which is close to 9,5% less than in 2015.

The main direction of electricity sales in 2016 was sale on the exchange market, which was responsible for 48.2% of the total energy sold volume[1]. Within the framework of bilateral contracts concluded with electricity trade companies conducting activities on the Polish market, the Group's companies sold 46.61% of the full-year energy sales volume executed in 2016, including the share of the five largest counterparties of the Group amounted to 33,93% of the total sales, whereas the transactions with the final recipients were only 2.0% of the total electricity sales volume. The electricity balancing market, on which the Group's companies sold 5.19% of the total electricity sales volume, is the supplementation of the sales structure.

Chart 3:Electricity sale structure by customers (internal ring) and by market (external ring)



Source: internal data

The electricity sales revenues (in total – generated and from the market) were 86.85% of the total revenue from the sales of the Group, while the revenues from the received compensations to cover the "stranded costs" in the Pątnów II power plant were 7.65% of revenues from the sale of the Group.

[1] Elektrownia Pątnów II sp. z o. o., as an electricity producer entitled to receive compensations to cover the so-called "stranded costs" under the term of "the Act on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity," in accordance with the provisions of the Energy Law, is obliged to sell the entire generated electricity on the exchange market or by way of an open tender. However, by decision of the President of the Energy Regulatory Office, Elektrownia Pątnów II sp. z o. o. has been exempted from the obligation of public sale in relation to 60% of the net electricity generated by the Pątnów II Power Plant until the end of 2019.

The number of green and red certificates obtained by the Group, due to the biomass unit as well as high efficiency cogeneration in heat production in 2016, is substantially higher than the number of certificates that the Group is obligated to present to the ERO President for redemption in order to fulfil the obligations imposed by the current regulations. Therefore, the excess certificates are to be sold, mainly on Towarowa Giełda Energii (Polish Power Exchange). In 2016, the Group generated 0.39 TWh of green certificates and 0.16 TWh of red certificates.

The heat generated in the Group's power plants is sold to local recipients. The main recipients include local heat power engineering companies, as well as local industrial manufacturers. The Group covers almost the entire heat demand of the Konin and Turek cities. In 2016, the Group's power plants sold 2 0175 TJ of heat. The heat sales comprised 2.2% of the Group's total sales revenues.

Among the significant sources comprising the supplementation of the revenue structure, it is necessary to mention the activities in the scope of execution of construction and installation works. Four companies in the Group's structure, i.e. PAK Serwis Sp. z o. o., Energoinwest Sp. z o.o., EL PAK Sp. z o. o. and EL PAK Serwis Sp. z o.o. are dealing with the execution of such tasks for the Group and for third party entities. The main third party recipients of above mentioned companies are entities from the industrial construction sector as well as the electricity production and distribution sector. The revenues obtained by the Group's companies from services provided to third party entities comprised 2.2% of the Group's total sales revenues in 2016. Other activities generated 1.1% of the total revenues in the previous year.

The main raw material used by the Group for energy production is lignite, which is extracted only for the purposes of the power plant. This is due to the fact that the lignite extracted in Poland is a soft coal and its long-distance transport is not cost-effective due to the large contents of water. The extracted lignite is delivered directly from open pit mines to the nearby power plants. Therefore, the extraction of lignite in the ZE PAK Group is strictly related to the amounts of electricity produced by the power plants located in the vicinity of the mines.

Nearly all of the coal extracted in both mines is delivered to the ZE PAK Capital Group's power plants, whereas a slight amount (below 1%) is used for the needs of the mines or is sold to other recipients.

The Group also uses biomass as a raw material for the production of energy, which is combusted in a dedicated boiler located in the Konin power plant.

3. DESCRIPTION OF ACTIVITIES

3.1. Significant events in the accounting year as well as events after the balance sheet date affecting the current and future activities

Significant events in the accounting year

Agreement on financial support for PAK KWB Konin SA

In the course of the work related to preparing the description of the Company's and Capital Group's further strategy as well as final projections for banks granting a loan for the final stage of the 1-4 units modernisation in the Pątów Power Plant, the ZE PAK SA and PAK KWB Konin SA Management Boards decided to conclude the agreement for reaching the necessary decisions on providing financial support for the investment carried out by PAK KWB Konin SA that involves the opening of a new brown coal open pit, which is to secure uninterrupted supplies of coal for the purposes of the ZE PAK Capital Group's power plants. On 16 March 2016, a relevant agreement, which constitutes the first stage of setting the rules on developing the necessary decisions between the parties, including the conditions for granting financial support for construction of a new pit, was concluded. Further decisions will be taken after the PAK KWB Konin SA obtains a decision determining the environmental conditions for the construction of the Ościsłowo brown coal open pit and will be preceded by an economical and financial analysis of the project regarding opening of the new open pit. The final stage will be to conclude the relevant (final) agreement/agreements on financial support after obtaining the required corporate consents.

Annex to credit facility agreement for modernisation of units in Pątnów I power plant

On 30 June 2016, the Company, with a consortium of banks consisting of: mBank SA, Bank Gospodarstwa Krajowego, Bank Millennium SA, Bank Polska Kasa Opieki SA and Powszechna Kasa Oszczędności Bank Polski SA concluded an annex to the investment credit agreement in the amount of zloty 1 200 million, granted to finance the final stage of the modernisation of units in the Pątnów I Power Plant.

In the annex, the parties agreed that the Company's decision to resign from the external funding for the modernisation of the units nos. 3 and 4 in Pątnów I power plant, which was to be granted on the basis of the agreement, will not constitute a breach of the agreement. The deadline for full credit repayment was changed. The repayment is to take place by 20 March 2020 (previously 31 December 2023). The Company, under the agreement, used the amount of zloty 667 million and voluntarily released zloty 533 million of the unused amount for the modernisation of the units 3 and 4. The financial terms of the credit agreed with banks remained at levels which do not differ from the market rates. Other terms of the Credit are similar to those adopted for this type of agreement.

The Company planned to complete the modernisation process, whereas in accordance with earlier declarations, the Company expects to implement system solutions that will ensure the economic profitability of the investment. Due to the inability to determine the date of the introduction of the above-mentioned system solutions, the Company decided to resign from further maintenance of the unused credit amount, so as not to incur the associated costs.

Termination of long term heat delivery agreement

On 30 June 2016, the Company notified the Municipal District Heating Company – Konin sp. z o.o. ("MPEC") on termination of the Heat Sale Contract no. 93/MPEC/PAK/2005 concluded on 1 January 2005 between the Company and MPEC, the subject of which is the heat supply from the Company to the city of Konin, executed from the date contract conclusion. The contract will expire with a 4-year notice, effective on 30 June 2020.

The agreement was terminated by the Company due to the fact that the heat generation from the currently used source based on brown coal in the Konin power plant after 30 June 2020 year will not be possible due to the environmental requirements. Whereas adjusting the currently used source to the stricter requirements would result in expenses exceeding the economic effect, which would be gained thanks to this.

The company still wants to remain the heat supplier for the city of Konin and for this purpose, it conducts analytical as well as formal and legal works in order to develop an optimal project of launching a new heat source, replacing the existing carbon one, which could be the basis for the conclusion of a new contract with MPEC

Postpone the decision on the construction of steam-gas power unit in Konin

In September 2016 the Management Board of the Company decided that the decision on the investment project on the construction of CCGT with a capacity of 120 MWe and 90 MWt and an additional peak boiler with a capacity of 40 MWt in Konin Power Plant will not be taken this year. Due to the current external conditions affecting the economic efficiency of the planed project and, above all, uncertainty about the shape of the support system for gas cogeneration after 2018, and also because of the relationship between gas prices, prices of CO_2 allowances and electricity prices, the Management Board decided that the decision to implement the project in the current circumstances would involve too many risks, which could adversely affect achieved financial results in the future, the value of the Company and thus the interests of the shareholders. Construction of CCGT in Konin Power Plant is an investment reported to the National Investment Plan ("KPI"). The implementation of the project in the specified range and time was associated with the allocation of free CO_2 allowances in the amount of about 6.3 million tons. In the current situation of the absence of a decision to launch the project by the end of the year, the Company assumes that it will not be able to get free CO_2 allowances arising from the implementation of the project in the context of the current KPI.

Construction of CCGT in Konin Power Plant is still part of the investment plan of the Company, however, if it could be implemented, certain conditions are necessary which lend credence a positive impact of the project on the value of the Company.

Preparing for the completion of the energy production in the coal-fired units of the Adamów power plant

The end of electricity production by the coal-fired units of the Adamów power plant is set by the completion of the period of an exemption of an environmental nature resulting from the IED directive on industrial emissions, which was implemented into the Polish legislation. The power units in the Adamów power plant are covered by the derogation exemption period, whose end falls in January 2018. Therefore, preparatory actions for conducting the proceedings that include all the necessary activities related to the completion of the operation of the coal-fired units of the power plant are currently in progress. These proceedings must be conducted by the Company in accordance with the applicable legal provisions, in particular on the natural environment protection, and in such a way as to identify and reduce the associated possible economic and social risks for the Company and the region. The team of people responsible for the thematic study of the strategies of conduct in the following areas: environmental, legal, technical, and organisational was appointed specially for this purpose. In relation to the preparations to complete the production in the coal-fired units of the Adamów power plants, PAK KWB Adamów SA submitted a statement of resignation from the license no. 9/2003 for extraction of brown coal from the Koźmin deposit on 31 December 2016 to the Ministry of the Environment. Currently, PAK KWB Adamów SA supplies coal to the Adamów power plant from the exploited Adamów Open Pit.

Discussions between the Management Board and the social party

In the fourth quarter of 2015, the Management Board of the Company, having regard to the deteriorating external factors on the economic results of the energy generation segment, decided to temporarily suspend the financing of the employee pension fund ("EPF").in the Company as well as to reduce the statutory bonus attributable to the employed workers. At the same time, the Management Board offered the social party temporary suspension of the Corporate Collective Labour Agreement, as a whole or in part. The Management Board's proposals were not accepted by the social party.

The trade unions acting in ZE PAK SA reported, under the Act of 23 May 1991 on resolution of collective disputes, requests related to, among others, new components of the remuneration system, severance payments and work safety.

The Management Board refused to execute the trade unions' requests. The Management Board considered unacceptable the trade unions' requests on introducing the new components to the remuneration system, according to Article 4 paragraph 2 of the Act on resolution of collective disputes. The consequence of failure to take into account the requests includes the occurrence of a collective dispute between ZE PAK SA, as an employer, and the trade unions, as the representation of employees, since 8 February 2016. So far, no agreement on the collective dispute related to the requests reported by the letter of the trade unions of 8 February 2016 has been concluded.

On 12 May 2016, the Company's Management Board decided to liquidate the EPF, which was one of the topics of the talks conducted with the social party. The fund will be liquidated with a 12-month notice. In relation to the termination of the EPF, the Company applied to the PFSA to delete the fund from the employee pension funds. Currently, the administrative proceedings on deleting the fund are in progress.

On 18 January 2017, the trade unions operating in the Company filed another letter submitted under the Act of 23 May 1991 on resolution of collective disputes, containing requests regarding, among other, statutory bonus, return of the unpaid contributions to the EPF, and development of the support programme the Adamów power plant's employees. The Company's Management Board replied to the requests of the trade unions by presenting its position on individual requests along with invoking the relevant arguments in support of the taken position, by pointing to, among others, illegitimacy of the requests or the consequences of the regulation in the provisions of Article 4 of the Act on resolution of collective disputes concerning the inadmissibility of conducting a collective dispute. Currently, the talks between the Company's Management Board and the trade unions in relation to the requests applied by the letter of 18 January 2017 are in progress.

Significant events after the balance sheet date

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director of Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017 refusing to determine the environmental conditions for the project titled: "Extraction of brown coal and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. The decision may be appealed against to the Chief Director of Environmental Protection via the RDOŚ in Poznań within 14 days after the date of delivery. PAK KWB Konin SA will appeal against the issued decision in an appropriate manner. According to the assessment of the Company's Management Board, there are real premises to expect that the PAK KWB Konin SA's appeal will be considered positively. According to the Company, the issued decision is devoid of substantive arguments and has not been supported by expert's reports confirming the negative impact on the environment in the case of application of the solutions proposed by PAK KWB Konin SA.

As of the date of preparing this statement, in the Company's Management Board opinion, the risk of not meeting the construction schedule and the commencement of exploitation of the Ościsłowo open pit is negligible; If, however, that risk materialises, the changes concerning the production plans of the Group in future years would be relevant, including a situation, in which they would have an effect on estimates of future expected cash flows generated by the generation assets of the Group.

3.2. Significant agreements concluded in the accounting year

Significant agreements for the Group's activity

Because of the characteristics of the activity and the market, in which the ZE PAK SA Capital Group operates, the basic agreements concluded with main suppliers and recipients in the course of usual activities are of a standard nature. The agreements of the supply of the main raw material, which is brown coal, are of a multiannual nature and the suppliers are subsidiaries of ZE PAK SA. In the area of the electricity sales and purchase of CO_2 emission allowances, the Group's companies conclude framework agreements with particular counterparts setting out the basic terms and conditions of cooperation. Whereas purchase/sale alone are executed in separate transactions in relation to specific quantities using current market prices.

Apart from the standard agreements, concluded in the course of usual activities, such as the mentioned agreement of raw materials supply, energy sales, or CO_2 emission allowances purchase, in 2016 ZE PAK SA entered into following agreements with:

- PAK Serwis sp. z o.o., the multiannual repair and service of machinery agreement. The subject of the agreement are services in the field of service and mechanical repairs, provided by PAK Serwis sp. z o.o. for the Company aimed at maintaining the equipment used to generate electricity in optimal technical state. The agreement is valid in 2016-2021. The total estimated agreement value throughout its validity is zloty 277 million net.
- EL PAK sp. z o.o., the multiannual financing agreement for the provision of maintaining operation in ZE PAK SA's power plants. The subject of the agreement are services in the field of maintaining operation of systems and electrical devices as well as I&C systems and equipment, provided by EL PAK sp. z o.o. for the Company aimed at maintaining the equipment used to generate electricity in optimal technical state. The agreement is valid in 2016-2021. The total estimated agreement value throughout its validity is zloty 115 million net.

Agreements regarding the obtained credits and loans

In 2016, ZE PAK SA Group's companies signed the following agreements regarding credits and loans:

1. ZE PAK SA signed the Annex no. 3 to the Corporate Credit Agreement of 13 March 2014. On the basis of the Annex no. 3, the unused part of the A Credit was released (zloty 533,000 thousand) and the repayment period was reduced to 20 March 2020. The credit agreement with the consortium of banks comprising of: mBank, Bank Millennium, BGK, PKO BP and PEKAO SA.
2. ZE PAK SA signed with the PKO BP SA bank:
   - the Annex no. 19 extending the overdraft facility capital repayment date to 25 November 2017.
   - the Annex no. 20 concerning the commission from the unused amount of the overdraft facility capital.
   The available credit limit amounts to zloty 90,000 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.
3. ZE PAK SA signed with the PEKAO SA bank:
   - the Annex no. 11 reducing the overdraft facility capital limit to the amount of zloty 40,000 thousand and extending the credit repayment date to 30 November 2016.
   - the Annex no. 12 extending the overdraft facility capital repayment date to 30 November 2017.
   The available credit limit amounts to zloty 40,000 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.
4. PAK SERWIS sp. z o.o. signed with PEKAO SA the annex no. 4 to the multi-purpose credit limit agreement extending the agreement validity period to 30 November 2017. The available multi-purpose credit limit amounts to zloty 20,000 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.
5. Energoinwest Serwis sp. z o.o. signed with the BGŻ BNP Paribas SA the Annex no. 4 extending the overdraft facility capital repayment date to 29 June 2016. The available credit limit amounted to zloty 500 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin. The available limit on guarantees amounted to zloty 800 thousand.
6. Energoinwest Serwis sp. z o.o. signed with the Millennium SA bank Annex A7/139/09/308/03 extending the overdraft facility capital repayment date until 29 July 2016. The available credit limit amounted to zloty 3,000 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.
7. PAK KWB Konin SA signed Annexes nos. 8 and 9 to the credit agreement with the BZ WBK SA bank extending the overdraft facility capital repayment date to 30 June 2017, changing the funds provision schedule and changing the covenants calculation manner. The available credit limit amounts to zloty 55,000 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the Bank's profit margin.
8. PAK KWB Konin SA signed Annexes nos. 4 and 5 to the credit agreement – the multi-purpose line with the BPH SA Bank extending the overdraft facility capital repayment date to 30 May 2017 and changing the funds provision schedule. The available limit amounts to zloty 76,700 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the Bank's profit margin.
9. Aquakon sp. z o.o. signed Annex no. 1 with the BPH SA bank extending the overdraft facility capital repayment date until 30 May 2017. The available credit limit amounts to zloty 1,000 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.
10. Eko-Surowce sp. z o.o. signed Annexes nos. 1 and 2 with the BPH SA Bank extending the overdraft facility capital repayment date until 30 May 2017. The available credit limit amounts to zloty 1,000 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.

Agreements regarding the granted loans

EL PAK sp. z o.o. of the ZE PAK SA Capital Group on 25 November 2016 signed an annex extending the repayment date of the loan granted to its subsidiary, i.e. EL PAK Serwis sp. z o.o. The loan amount is zloty 450 thousand. The loan repayment date is 31 October 2017. The loan interest rate was determined based on market conditions.

Granted and obtained guarantees and sureties

Table 2: List of guarantees and sureties granted by particular companies of the Group as of 31 December 2016

	zloty thousand	*euro thousand*
	31 December 2016	
Granted guarantees and sureties		
PAK Kopalnia Węgla Brunatnego Konin SA		
1 Guarantees		
1.1 Guarantee Bank Przemysłowo Handlowy SA	4 000	
2 Surety		
2.1. Surety of 1 million zloty credit for Aquakon sp. z o .o.	1 000	
2.2 Surety of 1 million zloty credit for Eko-Surowce sp. z o .o.	1 000	
Przedsiębiorstwo Remontowe PAK Serwis sp. z o.o.		
1 Guarantees		
1.1 Contract performance guarantee		195
1.2 Contract performance guarantee	6 590	
1.3 Contract performance guarantee		279
1.4 Warranty to remove defects and faults	4 264	
1.5 Payment Guarantee	11	
1.6 Advance return guarantee	5 658	
Energoinwest Serwis sp. z o.o.		
1 Guarantees		
1.1 Guarantees of good performance of the contract and removal of defects	389	
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.		
1 Guarantees		
1.1 Performance bonds insurance	3 407	
1.2 Insurance guarantee payment of the bid bond	120	
Zespół Elektrowni Pątnów – Adamów – Konin SA		
1 Surety		
1.1 Surety for PAK KWB Konin for overdraft facility at BZ WBK Bank	65 000	
1.2 Surety for PAK KWB Konin for overdraft facility at Millennium SA	76 500	

Table 3: List of guarantees and sureties obtained by particular companies of the Group as of 31 December 2016

	zloty thousand	*euro thousand*
	31 December 2016	
Obtained guarantees and surety		
Elektrownia Pątnów II sp. z o.o.		
1. Guarantees		
1.1 Payment Guarantee	10 158	
1.2 Contract performance guarantee	4 144	
1.3 Advance return guarantee	291	

PAK Infrastruktura sp. z o.o.		
1 Guarantees		
1.1 Contract performance guarantee		34
PAK – Volt SA		
1 Guarantees		
1.1 Bank guarantee to secure payment	28 803	
PAK Kopalnia Węgla Brunatnego Konin SA		
1 Surety		
1.1 Surety of ZE PAK SA for overdraft facility in the bank Millennium SA	76 500	
1.2 Surety of ZE PAK SA for overdraft facility in the bank BZ WBK SA	65 000	
Przedsiębiorstwo Remontowe PAK Serwis sp. z o.o.		
1 Guarantees		
1.1. Warranty to remove defects and faults	2 889	
1.2 Contract performance guarantee	1 736	
1.3 Advance return guarantee	738	
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.		
1 Guarantees		
1.1 Guarantees of good performance of the contract and removal of defects and defects (cash payment)	181	
1.2 Contract performance guarantee	1 017	
Zespół Elektrowni Pątnów – Adamów – Konin SA		
1 Guarantees		
1.1 Payment Guarantee	8 551	
1.2 Contract performance guarantee	36 958	
1.3 Advance return guarantee	5 929	
Aquakon sp. z o .o.		
1 Surety		
1.1 Surety of credit facility in amount of 1 million zloty granted by PAK KWB Konin SA.	1 000	
Eko-Surowce sp. z o .o.		
1 Surety		
1.1 Surety of credit facility in amount of 1 million zloty granted by PAK KWB Konin SA.	1 000	

Insurance agreements

In 2016, the Annex no. 3 to the General Complex Insurance Agreement of the ZE PAK SA Group's Companies (ZE PAK SA, PAK KWB Konin SA and PAK KWB Adamów SA) was concluded on 31 March 2014 for the period from 1 April 2014 to 31 March 2017 with the consortium of Co-insurers comprised of: Sopockie Towarzystwo Ubezpieczeń Ergo Hestia SA, Towarzystwo Ubezpieczeń i Reasekuracji Warta SA, Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska SA and UNIQA Towarzystwo Ubezpieczeń SA – extending its validity period to 31 March 2019. The total insurance sum of fixed assets amounted to zloty 8.3 billion. The Policy Agreements include insurance coverage; property from any risk, loss of profit due to any risk, machinery and devices from damage, loss of profit due to machinery and device failure, electronic equipment from all risk, machinery, and devices from electric damage.

The agreements concluded with affiliates on conditions different than market conditions

In 2016, there were no agreements concluded on conditions different from market conditions between the affiliates of the ZE PAK Capital Group.

3.3. Investment programme execution

Key investments during execution

Pątnów power plant

The main purpose of disbursement of the investment expenses in 2016 was to finance the continuation of modernisation of the coal handling system in the Pątnów I Power Plant, which is to guarantee a process system with a large handling capacity for feeding the basic fuel to the boilers. By the end of 2016, about 90% of the subject scope of coal handling modernisation. The investment funds disbursed in 2016 were also intended to prepare the necessary tasks for the future operation of the generation assets.

In January 2016, the decisions of Poviat Inspectorate of Building Supervision [Powiatowy Inspektorat Nadzoru Budowlanego] in Konin on permits for use of the units 1 and 2 in the Pątnów I Power Plant became valid. The maximum power of each of the modernised units currently amounts to 222 MWe (previously 200 MWe). Both units generate electricity to the National Power System and provide the system services related to controllability of a generating unit in terms of power raging from the technical minimum of 132 MWe to the permanent generating power of 222 MWe and the service of the unit's participation in defence and restoration of the National Power System, the so-called island operation. In 2016, in accordance with the contractual provisions, warranty measurements of achieving all of the units' guaranteed technical parameters were carried out. The basic effect of the modernisation was to increase the efficiency of the units from 33.5% to 37.5% and reduce gas emissions into the environment, to the following sizes:

- nitrogen oxides (NO_X) emissions reduction from 1.37 kg/MWh before modernisation to the adopted level of 0.74 kg/MWh;
- carbon dioxide (CO_2) emissions reduction from 1.17 Mg/MWh to the adopted level of 1.05 Mg/MWh;

Moreover, in 2016, the implementation of the IT system for keeping a unified database on real estates was completed. The aim of implementing the IT system for keeping a unified database covering all real estate possessed or managed by the ZE PAK SA Capital Group was achieving benefits both in the field of liabilities, costs and increasing the used assets efficiency as well as in the field concerning the expenses related with the economic use of the real estates, i.e. extracting brown coal, waste management, environmental impact management (especially water leachate) and land reclamation management.

Bearing in mind the current difficult situation on the domestic energy market, which affects mostly energy producers and is caused by external factors independent from the Company. In the first half of 2016, actions were taken to improve the efficiency in current activities' costs, including the costs of production assets maintenance, allowing to accomplish the Group's strategic goals. Changing economic and legal conditions in Poland, including the decrease in the profitability of energy production in coal-fired power plants, forced to verify the previously taken investment decisions expected for the units nos. 3 and 4. In 2016, re-analyses of the effectiveness of investment tasks expected for the units nos. 3 and 4 taking into account in particular, the current and expected economic, legal and technical conditions, including the assessment of viability of incurring the investment expenses related to the requirements concerning the BAT conclusions, which will be announced within the framework of the IED Directive. Considering the above fact, the decision on starting to implement the investment in the units 3 and 4 will be made after conducting the re-analysis of economic assumptions for the planned projects. Currently, uncertainty concerning the final form of the environment requirements currently prevents from making decisions related to the high investment expenses. It is reasonable to wait for the concrete form of regulations on emission standards, which have a significant impact on the assumptions adopted for the calculation of effectiveness of the planned investments. The scope of the planned system solutions aimed at creation of investment pulses for new power and modernisation of the already existed generation assets is of great importance in the context of the modernisation work execution on the units 3 and 4. The company carefully follows every proposal in this regard.

PAK KWB Konin SA and PAK KWB Adamów SA

In the extraction segment, both mines belonging to the Capital Group executed investment tasks at active open pits with the purpose of maintaining production capacities. In PAK KWB Konin SA, the works related to the necessity of construction of water drainage systems arising from the progress of extraction works and the need to prepare the area for future exploitation are being executed at the Jóźwin, Drzewce and Tomisławice open pits. The greatest expenses were incurred for the extension of a dirty water sedimentation tank on the Tomisławice open pit, drilling draining wells on the Tomisławice open pit, and construction of the process facilities on the power system Jóźwin open pit. In PAK KWB Adamów SA, the works related to the completion of construction of the deep-seated water drainage system on the Adamów open pit.

Key investments during the preparatory stage

The most important project implemented at the design stage in the Konin power plant was the construction of the gas-steam unit together with the Koło-Konin gas pipeline. It was assumed that this unit would have a power of approx. 120 MWe and approx. 90 MWt as well as an additional peak load boiler with a power of approx. 40 MWt (dedicated to the supply of heat for the city of Konin). The commissioning of the unit was planned for 2020. However, due to existing unfavourable external conditions, including the uncertainty about the shape of the support system for the co-generation after 2018, on 29 September 2016, the Company terminated an agreement with PSE SA to connect the gas-steam unit to the transmission system in the Konin power plant. In October, the agreement with the Energoprojekt-Katowice SA design office responsible for the design of the gas-steam unit and the Koło-Konin gas pipeline was terminated as well. Despite the terminated agreements, this project remains in the Company's investment program.

After many years of operation of the turbogenerator no. 6 in the Konin power plant, it was modernised in 2012, including it into the unit system producing the electricity based on biomass combustion. During the modernisation of the generator, its service fluid from the hydrogen to the air. After such modernisation, the generator had two serious failures, whose main cause was elements of the modernised cooling system. In view of the above, the generator modernisation contractor, referring to the current experience related with the generators' modernisation executed in recent years, after implementing own calculation models, recommended that value of the generator no. 6 installed in the Konin power plant's load with the active power does not exceed 50 MW. The recent modernisation works on the generator no. 6's cooling system finished in January 2017. After the finished modernisation, ZE PAK SA applied to the President of the Energy Regulatory Office to change the data in the licence for electricity generation of the generating unit no. 1 of the Konin power plant. The application concerns determining the output and installed power for the turbogenerator no. 6 at the level 50 MWe (formerly 55 MWe).

In the first half-year of 2016, studies preparing an alternative solution involving the reconstruction of heat sources in the Konin power plant, which would provide heat supplies to the city of Konin after immobilization the coal part of the Konin power plant in June 2020 and the absence of launching the planned new gas-steam unit, were started. The electricity and heat energy production in co-generation would be based on the existing biomass boiler. As part of the above project, the promises of an amendment to the licence for electricity and heat generation in the dedicated biomass co-combustion system in the was already obtained from the Energy Regulatory Office.

In addition, in the Konin power plant, the designing works related to the development of the Terms of Reference (ToR), which will be the basis for selecting the contractor of the TG-6 turbine's modernisation in order to adjust it to heating the district heating water fed to the city of Konin, are currently in progress.

Ościsłowo Open Pit

As part of activities to ensure the raw material for the Group's generation assets, the designing works at the perspective brown coal deposits are continued. PAK KWB Konin SA undertakes activities to obtain all necessary decisions and documents allowing to grant the licence to extraction to the company. Currently, the activities are focused on the Ościsłowo open pit. The planned open pit is to ensure the coal necessary to generate the energy in the Pątnów II power plant and the modernised units in the Pątnów I power plant. Obtaining the licence for extraction must be preceded by obtaining a number of formal and legal consents and documents detailing the manner of conducting the extraction activities, its scope and impact on the environment of the planned investment. The environmental decision is the one of these documents. The authority competent to issue the environmental decision for the project named: "Extraction of brown coal and associated minerals from the Ościsłowo deposit" is the Regional Directors of Environmental Protection in Poznań (RDOŚ). On 16 September 2015, the proceedings on the issue of the environmental decision for the Ościsłowo open pit were initiated before this authority. Within the documentation necessary in the proceeding, among others, the report on the environmental impact for the Ościsłwo open pit and the expert's report concerning the impact of the projected Ościsłowo open pit on bodies of surface and underground waters as well as protected areas were prepared. PAK KWB Konin SA provides the data and supplements the documentation needed for the proper conduct of the proceedings with due diligence. The date of issuing the environmental decision was postponed several times. On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director of Environmental Protection in Poznań refusing to determine the environmental conditions for the project. The decision of RDOŚ in Poznań is not final and PAK KWB Konin SA will appeal against it within legal deadline. According to the assessment of the Company's Management Board, there are real premises to expect that the PAK KWB Konin SA's appeal will be considered positively. According to the Company, the issued decision is devoid of substantive arguments and has not been supported by any expert's reports confirming the negative impact on the environment in the case of application of the solutions proposed by PAK KWB Konin SA.

Another essential condition of the project implementation is the change of the local spatial development plan on the area to be included in the planned open pit. The decisions in this area are made by the local governments of three communes, where the exploitation of the Ościsłowo deposit is planned. In December 2016, the Minister of Agriculture issued the approval for dedicating the agricultural lands of the Ślesin and Skulsk communes in the area of the construction of the Ościsłowo brown coal open pit for non-agricultural purposes. Also in December 2016, media reports on an archaeological discovery on the part of the land for the planned open pit were published. The Greater Poland Monument Conservator's Office will make the decision on protecting the area of the artefact after further site investigation. It is worth noting that in the past, on the other open pits exploited by the mines, archaeological and excavation works took place many times. PAK KWB Konin SA cooperated in the past and is going to cooperate in such cases with all relevant institutions.

3.4. Risk management

While conducting its operations, the Group is exposed to a series of risks, occurring actually, potentially or theoretically, present in the industry as well as on the markets on which the Capital Group's companies operate. These are factors which originate both from the inside of the Group as well as from its environment. Taking into account the formalisation of the realm related to the risk in the Group's operations, the complex document titled "Principles of Risk Management for the ZE PAK SA Capital Group" ("Management Principles") was developed. The Management Principles were developed and introduced in order to define and specify the limits of risks present or which can occur in the ZE PAK SA Capital Group as well as to specify the mechanisms used to minimise risk exposure in the course of conducting operations in the energy sector and to minimise the effects of the risk, which due to the specificity of the ZE PAK SA Capital Group's primary production operations cannot be eliminated in its entirety.

The first stage was to specify the Group's companies, in the operations of which the risk with material significance for the operations of the entire group can be identified and then to use appropriate principles of procedure. The Companies significantly affecting the Group's primary operations are: ZE PAK SA, EPII, PAK KWB Konin SA, PAK KWB Adamów SA, PAK Volt SA Other Companies in the Group do not directly affect the operational risks.

The Capital Group's business model and strategy were established pursuant to the aforementioned principles. The primary principle of the business model executed by the Group in the realm of its business operations: extraction, production and trade is to maximise the production and profit with simultaneous compliance with the risk minimisation principle. In order to achieve its business goals, the Group accepts to incur the risk, but only in the scope and pursuant to principles specified in the Management Principles. All types of business risks and situations resulting in exposure to risk are constantly minimised, provided that the Management Principles or the Board's decisions do not authorise specific deviations. The specific roles and the scope of liability for decisions and actions related to the executed market policy and strategy were distinguished in relation to the Group's capital structure and the organisational chart of particular companies. A special role, related to the compliance and proper application of the Management Principles, is played by the task team named the Risk Management Committee, which acts as a consultative body for the ZE PAK SA's Board. The body was appointed by the Order of the President of the Company's Board. The main task of the Risk Management Committee is to recognise, identify and evaluate in substantive terms all economic risks with a value exceeding zloty 10 million, related to the business operations conducted by the Group.

The scope of the Group's risk management featured identification of specific areas of risks related to the execution of the established business goals:

1) raw material risks;
2) production risks;
3) market risks and related financial risks;
4) operational risks related to the operation of IT systems;
5) risk in the area of information security.

Each area of risk identified above included the identification of specific types of risks related a specific area. The type of a given risk was thoroughly described with specification of theoretical examples of its occurrence in the Group's operating activities. Each type of risk also features specific forms of action aiming at its minimisation or elimination, a specific benchmark was also assigned and the so called "key performance indicator", i.e. the minimum performance level, was specified wherever possible.

Directors and employees of organisational units allocated to a given area of risk are subject to inspection in the scope of compliance with the Management Principles, appropriately to their scope of operations. The management of the organisational units is responsible for the proper and compliant with the Management Principles execution of tasks by subordinate organisational units and individual positions. The Management Principles also include an in-depth description of the correct reporting process regarding the identified risk as well as the method of procedure in case of identifying the infringement of the principles described in the document.

According to the Management Principles, the compliance with the procedures and methods of procedure described in the document can be abandoned only in case of obtaining the approval of the ZE PAK SA's Board expressed in writing. In such case a special procedure also described in the Management Principles is applied.

3.5. Description of use of emission earnings

In 2016, PAK KWB Konin SA, a company subject to consolidation under the Capital Group, made ten emissions of debentures – the total amount of debentures was zloty 147,500 thousand in 2016; the debentures were acquired by the Group's companies in whole. The earnings from the emission of debentures served to finance the current activities of PAK KWB Konin SA.

The total amount of debentures purchased in 2016 by PAK KWB Konin SA amounted to zloty 52,500 thousand; the redemption concerned the debentures acquired by the Group's companies in whole.

4. MAIN BUSINESS RISKS

The process of forecasting future results of the Zespół Elektrowni Pątnów-Adamów- Konin SA Capital Group must include a wide range of factors, actually, potentially, or theoretically, existent in the branch and markets, in which the Group conducts its activities. These are factors which originate both from the inside of the Group as well as from its environment. In the view of the Board, they can be divided into factors, which occur constantly in all periods as well as those, which occur incidentally in the period, which is concerned by a given periodical report.

The most important factors with constant impact on the Group's results include the following:

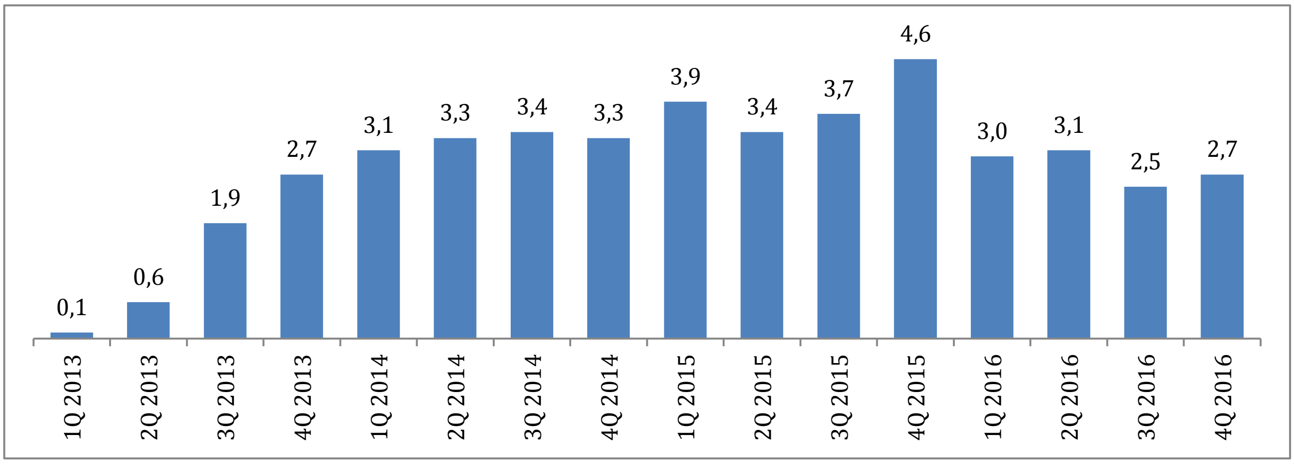
- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- fuel costs and supplies, coal extraction costs;
- CO_2 emission allowances costs;
- compensation for the stranded costs related to the termination of Elektrowni Pątnów II sp. z o.o.'s PPA;
- seasonality and meteorological conditions;
- investment expenses; in particular, these entitling to obtain free CO_2 emission allowances;
- EUR/PLN exchange rate, the level of interest rates.

Moreover, important factor that may have a significant impact on the Group's financial results in the coming quarters are the results of the value impairment test of assets. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last tests were carried out on 31 December 2016 and their result did not justify the change of the asset components value. The used valuation models of assets show sensitivity to a range of parameters, among others, the ones described in this section. Therefore, in the face of deterioration of the operational perspectives, both the market ones and those having its origin in the legal conditions, the assumptions for the valuation models of assets can change, and consequently the value impairment tests results may cause the necessity of verifying the value of the amount of the write-downs against the asset components. Another analysis of the reasons justifying the potential necessity to conduct the value impairment tests of the asset components will be executed at the end of the next reporting period.

Macro-economic trends in the Polish economy and the demand for electricity

When conducting activities within the territory of Poland and obtaining most revenues from the sale of electricity, it is necessary to take into consideration the macro-economic trends in the Polish economy. A very significant factor is the increase in the real GDP and industrial production in Poland, the development of the service sector as well as the increase in individual consumption. All the aforementioned factors significantly affect the demand for electricity and its consumption.

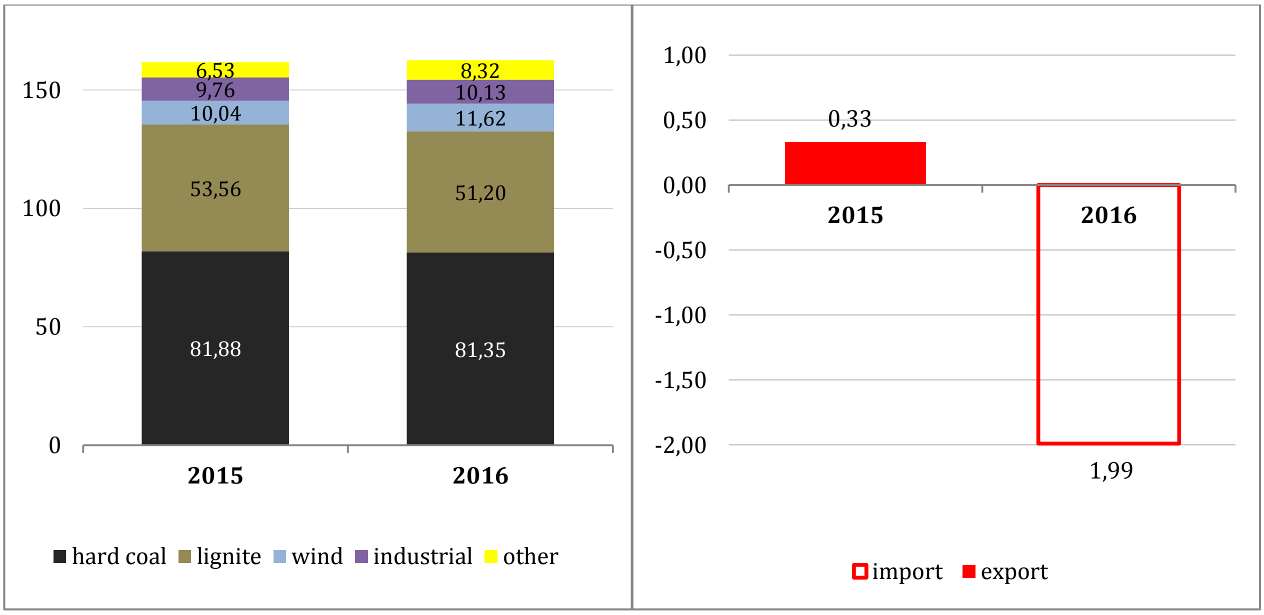
Chart 4: GDP dynamics (%) in relation to the analogous quarter of the previous year



Source: GUS data

According to the initial Central Statistical Office's estimation, the gross domestic product ("GDP") calculated in fixed prices from the previous year increased in real terms in 2016 by 2.8% in relation to the growth by 3.9% in 2015. At the beginning of 2016, forecasts regarding the growth were around 3.6-3.8%. However, they were revised downward many times throughout the year. By analysing the quarterly data, it can be noticed that the results for particular quarters of 2016 have been the lowest since the end of 2013. Consumption and investments, where we dealt with opposing trends, decided on the GDP dynamics in 2016 to the greatest extent. In the case of retail sales, the dynamics had been the highest for many years. There were many factors supporting consumer demand in 2016. The most important ones include: the decrease in the registered unemployment rate to the volume of 2.3% at the end of the year, significant dynamics of the increase in salaries, as well as the "500+" child benefit programme's effect. The cumulated impact of all these factors caused the demand stimulus positively influencing the consumption's contribution to the GDP dynamics for 2016. However, it must be noted that some of these factors, due to the base effect, may be a burden of the dynamics. The investments influenced the GDP in the opposite direction in 2016. Here, we also dealt with a combination of several factors that caused this effect. The most important ones include: lower inflow of EU funds related to a new prospect of the expenses of these funds, legislative changes in the area of taxation (e.g., VAT, the so-called "trade tax" or "bank tax") causing the uncertainty about their impact on economic activity, and significant, cyclic nature of the investments. Very low readings of the construction and assembly production indicator, which could reach -20% in particular months, may indicate the scale of this component's negative impact. However, in the case of investments, one can expect that some of the factors that negatively affected the dynamics in 2016 will reverse like the mentioned cyclic nature or the increased EU funding stream that, combined with the effect of a low base, will allow for the reconstruction of this GDP component in subsequent periods. It is worth only mentioning that the export's impact on the GDP dynamics in 2016 was very small but the increase in the inventory worked positively.

Chart 5: Structure of electricity production and the balance of the electricity exchange with foreign countries (gross amounts) – TWh



Source: own development based on the PSE data

The data concerning the functioning of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, show that the national electricity consumption[2] in 2016 was 164.6 TWh, and increased by 1.97% in comparison to the previous year. The increase in consumption was recorded in all the months of 2016 except for July, when a slight decrease was recorded. A stable rate of economic development, including the dynamics of the industrial production growth and weather conditions, also influenced the energy consumption in 2016. The greatest demand for power in 2016 was recorded on 15 December at approx. 5:00 p.m., at the level of the 25,576 MW[3]. In 2016, the total electricity production increased by 0.53%. Taking into account the entire year balance sheet, the decrease in generating the energy from two main (in terms of produced energy volume) raw materials, i.e. hard and brown coal, was recorded. The energy production from hard coal decreased by 0.65%, and from brown coal decreased by 4.41%. It is worth noting that the decrease in the production from brown coal concerned especially the first years of 2016 and was associated with repair works in one of large power plants. The dynamic generation growth from wind sources was recorded again, this time by 15.76% per year. The increase in generation from wind sources was commensurate with the increase in wind power plants' output capacity, which increased by 14.6% to 5,735.9 MW in 2016[4]. In the past year, there was a noticeable increase in gas generation by almost 37.8% compared to 2015. Electricity produced from hard coal was 50% of total electricity production, energy from brown coal – 31%, and wind turbines generated 7.1% of the total energy. On the other hand, the direction of foreign trade changed. In the past year, Poland was a net electricity importer, the import surplus over the export amounted to 1.99 TWh compared with 2015, when Poland was the net exporter of electricity in the amount of 0.33 TWh.

Regulatory environment

The entities conducting activities in the electricity market are subject to strict regulation, such as the Energy Law, the law on renewable energy sources ("res"), resolutions, as well as the directives of the European Commission and international conventions, regarding, among others, the environmental protection, and climactic changes (including CO_2

[2] Based on the Table: Structure of electricity production in domestic power plants, the amounts of exports of electricity and domestic electricity consumption – monthly and cumulative amounts from the beginning of the year – gross amounts included in PSE SA's website.

[3] Based on the graph: Demand cycles on days, on which the minimum and maximum domestic power demand occurred included in PSE SA's website.

[4] Based on the Table: Balance of power at the morning rush hour of domestic demand for power in the average values of working days in a month included in PSE SA's website

emissions), obligation of public sales of a part of the generated energy as well as the support of specific energy generation processes. It is also necessary to take into consideration the regulations of the tax law as well as interpretations and recommendations issued by the Energy Regulatory Office.

In the past year, in the broadly understood regulatory environment important for the ZE PAK SA Group's activities, there were few significant changes that would significantly affect the Group's activities. Although works on several important issues were in progress, among which one must pay attention to the draft of solutions concerning the "power market" functioning principles, they were not completed by the end of 2016. The act regulating the principles of the power market's functioning is one of the key legislative acts for energy producers. In the author's concept, this act is to ensure the profitability of the new power units and the modernisation of the already existing units, without which the power system is threatened with power deficit. Due to the age of the currently operated power units, it is expected that in the following years, a significant part of the power plants built as early as in the 1960s and 1970s will have to be closed permanently. The modernisation of part of generating units (especially the 200 MW units) may prove to be a solution to the current problems, however the current energy wholesale prices are not favourable for undertaking big investment liabilities, to which repairs of the old units and the construction of the new ones are related. It is the power support mechanism that is to solve the problem of the lacking funds. In the assumptions presented during the past year, the power market is to be based on auctions. The producers of energy with the power of over 2 MW are to be certified and then allowed to participate in the auctions, providing the power in the system. Auction parameters are to be determined on the basis of the planned power demand forecast by the Polish Power Grid [in Polish: Polskie Sieci Elektroenergetyczne]. In the concept authors' intend, the principles regulating the selection process in auctions are to take into account "the state energy policy, adequacy of the applied parameters to the needs to the national power system, ensuring the safety of the national power system, as well as equal and non-discriminatory treatment." The funds for the implementation of the concept is to be ensured by the "power charge" added to the energy bill. The amount of the charge is to be calculated by the President of the Energy Regulatory Office on the basis of the regulation of the minister of energy, which will its parameters in detail. The provisions of the new law have already been prenotified by the European Commission ("EC"). Meanwhile, on 30 November 2016, the EC presented a draft document called "Clean Energy for All Europeans legislative proposals," whose provisions include the introduction of the CO_2 emission limit for publicly funded electricity producers, who would operate within the power market. The EC's proposals may complicate the process of determining the provisions of a bill. Currently, further works related to the provisions of the act on power market by the EC are in progress.

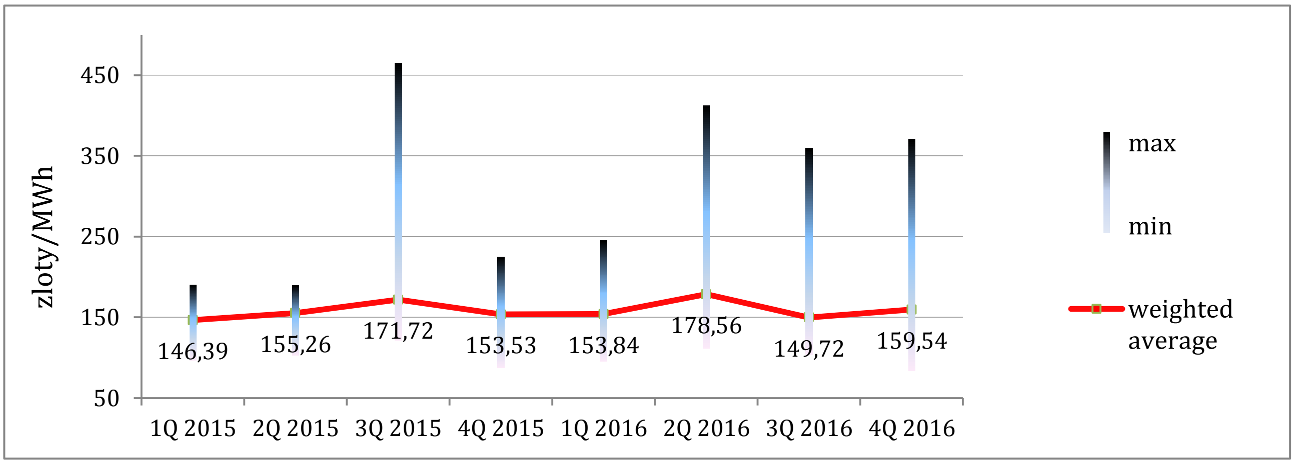
On 1 January 2016, after many years and subsequent concepts, the Law on res entered into force. However, the date of entry into force of part of the provisions were postponed by a half of year. On 1 July 2016, another amendment to the law on res entered into force. The amendment concerns mainly the chapter 4 of the law regulating the new principles of supporting green energy producers. At the end of 2016, the first auction for renewable energy sources producers was launched. Within the auction system, the specified amount of energy from res will be ordered in division by particular res technology baskets. The amended regulations emphasised rewarding technologies providing renewable energy generation mainly by a stable generation. The support principles for prosumers were also standardised. The new definition of prosumer allows the broader directory of entities, including not only households but also among others public sector institutions, to use the preferences. These preferences involve proposing a system, in which the so-called indulgence for the energy taken from the operator for putting the unconsumed energy excesses to the grid is entitled to the prosumers in place of the guaranteed tariffs system. Another new solution is the introduction of a separate obligation, within the framework of the so-called "res obligation" to purchase green electricity from biogas plants, which is to improve the financial situation of the biogas plant owners. The provisions of the law also introduce conditions improving development of the power engineering scattered within local energy cooperates and clusters. These entities are to take part in one of the auction system ranges. However, the Ministry of Energy admits that some of the provisions of the Law will require clarification in the subsequent amendments in 2017.

Electricity prices

The Group generates most of its revenues from the production and sales of electricity, therefore the price for which it sells electricity is very important for the results of its activities. In addition, the Group practices the purchase of energy on the market of electricity (including the exchange market and balancing market) and re-sale to recipients.

In 2016, there was a significant decrease in the average price of energy in relation to the previous year. The weighted average of the quotations of the IRDN index (Next Day Market Forecast) on TGE (Polish Power Exchange), for 2016, stood at 160.71 zloty /MWh, which means an increase in relation to 2015 by 4.67 zloty /MWh, i.e. by about 3%. The growing number of periods with increased volatility of the price levels of electricity is characteristic for the past year. Whereas in 2015, because of the weather conditions and a considerable number of repairs of the power units, the increased volatility of the price levels occurred only in the third quarter (especially in August), in 2016 the increased volatility on the market occurred in the second, third, and fourth quarters. The factors influencing significantly the level of stock prices on the SPOT market remained the same, of which the most important are: the size of the wind generation rate, the reserves in the National Power System, import transmission capacities available for the cross-border exchange, as well as weather conditions. According to the PSE data, at the end of 2016, there were 5735.9 MW[5] of wind turbines' power installed in the system, which means an increase by approximately 730 MW, i.e. 14.6% year-on-year. The generation from wind resources increased at a similar pace. The energy produced from wind was 7.1%[6] in 2016, while the year before, it was 6.2%. The increasingly larger share of unstable sources in the energy generation is one of the reasons the increase prices volatility. In 2016, this concerned especially the third and fourth quarters. In periods, when the generation from wind turbines is high, the energy prices are recorded at their minimums. At the same time, the low level of wind powers use contributes to the rapid growth of energy prices since the conventional powers with high production costs have to be used. Another factor, which significantly impacted on the price levels in 2016, was the reserves in the power system. The need for periodic repairs and modernisations causes that power units must be shut-down from the production for the time of executed works, and the reserve in the system is decreed. In a situation, when the amount of planned shut-downs is relatively large, and e.g. weather conditions justify the increased demand for power, the prices begin to increase. In the past year, in order to prevent repeating of the situation of August 2015, the part of the repairs was postponed to the second quarter. However, extremely high temperatures in June resulted in a very high demand for energy used for cooling in this period. It was the low level of the reserve in the system and weak wind in the second quarter caused that prices in this period were characterised by increased volatility and high levels. The highest quarterly weighted average price was recorded in the second quarter at the level of 178.56 zloty /MWh. The lowest quarterly weighted average price shaped at the level of 149.72 zloty /MWh in the third quarter. The prices of hard coal on the world markets in the past year, as opposed to 2015, trended higher. However, it did not translate largely into the prices offered by domestic coal producers for energy producers in 2016. The entire domestic hard coal extraction sector underwent significant changes in ownership in the past year. The greatest coal producers became affiliated with the greatest state energy companies. The impact of these transformations as well as acquisitions of significant foreign generating assets in Poland by the state companies did not have a major impact on the level of energy prices. The policy regarding the prices of hard coal supplies in the future and proceeding consolidation of the energy sector in Poland on the energy prices in the future years remain unknown.

Chart 6: Electricity prices (IRDN)



Source: own development based on the TGE data

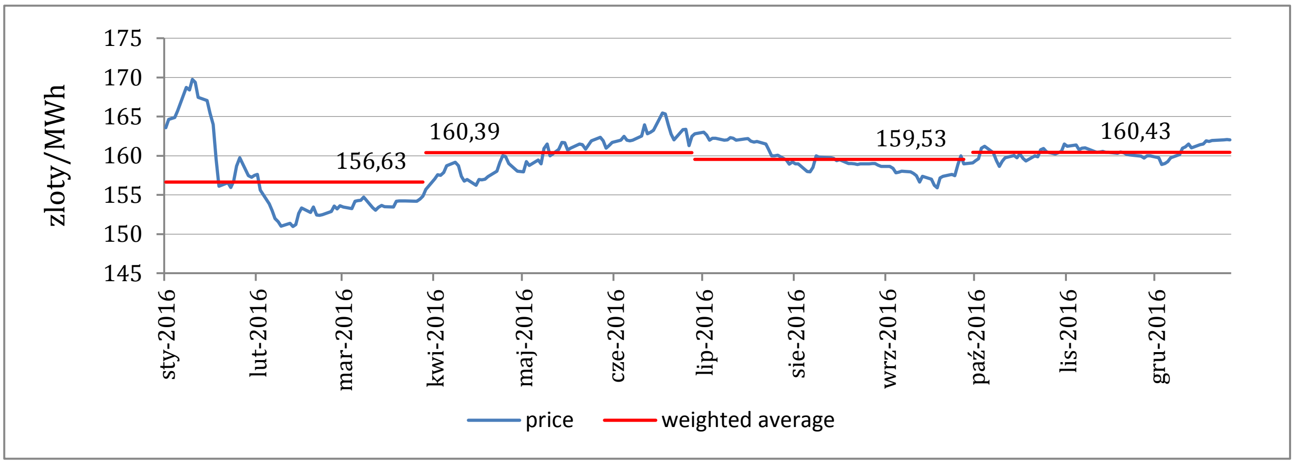
On the futures market of the electricity of the Polish Power Exchange, the most liquid instrument, the annual contract BASE_Y-17, was being quoted at relatively high levels in January 2016, along with the higher prices on the spot market. In a later period, the prices decrease dynamically, reaching its annual minimum at 151 zloty /MWh in mid-February. From this moment, the contract prices had been steadily growing since the mid-year but they did not reach the maximum recorded in January at the level close to 170 zloty /MWh. In the second part of the year, the prices were fluctuating within a relatively narrow range between 156 and 164 zloty /MWh. By analysing the quarterly arithmetic averages of the BASE_Y-17 contract's price, it is easy to note that, expect for the first quarter of 2016, in other quarters,

[5] Based on the Table: Balance of power at the morning rush hour of domestic demand for power in the average values of working days in a month included in PSE SA's website

[6] Based on the PSE data "Structure of electricity generation in domestic power plants, the amounts of exports of electricity and domestic electricity consumption – monthly and cumulative amounts from the beginning of the year – gross amounts."

the price is almost flat and close to 160 zloty /MWh. It can be concluded that the increased volatility and price signals from the spot market, expect for the first quarter, did not affect the futures market very much in 2016.

Chart 7: The price of the futures contract for the supply of electricity (base) for 2017



Source: own development based on the TGE data

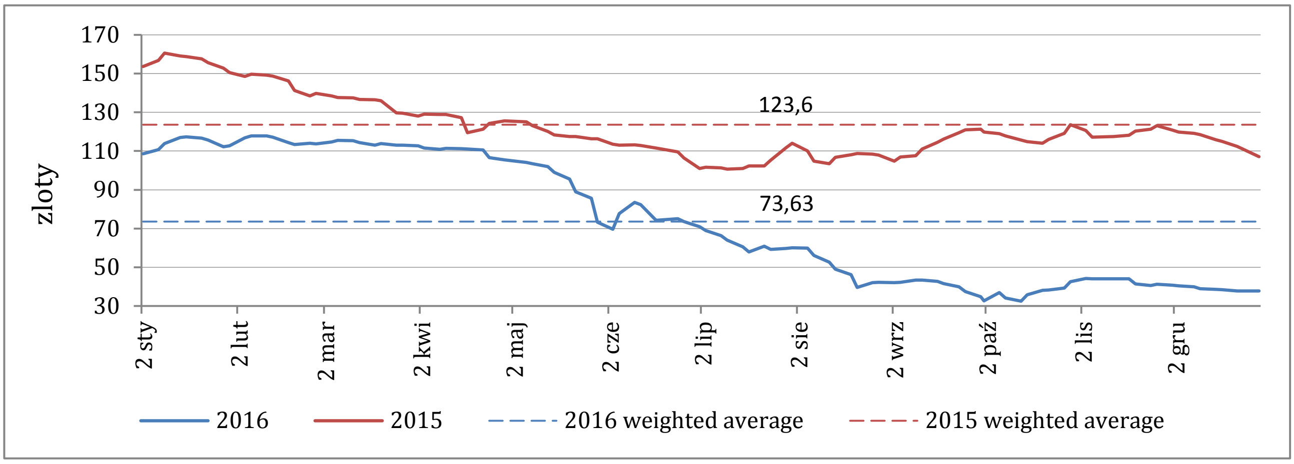
Certificates of origin

Due to the fact that a part of the electricity generated in ZE PAK SA derives from the co-combustion of biomass (forest and agricultural) and the production of heat includes high-efficiency co-generation, a producer is entitled to green and red certificates, provided that it fulfils specific regulatory requirements. The number of obtained certificates of origin is significantly higher than the number of certificates that the Company is obligated to present for redemption, thus it is possible to dispose of their excess to other market participants.

2016 was another year of dynamic decrease in the price of green certificates. In 2016, like in 2015, the highest levels were recorded in the first quarter. Later, a gradual decline or stagnation at low levels occurred. The weighted average price of green certificates in 2016 shaped at the level of zloty 73.63,[7] which means a decrease in relation to the average of 2015 by zloty 49.97, i.e. by as much as 40%. The price minimum recorded in October amounted to zloty 32.57 per certificate. The causes of deep decreases of the green certificates prices remain similar as in the previous periods. The huge oversupply of production in relation to the demand, which is the derivative of the coefficient of the obligation to redeem the certificates of origin, causes that the prices reach even lower levels. The green energy producers pinned some their hopes on the new law on res. Although it did not enter into force in its entirety on 1 January 2016, however, provisions limiting support for installation of biomass co-combustion to some extent and eliminating the support of the so-called "large" hydrological systems producing energy have been already in force since the beginning of 2016. The provisions of the new law on res also provided an increase in the coefficient of the obligation to redeem the certificates of origin. However, the dynamic process of wind powers growth in 2015 and 2016, and hence the increasing number of green certificates generated from the increasing amounts of energy generated from the wind prevented the inhibition of the process of the dynamic decrease in the prices of green certificates of origin.

[7] The weighted average of the PMOZE_A instrument quotations on the Polish Power Exchange.

Chart 8: Average price of certificate of origin for RES produced energy



Source: own development based on the TGE data

Fuel costs and supplies, coal extraction costs

Fuel costs is the most important part of the costs related to the electricity and heat generation in companies of the ZE PAK SA Group. The prices of fuel largely determine the competitiveness of particular electricity production processes. The ZE PAK SA Group's power plants produce most of their electricity from brown coal, but they also use forest and agricultural biomass. Furthermore, heavy and light heating oil is used in minimum quantities for heating purposes in the process of electricity production.

Two brown coal mines, PAK KWB Konin SA and PAK KWB Adamów SA, which are the suppliers of brown coal to the ZE PAK SA Group's power plants, satisfy the demand of generation assets for this basic fuel. Therefore, the ZE PAK Group does not rely on external suppliers and eliminates the exposure to potential fluctuations of brown coal prices. Nevertheless, the Group is exposed to the fluctuations in prices of other fuels used (mainly biomass) and part of the costs related to the extraction of brown coal depends on the factors which remain outside the direct control of the Group.

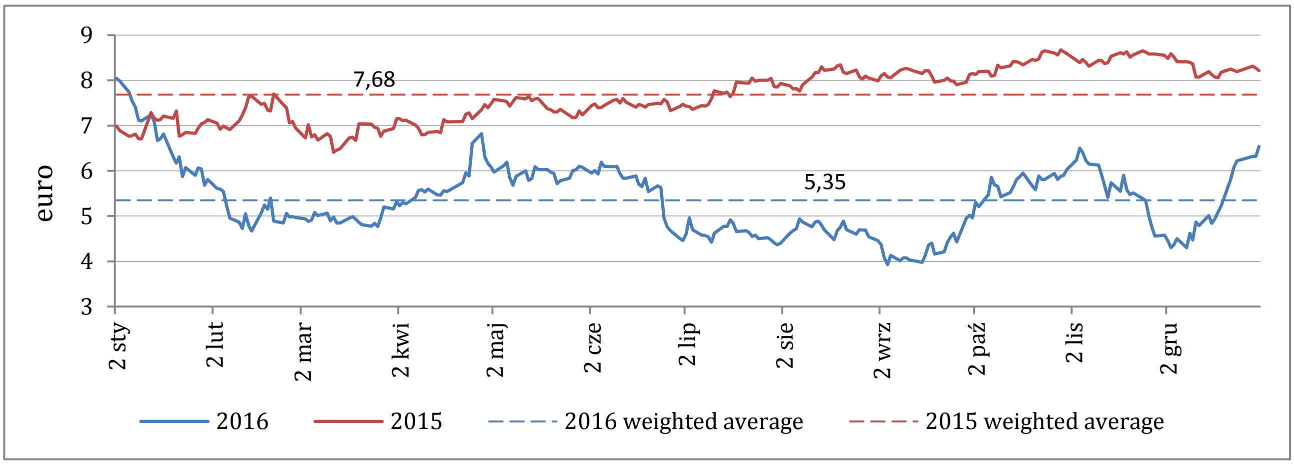
The deposits exploited by the Group's mines have specified richness. The opportunity to achieve the expected level of electricity production in the long term is partially dependent on the ability of extracting from the currently exploited deposits and launching the exploitation of new brown coal deposits, which would be economically viable. As part of activities to ensure the raw material for the Group's generation assets, PAK KWB Konin executed designing works at the perspective brown coal deposits. In order to develop the perspective deposits, it is necessary to obtain all necessary formal approvals and permits, culminated with obtaining a licence to extraction. The process of obtaining approvals and permits is a multi-step and stretched in time. In view of the above, there is a risk of delays and postponements in the schedule of developing subsequent deposits which, in turn, may entail risks of interruptions of coal supplies for the Group's generating assets. The opportunity to start the extraction from the prospective coal deposits in the future may be limited by many factors beyond the control of the Group. The main risk factors include: failure to obtain the necessary licenses, adverse settlements of the local government authorities in terms of shaping the special policy, lack of opportunity to obtain adequate financing

CO_2 emission allowances costs

The activities in the scope of production of electricity and heat from conventional sources are associated with the need to bear the CO_2 emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from brown coal, the impact of emitted quantities of CO_2 (EUA) and the price of emissions allowances is of great importance to the activities results. The results largely depend also on the amount of free-of-charge CO_2 emission allowances granted in a given period. The number of allowances possible to be obtained for power engineering were specified in article 10c of the ETS directive and the amounts that can be physically obtained by particular systems depend on the expenses incurred for investments, which are recorded in the National Investment Plan. The Group is obligated to purchase the other part of the missing allowances on the free market. ZE PAK SA also uses a small amount of free allowances from the article 10a of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 (EUAs for the needs of heat generation). In 2016, the Group received a very small amount of CO_2 free emission allowances oscillating in the range of 100 thousand EUAs, most of which results from the allocation for heat generation. Therefore, practically the entire amount emission allowances needed for the ZE PAK SA Group had to be purchased on the primary (auctions) and secondary markets (ICE exchange and bilateral contracts).

The quotations of CO_2 emission allowances in 2016 differed significantly from the levels quoted year earlier. The average price of emission allowances in 2016 shaped at the level of 5.35 EUR/EUA[8], which is a significant decrease by EUR 2.33, i.e. 30% in relation to the average price of 2015. The EUAs quotations are sensitive to two types of factors – the ones that arise from the relationship between the supply and the demand on the unit and the political factors. In 2016, factors of a fundamental nature were favourable to rather decreases of quotations of the units allowing to emit CO_2. The existing oversupply in relation to the needs arising from the need to cover the emitted CO_2 amounts with the units is favourable to periodic decreases in prices. In addition, especially in the first quarter of 2016, the correlation of the EUA market with the prices of energy resources, which were getting cheaper in that period, was visible. Another factor limiting the demand for EUAs in 2016 was the amount of energy produced from res growing faster in relation to the forecasts of the past (especially fast in some countries of Western Europe). Political factors affected the prices of EUAs in 2016 in two ways. Such events as the outcome of the referendum in the United Kingdom meaning that this country leaves the European Union affected the dynamic decrease in the EUAs prices in the mid-year especially strongly. The United Kingdom's leaving the European Union sew doubts regarding the nature of the participation of this country in the ETS system and the shape of this system in the future in the light of significant changes that affect the EU. In turn, a factor catalysing the periodic increases in the EUAs prices in 2016 was constant efforts of some countries included in the ETS aimed at reforming this system that, in its initiators' concept, would lead to a significant increase in the EUAs prices by limiting the quantity of units available on the market in the future periods. The EUAs prices recorded the highest levels, a little above EUR 8, at the very beginning of 2016. In the subsequent months, the EUAs prices were subject to consecutive increase and decrease waves. The price minimum was reported at the beginning of September at the level just below EUR 4.

Chart 9: Price of the futures contract for the supply of EUA



Source: own development based on the ICE data

Compensation for the stranded costs related to the termination of the "Long-term Contract" ("PPA")

The long-term contract for the sale of power and electricity (PPA) was concluded between Elektrownia Pątnów II sp. z o.o. and Polskie Sieci Elektroenergetyczne SA. The contract was a long-term agreement in the scope of supply of electricity according to the established price formula.

Due to the early termination (on 1 April 2008) of Elektrownia Pątnów II sp. z o.o.'s PPA, pursuant to the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity, Elektrownia Pątnów II sp. z o.o. is entitled to receive sufficient compensation. The amount of compensation is estimated according to an applicable formula specified in the Act. Elektrownia Pątnów II sp. z o.o. is covered by the said act by the end of 2025.

Seasonality and meteorological conditions (including mainly wind conditions)

The demand for electricity and heat, especially among consumers, is subject to season fluctuation. So far, the practice showed that the consumption of electricity was higher in the winter (mainly due to low temperatures and shorter days) and lowered in the summer (due to the summer period, higher ambient temperatures, and a longer day). In the last couple of years, there is an increase in the demand for electricity in the summer, which is caused mostly by the rising number of used cooling devices and air conditioning.

[8] The arithmetic mean of the day-end levels for quotations of EUAs on ICE.

Regardless of the factors described above, meteorological conditions become more and more important for the level of the Group's production. So far, the Group has not been significantly subject to seasonality of demand. Due to the low cost of the units' operation was executed continuously (at base) for almost entire year. Currently, given the increasing share of RES in the segment of energy producers, primarily wind sources, at estimating the volume of the Group's generation, weather conditions become more and more important, with a particular focus on wind conditions. Statistically, the first and fourth quarters are periods with the best wind conditions. It should be taken into account that on periods when wind conditions are very good and the wind turbines' generation is high, the demand for Group's production may be subject to periodic deductions.

Investment expenses

The activities in the coal extraction and energy production sector requires substantial investment expenses. The Group's generation assets require periodical renovations and on-going modernisation, both due to the increasing strictness of requirements in the scope of environmental protection as well as the need for improvement of electricity production effectiveness. The level of investment expenses had major impact, and according to expectations will still have major impact, on the results of the operating activities, level of debt and cash flows. Delays in execution, changes of the investment programme, and excess in the budget can have severe impact on the investment expenses incurred in the future, as well as on the results, financial position, and perspectives of development. Moreover, the part of the Group's planned investment projects reported to the National Investment Plan involves the allocation of free units allowing for CO_2 emission. However, in the case of failure to implement these investments, the ability to use the free allocation is prevented as well. The topic of the Group's investment plans and the execution of current tasks is more widely discussed in points 3.3 and 7 of this statement.

EUR/PLN exchange rate, the level of interest rates

Despite the fact that the Group conducts its activities in Poland, where it incurs costs and gains revenues in zloty, there is a couple of significant factors which make the financial results dependent on the exchange rate of EUR/PLN and the level of WIBOR and EURIBOR interest rates. The most important factors include:

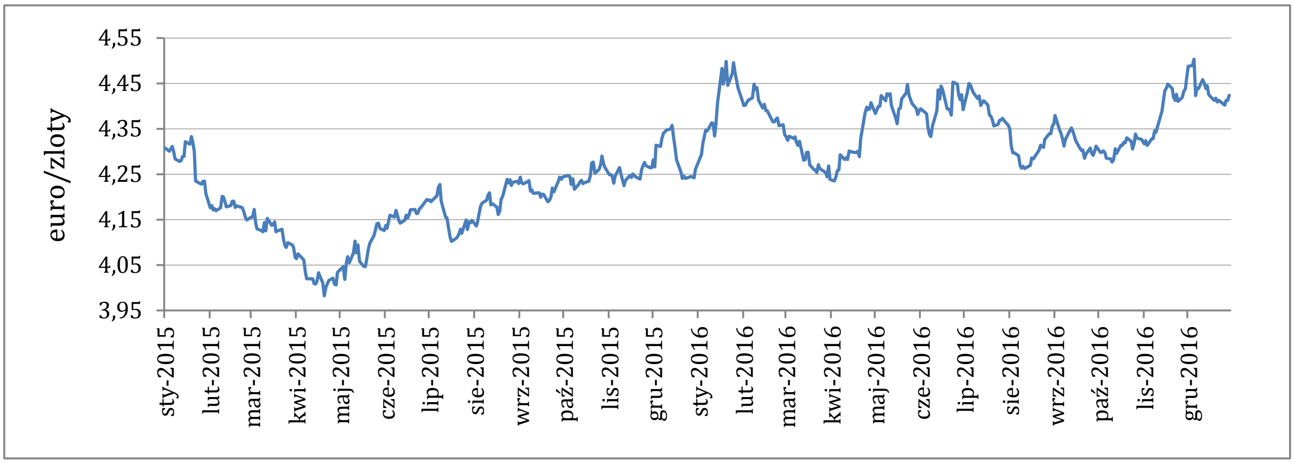
- a significant part of the debt (that is the corporate credit taken by Elektrownia Pątnów II sp. z o.o.) is denominated in EUR, which means that the depreciation of the value of zloty in relation to EUR has negative impact on financial results, because it increases the financing costs in zloty related to the foreign currency debt, whereas the depreciation of the value of EUR in relation to zloty has positive impact on financial results, because it decreases the financial costs in zloty related to the debt in foreign currency;
- ZE PAK SA and Elektrownia Pątnów II sp. z o.o. use debt financing based on a variable interest rate;
- transactions related to the purchase of EUAs are settled in EUR.

In 2016, the Group's companies did not apply the instruments to mitigate risks arising from changes in exchange rates, with the exception of ZE PAK SA, which secured the EUR exchange rate for part of the flows related to the purchase of units allowing for CO_2 emission. To secure the exchange rate, the forward transactions with settlement date in December 2016 and January 2017 were applied. Management Boards are constantly monitoring the financial position and market situation and can make the decision to use financial instruments limiting the exchange rate risk, if needed. According to the Risk Management Principles adopted in the ZE PAK SA Group, possible transactions will have a form of security and will be adapted to the secured item in terms of volume and maturity date. The decision on the choice of the security instrument will also include the following: price, market liquidity, product simplicity, easiness of quotation and accounting as well as flexibility.

Exposure of the Group to risk caused by the changes of interest rates mainly concerns long-term financial liabilities related to the financing of investments in ZE PAK SA and Elektrownia Pątnów II sp. z o.o. The Group uses financial liabilities, mostly variable rate credits and loans. To minimise interest rate risk, the Group concludes contract for interest rates change (interest rate swaps), within which it agreed to change, within specified time intervals, the difference between the amount of interests calculated according to the fixed and the variable rate of the agreed main amount. The transactions are to protect secure financial liabilities and concern the Elektrownia Pątnów II sp. z o.o's the corporate credit based on the variable EURIBOR interest rate. IRS instruments were used in security.

The EUR/PLN exchange rate recorded higher values than in the previous year over the almost entire 2016. The consecutive waves weakening and strengthening of zloty caused that the exchange rate fluctuated within the range, closing to 4.25 and 4.5 several times. It recorded its minimum at the level of 4.2355 at the beginning of April and the maximum at the level of 4.5035 at the beginning of December.

Chart 10: euro/zloty exchange rate



Source: own development based on NBP average exchange rate tables

5. DESCRIPTION OF THE FINANCIAL AND ECONOMIC SITUATION

5.1. Principles of development of the financial statement

The Group develops the financial statements on the basis of the International Financial Reporting Standards approved by the European Union. The above standards, known collectively as International Financial Reporting Standards (IFRS), also include the International Accounting Standards (IAS) and Interpretations issued by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee.

The significant principles of accounting used in the Group's Consolidated Financial Statement are discussed in note no. 10 of the Group's Consolidated Financial Statement for 2016.

5.2. Specification of the basic economic and financial values

Consolidated profit and loss account and the consolidated total income statement

Sales revenues amounted to zloty 2,704,711 thousand and in relation to 2015, they decreased by zloty 243,105 thousand, i.e. by 8.25%.

The largest decrease in revenues in 2016 was within the electricity sales revenues, which together decreased by zloty 160,609, i.e. by 6.40%. The decrease in the revenues was influenced by both energy sales volume lower by 0.69 TWh and the electricity sales price lower by 2.94 zloty /MWh. The lower electricity sales volume was achieved in its entirety within the electricity from the market (decrease by 0.87 TWh) at simultaneous increase of the electricity from own generation volume (increase by 0.18 TWh).

In 2016, the revenues from the sale of energy certificates of origin's ownership unit amounted to zloty 812 thousand and they decreased in relation to the analogous period of the last year by zloty 33,089 thousand, i.e. by 97.60%. The low value of revenue is a result of the decrease in the market value of green certificates in 2016. The downward price trend on the green certificates market caused that the revenues from unsold certificated were valued at lower and lower market prices in the subsequent months of the year, and their later sale (at the price lower than the previous valuation) caused an additional cost that influenced the decrease of the executed revenues from the sale.

The revenues from the termination of PPAs in 2016 amounted to zloty 207,158 thousand (including the adjustment of zloty 88,353 thousand), while in 2015, they amounted to zloty 173,435 thousand (including the adjustment of zloty 56,200 thousand). The advance payments in both years were at a similar level, i.e. zloty 118,805 thousand and zloty 117,235 thousand respectively, hence the difference in the amount of achieved revenues results from the adjustment amount. The adjustment for 2016 was calculated at a higher level compared to 2015 due to the Company's achieving lower revenues from the sale of energy and system services within the meaning of the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity (Journal of Laws of 2007 no. 130 item 905 as amended). On the other hand, the lower revenues were caused by 90-day major overhauls executed in the fourth quarter of 2016, which affected the decrease in the production.

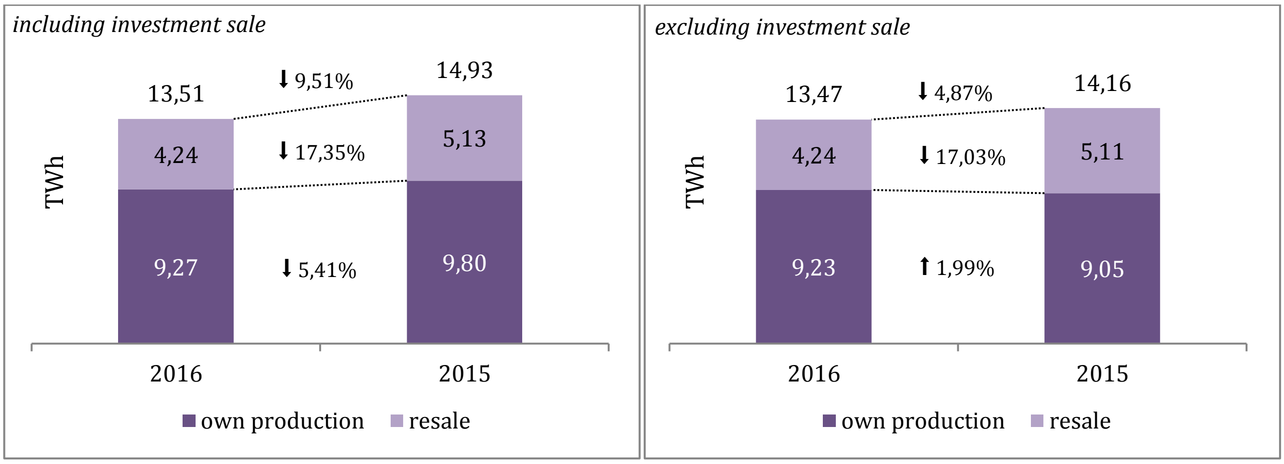
Table 4: Specification of consolidated sales revenues

	zloty thousand	*zloty thousand*	*zloty thousand*	*%*
	12 months period ended 31 December 2016	*12 months period ended 31 December 2015*	*change*	*dynamics*
Electricity from own production	1 609 762	1 602 096	7 666	0,48
(decreased by excise duty)	737 746	906 021	(168 275)	(18,57)
Electricity from resale on the market	812	33 901	(33 089)	(97,60)
LTC compensations	59 506	141 398	(81 892)	(57,92)
Heat	207 158	173 435	33 723	19,44
Construction agreements	60 541	60 874	(333)	(0,55)
Other	29 186	30 091	(905)	(3,01)
Total	**2 704 711**	**2 947 816**	**(243 105)**	**(8,25)**

In 2016, the executed revenues from the heat were lower by zloty 333 thousand. The decrease in revenues was mainly due to lower price of heat of 0.35 zloty /GJ, despite the sales volume higher by 12.46 TJ.

The construction contracts revenues in 2016, in comparison with the revenues earned in 2015 decreased by zloty 81,892 thousand, i.e. by 57.92%. The main reason for the decrease in the revenues is lower range of construction works than it was last year, when the Group's companies worked with the modernisation of units 1-2 in the Pątnów I power plant.

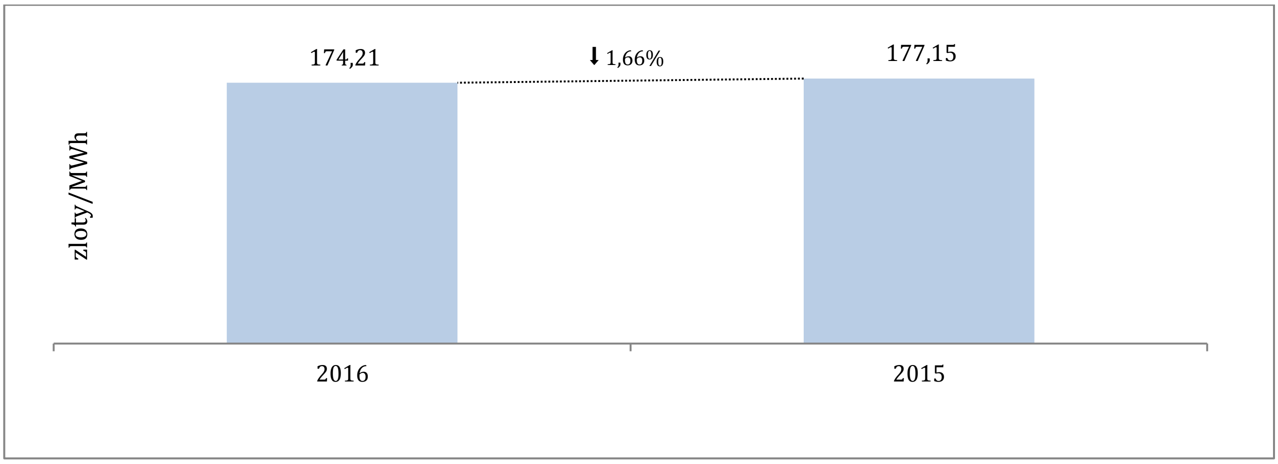
*Chart 11: Sale of electricity**



* *On the chart on the right, the sales of electricity from units 1 and 2 in the Pątnów I power plant in the period of the investment, from which the achieved revenues decreased the value of the incurred investment expenses, were not shown.*

Source: internal data

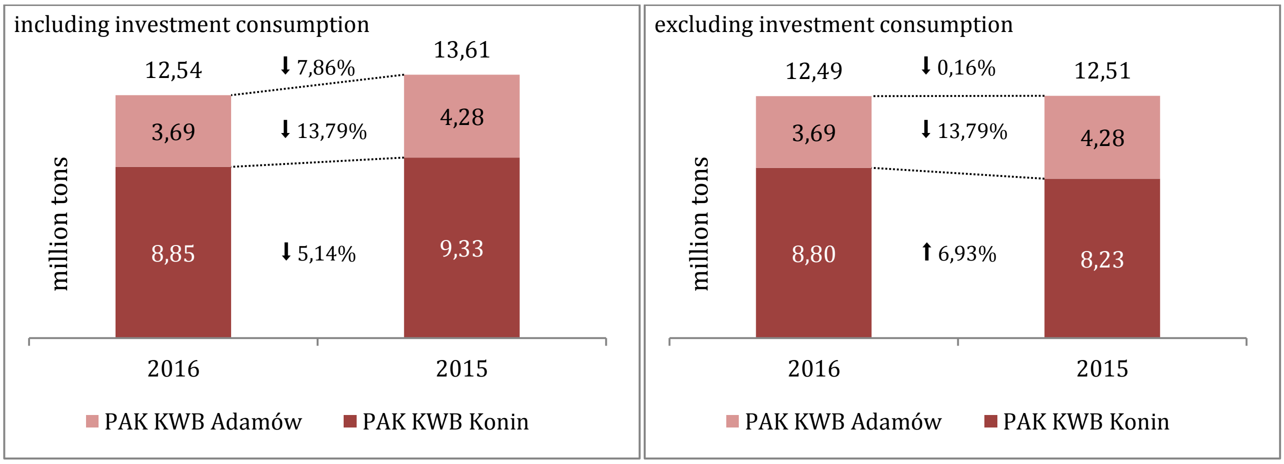
*Chart 12:Average electricity sale price**



*   *Average price counted as the revenue from energy sales divided by the sales volume.*

Source: internal data

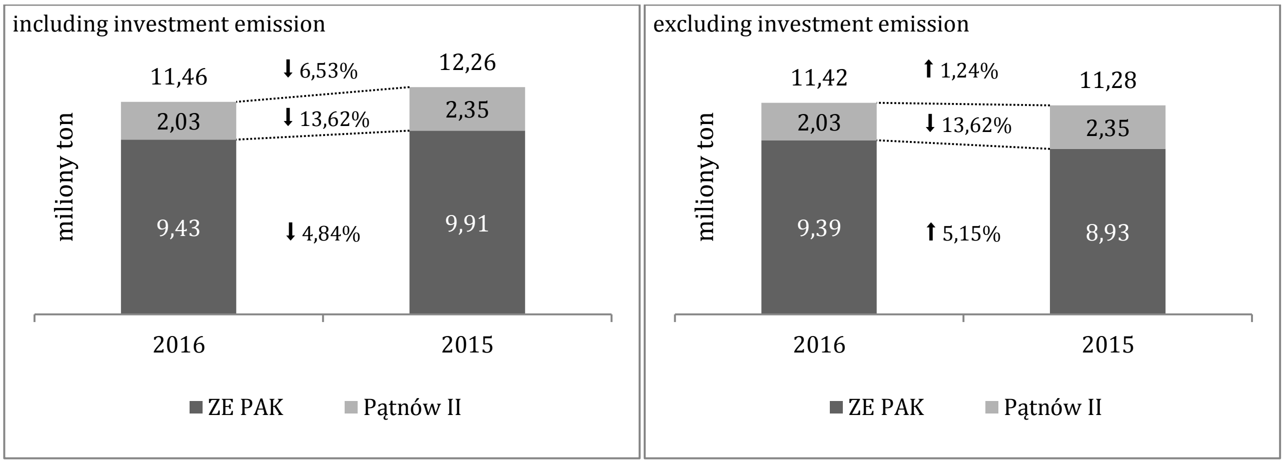
*Chart 13:Lignite consumption**



*   *On the chart on the right, the coal consumption for units 1 and 2 in the Pątnów I power plant in the period of the investment, whose costs increased the value of the incurred investment expenses, were not shown.*

Source: internal data

*Chart 14: CO_2Emission**



*   *On the chart on the right, the CO_2 emission from units 1 and 2 in the Pątnów I power plant in the period of the investment, whose costs increased the value of the incurred investment expenses, were not shown.*

Source: internal data

Table 5: Selected items from the consolidated profit and loss account and the consolidated total income statement

	zloty thousand	*zloty thousand*	*zloty thousand*	*%*
	12 months period ended 31 December 2016	*12 months period ended 31 December 2015*	*change*	*dynamics*
Sales revenues	**2 704 711**	**2 947 816**	**(243 105)**	**(8,25)**
Cost of goods sold	(2 241 353)	(4 651 152)	2 409 799	(51,81)
Gross profit (loss) on sales	463 358	(1 703 336)	2 166 694	-
Other operating revenues	26 461	29 966	(3 505)	(11,70)
Selling costs	(4 360)	(4 920)	560	(11,38)
Administrative expenses	(108 634)	(111 323)	2 689	(2,42)
Other operating costs	(5 392)	(6 209)	817	(13,16)
Profit (loss) on operating activities	**371 433**	**(1 795 822)**	**2 167 255**	**-**
Financial revenues	9 117	6 496	2 621	40,35
Financial costs	(72 672)	(43 909)	(28 763)	65,51
Gross profit (loss)	**307 878**	**(1 833 235)**	**2 141 113**	**-**
Income tax (tax load)	(57 592)	(46 573)	(11 019)	23,66
Net profit (loss)	**250 286**	**(1 879 808)**	**2 130 094**	**-**
Net other comprehensive income	8 594	6 102	2 492	40,84
TOTAL INCOME FOR THE PERIOD	**258 880**	**(1 873 706)**	**2 132 586**	**-**
EBITDA*	**593 587**	**494 072**	**99 515**	**20,14**

* *The Company defines and estimates EBITDA as the profit/(loss) on operating activities (estimates as the net profit/(loss) for the accounting year corrected by the (i) income tax (tax load), (ii) financial revenues as well as (iii) financial costs) corrected by the depreciation (shown in the income statement) as well as impairment write-downs against tangible assets, intangible assets as well as mining assets.*

Prime cost amounted to zloty 2,241,353 thousand and in relation to the previous year, it decreased by zloty 2,409,799 thousand, i.e. by 51.81%. In 2015, in the prime cost item, there was the impairment write-down against tangible fixed assets zloty 1,880,000 thousand in the amount of zloty 1,880,000 thousand. After excluding this write-down from prime cost, prime cost decreased by zloty 529,799 thousand.

The following contributed to the decrease in prime cost to the greatest extent: lower depreciation (because of an impairment write-down against generation assets of the Company made in 2015), the lower value of the electricity purchased from the market for sale, the lower cost of external services and materials consumption, the lower costs of employee benefits, and the lower costs of CO_2 emission.

A detailed analytical presentation of costs by type is included in Table 6.

Other operating revenues amounted to zloty 26,461 thousand in 2016 and they were lower than these of the last year by zloty 3,505 thousand, i.e. by 11.70%. Other operating costs amounted to zloty 5 392 thousand in 2016 and they decreased in relation to the previous year by zloty 817 thousand, i.e. by 13.16%.

Selling costs in 2016 amounted to zloty 4,360 thousand and were lower by zloty 560 thousand, i.e. by 11.38%, mostly because of lower charges incurred in relation to the energy sales on the power exchange.

Overheads in 2016 amounted to zloty 108,634 thousand and were lower than these incurred last year by zloty 2,689 thousand, i.e. by 2.42%.

In 2016, the Group generated profit on operating activities in the amount of zloty 371,433 thousand.

Financial revenues in 2016 amounted to zloty 9 117 thousand and were higher than these of the last year by zloty 2,621 thousand, i.e. by 40.35%. As in the previous year, the largest item was interest, which amounted to zloty 4,919 thousand.

Financial costs in 2016 amounted to zloty 72,672 thousand and in relation to the last year, they increased by zloty 28,763 thousand, i.e. 65.51%. The main cause of the increase was interest expenses higher by zloty 20,829 thousand, which was related to the beginning of accounting the costs of the credit for the modernisation of the units in the Pątnów I power plant for the burden of the financial result and the higher negative foreign exchange differences by zloty 4,621 thousand emerged because of the increase in the EUR/PLN exchange rate within the year.

In 2016, the Company took a gross profit in the amount of zloty 307,878 thousand. At the net level, the profit amounted to zloty 250,286 thousand.

Table 6:Consolidated costs by type

	zloty thousand 12 months period ended 31 December 2016	zloty thousand 12 months period ended 31 December 2015	zloty thousand change	% dynamics
Depreciation	221 699	393 705	(172 006)	(43,69)
Fixed assets – write offs	455	1 896 189	(1 895 734)	(99,98)
Inventory – write-offs	10 188	12 930	(2 742)	(21,21)
Materials consumption	336 435	435 014	(98 579)	(22,66)
External services	66 041	100 786	(34 745)	(34,47)
Taxes and fees excluding excise tax	204 688	211 623	(6 935)	(3,28)
CO_2 allowances costs	311 328	320 216	(8 888)	(2,78)
Employee benefits costs	488 005	538 579	(50 574)	(9,39)
Other costs by type	48 354	16 597	31 757	191,34
Value of sold goods and materials and of sold energy purchased from trade	747 216	879 147	(131 931)	(15,01)
Total	**2 434 409**	**4 804 786**	**(2 370 377)**	**(49,33)**

Consolidated statement of financial position

Total balance sheet amounted to zloty 4,801,300 thousand as of 31 December 2016 and decreased in comparison to the state as of 31 December 2015 by zloty 173,081 thousand, i.e. by 3.48%.

On 31 December 2016, tangible fixed assets amounted to zloty 3,702,058 thousand. In relation to the last day of the previous year, they decreased by zloty 12,065 thousand, i.e. by 0.32% The largest increase occurred in the intangible assets item, which increased by zloty 101,893 thousand as a result of acquisition of CO_2 emission allowances, and the decrease in the tangible fixed assets, which decreased by zloty 83,983 thousand net, as a result of the higher level of depreciation write-downs from the implemented investment expenses.

On 31 December 2016, current assets amounted to zloty 1,099,242 thousand. In relation to the last day of the previous year, they decreased by zloty 161,016 thousand, i.e. by 12.78%. The greatest change occurred in the short-term intangible assets item, which decreased by zloty 81,353 thousand – this decrease is associated with the redemption of CO_2 emission allowances for 2015 and purchase of the allowances for needs of the redemption for 2016. In addition, within the year, most of the possessed inventory of the green certificate was sold, which affected the decrease in the inventory level.

The equities as of 31 December 2016 amounted to zloty 2,143,658 thousand. Compared to the completion of the previous year, they increased by zloty 258,835 thousand, i.e. by 13.73%, being the result of the generated net profit.

Liabilities amounted to zloty 2,657,642 thousand as of 31 December 2016, which means that they decreased by zloty 431 916 thousand, i.e. by 13.98%. The greatest changes occurred in the following items:

- credits and loans, which decreased by zloty 301,253 thousand;
- provisions as well as prepayments, which decreased by zloty 51,388 thousand, primarily as a result of:
    - the lower provision for the redemption of CO_2 emission allowances in the amount of zloty 87,885 thousand;
    - the increase in the deferred income tax provision by zloty 36,497 thousand;
- employee benefits, which decreased by zloty 31 367 thousand.

Table 7: Selected items from consolidated assets

	zloty thousand 31 December 2016	zloty thousand 31 December 2015	zloty thousand change	% dynamics
Fixed assets				

Tangible fixed assets	3 391 246	3 475 229	(83 983)	(2,42)
Investment property	2 337	2 363	(26)	(1,10)
Intangible assets	119 282	17 389	101 893	585,96
Assets concerning stripping and other mining assets (long-term)	80 524	92 748	(12 224)	(13,18)
Other long-term financial assets	11 945	13 752	(1 807)	(13,14)
Other long-term non-financial assets	5 726	10 027	(4 301)	(42,89)
Deferred tax assets	90 998	102 615	(11 617)	(11,32)
Total fixed assets	**3 702 058**	**3 714 123**	**(12 065)**	**(0,32)**
Current assets				
Short-term intangible assets	273 036	354 389	(81 353)	(22,96)
Inventory	105 296	157 515	(52 219)	(33,15)
Deliveries and services receivables and other receivables	246 025	268 123	(22 098)	(8,24)
Income tax receivables	10 227	2 743	7 484	272,84
Other short-term financial assets	77 317	76 979	338	0,44
Other short-term non-financial assets	28 776	12 497	16 279	130,26
Assets concerning stripping and other mining assets (short-term)	-	1 309	(1 309)	(100,00)
Long-term contract receivables due from ordering parties	8 168	3 349	4 819	143,89
Cash and cash equivalents	350 101	383 354	(33 253)	(8,67)
Total current assets	**1 099 242**	**1 260 258**	**(161 016)**	**(12,78)**
TOTAL ASSETS	**4 801 300**	**4 974 381**	**(173 081)**	**(3,48)**

Table 8: Selected items from consolidates equity & liabilities

	zloty thousand	*zloty thousand*	*zloty thousand*	*%*
	31 December 2016	*31 December 2015*	*change*	*dynamics*
Equity				
Issued capital	101 647	101 647	-	-
Supplementary capital	1 028 647	2 542 060	(1 513 413)	(59,53)
Capital from the revaluation of the derivate instrument quotation	(7 084)	(11 941)	4 857	(40,67)
Other reserve capitals	3 472	5 877	(2 405)	(40,92)
Retained profits / Uncovered losses	769 302	1 128 266	(358 964)	(31,82)
Net profit (loss)	247 674	(1 881 086)	2 128 760	-
Exchange rate differences from foreign currency conversion	-	-	-	-
Equity of the majority shareholders	2 143 658	1 884 823	258 835	13,73
Total equity	**2 143 658**	**1 884 823**	**258 835**	**13,73**
Long-term liabilities				
Interest credits and loans	587 851	924 519	(336 668)	(36,42)
Long-term employee benefits	48 587	77 674	(29 087)	(37,45)
Long-term delivery and service liabilities and other financial liabilities	5 069	80 751	(75 682)	(93,72)
Long-term derivative financial instruments (liabilities)	4 294	8 943	(4 649)	(51,98)
Long-term subsidies	43 302	51 068	(7 766)	(15,21)
Other long-term provision as well as prepayments and accruals	312 253	334 879	(22 626)	(6,76)
Deferred income tax provision	388 359	351 862	36 497	10,37
Total long-term liabilities	**1 389 715**	**1 829 696**	**(439 981)**	**(24,05)**
Short-term liabilities				
Short-term delivery and service liabilities and other	302 662	237 505	65 157	27,43

financial liabilities				
Current part of interest credits and loans	421 958	386 543	35 415	9,16
Short-term derivative financial instruments (liabilities)	5 759	7 349	(1 590)	(21,64)
Other non-financial liabilities	116 431	122 553	(6 122)	(5,00)
Income tax liabilities	166	5 228	(5 062)	(96,82)
Short-term employee benefits	6 503	8 783	(2 280)	(25,96)
Short-term subsidies	6 670	12 774	(6 104)	(47,78)
Long-term contract receivables due to ordering parties	3 990	10 080	(6 090)	(60,42)
Other short-term provisions as well as prepayments and accruals	403 788	469 047	(65 259)	(13,91)
Total short-term liabilities	**1 267 927**	**1 259 862**	**8 065**	**0,64**
Total liabilities	**2 657 642**	**3 089 558**	**(431 916)**	**(13,98)**
TOTAL equity & liabilities	**4 801 300**	**4 974 381**	**(173 081)**	**(3,48)**

Consolidated cash flow statement

In 2016, the Group made a positive cash flow balance on operating activities in the amount of zloty 536,051 thousand, which in comparison to the previous year, was higher by zloty 68,915 thousand. The higher balance was influenced by, above all, making of the higher financial result, despite higher expenses for purchase of the CO_2 emission allowances.

The cash operation balance on investment activities amounted to minus zloty 183,708 thousand and, in comparison to the previous year, decreased by zloty 231,263 thousand. The highest expenses in the investment part in the amount of zloty 195,352 regarded the expenses for the acquisition of tangible and intangible assets, the greatest of which regarded the completed modernisation of the units in the Pątnów power plant and the major overhauls in the Pątnów power plant.

The cash operation balance within investment activities amounted to minus zloty 387,015 thousand and regarded mostly the repayment of credit and lease debt – expenses for the repayment were higher than the inflows by zloty 336,954 thousand. Servicing of financing costs encompassed zloty 48,632, lower by zloty 4,751 than in the previous year. In 2016, the Company did not pay the dividend for the shareholders.

Cash decreased by zloty 34,672 thousand throughout 2016 and amounted to zloty 348,646 thousand at the end of the year.

Table 9: Selected items from the consolidated cash flow statement

	zloty thousand	*zloty thousand*	*zloty thousand*	*%*
	12 months period ended 31 December 2016	*12 months period ended 31 December 2015*	*change*	*dynamics*
Cash flows on operating activities				
Gross profit (loss)	312 189	(1 833 235)	2 145 424	-
Item adjustments	223 862	2 300 371	(2 076 509)	(90,27)
Net cash on operating activities	**536 051**	**467 136**	**68 915**	**14,75**
Cash flows on investment activities				
Sale of tangible and intangible assets	3 723	559	3 164	566,01
Acquisition of tangible and intangible assets	(195 352)	(409 858)	214 506	(52,34)
Expenses and income related to other financial assets	7 773	19 122	(11 349)	(59,35)
Acquisition of other financial assets	-	(24 909)	24 909	(100,00)
Received dividends	60	49	11	22,45
Received interest	6	6	-	-
Other	82	60	22	36,67
Net cash on investment activities	**(183 708)**	**(414 971)**	**231 263**	**(55,73)**
Cash flows on financial activities				
Repayment of financial leasing liabilities	(15 038)	(13 029)	(2 009)	15,42
Credits, loans and debt stocks income	12 295	336 925	(324 630)	(96,35)

Repayment of credits, loan and debt stocks	(334 211)	(232 422)	(101 789)	43,79
Paid-out dividends	-	(60 988)	60 988	(100,00)
Paid interest	(48 632)	(53 383)	4 751	(8,90)
Other	(1 429)	(1 218)	(211)	17,32
Net cash on financial activities	**(387 015)**	**(24 115)**	**(362 900)**	**1 504,87**
Increase (decrease) in net cash and its equivalents	**(34 672)**	**28 050**	**(62 722)**	**-**
Cash opening balance	383 318	355 268	28 050	7,90
Closing cash balance	**348 646**	**383 318**	**(34 672)**	**(9,05)**

Financial indexes

Making the net profit for 2016 in the amount of zloty 250,286 thousand, compared to the loss for the past year in the amount of zloty 1,879,808 thousand, caused that all the profitability indexes became positive.

The overall debt index illustrating the ratio of liabilities to total assets amounted to 0.55 at the end of 2016 and was slightly lower than at the end of 2015. The reduction of the index results from the debt level of the Company. The index value indicates that liabilities comprise 55% of the Company's assets.

The current liquidity index, which informs about the degree of current liability coverage with current assets, was equal to 0.87 at the end of 2016. The purchases of the CO2 emission allowances for 2017 significantly influenced the deterioration of the index.

Table 10: Indexes

		2016	*2015*	*change*	*% dynamics*
ROE	*%*	11,68	(99,73)	111,41	-
ROA	*%*	5,21	(37,79)	43,00	-
Net sales profitability	*%*	9,25	(63,77)	73,02	-
General debt index	*x*	0,55	0,62	(0,07)	(11,29)
Net debt / EBITDA	*x*	1,00	1,77	(0,77)	(43,50)
Current liquidity index	*x*	0,87	1,00	(0,13)	(13,00)

5.3. Specification of factors affecting the current and future financial results

The financial results of the Group, as an entity focused on activities in the field of electricity generation, selling its product on the free wholesale electricity market, including the Polish Power Exchange, are fully subject to and depend on the behaviours of all participants of this market. These, in turn, depend largely on the proposed or newly introduced legislative changes influencing the domestic electricity market. The price of electricity in the wholesale market is created by all the entities participating in the market trade and a single participant, even the one with a relatively big share in the market, is not able to affect its level on his or her own.

From the electricity producer's point of view, evaluating the environment in terms of both facts and regulations, some particularly important phenomena in the last year that may also affect the Group's results in the future, should be taken into account:

By judging from the producer's point of view, it is important to take into account some particularly important phenomena in the last year:

- continuing increase of power in National Power System (KSE) in the segment of wind turbines,
- Poland's participation in the interconnection projects, aimed at the construction of the common European market in the Price Coupling of Regions model,
- intensified works on the project on the rules of the "power market" functioning
- entry into force of Law on renewable energy sources;
- intensification of works on adjusting the wholesale electricity market to MIFID2 directive.

The Group generates most of its revenues from the production and sales of electricity, therefore, the price at which it sells electricity is very important for the results of its activities. By analysing the current market trends in the context of the level of electricity prices on wholesale energy markets, it is important to look at, above all, prices quoted on the Polish Power Exchange, which, as the most transparent, are the basis of establishing price conditions in the bilateral agreements concluded on a bilateral bidding market (OTC market). The growing number of periods with increased volatility of the price levels of electricity is characteristic for 2016. The factors significantly influencing the level of stock prices on the SPOT market remained the same, the most important of which are: wind generation volume, condition of the reserves in the National Power System (KSE), as well as industrial capacity volume available for the cross-border exchange, and weather conditions. In the previous year, June occurred to be the most expensive in the SPOT market, and its combination of the above mentioned factors, which include low reserves in the National Power System, caused by the repair campaign of units and a number of unplanned shut downs of generation units, and also weather conditions characterised by weak winds and high temperatures, caused that the weighted average price of BASE product in the Day Ahead Market of the Polish Power Exchange in June was 222.84 zloty /MWh, when the last example, where the average price in the Day Ahead Market exceeded 200 zloty /MWh, on a monthly basis, included November 2014[9].

By analysing the quarterly arithmetic means of the price of BASE_Y-17 agreement, which is the most liquid instrument in the TGE SA futures market last year, it is possible to note that the price is flat and similar to the level of 160 zloty /MWh. From the perspective of transparency, the fact that the trade volume in the TGE SA futures market decreased in 2016 by 38.7% in relation to 2015 is alarming, and as the quotation from the beginning of 2017 shows, the volume size is subject to the further decrease. The causes should be found, on the one hand, in termination of the large part of PPA, and thus, the decrease in performing the obligation of public sale on the stock market, and on the other hand, in the upcoming date of entry into force of the so-called MiFID2 package (3 January 2018), with which, in accordance with the position presented by European and Polish supervisory authorities, the functioning of the Commodity Futures Market (RTT), carried out by Polish Power Exchange in its present form, will not be possible. In accordance to the above fact, TGE SA faces the need of adjusting to the changes resulting from MiFID2 package, by implementing new products and services for the market participants, which from the perspective of participation in the stock exchange by the Groups's companies, will certainly generate additional costs of organisational and legal regulations. To sum up, it can be added that the carried-out analyses result in the fact that regardless of the level of exchange quotations, the Group's power plants still remain in the group of producers participating in covering the demand and balancing the National Power System.

One should take a closer look at the changes in the regulatory environment among the factors influencing the price of property rights. Since 30 April 2014, the amendment to the Energy Law, prolonging the support system for the energy production in peak load co-generation systems (simultaneously generating electricity and heat) until the end of 2018 has been in force. There are no projects in a continuation of the co-generation system support after 2018, and the Group does not have knowledge on the works of Ministry of Energy on possible extension of the support system, however, it is obvious that the works on the continuation of the support system after 2018, which were carried out in the previous year due to the initiative of the Polish Association of Professional Heat and Power Plants and the Chamber of Commerce Polish District Heating, are in progress. Moreover, they assumed a support model consistent with the mechanism already implemented in the act on RES, based on auctions, but not only to the extent of additional bonuses for new heat producers in co-generation. The issue on the obligation of the EU countries to support the co-generation is included in the efficiency directive No. 2012/27/EU of 25 October 2012 containing the chapter on achieving the efficiency improvement through the co-generation support. Currently, "red certificates" obtained by ZE PAK SA., due to the lack of a possibility of transferring between settlement periods ("bankability") are sold on an ongoing basis at the exchange price, which is around the cost of a compensatory fee after the resumption of the system.

Constant changes, which have an effect on the situation of the domestic energy producers, entitled to obtain these certificates of origin, also take place in the broadly understood legal and market environment affecting the prices of the certificates of origin from RES (green certificates). The weighted average price of green certificates in 2016 was at the level of zloty 73.63, and the minimum price recorded in October was zloty 32.57 per certificate. The causes of deep decreases in prices of green certificates remain similar to the previous periods and they are associated with the production oversupply in relation to the demand. On 1 July 2016, the Law on RES, in terms of chapter 4, came into force, introducing new principles and obligations for renewable energy, including, among others, introduction of the auction system divided into two power capacity baskets, and systems with an installed capacity of over 50 MW will be excluded from auction procedures. In case of the biomass unit participation in the auction, and assuming its win, the Group could potentially gain revenues from electricity generation from the biomass unit higher than the currently obtained from the support system of green certificates. In addition, the Law introduces new RES fees to cover the costs

[9] Polish Power Exchange (TGE) message from the website www.tge.pl.

arising from the provisions of the new act in the amount of 2.51 zloty /MWh in 2016, calculated per volume of sales to end recipients, and determines the level of fulfilling the obligation of redemption of green certificates in 2016 to 14.35 %, at the same time, introducing the obligation of redemption of the so-called blue certificates, derived from the production on agricultural biogas, in the amount of 0.65% in relation to the sale of electricity to end recipients. The act also gave the possibility for the Minister of Economy to progressively introduce the obligation of redemption of green certificates to 20%. However, the obligation of redemption of green certificates at the level of 15.4%, and blue certificates at the level of 0.60% was established for 2017. In addition, on 1 October 2016, the Act on energy efficiency, which remodeled the market of the so-called "white certificates" came into force. The new act introduced three types of efficiency certificates, dividing them into: certificates issued on the basis of this act – valid to the end of 2017, certificates resulting from the investments performed in 2014-2016, which the Company applied for in 2016 (which was allowed by the new act) and certificates issued on the basis of the new act, obtained on the basis of the efficiency investments after 1 October 2016. If the President of ERO provides the Company with white certificates, the issue of which was requested by the Company, then, the excess of certificates, more than those that the Company is obliged to redeem, can be sold in the market in the year of their issue, because white certificates, which will be obtained by the Company, are not "bankable," therefore, it will not be possible to hold them for the next redemption periods.

The market of CO_2 emission allowances is a market, which is currently the most exposed to fluctuations in the exchange rate due to political conditions. Since September 2015, negotiations on the EU Climate Package after 2020 have been in progress. The form of the discussion on the future of EU ETS system significantly affected the volatility of prices on the carbon market in 2016. The political factors affected EUA pries in 2016 in two ways, i.e. results of the referendum on "Brexit" influenced a dynamic decrease in EUA prices in June, while the efforts of some countries covered by ETS, aimed at the reform of this system, which according to its initiators would lead to a significant increase in EUA prices by reducing their supply in future periods, resulted in periodic increases. The December voting of the European Parliament's Committee on Environment (ENVI) on the European Commission's project related to the reform of ETS system after 2020 was particularly important. Subsequently, as soon as the European Parliament and the Council of Europe formalise their positions, a trilateral dialogue on ETS reform will be started between the European Commission, European Parliament, and the Council of Europe. The causes of the downward trends must be sought in the reduction of energy commodity quotations, i.e. crude oil, electricity, or natural gas as well as the increasing correlation of EUA allowances' prices with the prices on commodity markets, and in the fast-growing share of RES sources in electricity generation in some countries of the Western Europe, reducing the demand for the emission allowances on the side of the conventional producers in these countries. Currently, due to events, such as the United Kingdom's leave process from the EU and the US election results, it is possible to consider the stabilisation of prices at the current levels in the near future, and in turn, the argument for the increase in prices, can include the energy policy to 2050 "Klimaschutzplan 2050", adopted by the German government, which is the main driving force of decarbonisation in the European Union.

ZE PAK SA will receive a very small amount of CO_2 free emission allowances for 2016, oscillating within 100 thousand of EUAs, most of which results from the allocation for heat generation. Therefore, practically the entire amount emission allowances needed for the ZE PAK Group must be purchased on the primary (auctions) and secondary markets (ICE exchange and bilateral contracts). Since 2015, the volume of free emission allowances received by the Group has differed significantly from the number of free units received in previous years, and the allocations received by other major energy producers in Poland. Hence, the issue of CO_2 emission allowances is crucial for predicting the financial results of the Group in the coming years.

The factor affecting the Polish power engineering sector is "aging" of the currently functioning generating units. The installed power, age and efficiency of the units will have a fundamental impact on ensuring safe and stable operation of the National Power System, as these units are still the regulatory and controllable provision. When in August 2015, energy in the Polish power system run out, for the first time in 25 years, the recipients felt the effects of the lack of system solutions. In addition, PSE SA warns that supply restrictions may repeat periodically, and after 2020, it will be possible to feel the serious effects of the lack of power. In order to improve the country's energy security, it was decided to implement the power market solutions. In March 2016, the works on introduction of the power market in Poland were started. On 4 July 2016, the consultation of the prepared power market concept was initiated, and on 30 September, the consultation report and functional solutions of the power market after changes appeared on the websites of the Ministry of Energy. On 16 November 2016, pre-notification of records in the European Commission was performed, and on 2 December 2016, a bill on the power market was directed to inter-ministry and social consultations. On 10 January 2017, the Economic Committee of the Council of Ministers supported the planned change in the market's model from a single commodity market to a dual-commodity market. The measures for introduction of the power market do not change operational conditions of the Group on the energy market until 2020, but they are the basis for strengthening transitional power mechanisms, which are aimed at providing the systemic energetics with the power market. In the context of the power market, it is worth mentioning the so-called "Winter Package" ["Pakiet Zimowy"] published by EC on 30 November 2016. The proposals included in it are intended to create the rules for emergence of the European energy market. The proposals on amendments of existing regulations and European directives were presented there. It should be noted that final provisions offered by the Winter Package, in the perspective after one day of its entry into force (estimated date for implementation is two years) can have a major impact on the form of the activity carried out by the Group, and thus, on its future financial results.

5.4. Unusual events affecting the obtained financial results

There was no unusual events affecting assets, liabilities, equity, financial results or cash flow in 2016.

6. MANAGEMENT OF FINANCIAL ASSETS

6.1. Evaluation of financial assets management

Companies in the ZE PAK Capital Group have sufficient cash resources to conduct business operations and constantly execute both all their operational liabilities and liabilities resulting from concluded financial and investment agreements. The Group manages its current financial resources in a flexible manner by using cash liquidity analysis models and planning future cash flows on the basis of short-term and long-term financial forecasts developed periodically. By using the aforementioned tools, the Group's Companies execute current monitoring and analyses of the maturity dates of receivables and liabilities as well as adjust the deadlines and bank account balances to the amounts of cash flows. The excess cash is managed by investing in safe instruments of the financial market, which mainly include bank deposits.

6.2. Evaluation of investment plan execution

The Group has its own development strategy and an investment plan adjusted to it. The investment plans take into consideration the current conditions in legislation and law, as well as economy and technology. The adopted manner of execution of the planned investments is mainly based on the use of resources obtained from current operations as well as external financing. During financing planning, the Group's Companies take into consideration a series of existing or future factors which can significantly affect the executed program. The projected financing structure of particular investment plans also takes into consideration the levels of a series of financial indexes, such as the debt or liquidity index, in a way which allows obtaining their optimal levels. In the view of the ZE PAK CG, the currently adopted investment plans are possible to execute with the use of the possessed and potential resources. It is however necessary to note that the Group is constantly monitoring the factors which have the biggest impact on the executed investment program and in case of substantial changes in either one of several of them, the Group does not exclude adjustments or significant changed in the executed strategy.

7. SIGNIFICANT FACTORS AND DEVELOPMENT PROSPECTS

Directional activities designated by the Group's strategy

The ZE PAK Capital Group conducts systematic analyses of price trends, mechanisms supporting different technologies of electricity and heat generation and mega trends related to the Group's activity area. The aim is to optimise the investment plans for objective matters and work schedules of generation devices. The obtained results allow to develop a model of long-term functioning in conditions, which indicate negative trends for coal energy covering the risks arising from increasingly aggravating environmental regulations, as well as anticipated changes in the Polish energy mix.

Environmental requirements determined by the EU and Polish law provisions directly contribute to the Group's production capacity. The decision was taken that the technically depleted generation devices, in case of which the analyses did not demonstrate purposefulness of their modernisation, will be gradually withdrawn. The method of operation during the transitional period was closely matched to their capabilities by choosing a dedicated exemption:

- The Adamów Power Plant, included in a derogatory mechanism of a limited exemption in the entire operation period, obtained the right to function with the current emission standards for 17.5 thousand hours counted from 1 January 2016. It means that in case of uninterrupted work in January 2018, the power plant will be inactivated. Currently, the preparatory activities for the process of closing the activity in accordance with the applicable legal regulations and maximum limitation of risks arising from this process, which is unprecedented in the Polish energy sector, are in progress.

- The Konin Power Plant – the coal part – may function until mid-2020, as it was included in other derogatory mechanism, i.e. Transitional National Plan, under provisions of which it will be obligated to remain within the annually allocated pollutant emission ceilings.

The remaining coal assets were partially upgraded and will operate until 2030, subject to adjustment of extraction and protection of relevant coal resources by PAK KWB Konin SA.

The Company is aware of the changes, especially the ones in the legislation and legal area, which take place in its surroundings. The legal regulations aiming at reducing emissions of CO_2 and other gases (SO_2, NO_X), as well as regulations regarding the renewable energy source sector comprise significant challenges for the Group's companies. New environmental regulations, appearing in 2021, resulting from the implementation of BAT conclusions (Best Available Technology), extend the catalogue of limited pollutions. The currently implemented – in collaboration with the renowned design office – analyses will allow to assess the need for undertaking investment measures in order to obtain compliance with the requirements and a scope of possible exemptions.

In the Pątnów Power Plant, the achievement of assumed effects of the completed modernisation of units 1 and 2 was confirmed with the use of guarantee tests. The modernisation of units 3 and 4, which includes replacement or modernisation of elements crucial for the operation of units, and operational safety improvement, was analysed in terms of the question if the legal regulations for the power market implementation and the maintenance programme implementation for 200 MW units provide profitability of these investments.

PAK KWB Konin SA and PAK KWB Adamów SA: The continuation of investment expenses for works related to development of the documentation necessary for submission of the application for obtaining licences for extracting minerals from the local perspective deposits. Furthermore, the investment programme assumes the continuation of current expenses for the maintenance of the currently operated open pits of Drzewce, Jóźwin, Tomisławice, and Adamów.

Key investment projects during the preparatory stage in 2016-2019:

- In the Konin Power Plant: The construction of a gas and steam unit with a power of approx. 120 MWe and approx. 90 MWt, as well as an additional gas-fired back-up peak load boiler with a power of approx. 40 MWt, dedicated to the supply of heat for the city of Konin. In the past year, the promise of an amendment to the license, including the above-mentioned unit with the term until the end of the first half of 2020, was obtained from the Energy Regulatory Office. The document provides confirmation of the "incentive effect" fulfilment – i.e. It was considered that the investment would not be implemented without support for electricity generation within the framework of peak load co-generation. However, such help is implemented as part of separate regulations. However, due to existing unfavourable external conditions, including uncertainty in terms of the support system form for co-generation after 2018, which affects economic efficiency of the project, the Company cancelled the carried-out tender for acquiring a contractor of the project.
- In the previous year, ZE PAK SA terminated the agreement for the heat supply from the coal part, the provisions of which will cease at the end of June 2020. At the same time, ZE PAK SA started studies for the project involving the heat supply for the city of Konin from the biomass unit.
- In the Adamów Power Plant: The construction of the peak load gas-steam unit generating electricity in condensation with a capacity of c. 400 MWe (the unit's size may be subject to optimisation). The strategic investment programme for ZE PAK SA, which takes into consideration the Polish Energy Policy's assumption in effect in 2008, was developed in a period prognosticating advantageous conditions for investments in gas-fired devices. So far, the Polish economy has not created advantageous conditions for the construction of the designed steam and gas unit for the Adamów Power Plant. ZE PAK SA, in close co-operation with the General Design Engineer – Energoprojekt Katowice – using professional tools, has conducted tests and analyses of the volume of energy generation from the new unit in particular years, after commissioning of the coal and gas units in the country, for which the decisions on construction were already made. The results of these tests confirm that the significant demand for energy from the designed steam and gas unit in the Adamów Power Plant will occur as late as after 2025. In this situation, the decisions on the development of this project were suspended. ZE PAK SA systematically examines the extent to which the designed mechanism of the power market will ensure satisfactory conditions for investors. Currently, the works on the act on Power Market, which makes it possible to reward the manufacturer, determined by auction, for readiness for energy generation to the request of PSE SA, are in progress.

In accordance with the implemented policy and market practice adopted by other companies from the power engineering sector, more investment projects are analysed and prepared than actually implemented ones. In the future, decisions on the implementation of other projects than those mentioned above, provided for in the documents defining the Group's strategy, may be made.

Regardless of the investment intentions, one of the implementation areas of the Group's strategy includes proceeding integration within individual segments. The measures ultimately assume the existence of two main segments, i.e. consolidated mining segment and generation segment. However, in case of the auxiliary activity, the Group strives for focusing competence within the framework of the service activity separately for the mining segment and separately for the generation segment. Such a structure is aimed at increasing effectiveness of separated activities, and in the assessment of the Management Board, it allows to achieve optimum benefits through synergy in the entire process chain..

8. SPECIFICATION OF THE SHAREHOLDING STRUCTURE

8.1. Shareholding structure

As of 31 December 2016, the Company's share capital amounted to zloty 101 647 094.00 and consisted of 50 823 547 shares with a face value of zloty 2.00 each.

The below table includes the specification of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting according to the Company's knowledge as of 31 December 2016.

*Table 11: Description of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting as of 31 December 2015 and as of the day of this statement**

	shares.	*%*
Shareholder	*Number of shares and corresponding number of votes at the General Meeting*	*Share [%] in the total number of shares/votes*
Zygmunt Solorz (indirectly) through:	**26 200 867**	**51,55**
– *Elektrim SA*	*196 560*	*0,39*
– *Embud sp. z o.o.*	*592 533*	*1,16*
– *Trigon XIX Fundusz Inwestycyjny Zamknięty*	*10 004 001*	*19,68*
– *Argumenol Investment Company Limited*	*15 407 773*	*30,32*
Nationale-Nederlanden OFE	**5 068 410**	**9,97**
Towarzystwo Funduszy Inwestycyjnych PZU SA	**3 081 567**	**6,06**
OFE PZU „Złota Jesień"	**2 664 378**	**5,24**

** according to the Company's knowledge on the basis of notifications submitted by the shareholders..*

The structure of the Company's shareholders was presented according to the Company's knowledge on the basis of notifications submitted by the shareholders.

The Company is not aware of any agreements which would result in future changes in the shareholding structure of the current shareholders.

8.2. Acquisition of own shares

The Company did not acquire own shares in 2016.

8.3. Shares of the ZE PAK Capital Group entities belonging to the supervising and managing persons

The below table presents the Company's share holdings (direct and indirect), as well as affiliates' share holdings of management personnel as of 31 December 2015 and as of the date of development of this statement.

Table 12: Company's share holdings as well as affiliates' share holdings by management personnel as of 31December 2016

Name and surname	*ZE PAK SA shares.*		*Affiliate shares*	
	quantity	*face value*	*quantity*	*face value*
Adam Kłapszta	0	0	0	0
Aneta Lato-Żuchowska	0	0	0	0
Zygmunt Artwik	0	0	0	0
Katarzyna Sobierajska	0	0	0	0
Tomasz Zadroga	0	0	0	0

Table 13: Company's share holdings as well as affiliates' share holdings by management personnel as of the day of this statement

Name and surname	*ZE PAK SA shares.*		*Affiliate shares*	
	quantity	*face value*	*quantity*	*face value*
Adam Kłapszta	0	0	0	0
Aneta Lato-Żuchowska	0	0	0	0
Zygmunt Artwik	0	0	0	0
Elżbieta Niebisz	0	0	0	0

The below table presents the Company's share holdings (direct and indirect), as well as affiliates' share holdings of supervising personnel as of 31 December 2015 and as of the date of development of this statement.

Table 14: Company's share holdings as well as affiliates' share holdings by supervisory personnel.

Name and surname	*ZE PAK SA shares.*		*Affiliate shares*	
	quantity	*face value*	*quantity*	*face value*
Tomasz Szeląg	0	0	0	0
Henryk Sobierajski	0	0	0	0
Wojciech Piskorz	0	0	0	0
Leszek Wysłocki	0	0	0	0
Wiesław Walendziak	0	0	0	0
Ludwik Sobolewski	0	0	0	0
Lesław Podkański	0	0	0	0

8.4. Control of employee share option plan

The Company does not have an employee share option plan, therefore it does not include a system for the control of the employee share option plan.

9. DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RULES

Declaration of compliance with the corporate governance rules is presented in accordance with § 91 paragraph 5 (4) of the Resolution of the Minister of Finances of 19 February 2009 on the current and periodical information submitted by issuers of stocks as well as conditions for the recognition as equally important of information required by the regulations of the law of a country which is not a Member State.

9.1. Set of corporate governance rules applied

In 2016, the Company is subject to corporate governance rules described in the "Best Practice for WSE Listed Companies 2016" (Best Practice) adopted by resolution of the WSE Supervisory Council of 13 October 2015. Best Practice came into force on 1 January 2016.

The Company's Management Board, within the competencies granted to it by the Articles of Association and the generally binding legal regulations, exercises due care in order to ensure the Company's compliance with the Best

Practice to the greatest extent possible. The number and scope of principles, which were not applied in 2015, was at the same level as in previous year. The Company's Management Board makes all exceptional efforts in order for the Company's information policy towards investors, both individual and institutional, comprising the execution of guidelines included in the Best Practice, to be compliant with the expectations. Furthermore, due to reasons beyond the Company's control, not all principles included in the Best Practice are applied.

The Code of Best Practices is published on the website of the Warsaw Stock Exchange at the following address:

(https://static.gpw.pl/pub/files/PDF/inne/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf).

According to Best Practice the Company published information about status of application of Best Practice by the Company at the following address:

(http://ri.zepak.com.pl/upload/files/EN_GPW_dobre_praktyki_PAK.pdf)

9.2. Set of rules which Company has not complied with

Presented below are corporate governance rules, which the Company has not complied with in its activities in 2016, together with an explanation of the Company's position for each specific departure.

Principle I.Z.1.20. Best Practice

A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: an audio or video recording of a general meeting

Reasons for non-compliance with the principle I.Z.1.20. of Best Practice:

Taking into consideration the Company's experience, according to which most of the Company's capital share is represented in the deliberations of the general meeting as well as the fact that the recording of the course of the general meeting could be involved with substantial costs and potential difficulties of organizational, technical and legal nature, the company does not record and broadcast the course of the general meeting. In case of notification about a need of recording general meeting announced by bigger group of shareholders, the company will consider such possibility.

Recommendation IV.R.2. Best Practice

If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

1) real-life broadcast of the general meeting;

2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;

3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

Reasons for non-compliance with the recommendation IV.R.2. Best Practice:

According to the Company's assessment, current shareholders structure does not justify real-life broadcast of the general meeting and real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting. Taking into consideration the Company's experience, according to which most of the company's capital share is represented in the deliberations of the general meeting as well as the fact that the recording and broadcasting of the course of the general meeting could be involved with substantial costs and potential difficulties of organizational, technical and legal nature, the Company does not record and broadcast the course of the general meeting. So far the Company did not receive shareholder's notifications of general meeting broadcasting. In case of such a notification announced by bigger group of shareholders, the Company will consider recording and broadcasting of general meeting. Exercise of the right to vote during a general meeting either in person or through a plenipotentiary is a usual practice on general meeting of the Company. According to the Company's assessment, not in full use of above mentioned recommendation does not adversely affect the achievement of the objective described in the section IV of the code of best practices.

Principle IV.Z.2. Best Practice

If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

Reasons for non-compliance with the principle IV.Z.2. Best Practice:

According to the Company's assessment, current shareholders structure does not justify real-life broadcast of the general meeting. Taking into consideration the Company's experience, according to which most of the Company's capital share is represented in the deliberations of the general meeting as well as the fact that the recording and broadcasting of the course of the general meeting could be involved with substantial costs and potential difficulties of organizational, technical and legal nature, the Company does not record and broadcast the course of the general meeting. So far the Company did not receive shareholder's notifications of general meeting broadcasting. In case of such a notification announced by bigger group of shareholders, the Company will consider recording and broadcasting of general meeting.

Recommendation VI.R.1. Best Practice

The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

Reasons for non-compliance with the recommendation VI.R.1. Best Practice:

There is no comprehensive, formal remuneration policy in the Company. Remuneration of the members of the supervisory board are established by the general meeting, remuneration of the members of the management board are established by the supervisory board and there is a document in the company describing remuneration rules of the key managers. In any case such factors are taken into consideration: competence, experience, responsibility of the position and work effects.

Recommendation VI.R.2. Best Practice:

The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

Reasons for non-compliance with the recommendation VI.R.2. Best Practice:

There is no comprehensive, formal remuneration policy in the Company. However link with such factors as short- and long-term goals, long-term interests and results are taken into consideration in establishing remuneration of governing bodies and key managers. The company does not discriminate on whatever ground in process of establishing remuneration on any position.

9.3. Description of the main characteristics of internal control and risk management systems in relation to the process of financial statement and consolidated financial statement development

The process of development of the Company's financial statements as well as the Capital Group's consolidated financial statements takes place with the use of internal control and risk management mechanisms, such as: Company's internal procedures, management mechanisms of IT systems used for registration of economic activities and development of financial statements, as well as protection mechanisms of data and systems, principles of supervision over preparation of financial statements, principles of verification and assessment of statements, the internal audit and other control elements.

The development of the Company's financial statements as well as the Group's consolidated financial statements is executed in an orderly manner, pursuant to the organisational structure of the Company and Group. The management accounting tools and IT systems implemented in the Company and Group for the purpose of registration of economic events in books of account provide the basis for the evaluation that the Company's financial statements and the Group's consolidated financial statements reliably and clearly present the Company's and Group's financial and economic situation.

The basic regulations in the scope of development of financial statements include: the Company's accounting policy in accordance with the Accounting Act of 29 September 1994, International Financial Reporting Standards ("IFRS"), approved by the European Union, the procedure of closing the books of account of companies including the Capital

Group, as well as the financial statement and consolidated financial statement development requirements imposed by the Warsaw Stock Exchange.

As of the date of development of this statement, the Company did not make a decision on keeping the books of account in the Group according to the International Financial Reporting Standards ("IFRS"). Therefore, the process of development of financial statements in the Group takes place in two stages. Firstly, all the companies of the Group develop their own individual statements pursuant to the Polish accounting standards. These statements are studied if they meet the conditions specified in the Accounting Act. Then, the companies transform the individual statements on the basis of the accounting policy, determined for the Group, in accordance with the International Financial Reporting Standards ("IFRS") using the so-called sheets of transition into financial statements in the IFRS standards. Such prepared individual statements are the basis for development of the Group's consolidated financial statement. Only in case of ZE PAK SA, there is an automatic process of importing data from SAP ERP system to SAP BPC consolidation system.

The Group's consolidated statement is developed with the use of SAP BPC IT system. The separated central unit in the parent company (i.e. ZE PAK SA) merged with accounting departments in individual subsidiaries functions within the framework of the system. The consolidation process is started with the central unit opening access for companies to enter data into the system, the subsidiaries have the possibility of access to its back data at any time, but without the possibility of their adjustment. The central unit constantly monitors the entry of data by the companies, and then, after entering individual data, it starts the consolidation process. This process is based on defined business rules, which determine the content of consolidation adjustments. Furthermore, the consolidation process allows for entering manual adjustments by the central unit. The result of the consolidation process completion includes a complete package of the financial statement together with explanatory notes in Excel files, which is then exported to Word file after verification.

The Management Board is responsible for the Company's internal control system and for its effectiveness in the process of development of financial statements and periodical reports developed and published in accordance with the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent to the information required by the law of a non-member state.

The substantive supervision over the process of development of the Company's and Group's financial statements and periodical reports is executed by a member of the Management Board responsible for financial issues. The organisation of works related to the development of financial statements is the responsibility of the Director of the Company's Accounting and Reporting Department, who, together with the Principal Accountant, develop the work schedule including in the development of statements.

The Company's effective internal control and risk management systems related to the process of financial reporting is ensured thanks to the following aspects:

- development of procedures specifying the principles and division of responsibility in the development process of financial statements,
- specification of the scope of reporting pursuant to the mandatory provisions of the Accounting Act and International Financial Reporting Standards,
- implementation and execution of supervision over the use by the Capital Group's companies of coherent accounting principles as well as
- semi-annual inspections and annual audits of the financial statements of ZE PAK SA. and Capital Group by an independent statutory auditor.

The annual and semi-annual financial statements are subject to the independent auditing and inspection by the independent statutory auditor, who gives an opinion on the reliability and clarity of such a statement as well as correctness of books of account comprising the basis for the statement development.

The choice of a statutory auditor is made by the Supervisory Board, from a group of reputable auditing companies, which guarantee high service standards and the required independence.

The audits of financial statements are carried out:

- in accordance with the provisions of Chapter 7 of the Accounting Act of 29 September 1994,
- in accordance with the National Standards of Auditing within the meaning of the International Standards on Auditing, adopted by the resolution of the National Chamber of Statutory Auditors of 10 May 2015 as amended.

In particular, the audits include verification of correctness of the accounting rules used by the Company and Group, verification of significant estimates, checking – in a random manner – of accounting evidence and records, which the amounts and information included in the financial statement result from, as well as comprehensive assessment of the financial statement.

The Company's and Group's financial results are regularly monitored during the financial year and are subject to periodical evaluation made by the Supervisory Board. During regular sessions of the Supervisory Board, the Company's Management Board provides information regarding the current financial situation of the Company and ZE PAK SA Group.

The Company's and Group's task is to develop a financial statement, including numerical data and wordy clarifications, which:

- reliably and clearly presents all information which are significant for the evaluation of the financial and economic situation for a given day, as well as the financial result for a given period,
- was properly developed in all the significant aspects, that is, in accordance with the accounting rules resulting from the International Financial Reporting Standards, as well as the related interpretations published in the form of the European Commission regulations, and according to the requirements of the Accounting Act and executive regulations issued on its basis, as well as on the basis of correctly kept books of account,
- is compliant with the regulations and provisions of the Company's Articles of Association, which affect the financial statement content.

The Company has the documentation, which describes its adopted accounting principles, specified in Article 10 of the Accounting Act. The applied principles of cost accounting, quotation of assets and liabilities as well as determination of the financial result are pursuant to the Accounting Act and the International Financial Reporting Standards.

The Management Board is responsible for the correct keeping of the Company's and Group's accounting. The Company keeps the books of account within the integrated SAP ERP IT system. This system, like the above SAP BPC consolidation system of statements, provides the division of competence, coherence of activity entries in the books, as well as control between the main book of account and the auxiliary books. The conducted registration allows to determine the financial result, VAT tax, and other budget liabilities. The account registration ensures correctness and completeness of entries. The chronology of economic events is kept. Entries in the books of account reflect the actual state, and data are entered in a complete and correct manner, on the basis of accounting records qualified for entry. The continuity of entries and correctness of the applied procedures are ensured. The accounting records meet the requirements of the Accounting Act. The books of account are kept in the Company's registered office. There is a possibility to modify the system operation in order to ensure the adequacy of technical solutions to the changing accounting principles and legal standards. The system includes the documentation both in the part related to end users as well as in the technical part. The system's documentation is subject to periodical verification and updating. The Company implemented organisational and system solutions in the scope of ensuring proper use and protection of data access protection systems as well as hardware. The access to the financial registration system resources is limited with proper entitlements, which are provided to authorised employees only in the scope of their responsibilities and activities.

The internal audit, the aim of which is to carry out independent and objective assessment of the risk management and internal control systems, functions in the Company. The internal audit is conducted on the basis of the auditing regulations. The audit executes planned and temporary auditing tasks both in the parent company as well as in the Group's companies. The audit plans are developed on the basis of the risk analyses. The audit results are reported to the Company's Management Board. Information on the internal audit activity also constitutes the subject of analyses of the Audit Committee.

As part of the control activity, the periodical management reporting is subject to evaluation in terms of presented information, especially, in the context of the analysis of deviations from the assumptions adopted in the financial plans.

9.4. Shareholders with significant blocks of shares

The below table presents the shareholders with significant blocks of shares, in accordance with the Company's knowledge, based on the notifications submitted to the Company.

Table 15: Shareholders holding, either directly or indirectly, significant blocks of shares in accordance with the Company's knowledge as of 31 December 2015 and as of the day of submission of this report..*

Shareholder	*Number of shares*	*Percentage share in the share capital*	*Number of votes*	*Percentage share in the share capital*
Zygmunt Solorz (indirectly) through: Elektrim SA, Embud sp. z o.o., Trigon XIX Fundusz Inwestycyjny Zamknięty, Argumenol Investment Company Limited.	26 200 867	51,55%	26 200 867	51,55%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	5 068 410	9,97%	5 068 410	9,97%
Towarzystwo Funduszy Inwestycyjnych PZU SA	3 081 567	6,06%	3 081 567	6,06%
OFE PZU „Złota Jesień"	2 664 378	5,24%	2 664 378	5,24%

** according to the Company's knowledge on the basis of notifications submitted by the shareholders.*

9.5. Holders of stocks giving special control rights

As of 31 December 2016 and as of the date of development of this statement, the Company has not issued stocks giving special control rights.

9.6. Limitations in the execution of the right of ballot

According to the Company's Articles of Association and other internal documents of the Company as of 31 December 2016 and as of the date of development of this report, there are no limitations regarding the execution of the right of ballot.

9.7. Limitations regarding the transfer of right of ownership to stocks

As of 31 December 2016 and as of the date of development of this statement, the Company does not include any limitations regarding the transfer of right of ownership to Company's stocks.

9.8. Principles for the appointment and dismissal of management and supervisory personnel

Management Board

The Management Board is comprised of 3 to 6 members appointed for joint term. The composition of the Management Board includes: President of the Board, Vice-Presidents, as well as other members of the Board. The number of Board members and their functions are specified by the Supervisory Council. The Management Board's term is five years. The Board's President, Vice-Presidents, as well as other members are appointed and dismissed by the Supervisory Council during a secret ballot. The Board's President, Vice-Presidents, as well as other members can also be dismissed or suspended in duties during the General Meeting.

The Board administers the Company's cases and represents the Company. The Board acts pursuant to the Board's Regulations which specifically determine the Board's action mode. The Regulations are established by the Board and approved by the Supervisory Council by way of a resolution.

The Board's resolutions are required for cases exceeding common management, which especially include:

1) resolution and changes in the organisational regulations which specify the organisation of the Company's entrepreneurship,
2) contracting credits and loans,
3) proxy establishment,
4) granting credit guarantees and sureties,
5) acquisition and disposal of property, right of perpetual usufruct or share in property or perpetual usufruct.

6) decisions in cases, the value of which exceeds zloty 500 000.00. The value of transactions expressed in foreign currencies is subject to conversion according to the average exchange rate of the National Bank of Poland (NBP) of the date of resolution passing.

The Board's resolutions are also required for cases in which the Board addresses the General Meeting and the Supervisory Board.

Supervisory Board

The Supervisory Board is comprised of 5 to 14 members appointed for joint term. The Board's term is five years. The members of the Supervisory Board are appointed and dismissed during the General Meeting. The General Meeting, prior to the appointment of the Board's members for a new term, specifies the number of members of the Board. The Board appoints the President, Secretary, Vice-President or, if deemed reasonable, two Vice-Presidents, among its members in a secret ballot.

The composition of the Board should include two members who fulfil the independence criteria projected for an independent Board member within the meaning of the Commission's Recommendation of 15 February 2005 regarding the role of non-executive directors or directors acting as members of supervisory Boards in stock exchange listed companies and the (supervisory) Board's committee (2005/16/EC) with consideration of Good Practices of the Warsaw Stock Exchange Listed Companies ("Independent Supervisory Board Members"). A candidate for the Independent Supervisory Board Members provides the Company, prior to his/her appointment as a Board member, with a written declaration on the fulfilment of the independence criteria.

The Board supervises the Company's activities in all areas of its operation.

The Board's rights especially include:

1) approval of the Board's Regulations and giving opinion on the organisational regulations, which specify the organisation of the Company's entrepreneurship,
2) conclusion, termination, and amending agreements with the Board members, as well as establishment of the Board's remuneration principles and the remuneration amounts for the Company's Board members,
3) appointment and dismissal of the Board's President, Vice-Presidents, as well as other Board members in a secret ballot,
4) suspension in duties due to significant reasons, in a secret ballot, of the Board's President, Vice-Presidents, as well as other Board members, or the entire Management Board,
5) delegation of a Board member or members for temporary execution of Board member activities in case of suspension of Board members or the entire Management Board,
6) selection of the entity authorised to audit the Company's financial statements,
7) evaluation of the Board's report from the Company's activities or financial statement for the previous accounting year,
8) evaluation of the Board's conclusion regarding the division of profit or loss coverage,
9) submission to the General Meeting of the written annual report on the results of evaluations specified in paragraph 7 and 8,
10) submission to the General Meeting of the annual brief evaluation of the Company's situation, as well as the annual report on the Board's work,
11) giving opinion on cases submitted by the Board and comprising the subject of the General Meeting's resolutions,
12) approval of the Company's and ZE PAK Capital Group's perennial activity programs, including the Company's and ZE PAK Capital Group's activity strategies, developed by the Board, and
13) approval of the Company's annual activity programs, as well as the Capital Group's annual activity programs, especially including production plans and revenues, type cost plans, unit cost plans, remuneration plans, investment plans, as well as renovation and maintenance service plans.

The Board's competencies also include giving the Board an approval:

1) to participate in other companies and disposal of shares in other companies,
2) to establish foreign branches,
3) to make advanced payments for dividends,

4) for the Company to execute activities which result in incurring liabilities, except for:
    a. activities provided in the Company's annual activity program approved by the Board,
    b. activities resulting in incurring liabilities with a value of up to zloty 1 000 000, including granting sureties or guarantees as well as suretyship,
5) acquisition and disposal of property, right of perpetual usufruct or share in property or perpetual usufruct with a value exceeding zloty 1 000 000,
6) conclusion by the Company and an affiliate of a major agreement within the meaning of the regulations regarding the current and periodical information provided by issuers of stocks accepted for trade in a regulated market, excluding typical agreements concluded by the Company pursuant to market conditions, within the conducted operational activities,
7) designation by the Board of personnel acting in the bodies of companies or other entities in which the Company has a direct or indirect share, as well as
8) establishment by the Board of the manner of ballot execution during the General Meeting or the Meeting of Partners in companies, in relation to which the Company is a parent company or an affiliate within the meaning of the Code of Commercial Companies, in the following cases:
    a. disposition and lease of the company's entrepreneurship or its organised part, establishment of a limited property right for them, as well as execution of other activities related to the acquisition or administration of the company's asset components which comprise the subject of the General Meeting's or Meeting of Partners' deliberations,
    b. company's termination or liquidation,
    c. amendment of the company's articles of association or deed
    d. company's merger, division or transformation, as well as
    e. increase or decrease in the company's share capital.

Pursuant to the Board's application, the Supervisory Board grants Board members the approval to take positions in the bodies of companies, in which the Company holds shares, as well as for the collection of remuneration for acting in these positions.

9.9. Composition, its changes as well as description of the management and supervisory bodies

Management Board

The Company's Board composition was as follows at the beginning of the accounting year of 2016:

1) Wojciech Piskorz – the Member of the Supervisory Board delegated to temporarily act as the President of the Board,
2) Aneta Lato-Żuchowska – Vice-President of the Board,
3) Zygmunt Artwik – Vice-President of the Board,
4) Adrian Kaźmierczak – Vice-President of the Board,
5) Tomasz Zadroga – Vice-President of the Board.

During the meeting on 11 February 2016, the Company's Supervisory Board adopted a resolution on the appointment of Mr Aleksander Grad to the composition of the Company's Management Board on 18 February 2016 and entrusted him with the function of the President of the Management Board. Since 18 February 2016, the composition of the Management Board has been as follows:

1) Aleksander Grad – President of the Board,
2) Aneta Lato-Żuchowska – Vice-President of the Board,
3) Zygmunt Artwik – Vice-President of the Board,
4) Adrian Kaźmierczak – Vice-President of the Board,
5) Tomasz Zadroga – Vice-President of the Board.

At the meeting on 8 April 2016, the Company's Supervisory Board adopted a resolution on the appointment of Mr Adam Kłapszta to the composition of the Company's Management Board and entrusted him with the function of the

Vice-President of the Management Board. After this change, the Company's Management Board composition was as follows:

1) Aleksander Grad – President of the Board,
2) Aneta Lato-Żuchowska – Vice-President of the Board,
3) Zygmunt Artwik – Vice-President of the Board,
4) Adrian Kaźmierczak – Vice-President of the Board,
5) Tomasz Zadroga – Vice-President of the Board,
6) Adam Kłapszta – Vice-President of the Board.

On 17 June 2016, Mr Aleksander Grad resigned from the position of the President of the Management Board and a member of the Management Board of the Company. In view of the above, the Company's Supervisory Board started the procedure of selecting the new President of the Management Board. Until the completion of this procedure, the Supervisory Board has delegated the directing of the Management Board works to Mr Adam Kłapszta, the Vice President of the Company's Management Board, who has been acted as the President of the Management Board since 17 June 2016.

On 26 October 2016, Mr Adrian Kaźmierczak resigned from the position as the Vice-President of the Company's Management Board. In view of the above, at the meeting held on 26 October 2016, the Company's Supervisory Board appointed Ms Katarzyna Sobierajska as the Vice-President of the Management Board. Since 26 October 2016, the Company's Management Board has operated in the following composition:

1) Adam Kłapszta – Vice-President of the Board, acting President of the Board,
2) Aneta Lato-Żuchowska – Vice-President of the Board,
3) Zygmunt Artwik – Vice-President of the Board,
4) Katarzyna Sobierajska – Vice-President of the Board,
5) Tomasz Zadroga – Vice-President of the Board.

On 3 March 2017, by the resolution of the Company's Supervisory Board, the function of the President of the Company's Management Board was entrusted to Mr Adam Kłapszta. At the same time, during the same meeting of the Supervisory Board, Ms Katarzyna Sobierajska and Mr Tomasz Zadroga submitted resignations from the positions of the Vice-Presidents of the Company's Management Board as of 3 March 2017, the Company's Supervisory Board also appointed Ms Elżbieta Niebisz to the position of the Vice-President of the Management Board. Since 3 March 2017, the Company's Management Board has operated in the following composition:

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

Supervisory Board

The Company's Supervisory Board composition undergone the following changes during the reporting period.

The ZE PAK SA's Supervisory Board composition was as follows at the beginning of the accounting year of 2016:

1) Zygmunt Solorz – President,
2) Henryk Sobierajski – Vice-President,
3) Wojciech Piskorz – Secretary,
4) Leszek Wysłocki,
5) Lesław Podkański,
6) Ludwik Sobolewski,
7) Wiesław Walendziak.

On 17 November 2015, the Company's Supervisory Board, in accordance with Article 383 § 1 of the Code of Commercial Companies, delegated Mr Wojciech Piskorz, the Member of the Supervisory Board, to temporarily act as the President of the Company's Management Board for a period not longer than 3 months. Therefore, for the time of the above-mentioned delegation, the rights and duties of Mr Wojciech Piskorz arising from the participation in the Supervisory Board were suspended. The delegation lasted until 17 February 2016.

On 28 June 2016, the Ordinary General Meeting appointed Mr Tomasz Szeląg to the composition of the Supervisory Board. The resolution on the appointment became effective upon its adoption. Since that time, the Company's Supervisory Board was held in the composition:

1) Zygmunt Solorz – President,
2) Henryk Sobierajski – Vice-President,
3) Wojciech Piskorz – Secretary,
4) Leszek Wysłocki,
5) Lesław Podkański,
6) Ludwik Sobolewski,
7) Wiesław Walendziak,
8) Tomasz Szeląg.

On 26 October 2016, the Chairman of the Supervisory Board, Mr Zygmunt Solorz resigned from the membership in the Company's Supervisory Board with immediate effect.

Due to the resignation of Mr Zygmunt Solorz, the Supervisory Board selected Mr Tomasz Szeląg, from its members, to the position of the Chairman of the Supervisory Board.

Since 26 October 2016, the composition of the Supervisory Board has been as follows:

1) Tomasz Szeląg – President,
2) Henryk Sobierajski – Vice-President,
3) Wojciech Piskorz – Secretary,
4) Leszek Wysłocki,
5) Lesław Podkański,
6) Ludwik Sobolewski,
7) Wiesław Walendziak.

The Supervisory Board members that fulfil the independence criteria include Mr Ludwik Sobolewski and Mr Lesław Podkański.

In the execution of their code and statutory obligations, in 2016, the Supervisory Board held eight sessions adopting a total of 52 resolutions. The Supervisory Board executed its statutory obligation of holding a session in each quarter.

In the reporting period, the Supervisory Board collectively supervised the Company's activity in all areas of its operation. The Supervisory Board focused on the following issues:

1) evaluation of statements developed for the financial year of 2015,
2) giving an opinion on the Company's new organisational structure,
3) approval of the Company's budget for 2016 and control of its implementation, in particular, the conditions in the field of energy generation and the results achieved by the Company from the sale of own and foreign electricity, including the one generated from renewable energy sources,
4) giving an opinion on the applications submitted by the Management Board in regard to cases related to the Company's current activities;
5) changes in the composition of the Management Board of ZE PAK SA.;
6) design project of a gas-steam unit in the Konin Power Plant.

In the financial year of 2016, the ZE PAK SA. Supervisory Board's Audit Committee held three meetings. During the held meetings, the ZE PAK SA. Supervisory Board's Audit Committee discussed with a statutory auditor, among others, the results of financial statements' audits for 2015 and the review of interim financial statements for 2016. The Audit Committee also dealt with the issue of selection of the entity authorised to audit financial statements prepared for 2016 and issues related to risk management and functioning of an internal audit in the Company.

9.10. Procedure and basic powers of the General Meeting as well as description of shareholders' rights and their exercise

General Meeting

The General Meeting is held in cases specified in the Code of Commercial Companies and in the Company's Articles of Association. The General Meeting is held in principle by the Company's Board and deliberates, and an ordinary or extraordinary meeting. In case of summoning the General Meeting by an entity or body other than the Company's Board, the Board is obligated to cooperate with the entity or body in order to execute any activities specified by the law as necessary to summon, organise, and execute the General Meeting. Since the first day of listing of the Company's shares in the regulated market of the Warsaw Stock Exchange Joint-stock Company, the General Meetings can take place with the use of electronic communication resources. The decision on arranging the General Meeting using electronic communication devices is made by the Company's Supervisory Council.

The General Meeting takes place in Warsaw or in the Company's registered office.

The ZE PAK SA's General Meeting is summoned by notification placed on the Company's website and in a manner specified for provision of current information in accordance with the regulations on public bidding and conditions for introducing financial instruments to the organised trade system and on public companies.

The materials made available to shareholders in relation to the General Meeting, including drafts of resolutions proposed for passing, as well as other important materials are made available by the Company on the http://ri.zepak.com.pl/ website.

The basic competencies of the General Meeting include:

1) examination and approval of the Board's report on the Company's activities, as well as the financial statement for the previous accounting year, as well as acknowledgement of the fulfilment of duties by the Company's body members,
2) division of profit and loss coverage,
3) change in the subject of the Company's activities,
4) amendments to the Company's Articles of Association,
5) increase or decrease in the share capital,
6) authorisation of the Board to acquire own shares for the purpose of redemption,
7) appointment and dismissal of Council members,
8) establishment of the remuneration of Council members,
9) Company merging, division and transformation,
10) Company termination and liquidation,
11) emission of convertible bonds or bonds with right of priority and subscription warrants,
12) sale or lease of the company or its organised part as well as establishment of a limited property right for them,
13) establishment and cancellation of the Company's capitals and funds,
14) conclusion by the Company of a credit, loan, surety agreement, or a similar agreement with a member of the Company's Board, Supervisory Council, proxy or liquidator, or for any of this personnel,
15) conclusion by an affiliate of a credit, loan, surety agreement or a similar agreement with a member of the Company's Board, Supervisory Council, proxy or liquidator, or for any of this personnel,
16) any provisions regarding claims the remedy of damage done during the Company's establishment or executing management or supervision, and
17) use of the share capital.

The active right to participate in the General Meeting is available to persons being the shareholders, 16 days prior to the General Meeting. The condition of admitting a shareholder to participate in the General Meeting is the submission of a registered certificate regarding the right to participate in the General Meeting, which is issued by the entity that keeps the stocks account.

The shareholder participates in the General Meeting's deliberations and executes the right of ballot in person or via an authorised representative.

The shareholder who represents at least 1/20 of the Company's share capital is entitled to request specific cases to be included in the Company's General Meeting agenda. The request should be reported to the Company's Board no later than 21 days prior to the Company's General Meeting.

The shareholder, who requests to include specific cases in the General Meeting's agenda, should demonstrate the possession of the proper number of shares at the date of request submission, including a deposit certificate to the request, issued by the entity keeping the stocks account.

The shareholder representing at least 1/20 of the Company's share capital can submit resolution drafts regarding the cases introduced into the General Meeting's agenda, or cases, which are to be introduced into the agenda in a written or electronic form prior to the date of the General Meeting.

Each of the shareholders authorised to participate in a general meeting can provide the resolution drafts regarding the cases introduced into the agenda during the Company's General Meeting.

The General Meeting's resolutions are passed with a majority of 75% votes, provided that the Code of Commercial Companies does not specify otherwise. Each Company's share entitles to a single vote at the General Meeting.

9.11. Description of the amendments to the Company's Articles of Association

Amendments to the Company's Articles of Association, in accordance with the Code of Commercial Companies and provisions of the Company's Articles of Association, require the General Meeting to pass a suitable resolution and an entry into the register of entrepreneurs. The General Meeting can authorise the Company's Supervisory Council to develop a uniform text of the amended articles of association, or to introduce editorial changes specified in the General Meeting's resolution. Amendments to the Articles of Association are binding since the moment of entry into the register of entrepreneurs.

9.12. Information on the remuneration system and the amount of management and supervisory staff's remuneration

In the Zespół Elektrowni Pątnów-Adamów-Konin SA. company, the remuneration system is based on the Corporate Collective Labour Agreement for ZE PAK SA employees as of 24 September 1993 (CCLA). Only members of the Management Board, the principal accountant and key managers are not subject to the CCLA's provisions.

The basic components of remuneration for the employees contained in the CCLA include an individual monthly basic salary, a monthly statutory bonus, an annual bonus, a post-employment benefit and allowances. The employees are also entitled to receive awards from the president's fund and social benefits.

The Management Board determines the principles of remuneration of key managers in individual agreements. The basic component of remuneration is the basic salary. Moreover, the key managers were also entitled to the annual award (bonus), the amount of which is divided into a discretionary part, whose granting depends on the Management Board's assessment of the degree of individual tasks' implementation, and a coefficient part depending on the achievement of a specific economic coefficient. Since 1 January 2016, the bonus has been replaced with a discretionary award granted by the Management Board's decision. The key managers are also entitled to some components of the CCLA.

The members of the ZE PAK SA Management Board are paid on the basis of the provisions of individual management agreements, the content of which is formed by the Supervisory Board of the Company. There are no other additional regulations or other documents creating the rules of the Management Board's remuneration. The members of the Management Board are entitled to a monthly salary. They can also be granted a discretionary award. In case of dismissal from the Management Board composition, the payment of a severance pay in the amount of a six-month salary is provided. The severance pay is not entitled if the dismissal occurs for reasons concerning the dismissed member of the Management Board, particularly for the reasons set forth in Article 52 of the Labour Code.

The Company does not have a motivational or bonus program based on the Company's capital.

Table 16: *Information on the value of remuneration paid by the Company as well as the Company's subsidiaries to all acting Board members in 2016*

	zloty thousand	*zloty thousand*	*zloty thousand*	*zloty thousand*
The Board's member name and surname	*Value of (gross) remuneration paid by the Company*	*Value of (gross) remuneration paid by the Company's subsidiaries*	*In total:*	*including variable elements of remuneration**
Zygmunt Artwik	689,0	2,7	691,7	2,7
Aleksander Grad	686,4	0,6	687,0	424,9
Adrian Kaźmierczak	512,6	1,8	514,4	25,9
Adam Kłapszta	155,2	0,7	155,9	0,7
Aneta Lato-Żuchowska	321,0	2,8	323,8	2,4
Wojciech Piskorz	0,0	1,6	1,6	1,6
Katarzyna Sobierajska	0,0	260,0	260,0	20,0
Tomasz Zadroga	540,0	3,8	543,8	3,8
total	2 904,2	274,0	3 178,2	482,0

* *The variable remuneration components included: awards and bonuses, severance pays for dismissal of the Board, equivalents for holiday, a post-retirement benefit and remunerations for participation in meetings of the supervisory boards*

Table 17: Information on the value of non-cash benefits paid by the Company as well as the Company's subsidiaries to all acting Board members in 2016

	zloty thousand	*zloty thousand*	*zloty thousand*
The Board's member name and surname	*Total estimated value of non-cash benefits granted by the Company*	*Total estimated value of non-cash benefits granted by the Company's subsidiaries*	*In total:*
Zygmunt Artwik	1,2	0,0	1,2
Aleksander Grad	0,4	0,0	0,4
Adrian Kaźmierczak	23,2	0,0	23,2
Adam Kłapszta	0,6	0,0	0,6
Aneta Lato-Żuchowska	0,6	0,0	0,6
Wojciech Piskorz	0,0	0,0	0,0
Katarzyna Sobierajska	0,3	0,6	0,9
Tomasz Zadroga	1,1	0,0	1,1
total	27,4	0,6	28,0

The total amount of remuneration, understood as the value of remuneration, prizes and benefits received in cash, in kind or in any other form, paid by the Company and the Company's subsidiaries to the Management Board members in 2016 amounted to zloty 3,206.2 thousand. The given amount must be treated as the gross value of remunerations paid or to be paid in the period from 1 January to 31 December 2016.

The members of the ZE PAK SA. Supervisory Board are remunerated on the basis of the Resolution No. 4 of the Extraordinary General Meeting of 21 February 2013, which fixed the monthly salary for the Chairperson of the Supervisory Board in the amount of zloty 15 thousand, and for other members in the amount of zloty 10 thousand.

Table 18: Information on the value of paid remuneration as well as the value of non-cash benefits paid by the Company as well as the Company's subsidiaries to all acting Supervisory Board members in 2016

	zloty thousand	*zloty thousand*	*zloty thousand*
Name and surname of Supervisory Board member	*Value of (gross) remuneration paid by the Company and the Company's subsidiaries*	*Total estimated value of non-cash benefits granted by the Company and the Company's subsidiaries*	*In total:*
Zygmunt Solorz	162,9	0,0	162,9
Henryk Sobierajski	120,0	0,0	120,0
Wojciech Piskorz*	198,8	0,0	198,8
Leszek Wysłocki	120,0	0,0	120,0
Lesław Podkański	120,0	0,0	120,0
Wiesław Walendziak	120,0	0,0	120,0
Ludwik Sobolewski	120,0	0,0	120,0
Tomasz Szeląg	57,1	0,0	57,1
total	1 018,8	0,0	1 018,8

* *Together with remuneration for temporary secondment to act in the Company's Management Board.*

The total amount of remuneration, understood as the value of remuneration, prizes and benefits received in cash, in kind or in any other form, paid by the Company and the Company's subsidiaries to the Supervisory Board in 2016 amounted to zloty 1,018.8 thousand. The given amount must be treated as the gross value of remunerations paid or to be paid in the period from 1 January to 31 December 2016.

10. GROUP'S SOCIAL RESPONSIBILITY

10.1. Involvement in environmental issues

Utilisation of the lignite deposits and the production of electricity is inevitably related to interference in the natural environment. On the other hand, one of the main goals of the ZE PAK Group is the minimisation or prevention, if possible, of negative effects on the environment. The activities conducted by the Group affect the natural environment, especially by the emission of contaminants into the air, production and processing of wastes, utilisation of waters, and introduction of sewage wastes into waters or the soil. This impact is regulated by the current regulations on environmental protection. In relation to the conducted activities, the ZE PAK Group's companies have a series of environmental approvals, including integrated approvals which regulate the operational and environmental aspects of the main and auxiliary systems. Furthermore, the Group has approvals for the utilisation of systems which are not embraced by the integrated approvals, including approvals subject to the Water Act Law and approvals for the production and processing of wastes. All the obligated companies in the Group fulfil the obligations in the scope of reporting to applicable offices, as well as make timely charges relating to the economical use of the environment.

Air protection

In 2016, general annual and monthly emission values of major pollutions into the air: SO_2, NO_X and dust from fuel combustion systems in ZE PAK SA and Elektrownia Pątnów II sp. z o.o. did not exceed the applicable levels specified in the IPPC Permits, with the exception of the average monthly dust concentrations in the Adamów Power Plant. Excesses of the standard of dust emission in the Adamów Power Plant were caused by the combustion of poor quality brown coal with the higher ash and sand content. Electrostatic precipitators installed in the Adamów Power Plant, in accordance with the assumptions, should dispose ashes from fumes from combustion of the brown coal with the ash content with sand at a certain level. PAK Kopalnia Węgla Brunatnego Adamów SA is in the last stage of operation. The Adamów Power Plant does not have the possibility of changing a supplier of coal in quantities that ensure its safe and stable operation in the national power system, and providing the heat supply to the city. Due to limitations in 2016 related to the supply of low-sulphur coal by PAK Kopalnia Węgla Brunatnego Adamów SA to the Adamów Power Plant, the standard of the emission of carbon dioxide was increased in the number of hours compliant with the environmental law.

In 2016, the 8-year operation period of the Pątnów II Power Plant, after which the first major overhauls of the system devices were started, ended.

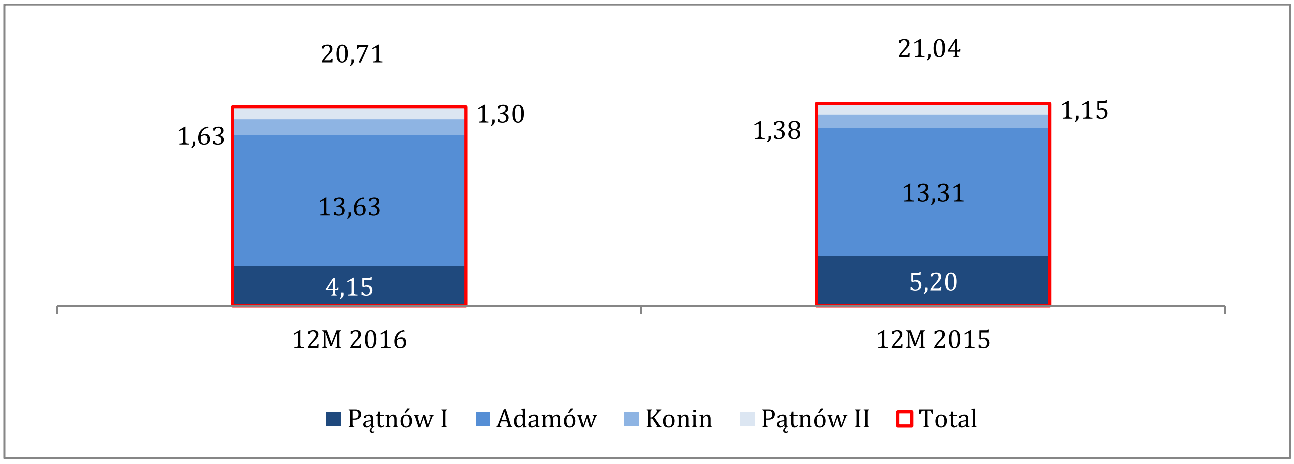
Systems for continuous monitoring of dust and gas pollutions' emissions are installed on flue stacks of all fuel combustion systems in the Group. On the basis of the annual settlement of meeting emission standards, it should be stated that:

- in the Pątnów I Power Plant – there were no excesses of concentration limits of SO_2, NO_X and dust (at the operation of two flue gas desulphurisation systems),
- in the Adamów Power Plant – excesses of permissible values of 48-hour dust concentrations (151 times) and average monthly concentrations. The projected fine is the amount of zloty 1.4 million,
- in the Konin Power Plant: there were no excesses of concentration limits of SO_2, NO_X and dust in the boiler part and the boiler combusting biomass,
- in the Pątnów II Power Plant – excesses of average daily values of concentrations of NO_X (2 times) and SO_2 (6 times) were recorded.

On the basis of the measurements carried out for resources and systems of the combustion of fuels in PAK KWB Konin SA and PAK KWB Adamów SA, there were no excesses of concentration limits of SO_2, NO_X, and dust, which demonstrates the maintenance of emission standards and acceptable emissions specified in the sector permit for emission of gas and dust to the air. The calculated annual emissions for 2016 also did not exceed the values allowed by the permit.

The attached charts illustrate the annual emissions of air pollutants in 2015 and 2016.

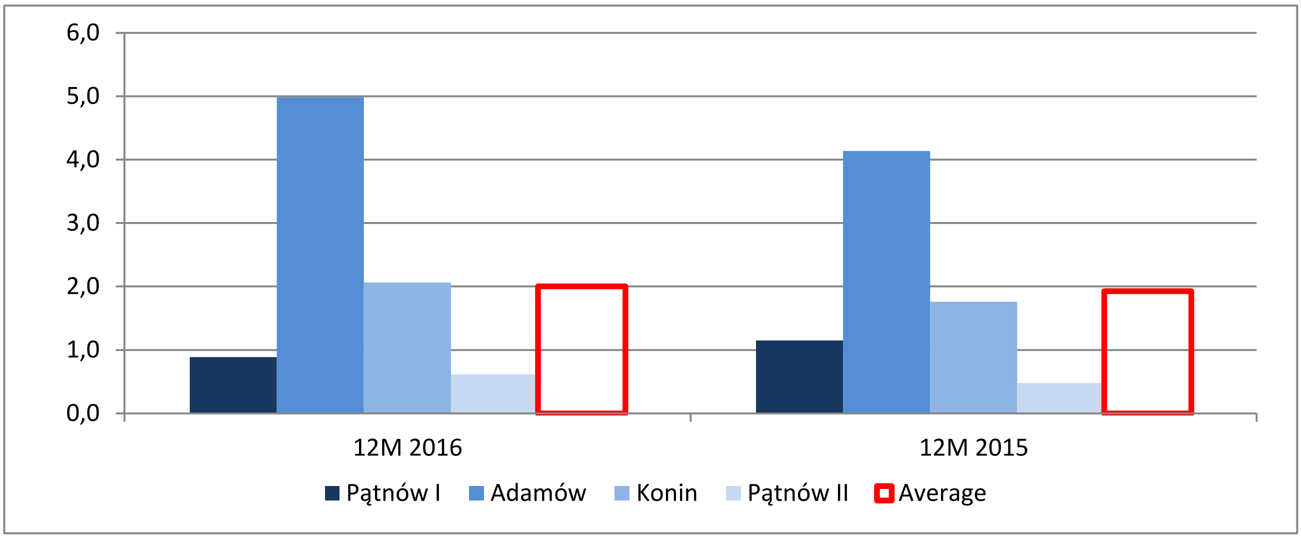
Chart 15: SO_2 Emission(in tons thousand)*



* *Data do not include relatively small quantities of SO_2 from the Group's mines, which were 0.037 thousand tonnes in 2016.*

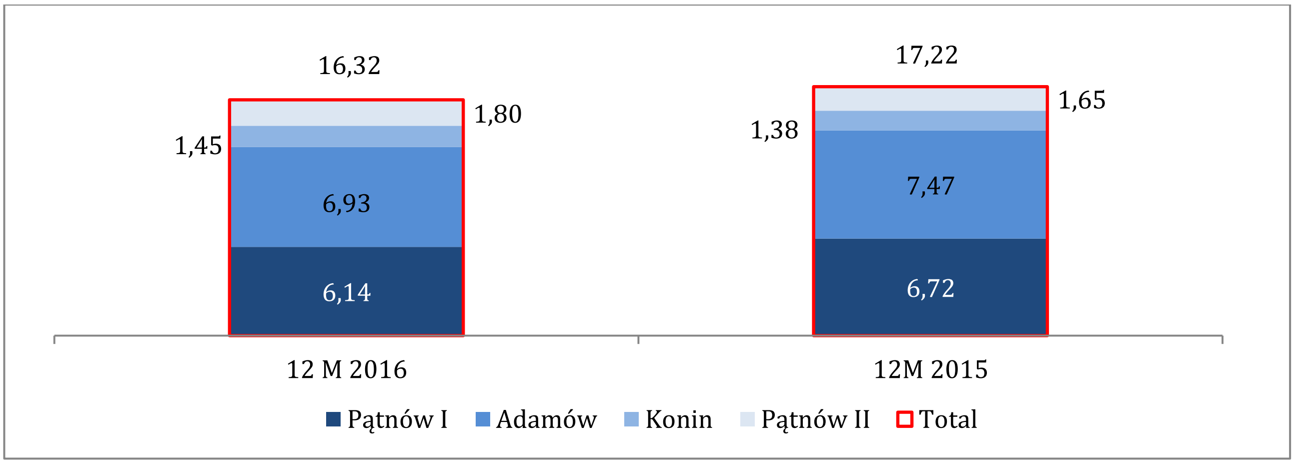
Source: internal data

Chart 16: SO_2 emission per generation unit in particular power plants (tons thousand/TWh)



Source: internal data

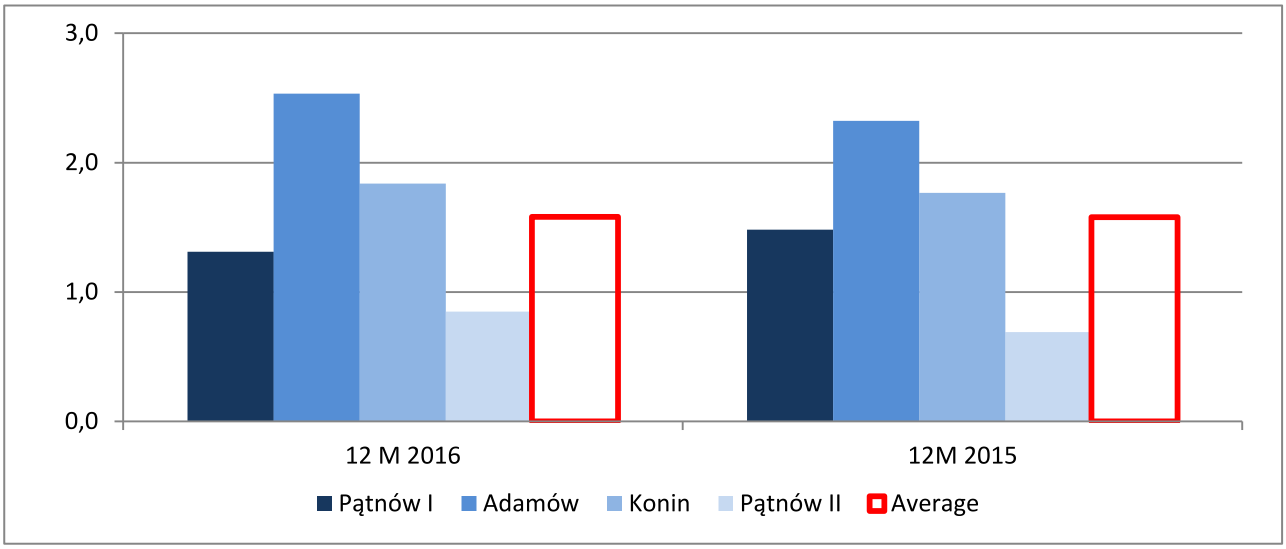
Chart 17: NO_X Emission (in tons thousand)*



* *Data do not include relatively small quantities of NO_X from the Group's mines, which were 0.019 thousand tonnes in 2016.*

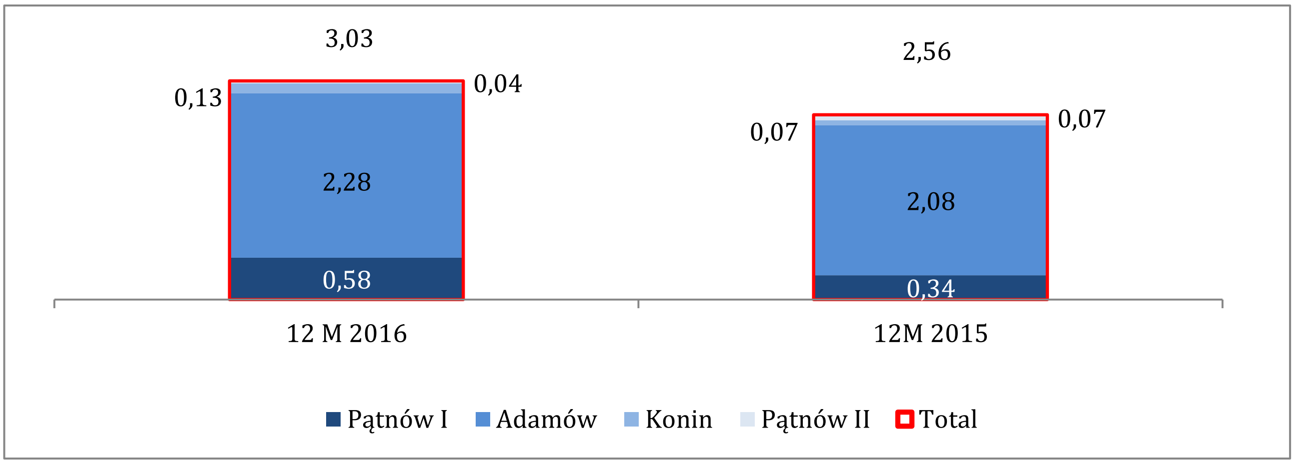
Source: internal data

Chart 18: NO_X emission per generation unit in particular power plants (tons thousand/TWh)



Source: internal data

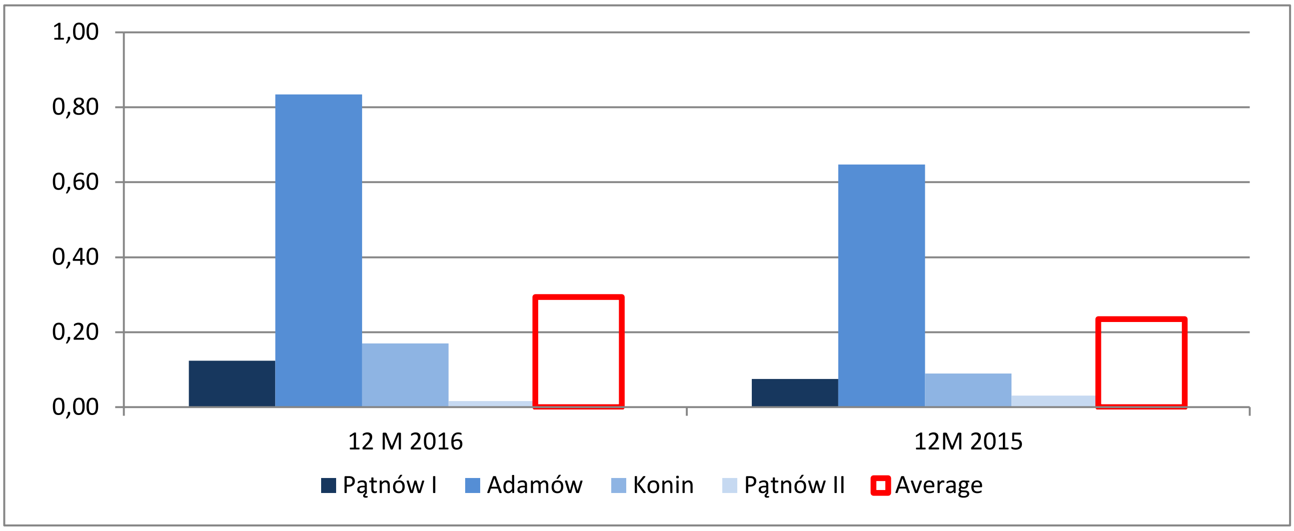
*Chart 19:Dust emission * (in tons thousand)*



* *Data do not include relatively small quantities of dust from the Group's mines, which were 0.023 thousand tonnes in 2016.*

Source: internal data

Chart 20: Dust emission per generation unit in particular power plants (tons thousand/TWh)



Source: internal data

The Group's power plants pass their emission reports for 2016 of four fuel combustion systems on time to the National Centre of Emission Balancing and Management within meeting the reporting obligations. While pollutant release and transfer registers (PRTR) from all the Group's power plants are submitted to the Chief Inspectorate of Environmental Protection. Within the Central Statistical Office's reporting, on the CSO's reporting portal, reports for 2016 for particular power plants were generated. Schedules of charges for 2016 submitted to the Marshal Office of the Wielkopolska Province also include a list of additional pollutions emitted from the systems' flue stacks fixed installation as a result of specialised tests that were undertaken in 2010-2015.

In connection with ZE PAK SA joining the Transitional National Plan (PPK) for 6 boilers of the Pątnów I Power Plant and 4 boilers of the Konin Power Plant in terms of SO_2, NO_2 and dust in the period from 1 January 2016 to the expiry of the settlements within the Transitional National Plan, but not later than until 30 June 2020, the balancing of annually allocated emission ceilings. The amount of the emission of SO_2, NO_2 and dust from resources of the Pątnów I Power Plant and Konin Power Plant for 2016 is settled in accordance with the Transitional National Plan and is within the acceptable amounts.

From 1 January 2016, the Adamów Power Plant for all 5 boilers started the time limit for the source use amounting to 17,500 hours to 31 December 2023 or in a shorter period, if it is used before 31 December 2023. In 2016, the total time of using the source was 8,734 hours.

In ZE PAK SA and Elektrownia Pątnów II sp. z o.o., the analytical works, which allow to determine the scope of modernisation works in the power plants upon the entry into force of BAT Conclusions, are in progress. The expected validity period of these requirements is the period after 2020.

The monitoring of the air pollutant immission in the area of the impact of the Group's power plants is also conducted. It is executed through measurements in two automatic measuring stations in the vicinity of the Pątnów I, Pątnów II, Konin and Adamów Power Plants. In 2016, no significant excesses of the tested factors' permissible values were recorded. The comparison of the atmospheric air condition around the Group's power plants and the level of air pollution in the areas monitored by the Provincial Environmental Protection Inspectorate of Wielkopolska's stations do not show any deviations.

Water and waste water management

The Pątnów I, Konin and Pątnów II Power Plants use the string of natural glacial lakes connected with canals and pumping stations, as a cooling system. The Adamów Power Plant, due to the lack of natural water reservoirs, is equipped with cooling towers. Konin lakes are a team of water reservoirs which consists of the following lakes: Gosławskie, Pątnowskie, Wąsowsko-Mikorzyńskie, Ślesińskie and Licheńskie. These lakes are an example of many anthropogenic impacts. In addition to the impact of power engineering, the lakes are also subject to the impact of open-pit mining, fishing and tourism. ZE PAK SA conducts constant monitoring of the waters of Konin lakes and on the basis of these studies, where appropriate, undertakes actions preventing the negative impacts of own activities. The monitoring conducted for many years also allows to thoroughly observe changes in the observed environment. Within each of the power plants, there are deep water wells that supply drinking water to the personnel. Until 2014, in the Pątnów I Power Plant, deep underground water was also used for process purposes – the production of demi water. Starting from 2015, demi water has been already produced in a modern demineralisation station, where surface water is a raw material. The performance of the station allows to meet the needs of both the Pątnów II and Pątnów Power Plants. This is of enormous importance taking into account the economical use of groundwater resources. Each of the ZE PAK SA power plants have its own domestic and industrial waste water treatment plant. Treated waste water is discharged to the receivers and their parameters are regularly examined. In 2016, no excesses of permissible parameters of discharged and treated waste water were recorded. Waste process water, which is difficult to treat in the treatment plant, is managed in the internal system of power plants for, among others, the production of fly ash suspension. Then, the mutual neutralisation takes place without a negative impact on the environment. In the summer, the plant particularly takes care of not exceeding temperatures in the waters of lakes and canals, included in the cooling system.

The mines carried out the quality studies and measurement of water quantities released to the environment and monitoring of surface and underground waters in the hydrographic network within the area of individual open pits. On the basis of these studies, if necessary, the measures to prevent negative impacts of mining activities were taken. The monitoring conducted for many years also allows to thoroughly observe changes in the observed environment. In 2016, on the basis of the conducted studies, there were no excesses of acceptable pollution indicators in the discharged waters from drainage. Within the Central Statistical Office's reporting, on the CSO's reporting portal, registers for 2016 on water management, waste water and pollutant loads were generated. The pollutant release and transfer registers from the open pits will be submitted to the Provincial – and Chief – Inspectorate of Environmental Protection in due time.

The legislature, through legal acts and standards specified in them, affects the shape of the company's activity, specifying the permissible concentration and volumes of pollutants and introducing charges for using the environment in accordance with the "polluter pays" principle. By taking the above into account and promoting a high level of environmental awareness, the Group undertakes preventive measures in order to reduce the negative impact on the soil and water environment to a minimum.

Waste

Technological processes (fuel combustion, vent gas treatment and water treatment processes) are the source of generated waste in the ZE PAK SA Group. Other types of waste – mainly after repair – are produced in small quantities. Firstly, the produced waste is directed to be used in the waste recovery operations to the external recipients or it is used by the Group on its own areas (e.g. for shot peening, reclamation of closed parts of waste landfills). Despite the significant increase in the quantity of sold waste, a part of waste generated in the Group is still disposed on own waste landfills:

- combustion waste landfill, the Gosławice Open Pit with the Linowiec vaporiser,
- northern combustion waste landfill, the Pątnów Open Pit,
- combustion and solid waste landfill, the Western Open Pit,
- solid waste landfill, the Pątnów Open Pit,

The waste, sold to external recipients, is mainly used in the construction and road engineering. In 2016, the Group sold over 326 thousand tonnes of combustion waste and over 286 thousand tonnes of synthetic gypsum (flue gas desulphurisation waste). The combustion and flue gas desulphurisation waste generated in ZE PAK SA meet the requirements of environmental protection and does not endanger human life and health, which was confirmed by tests in the field of physico-chemical, toxicological and ecotoxicological properties executed for the needs of registration of substances in accordance with the REACH regulation's requirements.

On waste landfills operated by ZE PAK SA, in 2016, monitoring of the groundwater, surface and supernatant water quality with the frequency specified in the IPPC permits was conducted. The monitoring was carried out in the network of basic and supplementary monitoring. Within the monitoring of waste landfills, annual assessment of the stability of slopes and the subsidence volume was conducted. Most of the monitored slopes proved to be stable.

In 2016, ZE PAK SA also completed the reclamation of the closed section of the solid waste landfill, the Pątnów Open Pit. The total area under reclamation was 11.836 ha. For the part of the area of 9.23 ha, an afforestation reclamation direction was adopted, however, for the area part of 2.606 ha, a special direction (stockyard) was adopted. In 2016, ZE PAK SA also continued the reclamation of the closed section of the combustion waste landfills, the Gosławice Open Pit, and the works were carried out in this landfill with the area of 30.8353.

Noise

Within the obligation of monitoring noise emitted into the environment imposed by the IPPC permits for the fuel combustion systems in the Group's power plants in 2016, measurements of noise from the Adamów Power Plant's and Konin Power Plant's areas. The noise measurements from the Adamów and Pątnów II Power Plants' area were not performed. The current measurements are from 2015. The conducted measurements showed no excess of permissible values of the noise level in the environment specified by the IPPC permit, both during the day and night. The monitoring of noise emitted into the environment in the Group's mines is conducted in accordance with applicable regulations. On the basis of the results of these measurements, if necessary, the measures to prevent negative impacts of mining activities are taken. The measurements conducted in the Group's mines in 2016 showed no excess of permissible values of the noise level in the environment specified by the regulation, both during the day and night, for given sound protection areas.

Inspection, verification of IPPC permits and new legal requirements

In 2016, the Provincial Inspectorate of Environmental Protection in Poznań – Delegation in Konin ("WIOŚP") conducted 5 inspections in the Group's power plants, however, the State County Sanitary Inspectorate in Konin carried out inspections within the framework of control and review monitoring of ground water from the deep-water wells of the Pątnów Power Plant and Konin Power Plant. As their result, no fines were imposed on ZE PAK SA. The post-inspection recommendations were implemented. In the Group's mines, the Provincial Inspectorate of Environmental Protection conducted one inspections in the Tomisławice open pit. No fines were imposed and no post-inspection recommendations were issued.

Last year, the Marshal Office of the Wielkopolska Province conducted an analysis of the IPPC Permit for the fuel combustion system in the Konin and Pątnów Power Plants. The analysis of the IPPC permit was conducted in accordance with Article 216 paragraph 1 of the Act of 27 April 2001, Environmental Protection Law, pursuant to which the authority, competent to issue a permit, analyses the issued IPPC permit at least once every five years. As a result of the carried-out analysis of the IPPC permit, there were no post-inspection recommendations, which oblige to the change of the IPPC permit, imposed on ZE PAK SA. Other recommendations resulting from the carried-out verification had a nature of minor comments and focused on the noise emission to the environment.

The European Chemicals Agency ("ECHA"), under the REACH regulation, continued the verification process of the registration documentation concerning generated ash and gypsum submitted by ZE PAK SA and Elektrownia Pątnów II sp. z o.o. in 2016. Within the verification, it was not necessary to conduct additional tests for the registered substances. In 2016, both companies, in accordance with the ECHA recommendation, updated the registration dossier for the registered gypsum.

Site reclamation

The Group's companies executing extraction activities using the excavation method are obligated pursuant to applicable regulations to reclaim the areas used in the process of obtaining brown coal. Technical and biological reclamation is executed in the excavated areas. The reclamation is conducted in the following directions: water, forest, agricultural, and recreational.

The technical reclamation executed by the Mines or pursuant to their commission first of all comprised of:

- levelling and profiling the land in order to prepare the surface for seeding,
- execution and maintenance of surrounding trenches in order to ensure anti-erosive protection of slopes and gravity drainage of water and water underlying in dumps.
- execution of reclamation roads, forest tracks, and access roads to reclaimed lands.

On the other hand, the biological reclamation included the works involving:

- planting trees and bushes; in total, in the Konin Mine, 243.1 thousand pieces of trees and bushes were planted, including the ones obtained from the outskirts of open pits in the amount of 11.77 thousand of pieces, in the Adamów Power Plant – 39 thousand pieces of trees.
- agrotechnical cultivation and seeding of mixtures of alfalfa and grass as well as mineral fertilisers in the areas developed for agricultural and recreational reclamation,
- anti-erosive protection of reservoir embankments of the reservoir by agrotechnical cultivation and seeding mixtures of grass and Leguminosae plants,
- cultivation of planted trees and bushes (distribution of fertilisers as well as reaping of grasses and weeds),
- decalcification of dumps for the agricultural and recreational reclamation.

Trees were planted in accordance with decisions to remove trees or bushes from the outskirts of open pits:

- in 2016, in total, within planting trees in accordance with the decisions to remove trees and bushes from the outskirts of an open pit, 660 pieces of trees and bushes were planted, which in 2019-2020 will result in redemption of fees for untimely tree removal in the amount of over zloty 1.4 million,
- decisions redeeming fees for untimely tree removal in the amount of over PLN 250 million, concerning plantings in 2012 and 2013, were obtained.

Table 19: Specification of sizes of areas subject to technical reclamation, during biological reclamation and seeding, as well as areas with a decision regarding the successfully executed reclamation in 2016.

Technical reclamation (in hectares)	*Biological reclamation in progress (in hectares)*	*Completed biological reclamation (in hectares)*
231,9	650,6	173,03

Environmental management system – ISO 14001

The ZE PAK Group, within their operation, tries to meet the highest standards. This also applies to environmental protection issues. Any tools to support activities in this field are subject to inspection and verification in terms of achieved performance. In the assessment of the Management Board of the Company, standards implemented in over 80% of the systems operated by the Group in accordance with the requirements of the environmental standard ISO 140001 are the one of the most important elements of quality control system.

10.2. Employment and employee issues

The below table presents the specification of the average employment rate in 2014-2015. .

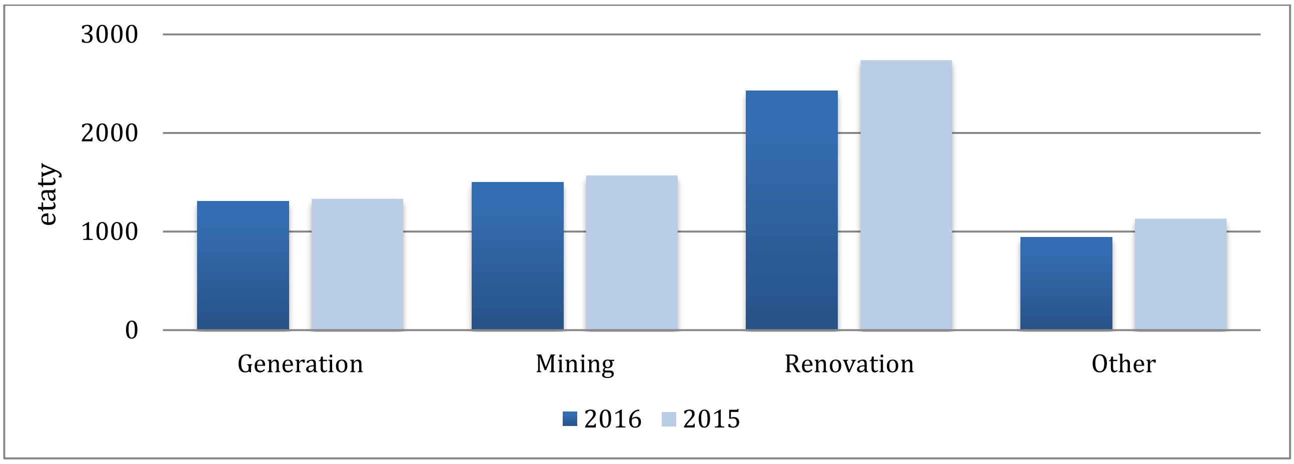
Table 20: Specification of the average employment rate

	2016 *full time*	*2015* *Full time*	*Full time*	*change* *%*
Management Board of a parent company	5	4	1	25,0
Management Boards of a subsidiaries	24	25	-1	-4,0
Administration	377	338	39	11,5
Operational	5 956	6 663	-707	-10,6
Total	6 362	7 030	-668	-9,5

Source: internal data

The average employment in both comparable periods decreased by 668 FTEs, i.e. about 9.5%. The employment increase in the "administration" category is only a statistical effect, and it results from a change in the organisational structure of one of the subsidiaries, which involves a change in subordination of two organisational units in the Production division unit to the Administration division unit. In the previous year, such dynamic changes in the employment structure, in terms of the number of people employed in the Group's particular segments, were not observed. In the previous year, these changes were a consequence of the restructuring processes started as early as in 2014 conducted with the particular focus on the mining segment. The Group, within the employment structure optimisation strategy, distinguished groups of employees providing precise services for these entities from both mines and transferred them mainly to the companies of the renovation segment. These activities were aimed at improved use of the potential of these employees thanks to a better possibility of controlling the work performance. The motive also included greater flexibility of the remuneration system. In 2016, this process was completed.

Chart 21: Changes in the employment level in the particular Group's segments (as of the end of the year).



Source: internal data

In 2016, as in the previous year, the renovation segment employs the most employees in the Group. The employment in the generation and mining segment remained stable. The employment decrease was reported in the renovation and other segments. The Group is characterised by the fact that employees, hired in companies of the renovation and other segments, provide services for two main segments, i.e. generation and extraction, at the same time, trying to gain clients outside the Group.

In terms of education, the largest group among employees are persons with secondary education.

Table 21: Structure of education of the Group's employees (in persons), status at the end of 2016.

Education level	*Number of employees*
University education (bachelor's degree, master's degree, postgraduate studies, PhD, professors)	1 527
Secondary education (general upper secondary school, technical upper secondary school, post-secondary non-tertiary schools)	2 393
Vocational education (basic vocational, vocational training)	1 939
Elementary education (primary school, lower secondary school)	337
Total	6 196

Source: internal data

The biggest group of employees are persons aged 46-50. Women are 9.5% of the Group's personnel. The staff structure is largely determined by the type of activities it executes. The extraction and energy generation segments are fields requiring high input of heavy physical labour.

Table 22: Structure of gender and age of the Group's employees (in persons), status at the end of 2016.

Age	*Female*	*Male*	*Total*
below 30 years	46	657	703
31-40 years	91	934	1 025
41-45 years	76	1 067	1 143
46-50 years	80	1 423	1 503
51-55 years	140	761	901
56-60 years	140	761	747
above 60 years	18	156	174
Total	591	5 605	6 196

Source: internal data

Due to the specificity of the fields, in which the Group operates, special attention is paid to issues regarding the Occupational Health & Safety. The great importance is attached to employing persons with proper qualifications for the execution of tasks entrusted to them. The Group provides its employees with equipment and machines of proper parameters and attestation, allowing for effective and safe execution of their responsibilities. By taking into account the Group's key companies, the number of people injured in 2016 at work decreased by c. 11% compared to 2015. Last year, one accident, which belongs to the "fatal and serious" category, happened, while in 2015, two such accidents happened at work.

10.3. Involvement in social issues

The ZE PAK Capital Group does not limit its employees in their rights related to the possibility of free association. By taking into account the main companies of the Group, the number of operating company and inter-company trade union organisations is 15, and at the end of 2016, they affiliated a total of approx. 3 thousand members.

The energy sector poses very high qualification requirements to its employees, in particular, in two fields. The first one is related to the specificity and technology of electricity and heat generation, which are strictly regulated by specialised instructions, which guarantee correctness and safety of production processes. The second is the need to ensure the continuous training of employees, which will make it possible to keep up with the continuous technology development in the sector. There is also specialist training in other fields and the overall development of the qualification level of employees. The training in the ZE PAK SA Group constitutes one of the methods for influencing the development. It is mainly related to the fact that the employees, who develop, acquire new qualifications, and then, they will use them in in activities, which contributes to measurable effects. They are encouraged to put the obtained knowledge, skills, and greater creativity into effect. Within the framework of the continuous development of competence, the employees are sent to different types of training, among others: mandatory, specialised industry conferences and different kinds of other meetings. In 2016, the training carried out in the ZE PAK SA Group was mainly related to the energy law, environmental protection, as well as the trainings for engineers, trainings on human resources and finance, and periodic first aid trainings.

The ZE PAK SA Capital Group perceives its functioning in the environment, taking into account all the standards and expectations relevant to its employees, local community as well as other stakeholder groups. The rules applied in the Group definitely exclude any forms of harassment, forced labour or employment of minors. The great attention is paid to prevention of the occurrence of any possible types of corruption or e.g. unequal treatment of the Group's business trade partners. The internal rules and adopted standards prevent from making activities commonly regarded as unethical in this scope.

Within the framework of shaping appropriate relations with the external environment and taking into account financial and organisational possibilities, the Group tries to support initiatives and projects, which have positive effects for the local community or those with a greater range. In 2016, the Group financially supported one project, i.e. International Children's Song and Dance Festival in Konin ["Międzynarodowy Dziecięcy Festiwal Piosenki i Tańca w Koninie"]. For many years, the Company cooperates in funding the diplomas and prizes for the festival participants

11. OTHER INFORMATION

11.1. Significant court proceedings

In 2016, Zespół Elektrowni Pątnów – Adamów – Konin SA and the consolidated companies under the Group were not a party in any proceedings pending before a court, a body competent for arbitration proceedings or a public administration body, whose single or total value would exceed 10% of equity of ZE PAK SA, except the ones specified below.

In light of the regulations mandatory within the European Union, especially regulations of Article 21 paragraph 5 of the Energy Directive, in relation to Article 6 paragraph 1 of the Horizontal Directive, after 1 January 2006, the object of excise tax is sale of energy at the last stage of trade, i.e. sale by the distributor to the final recipient (consumer). Taxation with this tax does not cover an earlier stage of trade, e.g. between the producer of electricity and its distributor. In this case, the tax obligation arises at the time of supply of electricity to the consumer.

Due to the above fact, pursuant to Article 75 § 1, in relation to Article 75 § 2 of the Act of 29 August 1997 – Tax Ordinance (Polish Journal of Laws of 1997; Dz.U. no. 137, item 926, as amended), ZE PAK SA submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008, as well as January and February 2009 for the total amount of zloty 626 000 thousand, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK SA are not subject to the excise tax. Particular applications were recognised at the following levels: the Customs Office in Kalisz, the Customs Chamber in Poznań, and, currently, the Provincial Administrative Court in Poznań, as well as the Supreme Administrative Court.

In relation to the decisions of the Administrative Courts in the cases of other energy companies in the subject of the overpaid excise tax, ZE PAK SA, in cooperation with a tax advisor, analysed the resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011, where the Supreme Administrative Court recognised that the pass-through of the tax load to the price excludes the possibility of refunding the overpayment. The justification of the resolution allows for the assumption of the risk that tax authorities will dismiss any claims regarding the refunding of overpayments indicating that the tax proceeding is not appropriate for such type of claims. In such case, it is possible to seek them under civil law, as a result of which expiration (on the grounds of civil law this term is 3 years) becomes a significant issue. In relation to the above fact, on 10 February 2012, ZE PAK SA submitted to the District Court of Warszawa Śródmieście a summons for the State Treasury for a conciliatory hearing for the amount of approx. zloty 626 406 thousand and thus stopped the statute of limitation. A conciliatory settlement was not reached since during the hearing of 16 April 2012, the representatives of the Treasury did not agree to settle. Simultaneously, the Company, waiting for the results of the tax proceedings regarding the previously submitted application for overpayment, submitted in writing, on 14 September 2012, in the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic analysis, the purpose of which was to demonstrate whether the Company suffered loss related to the payment of excise tax to which it was not obliged. The Company's opinion is that the submitted document also applies to other overpayment applications from the entire period embraced by the proceedings, i.e. between January 2006 and February 2009. Ultimately, all applications were included in the cause lists of the Provincial Administrative Court (WSA) and the Supreme Administrative Court (NSA). As of the date of development of this statement, the status of the proceeding is as follows:

- Twenty-two cases for the period of January 2006 – November 2007 (excluding November 2006) were conducted again from the start by the Head of the Customs Office, after the cases returned from the Supreme Administrative Court. The Company included monthly economic analyses of suffering the prejudice. After the negative decisions of the Head of the Customs Office and then of the Head of Customs Chamber, complaints were submitted to the Provincial Administrative Court in Poznań, Hearings before the Provincial Administrative Court in Poznań took place on 4 and 18 November 2015. In all cases, negative judgements for the Company were issued. In February 2016, the Company submitted cassation appeals to the Supreme Administrative Court.
- 14 proceedings for the period of December 2007 – February 2009 (excluding July 2008) on 26 January 2017, hearings took place before the Provincial Administrative Court in Poznań. In all the cases, the Company's appeals against the Customs Chamber in Poznań were dismissed. The Company submitted applications for a written justification of the judgement, which were obtained on 7 March 2017, to the Provincial Administrative Court. Currently, the Company analyses justifications and prepares the applications of cassation appeals to the Supreme Administrative Court.
- the proceeding for November 2006 was concluded with a negative judgement of the Supreme Administrative Court of 8 December 2011.
- the proceeding for July 2008 reached the recognition of our cassation appeal by the Supreme Administrative Court. On the hearing on 29 April 2015, the Supreme Administrative Court dismissed the Company's cassation appeal and pointed out that it fully agrees with the Provincial Administrative Court in Poznań in the judgement, against which the cassation appeal was submitted

The Company will take further actions depending on the provisions of the issued decisions.

In the case of EP II, the proceeding for all periods (one case) was included in the cause lists of the Provincial Administrative Court after the decision of the Head of Customs Chamber, which was negative for the Company. The Company does not have analyses because it did not run activities in 2001 and there is no comparative data. On 4 November 2015, a hearing in the Provincial Administrative Court took place. On 18 November 2015, a negative judgement was given. On 8 February 2016, the Company filed a cassation appeal to the Supreme Administrative Court.

On 1 March 2009, the Act of 6 December 2008 on excise tax came into effect, and pursuant to which, the sale of electric energy to an entity, which is not its final recipient, is not subject to excise tax.

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

Administrative Court in Poznań decided that the environmental decision, pursuant to which the license for the extraction of lignite at the Tomisławice deposit was granted, infringes the regulations of the law in a major manner. PAK KWBK SA and the Self-government Appeal Court submitted an appeal against this judgement. On 21 March 2012, the Supreme Administrative Court revoked the contested decision of the Provincial Administrative Court in Poznań and handed over the case for the judicial review. On 6 November 2012, the Provincial Administrative Court in Poznań announced the decision revoking the decision of the Self-government Appeal Court of 25 March 2009 on dismissing the statement of invalidity of the environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open pit by PAK KWBK SA On 7 January 2013, PAK KWBK Konin SA submitted a cassation appeal from the described decision. After the review on the hearing on 7 October 2014, the Supreme Administrative Court dismissed the PAK Kopalnia Węgla Brunatnego Konin SA's cassation appeal from the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 revoking the decision of the Self-government Appeal Court in Konin of 25 March 2009 dismissing the statement of invalidity of the environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open pit.

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court. On 1 October 2015, the Self-government Appeal Court issued a decision to suspend the proceedings on the statement of invalidity of the environmental decision issued by the Head of the Wierzbinek Commune in connection with the unfinished European Commission proceedings against the Polish government on breach of the provisions concerning the environment protection in connection with the lignite deposit in Tomisławice.

The decision of the Supreme Administrative Court in Warsaw of 7 October 2014 does not invalidate the environmental decision issued by the Head of the Wierzbinek Commune and does not halt the extraction and utilisation works at the Tomisławice open pit. The environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune is still in legal transactions, and until the issue of a final judgement by the Self-government Appeal Court, it exerts legal effects.

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director of Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017 refusing to determine the environmental conditions for the project titled: "Extraction of brown coal and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. The decision may be appealed against to the Chief Director of Environmental Protection via the RDOŚ in Poznań within 14 days after the date of delivery. PAK KWB Konin SA will appeal against the issued decision in an appropriate manner. According to the assessment of the Company's Management Board, there are real premises to expect that the PAK KWB Konin SA's appeal will be considered positively. According to the Company, the issued decision is devoid of substantive arguments and has not been supported by expert's reports confirming the negative impact on the environment in the case of application of the solutions proposed by PAK KWB Konin SA. The environmental decision proceeding was initiated on September 16, 2015.

Other legal proceedings have been described in the consolidated financial statement of the Group in point 34.1.

11.2. Significant achievements in the field of research and development

As of the date of this report, the ZE PAK Capital Group Companies do not conduct research and development works, which would have material relevance for the Group. Furthermore, the Group has not assigned major financial expenses for research and development works.

11.3. Information on the auditing of the financial statement

The Agreement on the Company's financial statement audit and the Group's consolidated financial statement with the entity entitled to audit financial statements, i.e. Ernst & Young Audyt Polska, a limited liability company, a limited partnership, with its registered office in Warsaw, Rondo ONZ 1, was concluded on 17 August 2016.

The information regarding the remuneration of the entity authorised to the audit of financial statements was presented in section 38 of the Group's consolidated financial statement for 2016.

11.4. Financial forecasts

The Capital Group has not published the financial forecasts. The Group does not intend to present forecasts for 2017.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS:

Adam Kłapszta ....

Aneta Lato-Żuchowska ....

Zygmunt Artwik ....

Elżbieta Niebisz ....