

# **ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA CAPITAL GROUP**

## **INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2016**

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

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## INTERIM CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the period of 6 months ended 30 September 2016*

		9 months period ended 30 September 2016 (unaudited)	3 months period ended 30 September 2016 (unaudited)	9 months period ended 30 September 2015 (unaudited)	3 months period ended 30 September 2015 (unaudited)
<b>Continuing operations</b>	<i>Note</i>	0	0	0	0
<b>Sales revenue</b>	<i>12.1</i>	<b>2 053 540</b>	<b>686 020</b>	<b>2 254 784</b>	<b>747 262</b>
Cost of goods sold	<i>12.6</i>	(1 677 507)	(570 220)	(2 122 847)	(699 115)
<b>Gross profit / (loss)</b>		<b>376 033</b>	<b>115 800</b>	<b>131 937</b>	<b>48 147</b>
Other operating income	<i>12.2</i>	18 747	7 773	15 396	4 004
Selling and distribution expenses	<i>12.6</i>	(3 105)	(966)	(3 018)	(1 094)
Administrative expenses	<i>12.6</i>	(71 791)	(23 996)	(86 705)	(29 847)
Other operating expenses	<i>12.3</i>	(8 157)	(5 864)	(3 755)	(1 012)
<b>Gross profit / (loss) from operations</b>		<b>311 727</b>	<b>92 747</b>	<b>53 855</b>	<b>20 198</b>
Finance income	<i>12.4</i>	6 334	1 160	7 775	(3 843)
Finance costs	<i>12.5</i>	(55 591)	(9 414)	(35 148)	(9 187)
<b>Profit / (loss) before tax</b>		<b>262 470</b>	<b>84 493</b>	<b>26 482</b>	<b>7 168</b>
Income tax expense (taxation)	<i>14.1</i>	(43 805)	(5 713)	(5 161)	(1 266)
<b>Net profit / (loss) for the period from continuing operations</b>		<b>218 665</b>	<b>78 780</b>	<b>21 321</b>	<b>5 902</b>
<b>Discontinued operations</b>		0	0	0	0
Profit/ (loss) for the period from discontinued operations		-	-	-	-
<b>Net profit / (loss) for the period</b>		<b>218 665</b>	<b>78 780</b>	<b>21 321</b>	<b>5 902</b>
Net profit/ (loss) attributable to equity holders of the parent		216 208	77 804	21 179	6 076
Net profit/ (loss) attributable to non-controlling interests		2 457	976	142	(174)
<b>Earnings per share (in PLN)</b>					
Basic, for profit for the period attributable to equity holders of the parent	<i>15</i>	4,25	1,53	0,42	0,12
Basic, for profit for the period from continuing operations attributable to equity holders of the parent	<i>15</i>	4,25	1,53	0,42	0,12
Diluted, for profit for the period attributable to equity holders of the parent	<i>15</i>	4,25	1,53	0,42	0,12
Diluted, for profit for the period from continuing operations attributable to equity holders of the parent	<i>15</i>	4,25	1,53	0,42	0,12

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the period of 9 months ended 30 30 September 2016*

		<i>9 months period ended 30 September 2016 (unaudited)</i>	<i>3 months period ended 30 September 2016 (unaudited)</i>	<i>9 months period ended 30 September 2015 (unaudited)</i>	<i>3 months period ended 30 September 2015 (unaudited)</i>
<b>Net profit / (loss) for the period</b>	<i>Note</i>	<b>218 665</b>	<b>78 780</b>	<b>21 321</b>	<b>5 902</b>
<b>Other comprehensive income</b>		0	0	0	0
<i>Items to be reclassified to the profit / (loss) in subsequent reporting periods:</i>		-	-	-	-
Cash flow hedges	<i>13</i>	4 330	2 124	5 731	1 147
Exchange differences on translation of foreign entities	<i>13</i>	-	-	(6)	(7)
Income tax on other comprehensive income	<i>13,14.1</i>	(823)	(404)	(1 089)	(218)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		3 507	1 720	4 636	922
<i>Items not to be reclassified to the profit / (loss) in subsequent reporting periods:</i>		-	-	-	-
Profits / (losses) on provisions for post-employment	<i>13</i>	(1 108)	(199)	(2 139)	(548)
Income tax on other comprehensive income	<i>13,14.1</i>	210	37	406	104
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		(898)	(162)	(1 733)	(444)
<b>Net other comprehensive income</b>		<b>2 609</b>	<b>1 558</b>	<b>2 903</b>	<b>478</b>
<b>Comprehensive income for the period</b>		<b>221 274</b>	<b>80 338</b>	<b>24 224</b>	<b>6 380</b>
Comprehensive income attributable to equity holders of the parent		218 817	79 362	24 082	6 554
Comprehensive income attributable to non-controlling interests		2 457	976	142	(174)

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As of 30 September 2016*

	Note	30 September 2016 (unaudited)	31 December 2015
<b>ASSETS</b>		4 702 469	4 974 381
<b>Non-current assets</b>		3 570 092	3 714 123
Property, plant and equipment	16	3 363 533	3 475 229
Investment property		2 344	2 363
Intangible assets	18	6 252	17 389
Loans and receivables		-	-
Assets of removing overburden and other mining assets (long-term)	19	82 239	92 748
Other long-term financial assets	20.1	10 887	13 752
Other long-term non-financial assets	20.2	5 756	10 027
Amounts due from purchasers in respect of long term contracts		-	-
Deferred tax assets	14.2	99 081	102 615
<b>Total non-current assets</b>		<b>3 570 092</b>	<b>3 714 123</b>
<b>Current assets</b>		1 132 377	1 260 258
Short-term intangible assets	18	211 451	354 389
Inventories	21	126 083	157 515
Trade and other receivables	22	230 829	268 123
Income tax receivables		4 209	2 743
Short-term financial derivatives (assets)		-	-
Other short-term financial assets	20.1	77 598	76 979
Other short-term non-financial assets	20.2	15 325	12 497
Assets of removing overburden and other mining assets (short-term)	19	-	1 309
Amounts due from customers under long-term construction contracts	12.7	8 394	3 349
Cash and cash equivalents	23	458 488	383 354
<b>Total current assets</b>		<b>1 132 377</b>	<b>1 260 258</b>
Assets classified as held for sale		-	-
<b>TOTAL ASSETS</b>		<b>4 702 469</b>	<b>4 974 381</b>

*ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN S.A. CAPITAL GROUP*  
*Interim condensed consolidated financial report for the period of 9 months ended 30 September 2016*  
*(in PLN thousand)*

	Note	30 September 2016 (unaudited)	31 December 2015
<b>LIABILITIES AND EQUITY</b>		<b>4 702 469</b>	<b>4 974 381</b>
<b>Equity</b>		<b>2 106 053</b>	<b>1 884 823</b>
Issued capital		101 647	101 647
Treasury shares		-	-
Reserve capital		1 028 639	2 542 060
The capital for employee share schemes		-	-
Revaluation reserve from valuation of hedging instruments		(8 434)	(11 941)
Other reserve capital		3 472	5 877
Retained earnings / Accumulated losses		764 521	1 128 266
Net profit / (loss)		216 208	(1 881 086)
Exchange differences on translation of foreign entities		-	-
<b>Equity attributable to equity holders of the parent</b>		<b>2 106 053</b>	<b>1 884 823</b>
Equity attributable to non-controlling interests		-	-
<b>Total equity</b>		<b>2 106 053</b>	<b>1 884 823</b>
<b>Non-current liabilities</b>		<b>1 495 092</b>	<b>1 829 696</b>
Interest-bearing loans and borrowings	25	658 001	924 519
Long-term employee benefits		77 350	77 674
Trade and other long-term financial liabilities	28.2	5 770	80 751
Long-term financial derivatives (liabilities)	28.4	5 579	8 943
Long-term subsidies	28.5	44 563	51 068
Other long-term provisions and accruals	26	327 516	334 879
Amounts due to customers under long-term construction contracts		-	-
Deferred tax liability	14.2	376 313	351 862
<b>Total non-current liabilities</b>		<b>1 495 092</b>	<b>1 829 696</b>
<b>Current liabilities</b>		<b>1 101 324</b>	<b>1 259 862</b>
Trade and other short-term financial liabilities	28.1	225 547	237 505
Current portion of interest-bearing loans and borrowings	25	411 978	386 543
Short-term financial derivatives (liabilities)	28.4	7 034	7 349
Other non-financial liabilities	28.3	52 890	122 553
Current income tax liability		3 346	5 228
Short-term employee benefits		8 533	8 783
Short-term subsidies	28.6	9 696	12 774
Amounts due to customers under long-term construction contracts	12.7	4 338	10 080
Other short-term provisions and accruals	26	377 962	469 047
<b>Total current liabilities</b>		<b>1 101 324</b>	<b>1 259 862</b>
Liabilities directly associated with assets classified as held for sale		-	-
<b>Total liabilities</b>		<b>2 596 416</b>	<b>3 089 558</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4 702 469</b>	<b>4 974 381</b>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

**For the period of 9 months ended 30 September 2016**

	Note	The period ended 30 September 2016 (unaudited)	The period ended 30 September 2015 (unaudited)
<b>Cash flow from operating activities</b>		0	0
Profit /(loss) before tax		262 470	26 482
Adjustments for:		212 399	138 580
Depreciation and amortization		151 860	274 264
Interests and shares in profits		35 870	19 896
(Profit) / loss on foreign exchange differences		6 411	221
(Profit) / loss on investing activities		1 709	(838)
(Increase) / decrease in receivables		31 199	(2 381)
(Increase) / decrease in inventories		31 432	3 517
Increase / (decrease) in payables except for loans and borrowings		(80 717)	(153 611)
Change in provisions, prepayments, accruals and employee benefits		253 850	236 555
Income tax paid		(19 758)	6 690
Allowances for emission of CO <sub>2</sub>		(199 397)	(246 375)
Other		(60)	642
<b>Net cash flow from operating activities</b>		<b>474 869</b>	<b>165 062</b>
<b>Cash flow from investing activities</b>		0	-58
Proceeds from sale of property, plant and equipment and intangible assets		2 685	513
Purchase of property, plant and equipment and intangible assets		(104 200)	(316 373)
Proceeds and expenses relating to other financial assets		5 740	56 324
Purchase of other financial assets		-	(24 590)
Acquisition of subsidiary, after deducting cash acquired		-	-
Dividends received		-	49
Interest received		4	5
Other		64	49
<b>Net cash flow from investing activities</b>		<b>(95 707)</b>	<b>(284 023)</b>
<b>Cash flow from financing activities</b>		0	0
Proceeds from issuance of shares		-	-
Purchase of treasury shares		-	-
Payment of finance lease liabilities		(11 533)	(10 062)
Proceeds from loans and borrowings and debt securities		12 640	260 762
Repayment of loans and borrowings and debt securities		(266 450)	(182 491)
Dividends paid		-	-
Interest paid		(37 034)	(40 685)
Other		(1 192)	(890)
<b>Net cash flow from financing activities</b>		<b>(303 569)</b>	<b>26 634</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>75 593</b>	<b>(92 327)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>383 319</b>	<b>355 268</b>
<b>Cash and cash equivalents at the end of the period</b>	23	<b>458 912</b>	<b>262 941</b>
of restricted use		-	-



## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the period ended 30 September 2016 (unaudited)*

	<i>Note</i>	<i>Issued capital</i>	<i>Reserve capital</i>	<i>Revaluation reserve of financial instruments</i>	<i>Other reserve capital</i>	<i>Retained earnings / Accumulated losses</i>	<i>Exchange differences on translation of foreign entities</i>	<i>Total</i>	<i>Non-controlling interest</i>	<i>Total Equity</i>
<b>As of 1 January 2016</b>		<b>101 647</b>	<b>2 542 060</b>	<b>(11 941)</b>	<b>5 877</b>	<b>(752 820)</b>	<b>-</b>	<b>1 884 823</b>	<b>-</b>	<b>1 884 823</b>
Net profit for the period		-	-	-	-	216 208	-	216 208	2 457	218 665
Total other comprehensive income		-	-	<b>3 507</b>	-	<b>(898)</b>	-	<b>2 609</b>	-	<b>2 609</b>
<b>Total income for the period</b>		-	-	3 507	-	215 310	-	218 817	2 457	221 274
Distribution of profits from previous years		-	(1 513 421)	-	(2 405)	1 515 826	-	-	-	-
Distribution of profits from previous years from ZFSS		-	-	-	-	(58)	-	(58)	-	(58)
The effect of the settlement of a put option on the shares of non-controlling interests		-	-	-	-	2 457	-	2 457	(2 457)	-
Other changes		-	-	-	-	14	-	14	-	14
<b>As of 30 September 2016</b>		<b>101 647</b>	<b>1 028 639</b>	<b>(8 434)</b>	<b>3 472</b>	<b>980 729</b>	<b>-</b>	<b>2 106 053</b>	<b>-</b>	<b>2 106 053</b>

Additional explanatory notes to the consolidated financial statement are its integral part.

*ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN S.A. CAPITAL GROUP*  
*Interim condensed consolidated financial report for the period of 9 months ended 30 September 2016*  
*(in PLN thousand)*

***For the period of 9 months ended 30 September 2015 (unaudited)***

	<i>Issued capital</i>	<i>Reserve capital</i>	<i>Revaluation reserve of financial instruments</i>	<i>Other reserve capital</i>	<i>Retained earnings / Accumulated losses</i>	<i>Exchange differences on translation of foreign entities</i>	<i>Total</i>	<i>Non-controlling interest</i>	<i>Total Equity</i>
<b>As of 1 January 2015</b>	<b>101 647</b>	<b>2 398 399</b>	<b>(17 741)</b>	<b>5 877</b>	<b>1 331 425</b>	<b>110</b>	<b>3 819 717</b>	<b>-</b>	<b>3 819 717</b>
Net profit for the period	-	-	-	-	21 179	-	21 179	142	21 321
Total other comprehensive income	-	-	4 642	-	(1 733)	(6)	2 903	-	2 903
<b>Total income for the period</b>	<b>-</b>	<b>-</b>	<b>4 642</b>	<b>-</b>	<b>19 446</b>	<b>(6)</b>	<b>24 082</b>	<b>142</b>	<b>24 224</b>
Distribution of profits from previous years	-	143 661	-	-	(143 661)	-	-	-	-
Dividend	-	-	-	-	(60 988)	-	(60 988)	-	(60 988)
Redemption of own shares	-	-	-	-	-	-	-	-	-
The effect of the settlement of a put option on the shares of non-controlling interests	-	-	-	-	142	-	142	(142)	-
Redemption of non-controlling interest	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	(86)	-	(86)	-	(86)
<b>As of 30 September 2015</b>	<b>101 647</b>	<b>2 542 060</b>	<b>(13 099)</b>	<b>5 877</b>	<b>1 146 278</b>	<b>104</b>	<b>3 782 867</b>	<b>-</b>	<b>3 782 867</b>

Additional explanatory notes to the consolidated financial statement are its integral part.

## **ADDITIONAL EXPLANATORY NOTES**

### **1. General information**

The Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ("the Group") consists of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ("the parent company", "the Company", "ZE PAK S.A.") and its subsidiaries (see Note 2).

The interim consolidated condensed financial statement of the Group covers the 9-month period ended 30 September 2016 and includes comparative data for the 9-month period ended 30 September 2015 and the data as of 31 December 2015. The interim consolidated condensed financial statement of comprehensive income, the consolidated income statement, and additional explanatory notes present additional financial information for the 3-month period ended 30 September 2016 and comparative data for the 3-month period concluded 30 September 2015.

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) production and distribution of heat (steam and hot water),
- 3) lignite extraction.

This interim condensed consolidated financial report of the Group for the period of 9 months ended 30 September 2016 was approved for issuing by the Management Board on 14 November 2016.

Interim financial results may not reflect the full potential to achieve the financial result for the year.

## 2. Composition of the Group

The Group is composed of Zespół Elektrowni Pątnów – Adamów – Konin S.A. and the following subsidiaries:

Entity	Seat	Scope of activities	Percentage share of the Group in capital as of	
			30 September 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	Coal mining	100,00%	100,00%
„Energoinwest Serwis” sp. z o.o.	62-510 Konin ul. Spółdzielców 3	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 with full or partial indirect share of ZE PAK SA through other entities from ZE PAK SA Group

As of 30 September 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

The Management Board of ZE PAK S.A. on the date of the report consists of:

- Adam Kłapszta Vice-President of the Management Board, acting President of the Management Board,
- Aneta Lato-Żuchowska Vice-President of the Management Board,
- Adrian Kaźmierczak Vice-President of the Management Board,
- Tomasz Zadroga Vice-President of the Management Board,
- Zygmunt Artwik Vice-President of the Management Board ,

At meeting on 11 February 2016, the Supervisory Board adopted a resolution appointing Mr. Aleksander Grad to the Management Board of the Company from 18 February 2016 year and appointed him President of the Management Board.

At the meeting on 8 April 2016, the Supervisory Board adopted a resolution appointing Mr. Adam Kłapszta to the Management Board of the Company and appointed him the Vice President of the Management Board. The resolution came into force upon adoption.

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 situation, the Supervisory Board of the Company started the procedure of selecting a new President of the Management Board. Until the completion of this procedure, the Supervisory Board had delegated the directing of the Management Board works to Mr. Adam Kłapszta, the Vice President of the Company Management Board, who has been acting as the President of the Management Board since 17 June 2016.

On 26 October 2016 Mr. Adrian Kaźmierczak resigned from the position of Vice President of the Management Board. At the same time, at the meeting on 26 October 2016 the Supervisory Board of the Company appointed Mrs. Katarzyna Sobierajska to the position of Vice President of the Management Board. The resolution came into force upon adoption.

#### **4. Basis for development of the interim condensed consolidated financial statement**

This interim condensed consolidated financial statement was developed in accordance with the International Accounting Standards no. 34 "Interim Financial Reporting" approved by the EU ("IAS 34").

The interim condensed consolidated financial statement does not include all information and disclosures required in the annual financial statement and should be read together with the consolidated financial statement of the Group for the year ended 31 December 2015 authorised for issue on 21 March 2016.

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

This interim condensed consolidated financial statement was developed with the assumption of continuing business activity by the Group's companies in the foreseeable future that is no shorter than for 12 months from 30 September 2016. On the day of approval of this financial statement, there are no reported circumstances indicating any risk to the activity continuation by the Group's companies, at the same time, the actions related to allocation of specific types of activities between the Group's companies are being carried out. The presented actions will not have an impact on limiting the range of activities conducted by the ZE PAK Capital Group.

#### **5. New standards and interpretations, which have been issued, but are not applicable yet**

- IFRS 9 *Financial instruments* (issued on 24 July 2014) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2018 or later,
- IFRS 14 *Regulatory Deferral Accounts* (issued on 30 January 2014) – according to the decision of the European Commission, the approval process of the standard in the preliminary version will not be initiated before the release of the standard in the final version – until the day of authorisation of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2016 or later,
- IFRS 15 *Revenue from Contracts with Customers* (issued on 28 May 2014), including the amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) – until the date of authorisation of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2018 or later,
- The amendments to IFRS 10 and IAS 28 *Sales or transfers of assets between the investor and the associate or joint venture* (issued on 11 September 2014) – the work leading to the approval of these changes has been postponed indefinitely by the EU - the date of entry into force was deferred by the IASB for an indefinite period,
- The amendments to IFRS 10, IFRS 12 and IAS 28 *Investment entities: Application of the exception related to the consolidation* (issued on 18 December 2014 ) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2016 or later,
- IFRS 16 *Leases* (issued on 13 January 2016) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2019 or later,
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (issued on 19 January 2016) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2017 or later,

- Amendments to IAS 7 *Disclosure Initiative* (issued on 29 January 2016) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2017 or later,
- Explanations to IFRS 15 *Revenue from Contracts with Customers* (issued on 12 April 2016) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2018 or later,
- The amendments to IFRS 2 *Classification and valuation of payment transactions based on shares* (issued on 20 June 2016) – until the date of approval of this financial statement unapproved by the EU – are applicable for annual periods beginning on 1 January 2018 or later.

At the date of approval of this consolidated financial statement for issuing, the Management Board has not yet completed work on the evaluation of the impact of the introduction of these standards and interpretations on the rules (policies) applied by the Group in relation to the Group's activity or its financial results.

## 6. Significant principles (policy) of accounting

The principles (policies) of accounting applied to development of the interim condensed consolidated financial statement are coherent with the ones applied during development of the annual consolidated financial statement of the Group for the year ended 31 December 2015, except for application of new or amended standards and interpretations applicable for annual periods beginning on or after 1 January 2016.

### **Amendments resulting from the review of IFRS 2010-2012 including:**

- Amendments to IFRS 2 Share-based payment

These amendments have a prospective application and clarify the definition of a market condition and a condition of the acquisition of allowances, and also introduce a definition of the condition related to the provision of services and the condition connected with the achievements (results) that are conditions of the acquisition of allowances. The Group does not conduct any share-based payment programmes, and consequently, the application of these amendments did not affect the Group's financial situation and activity results.

- Amendments to IFRS 3 Combination of ventures

The amendments are applicable prospectively and explain that a contingent payment that is not classified as a component of equities, is valued at fair value through profit or loss, regardless of whether it falls within the scope of IAS 39.

The application of these amendments had no impact on the financial situation and the results of the Group's activity.

- Amendments to IFRS 8 Operating segments

The amendments are applicable retrospectively and explain that:

- The entity should disclose the judgment of the Management Board in the process of applying the criteria for joining the operating segments described in paragraph 12 of IFRS 8, including a brief description of segments, which were connected and a description of economic characteristics of the segments used during the analysis of similarity of segments.
- The determination of the segment assets with the entity's total assets is required only if the data is presented to the main body responsible for taking operating decisions.

- Amendments to IAS 16 Tangible fixed assets and IAS 38 Intangible assets

The amendments are applicable retrospectively and explain that the asset component can be revalued by reference to the obtained observable data by adjusting the gross carrying amount of the asset component to the market value or by specifying the gross carrying amount proportionally so that the resulted carrying amount corresponds to the market value. In addition, redemption is the difference between the gross value and the asset carrying amount.

The amendment applies to the valuation of tangible fixed assets in accordance with the revalued amount model. The Group does not apply this valuation model.

- Amendments to IFRS 13 Fair value measurement

The amendments clarify that the removal of paragraph B5.4.12 of IFRS 9 Financial instruments: recognition and valuation was not aimed at changing the requirements on the valuation of short-term receivables and liabilities. According to the above, the entities still have the possibility of valuation of short-term low-interest rate liabilities and receivables at the nominal value, if the discount effect does not have a significant impact on the presented financial data.

The application of these amendments had no impact on the financial situation and the results of the Group's activity.

- Amendments to IAS 24 Related party disclosures

The amendments are applicable retrospectively and explain that a management unit (providing the key managerial personnel's services) is treated as a related unit for the needs of disclosures related to affiliates. In addition, the entity that uses the services provided by the management unit is required to disclose the costs incurred in this respect.

The Group does not use the services provided by the management unit.

#### **Amendments resulting from the review of IFRS 2012-2014 including:**

- Amendments to IFRS 5 Fixed assets held for sale and discontinued operation

The assets (or disposal groups) are usually disposed by sale or issuance to owners. The amendments clarify that replacing one of the methods with another will not be treated as a new disposal plan and it will be a continuation of the original plan.

The application of these amendments had no impact on the financial situation and the results of the Group's activity.

- Amendments to IAS 34 Interim financial reporting

The amendments explain that the interim disclosure requirements can be met either by posting relevant disclosures in the interim financial statement or adding references between the interim financial statement and the other report (e.g. a report on the Management Board's activity). Other information in the interim financial statement have to be available to users on the same basis and at the same time, at which the interim financial statement is available.

The application of these amendments had no impact on the financial situation and the results of the Group's activity.

- Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation

The amendments for IAS 16 and IAS 38 on the fact that the depreciation method based on revenues reflects the way, in which the entity achieves the economic benefits generated by the asset component, and not the expected way of using the future economic benefits resulting from the asset component. As a result, the method based on the revenues cannot be applied to depreciate fixed assets and its application can be correct with respect to the depreciation of intangible assets only under certain circumstances. The amendments apply prospectively.

The application of these amendments had no impact on the financial situation and the results of the Group's activity.

- Amendments to IAS 1 Disclosures

The amendments precise the existing requirements of IAS 1 concerning:

- relevance,
- aggregation and subtotals,
- order of notes,
- aggregation of information on a share in other comprehensive incomes of associates and joint ventures settled according to the equity method – disclosure in one line.

In addition, these amendments explain the requirements that apply when additional subtotals are presented in the financial situation and income statement as well as a statement on other comprehensive income.

The application of these amendments had no impact on the financial situation and the results of the Group's activity.

In addition, the following new or amended standards and interpretations are effective for the annual periods beginning after 1 January 2016, however, they do not apply to information presented and disclosed in the Group's financial statement:

- Amendments to IAS 16 and IAS 41 Agriculture: bearer plants
- The amendment applies to the recognition of bearer plants.
- Amendments to IFRS 11 Account for the share acquisition in the common business activity

- The amendment relates to the recognition by the shareholder of the common operation of acquired shares in the joint venture.
- Amendments to IAS 19 Defined benefit plans: employee contributions
- The amendment relates to the contributions paid by employees or third parties in the recognition of programmes of the defined benefits.
- and Amendments resulting from the review of IFRS 2012-2014 including:
- Amendments to IFRS 7 Financial Instruments: information disclosures
  - I. Service contracts – the amendment explains that the service provision contract, which includes a fee, may be a continuation of involvement in the asset.
  - II. The application of the amendments to IFRS 7 (issued in December 2011) to the condensed interim financial statement.
- Amendments to IAS 19 Employee benefits.

The amendment relates to the valuation of the discount rate.

The Group did not decide for the earlier application of any other standard, interpretation, or amendment issued, but not applied in light of the EU's regulations.

## **7. Essential values based on professional judgment and estimates**

### **7.1. Professional judgment**

The preparation of the consolidated financial statement of the Group requires, from the Management Board of the parent company, the judgments, 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 judgments that have the greatest impact on the presented balance sheet values of assets and liabilities.

#### ***Capitalisation of foreign exchange differences***

According to the implementing investments, the Group's companies use sources of borrowing costs.

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

The companies capitalise 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 financing 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 fluctuations 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.

### **7.2. 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 on 30 September 2016, the Group identified the existence of circumstances, which would indicate possible loss in value of a component of assets, in the form of balance sheet value of net assets of the Group, 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 conducted tests, it was stated that the assumptions used in the impairment tests as of 31 December 2015, which the result was impairment in the amount of PLN 1 880 000 thousand are still valid. Information about the conducted tests was presented in note 16.1.

#### ***Provisions' evaluation due to employee benefits***

Provisions due to employee benefits were estimated using actuarial methods.

The estimate was developed on the basis of following main assumptions:

- |                                     |  |
|-------------------------------------|--|
| • discount rate                     | 2,6%   |
| • expected inflation rate           | 2,5%   |
| • expected remuneration growth rate | depending on the company for the year 2016 is in the range of 0 to 3%, for the following years is 3% - |

#### ***A component of deferred tax assets***

The Group recognises a component of deferred tax assets on the basis of assumption that tax profit enabling to its use will be achieved. The deterioration of achieved tax results in the future would make this assumption un-founded.

#### ***Fair value of financial instruments***

The fair value of financial instruments, for which there is no active market, is estimated using appropriate evaluation techniques. While choosing the appropriate methods and assumptions, the Group is driven by professional judgment. The method of calculating the fair value of financial instruments has not changed in relation to the methods used for the financial statements for the year ended 31 December 2015.

#### ***Capitalisation of stripping costs in the production phase***

In duly justified cases specified by IFRIC 20, the Group capitalises stripping costs in the phase of production of an open pit. The basis of costs capitalisation is fulfilling the following conditions: it is plausible that the Group will achieve future economic benefits related to stripping, the Group is able to identify that a part of the coal deposit, to which the access was facilitated, and stripping costs concerning that part of the deposit may be reliably evaluated. The Group verifies estimates concerning the above criteria in order to ensure proper costs capitalisation periodically.

#### ***The settlement period for assets due to stripping and other mining assets***

The Group verifies the specified settlement period of assets concerning stripping and other mining assets on the basis of current forecasts of the period of use of open pits.

#### ***Share based payments***

In order to settle the employee shares, it was accepted that the date of start vesting for shares is the date of the Company's commercialisation, and the date of granting entitlements to shares is the date of final hanging lists with number of shares granted to PAK KWB Konin S.A. and PAK KWB Adamów S.A.'s employees. The fair value of the programme on the day of the acquisition of control was specified on the basis of the fair value of the PAK KWB Konin S.A. and PAK KWB Adamów S.A. 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 S.A. and PAK KWB Adamów S.A.'s shares sale agreements dated 28 May 2012 and was established at the level of the price of purchase of shares of the earlier purchased shares of mines index-linked by the consumption products and service prices rate.

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

In note 29, the descriptions of essential contingent liabilities and essential legal proceedings, including these concerning compensations for the termination of long-term contracts for sale of power and electricity, were presented.

### ***Revenue recognition***

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

On every balance sheet date, the Group reevaluates 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 components of tangible fixed assets and intangible values. The Group verifies accepted periods of economic usability on the basis of current estimates annually.

### ***Receivables impairment write-downs***

At the balance sheet date, the Group evaluates whether there is objective evidence of loss in value of the component of receivables or the group of receivables. If value possible to recover the component of assets 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.

### ***The provision for liquidation of components of tangible fixed assets***

The Group creates the provision for liquidation of components of tangible fixed assets in case of such obligation, or acceptance of 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 reevaluates 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. The provision described in note 26.3.2.

### ***The provision for liquidation of ash dumps***

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 every reporting period, the Group reevaluates values of the provision. The provision described in note 26.3.2.

### ***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 estimates of future reclamation costs, as well as assumed dates of start and finish of reclamation, on the basis of reports by independent experts estimating reclamation costs on the order of the Management Board, and internal estimates of the Group, and is discounted on every balance sheet date. The provision described in note 26.3.3.

### ***Evaluation of energy certificates***

The Group recognises the energy certificates of origin (green and red certificates) due to the energy generation from renewable energy sources, gas, and peak load co-generation according to fair value at the end of the month, when they were produced. As of the balance sheet date, the Group evaluates certificates of origin to a net value possible to achieve – for the green certificates as of 30 September 2016 to the price amounting to 32.69 PLN/MWh. An impairment write-down is established in case when the sale price possible to achieve diminished by disposition costs is lower than the historical cost of generation.

### ***The provision for liabilities due to the emission of greenhouse gases and provisions for the redemption of certified emission reductions (EUA, CER)***

The Group recognises the provision for the redemption of greenhouse gases allowances and certified emission reductions. Due to the conclusion of the period related to the settlement of allocation of allowances of KPRU II, since 1 January 2013, another settlement period of 2013 – 2020 concerning allowances has been applicable. The assumption of this period is granting free EUA allowances to the Group resulting from the production of heat. Although, power

engineering was additionally covered by opportunity of derogation resulting from Article 10c of the ETS Directive based on granting additional free allowances, if declared investment expenses for investments reported to the National Investment Plan (KPI) are paid.

In 2015, the emission in the ZE PAK Group amounted to 12 257 921 tons of CO<sub>2</sub>.

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

In the three quarters of 2016 the Group purchased 7 972 500 EUA. At the same time in February 2016 years, the Group has received free EUAs for heat for 2016 years (Article 10a) in the amount of 101 259 EUA. Then, in April 2016, the Group received free EUAs for derogation of 2015 (Article 10c) in the number of 329 417 EUA and redeemed the CO<sub>2</sub> emission for 2015 in the number of 12 257 921 tons of CO<sub>2</sub>. Therefore, the state of possession of EUA in the ZE PAK Group as of 30 September 2016 amounted to 8 402 841 EUA.

As of 30 September 2016, the Group created the provision for allowances in relation to the actual size of emissions for the period between 1 January 2016 and 30 September 2016.

Details regarding the provisions for liabilities arising from redemption rights to greenhouse gas emissions and certified emission reductions were presented in note 26.3.1.

## **8. Change of estimates**

Within the 9-month-period ended 30 September 2016, except for these described in the financial statement, there was no significant changes in estimated sizes and the methodology of estimates that would affect the current period or future period.

## **9. Acquisitions of ventures**

In the period between 1 January 2016 and 30 September 2016, there was no new acquisitions of ventures.

## **10. Seasonality of the activities**

The Group's activities are not seasonal; therefore, the presented Group's results are not subject to substantial fluctuation throughout the year.

## **11. Operating segments**

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

Therefore, there are following balance sheet operating segments:

- The Generation Segment covering production of electricity both from conventional sources (including co-generation) and by 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" S.A.,
  - "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 Generation Segment, within the Capital Group ZE PAK S.A.:
  - "PAK GÓRNICTWO" sp. z o.o.,
  - "PAK Kopalnia Węgla Brunatnego Konin" S.A.,
  - "PAK Kopalnia Węgla Brunatnego Adamów" S.A.
- 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 includes the Company PAK – Volt S.A.

The Group ZE PAK S.A. also performs other kinds of activities included in the column “Other”. For three quarters of 2016 year in this column are included operations of companies: EKO – Surowce sp. z o.o. and Aquakon sp. z o.o.

Transaction prices used in transactions between operating segments are determined on the basis of commercial principles, like in transactions with non-related entities. None of the Group's operating segments have been aggregated with other segment to form the above reportable operating segments.

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 (operating profit without financial operations and income tax plus depreciation and revaluation write).

Segments' results for periods ended 30 September 2016 and 30 September 2015 are presented below:

*ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN S.A. CAPITAL GROUP*  
*Interim condensed consolidated financial report for the period of 9 months ended 30 September 2016*  
*(in PLN thousand)*

**For the period of 9 months ended 30 September 2016 (unaudited)**

	<i>Generation</i>	<i>Mining</i>	<i>Renovation</i>	<i>Sale</i>	<i>Other</i>	<i>Consolidation adjustment</i>	<i>Total</i>
Sales revenue to external customers	1 337 428	6 483	48 191	655 692	5 746	-	2 053 540
Sales revenue between segments	324 222	657 106	171 708	4	70 462	(1 223 502)	-
<b>Sales revenue</b>	<b>1 661 650</b>	<b>663 589</b>	<b>219 899</b>	<b>655 696</b>	<b>76 208</b>	<b>(1 223 502)</b>	<b>2 053 540</b>
Cost of goods sold	(1 423 744)	(538 701)	(215 658)	(648 882)	(78 069)	1 227 547	(1 677 507)
<b>Gross profit / (loss)</b>	<b>237 906</b>	<b>124 888</b>	<b>4 241</b>	<b>6 814</b>	<b>(1 861)</b>	<b>4 045</b>	<b>376 033</b>
Other operating income	4 766	12 795	1 001	-	256	(71)	18 747
Selling and distribution expenses	(1 905)	-	-	(341)	(859)	-	(3 105)
Administrative expenses	(24 600)	(26 063)	(14 904)	(3 254)	(2 972)	2	(71 791)
Other operating expenses	(858)	(6 689)	(604)	(42)	(54)	90	(8 157)
Finance income	3 338	3 183	133	183	5	(508)	6 334
Finance costs	(42 888)	(12 955)	(210)	-	(46)	508	(55 591)
<b>Profit before tax</b>	<b>175 759</b>	<b>95 159</b>	<b>(10 343)</b>	<b>3 360</b>	<b>(5 531)</b>	<b>4 066</b>	<b>262 470</b>
Income tax expense	(23 394)	(18 390)	(26)	(599)	(266)	(1 130)	(43 805)
<b>Net profit/loss for the period from continuing operations</b>	<b>152 365</b>	<b>76 769</b>	<b>(10 369)</b>	<b>2 761</b>	<b>(5 797)</b>	<b>2 936</b>	<b>218 665</b>
<b>Profit / (loss) from operating activities, without financial operations and income tax</b>	<b>215 309</b>	<b>104 931</b>	<b>(10 266)</b>	<b>3 177</b>	<b>(5 490)</b>	<b>4 066</b>	<b>311 727</b>
Depreciation / Amortization	81 395	76 432	5 608	51	1 480	(3 523)	161 443
Change in impairment	-	-	-	-	-	-	-
<b>EBITDA</b>	<b>296 704</b>	<b>181 363</b>	<b>(4 658)</b>	<b>3 228</b>	<b>(4 010)</b>	<b>543</b>	<b>473 170</b>

*ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN S.A. CAPITAL GROUP*  
*Interim condensed consolidated financial report for the period of 9 months ended 30 September 2016*  
*(in PLN thousand)*

**For the period of 9 months ended 30 September 2015 (unaudited)**

	<i>Generation</i>	<i>Mining</i>	<i>Renovation</i>	<i>Sale</i>	<i>Other</i>	<i>Consolidation adjustment</i>	<i>Total</i>
Sales revenue to external customers	1 330 864	6 207	117 325	793 979	6 409	-	2 254 784
Sales revenue between segments	337 798	664 328	241 027	4	91 205	(1 334 362)	-
<b>Sales revenue</b>	<b>1 668 662</b>	<b>670 535</b>	<b>358 352</b>	<b>793 983</b>	<b>97 614</b>	<b>(1 334 362)</b>	<b>2 254 784</b>
Cost of goods sold	(1 627 240)	(636 039)	(321 586)	(787 163)	(90 250)	1 339 431	(2 122 847)
<b>Gross profit / (loss)</b>	<b>41 422</b>	<b>34 496</b>	<b>36 766</b>	<b>6 820</b>	<b>7 364</b>	<b>5 069</b>	<b>131 937</b>
Other operating income	2 421	13 253	726	173	201	(1 378)	15 396
Selling and distribution expenses	(1 920)	(6)	-	(298)	(794)	-	(3 018)
Administrative expenses	(33 347)	(29 778)	(16 729)	(3 737)	(3 114)	-	(86 705)
Other operating expenses	(2 389)	(1 145)	(354)	(10)	(8)	151	(3 755)
Finance income	6 656	1 345	316	299	12	(853)	7 775
Finance costs	(20 901)	(14 693)	(376)	(8)	(23)	853	(35 148)
<b>Profit before tax</b>	<b>(8 058)</b>	<b>3 472</b>	<b>20 349</b>	<b>3 239</b>	<b>3 638</b>	<b>3 842</b>	<b>26 482</b>
Income tax expense	1 239	(82)	(4 335)	(634)	(621)	(728)	(5 161)
<b>Net profit/loss for the period from continuing operations</b>	<b>(6 819)</b>	<b>3 390</b>	<b>16 014</b>	<b>2 605</b>	<b>3 017</b>	<b>3 114</b>	<b>21 321</b>
<b>Profit / (loss) from operating activities, without financial operations and income tax</b>	<b>6 187</b>	<b>16 820</b>	<b>20 409</b>	<b>2 948</b>	<b>3 649</b>	<b>3 842</b>	<b>53 855</b>
Depreciation / Amortization	191 714	87 007	6 123	112	2 178	(3 294)	283 840
Change in impairment	-	-	-	-	-	-	-
<b>EBITDA</b>	<b>197 901</b>	<b>103 827</b>	<b>26 532</b>	<b>3 060</b>	<b>5 827</b>	<b>548</b>	<b>337 695</b>

## 12. Revenues and costs

### 12.1. Sales revenue

	9 months period ended 30 September 2016 (unaudited)	3 months period ended 30 September 2016 (unaudited)	9 months period ended 30 September 2015 (unaudited)	3 months period ended 30 September 2015 (unaudited)
<b>Revenues by type</b>	<b>2 053 540</b>	<b>686 020</b>	<b>2 254 784</b>	<b>747 262</b>
Electricity	1 287 279	429 948	1 220 768	388 217
Electricity resold from the market	509 711	182 897	683 767	250 956
Energy certificates of origin	14 239	(5 583)	38 949	11 266
Construction contracts	44 965	18 456	111 365	30 202
Compensation related to PPAs termination	137 574	45 551	137 136	47 894
Heat	41 839	9 469	42 818	9 644
Other	18 887	5 854	21 568	9 427
Excise	(954)	(572)	(1 587)	(344)
<b>Total revenues by type</b>	<b>2 053 540</b>	<b>686 020</b>	<b>2 254 784</b>	<b>747 262</b>

### 12.2. Other operating revenues

	9 months period ended 30 September 2016 (unaudited)	3 months period ended 30 September 2016 (unaudited)	9 months period ended 30 September 2015 (unaudited)	3 months period ended 30 September 2015 (unaudited)
Compensations received	3 416	109	770	181
Reversal of write-downs against receivables	117	106	3	1
Grants received	1 344	451	1 974	612
Gain on the sale of non-financial fixed assets	10 602	5 655	9 132	3 187
Reversal of provisions for costs and losses and liabilities write-off	692	153	1 924	51
Other	2 576	1 299	1 593	(28)
<b>Total other operating income</b>	<b>18 747</b>	<b>7 773</b>	<b>15 396</b>	<b>4 004</b>

The main component of the item “others” are return of overpayment for the environmental charge in ZE PAK SA in the amount of PLN 628,000, reduced in write-down on inventory in the amount of PLN 220 thousand in PAK Service sp. z oo, release of provisions in the amount of PLN 689 thousand, reduced write-down the value of materials in the amount of PLN 461 thousand in PAK KWB Konin SA, depreciation of assets purchased with the mine closure fund in PAK KWB Adamow SA in the amount of PLN 261 thousand.

### 12.3. Other operating expenses

	9 months period ended 30 September 2016 (unaudited)	3 months period ended 30 September 2016 (unaudited)	9 months period ended 30 September 2015 (unaudited)	3 months period ended 30 September 2015 (unaudited)
Loss on the sale of property, plant and equipment	676	97	361	2
Creation of provisions	-	-	796	504
Impairment write-down against receivables	49	31	58	16
Compensations paid	347	23	54	(18)
Loss on liquidation of fixed assets	33	29	9	3
Electricity equivalents paid for pensioners and former employees	-	-	2	-
Electricity-related damages	130	95	137	65
Donations given	206	16	247	19
Cost of trade unions	68	23	112	33
Cost of shortages and damages	116	2	331	183
Other	6 532	5 548	1 648	205
<b>Total other operating expenses</b>	<b>8 157</b>	<b>5 864</b>	<b>3 755</b>	<b>1 012</b>

The main component of the item “others” are write-downs of fixed assets under construction in the amount of PLN 4985 thousand, actuarial losses in the amount of PLN 325 thousand in PAK KWB Konin SA and the costs of litigation and enforcement proceedings in the amount of PLN 452 thousand mainly in ZE PAK SA and KWB Konin SA.

### 12.4 Finance income

	9 months period ended 30 September 2016 (unaudited)	3 months period ended 30 September 2016 (unaudited)	9 months period ended 30 September 2015 (unaudited)	3 months period ended 30 September 2015 (unaudited)
Interest income	3 451	1 290	2 497	543
Dividends	60	4	49	-
Foreign exchange gains	6	(141)	3 983	(4 489)
Other	2 817	7	1 246	103
<b>Total Finance income</b>	<b>6 334</b>	<b>1 160</b>	<b>7 775</b>	<b>(3 843)</b>

The main component of the item “others” is profit on sale of 25% share in Verano sp. z o.o. by PAK KWB Konin SA in amount of PLN 2 784 thousand.



## 12.5 Finance costs

	<i>9 months period ended 30 September 2016 (unaudited)</i>	<i>3 months period ended 30 September 2016 (unaudited)</i>	<i>9 months period ended 30 September 2015 (unaudited)</i>	<i>3 months period ended 30 September 2015 (unaudited)</i>
Interest expenses	30 636	12 292	14 070	3 755
Valuation and realization of financial derivatives	5 689	1 777	6 424	2 062
Foreign exchange losses	6 507	(8 241)	6 220	601
Power units utilisation provision discount	322	107	312	104
Revaluation of investments	827	827	-	-
Reclamation provision discount	5 762	1 818	4 661	1 553
Other	5 848	834	3 461	1 112
<b>Total finance costs</b>	<b>55 591</b>	<b>9 414</b>	<b>35 148</b>	<b>9 187</b>

In item „other” presented are fees on unused credit facility and on bank guarantees in ZE PAK SA and PAK KWB Konin SA in amount of PLN 3 938 thousand and reversal of reversal of discount of actuarial provisions in PAK KWB Konin SA and PAK KWB Adamow SA in the amount of PLN 1 203 thousand.

## 12.6 Costs by type

	<i>9 months period ended 30 September 2016 (unaudited)</i>	<i>3 months period ended 30 September 2016 (unaudited)</i>	<i>9 months period ended 30 September 2015 (unaudited)</i>	<i>3 months period ended 30 September 2015 (unaudited)</i>
Depreciation / Amortisation	161 443	51 620	283 840	94 090
Impairment write-downs against inventories	30 891	9 050	23 754	(19 957)
Materials	245 031	91 106	326 109	100 576
External services	34 281	13 383	87 861	32 148
Taxes and charges, excluding excise duty	117 984	37 969	124 099	40 708
Costs of allowances for emission of CO <sub>2</sub>	200 180	57 341	232 512	74 056
Employee benefits	378 946	117 010	427 715	126 849
Other costs by type	24 961	14 198	30 354	7 386
Cost of goods for resale and raw materials sold and resale of electricity from the market	517 275	183 877	675 412	252 648
<b>Total cost by type</b>	<b>1 710 992</b>	<b>575 554</b>	<b>2 211 656</b>	<b>708 504</b>
Items included in cost of goods sold	1 677 507	570 220	2 122 847	699 115
Items included in selling and distribution expenses	3 105	966	3 018	1 094
Items included in administrative expenses	71 791	23 996	86 705	29 847
Change in the stocks of finished goods	(42 778)	(20 295)	(1 656)	(22 196)
Cost of goods and services for internal needs	1 367	667	742	644

## 12.7 Construction agreements

	9 months period ended 30 September 2016 (unaudited)	3 months period ended 30 September 2016 (unaudited)	9 months period ended 30 September 2015 (unaudited)	3 months period ended 30 September 2015 (unaudited)
Revenues from contracts for construction services recognised in the period	44 965	18 456	111 365	30 202
Revenues invoiced in the period	34 179	12 091	105 725	41 910
Balance sheet valuation	10 786	6 365	5 640	(11 708)
Costs applied in the period	37 305	15 343	98 928	24 791
Expected losses due to the contracts recognised in the period	(77)	(31)	(11)	-
Results due to performance of the contracts included in the period	7 737	3 144	12 448	5 411
	9 months period ended 30 September 2016 (unaudited)	3 months period ended 30 September 2016 (unaudited)	9 months period ended 30 September 2015 (unaudited)	3 months period ended 30 September 2015 (unaudited)
Gross amount payable by contracting parties due to works resulting from the contract	8 394	4 894	3 749	(7 192)
Gross amount paid to contracting parties due to works resulting from the contract	4 338	(1 471)	8 310	4 510

## 13. Components of other comprehensive income

Components of other comprehensive income are as follows:

	9 months period ended 30 September 2016 (unaudited)	3 months period ended 30 September 2016 (unaudited)	9 months period ended 30 September 2015 (unaudited)	3 months period ended 30 September 2015 (unaudited)
Cash flow securities	0	0	0	0
Profits (losses) for the period	(5 689)	(1 777)	(693)	(922)
Adjustment resulting from reclassification of profits (losses) included in the profit or the loss	10 019	3 901	6 424	2 069
<b>Gross cash flow securities for the period</b>	<b>4 330</b>	<b>2 124</b>	<b>5 731</b>	<b>1 147</b>
Income tax concerning cash flow securities	(823)	(404)	(1 089)	(218)
<b>Net cash flow securities for the period</b>	<b>3 507</b>	<b>1 720</b>	<b>4 642</b>	<b>929</b>
<b>Actuarial gross profits (losses) concerning provisions for post-employment employee benefits</b>	<b>(1 108)</b>	<b>(199)</b>	<b>(2 139)</b>	<b>(548)</b>
Income tax concerning actuarial profits (losses)	210	37	406	104
<b>Actuarial net profits (losses) concerning provisions for post-employment employee benefits</b>	<b>(898)</b>	<b>(162)</b>	<b>(1 733)</b>	<b>(444)</b>
<b>Gross exchange rate differences from foreign currency conversion</b>	<b>-</b>	<b>-</b>	<b>(6)</b>	<b>(7)</b>
Income tax concerning exchange rate differences from foreign currency conversion	-	-	-	-

Net exchange rate differences from foreign currency conversion	-	-	(6)	(7)
Other gross comprehensive income	3 222	1 925	3 586	592
Income tax concerning other comprehensive income	(613)	(367)	(683)	(114)
Other net comprehensive income	2 609	1 558	2 903	478

## 14. Income tax

### 14.1 Tax load

The main components of tax load for the 9-month period ended 30 September 2016 and 30 September 2015 are as follows:

	9 months period ended 30 September 2016 (unaudited)	3 months period ended 30 September 2016 (unaudited)	9 months period ended 30 September 2015 (unaudited)	3 months period ended 30 September 2015 (unaudited)
Included in the profit or the loss	219	219	529	-1 047
Current income tax	0	0	0	0
Current income tax load	16 391	8 310	3 556	980
Deferred income tax load	0	0	0	0
Related to creation and reversal of temporary differences	27 355	(2 601)	1 562	281
Other changes	59	4	43	5
<b>Tax load in the consolidated profit or loss</b>	<b>43 805</b>	<b>5 713</b>	<b>5 161</b>	<b>1 266</b>
Included in the consolidated statement of the comprehensive income	0	0	0	0
Net profit (loss) tax due to revaluation of cash flow securities	(823)	(404)	(1 089)	(218)
Actuarial allowance concerning actuarial profits/losses	210	37	406	104
<b>Tax advantage/(tax load) included in comprehensive income</b>	<b>(613)</b>	<b>(367)</b>	<b>(683)</b>	<b>(114)</b>

### 14.2 Deferred income tax

Deferred income tax results from following items:

	30 September 2016 (unaudited)	31 December 2015
Deferred tax asset	202 063	232 203

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Balance sheet provisions	124 083	142 348
Overburden and other mining assets	5 872	7 129
Interest and exchange rate differences	10 839	10 838
Hedging instruments	2 240	3 096
Valuation of non-terminated agreements for building services	2 082	3 996
Tax loss from previous years	4 242	12 342
Impairment write-down against inventories	1 627	1 781
Impairment write-down against receivables	642	1 465
Impairment write-downs against fixed assets	5 748	81
Difference between the carrying amount and tax value of fixed assets	123	1
Settlements with employees	3 118	5 991
Other	41 447	43 135
<b>Total</b>	<b>202 063</b>	<b>232 203</b>
<b>Provision under deferred income tax</b>	479 295	481 450
Difference between the carrying amount and tax value of fixed assets	416 639	383 797
Receivables under PPAs	14 852	10 888
Energy certificates	3 247	12 315
Interest and exchange rate differences	1 864	1 538
Valuation of non-terminated construction agreements	2 517	2 209
Accrued receivables under contractual penalty fees	-	824
Mining asset	-	251
Purchased CO <sub>2</sub> allowances	40 176	69 624
Other	-	4
<b>Total</b>	<b>479 295</b>	<b>481 450</b>
<i>After compensating balances at the level of companies from the Corporate Group, deferred tax is presented as:</i>	475 394	454 477
<b>Asset</b>	<b>99 081</b>	<b>102 615</b>
<b>Provision</b>	<b>376 313</b>	<b>351 862</b>

The item “other” of the deferred tax asset mostly consists of PLN 12 827 thousand of the provision for the liability to the Zarządca Rozliczeń company in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2015 the amount was PLN 13 539 thousand), PLN 8 421 thousand is an evaluation of preferential loans in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2015 the amount was PLN 8 629 thousand), PLN 11 851 thousand is the provision for redemption of CO<sub>2</sub> allowances in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2015 the amount was PLN 13 728 thousand), PLN 1 206 thousand is an excess of the sale-and-lease-back transaction settled in time in PAK KWB Konin S.A. (as of 31 December 2015 the amount was PLN 3 068 thousand).

The following is the status of the tax settlements of the Group’s companies for tax losses as of 30 September 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 next 5 years. However, the amount of deduction in any of these years must not exceed 50% of the loss amount.

As of 30 September 2016, the Elektrownia Pątnów II sp. z o.o. is able to deduct the unsettled tax loss for 2011 in the amount of PLN 88 517 thousand, which is ½ of this year loss; the remaining part of the loss is time-barred.

As of 31 December 2015, the cumulative amount of unsettled tax losses amounted to PLN 187 402 thousand (without the created asset):

- for the tax year of 2010, the amount of PLN 10 369 thousand,
- for the tax year of 2011, the amount of PLN 177 033 thousand,

As of 30 September 2016, Elektrownia Pątnów II sp. z o.o. showed a profit tax in the amount of PLN 42 561 thousand and settled the tax profits with the part of the tax losses from previous years. As of 30 September 2016, PAK KWB Konin S.A. shows the following unsettled tax losses:

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

In the current period, PAK KWB Konin S.A. settled the part of the tax loss for 2012 in the amount of PLN 28 769 thousand, for 2013 in the amount of PLN 8 729 thousand and for 2015 in the amount of PLN 919 thousand. The current corporate tax for the nine months 2016 has been accrued in the amount of PLN 8 351 thousand.

As of 30 September 2016 PAK KWB Adamów SA did not show any unused tax losses. In current period the company settled part of tax loss for 2012 in amount of PLN 4 168 thousand and tax loss for 2014 in amount of PLN 47 thousand. Current corporate income tax for 9 months of 2016 is presented in amount of PLN 7 269 thousand.

As of 30 September 2016, ZE PAK S.A. did not show unused tax losses, because the asset generated in the balance sheets for the tax losses from previous years was written to "0" in the balance sheet for 31 December 2015 due to the fact that the possibility of its recovery did not result from the Company's strategy. The current corporate income tax for 9 months of 2016 shows the profit for taxation in amount of PLN 7 331 thousand but after deductions of tax losses from 2015 and 2014 (respectively PLN 354 thousand and PLN 6 977 thousand) income tax to pay does not exist.

## 15. Profit per one share

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

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

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

	<i>9 months period ended 30 September 2016 (unaudited)</i>	<i>3 months period ended 30 September 2016 (unaudited)</i>	<i>9 months period ended 30 September 2015 (unaudited)</i>	<i>3 months period ended 30 September 2015 (unaudited)</i>
Net profit on continued activities of the parent company's shareholders	216 208	77 804	21 179	6 076
Profit on abandoned activities of the parent company's shareholders	-	-	-	-
Net profit of ordinary shareholders used for calculation of diluted earnings per one share	216 208	77 804	21 179	6 076
The average weighted number of ordinary shares used for calculation of basic and diluted earnings per one share	50 823 547	50 823 547	50 823 547	50 823 547

The below table shows the profit per one share for the period of 9 months ended 30 September 2016 and 30 September 2015, presented in the profit and loss account.

	<i>9 months period ended 30 September 2016 (unaudited)</i>	<i>3 months period ended 30 September 2016 (unaudited)</i>	<i>9 months period ended 30 September 2015 (unaudited)</i>	<i>3 months period ended 30 September 2015 (unaudited)</i>
Basic and diluted earnings per share for the financial year attributable to equity holders	4,25	1,53	0,42	0,12

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of the parent

Basic and diluted earnings per share from continuing operations attributable to equity holders of the parent	4,25	1,53	0,42	0,12
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In the period between the balance sheet day and the day of preparation of this financial statement, there were no transactions concerning ordinary shares or potential ordinary shares.

## 16. Property, plant and equipment

*For the period of 9 months ended 30 September 2016 (unaudited)*

	<i>Land and perpetual usufruct*</i>	<i>Buildings and constructions</i>	<i>Plant and machinery</i>	<i>Motor vehicles</i>	<i>Other</i>	<i>Assets under construction</i>	<i>Total</i>
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	-	34	1 315	331	350	31 292	33 322
Repairs	-	-	-	-	-	7 806	7 806
Transfer from fixed assets under construction	9 368	73 831	845 647	-	116	(928 962)	-
Sale and liquidation	(1 194)	(687)	(4 772)	(855)	(230)	(1 913)	(9 651)
Gross value as at 30 September 2016	<u>233 019</u>	<u>2 000 784</u>	<u>4 810 547</u>	<u>69 774</u>	<u>28 799</u>	<u>228 103</u>	<u>7 371 026</u>
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	1 775	39 587	97 730	6 822	1 689	-	147 603
Impairment write-down	-	51 530	631 517	-	-	(683 047)	-
Sale and liquidation	(7)	(424)	(3 019)	(755)	(225)	-	(4 430)
Depreciation and impairment write-downs as at 30 September 2016	<u>7 199</u>	<u>1 114 879</u>	<u>2 720 242</u>	<u>36 623</u>	<u>20 476</u>	<u>108 074</u>	<u>4 007 493</u>
Net value as at 1 January 2016	<u>219 414</u>	<u>903 420</u>	<u>1 974 343</u>	<u>39 742</u>	<u>9 551</u>	<u>328 759</u>	<u>3 475 229</u>
Net value as at 30 September 2016	<u>225 820</u>	<u>885 905</u>	<u>2 090 305</u>	<u>33 151</u>	<u>8 323</u>	<u>120 029</u>	<u>3 363 533</u>

\* in this item there is recognized also land operated under the extraction of minerals by opencast

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**For the period of 9 months ended 30 September 2015 (unaudited)**

	<i>Land and perpetual usufruct*</i>	<i>Buildings and constructions</i>	<i>Plant and machinery</i>	<i>Motor vehicles</i>	<i>Other</i>	<i>Assets under construction</i>	<i>Total</i>
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	2 535	5 200	4 448	1 232	327 626	342 145
Repairs	-	-	-	-	-	-	-
Transfer from fixed assets under construction	10 167	23 562	15 744	107	534	(50 114)	-
Sale and liquidation	(1 150)	(2 187)	(3 163)	(7 834)	(1 192)	-	(15 526)
Gross value as at 30 September 2015	<u>224 305</u>	<u>1 913 571</u>	<u>3 947 173</u>	<u>65 898</u>	<u>27 559</u>	<u>1 093 293</u>	<u>7 271 799</u>
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	1 081	68 591	175 448	7 247	1 992	-	254 359
Impairment write-down	-	-	-	-	-	-	-
Sale and liquidation	(2)	(238)	(2 126)	(4 548)	(1 061)	-	(7 975)
Depreciation and impairment write-downs as at 30 September 2015	<u>4 888</u>	<u>510 383</u>	<u>1 301 873</u>	<u>28 402</u>	<u>17 059</u>	<u>29 341</u>	<u>1 891 946</u>
Net value as at 1 January 2015	<u>210 375</u>	<u>1 447 631</u>	<u>2 800 841</u>	<u>43 474</u>	<u>10 857</u>	<u>786 440</u>	<u>5 299 618</u>
Net value as at 30 September 2015	<u>219 417</u>	<u>1 403 188</u>	<u>2 645 300</u>	<u>37 496</u>	<u>10 500</u>	<u>1 063 952</u>	<u>5 379 853</u>

\* in this item there is recognized also land operated under the extraction of minerals by opencast



## **16.1. The value impairment test of assets of the ZE PAK S.A. 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 amount 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 within the Group's companies.

The main premise 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 carrying amount. Therefore, the analysis of identified centers that generate independent cash flows was made.

According to IAS 36: "A cash-generating unit (CGU) 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, 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 main duty was the analysis of the independence of generating cash flows in terms of the functioning of the individual Company within the Group.

The parent company of the Group that is ZE PAK S.A., 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.

Elektrownia Pątnów II – 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.

Lignite mines PAK KWB "Konin" and PAK KWB "Adamów" 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 many reasons, the inflows generated by particular groups of assets are very closely connected with each other. As a result, mines are expected to provide power plants with a certain amount of coal; it is irrelevant, from which open pit it will come from. As a result, coal is supplied to power plants from several open pits interchangeably. The organisational structure and registration systems are subordinated to such an established production target.

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

- ZE PAK S.A.
- El. Pątnów II sp. z o.o.
- PAK KWB "Konin" SA
- PAK KWB "Adamów" SA

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

Conducting the value impairment test of fixed assets, the Group was based on the financial model for the years 2016-2047 reflecting strategic priorities of the parent company ZE PAK S.A.

In view of persisting premises of impairment of assets on the balance sheet date on 30 September 2016 were carried out tests to evaluate the utility value of the cash generating units.

In ZE PAK S.A., one cash-generating unit (CGU) was determined, although the following units generating cash inflows were distinguished within the cash-generating unit:

- Pątnów I power plant – operation time until 31 December 2030,
- Adamów power plant – operation time until 31 December 2017,
- Konin-collector power plant – operation time until 30 June 2020,
- Konin-biomass 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 price with division into BASE, PEAK and OFFPEAK and the forecast of the CO<sub>2</sub> allowances prices were adopted on the basis of the sales prices of electricity that have been achieved and the Report on the energy market in Poland prepared for ZE PAK S.A. by an independent external consultant,
- production assumptions result from the adopted investment and renovation programme of ZE PAK S.A. Reduction of electricity generation from lignite 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. Since 2018, due to the exclusion of production in Elektrownia Adamów, 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 Elektrownia Konin do not work.
- The Company assumed the use of the free CO<sub>2</sub> 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 lignite purchased for generation were specified on the basis of the delivery schedule and the prices agreed with the appropriate schedules in financial projections of subsidiaries and on the basis of the agreement signed between ZE PAK S.A. and PAK KWB "Konin" S.A. "Agreement on the financial support for the construction of the Ościsłowo open cast."
- The effects of restructuring costs for the withdrawal of the old powers in Konin power plant and Adamów power plant 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 7.13% (in 2015: 7.22%) was adopted.

In the case of the El. Pańnów II sp. z o.o., due to the participation of this unit in the programme of coverage of stranded costs (PPA) and the estimation of influences of that title, 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.

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 S.A.'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 products is the companies of the Capital Group.

The financial projections for PAK KWB "Konin" S.A. and PAK KWB "Adamów" S.A. 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 recipient of coal that is ZE PAK S.A. and EP II sp. z o.o. and their projected price curve for coal on the basis of the agreement on financing of open casts,
- stripping and extraction of coal were developed according to the schedule of utilisation of current and predicted open casts,
- the level of investment expenses enabling to build new open casts 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 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 life of the open pit.

weighted average cost of capital after taxation (WACC) in the projection period for PAK KWB Adamów at 7.5% and for PAK KWB "Konin" S.A. at the level of 7.9% was adopted; the higher discount rate reflects the higher risk associated with the operation of PAK KWB "Konin" S.A. in the long term (longer perspective of the forecast), in particular in relation to investment activities related to the development of new lignite deposits.

The Group made a test for impairment based on a financial model reflecting the strategic assumptions of the parent company, ZE PAK SA for the years 2016-2047 described in the above tests presented in the financial statements.

There are no changes in assumptions to projections as at 30 September 2016 in compare to 31 December 2015, there are no economic changes in assumptions because there are no essential, stable economic changes in economic environment. Assumptions for impairment test as at 31 December 2015, which resulted in the impairment of PLN 1 880 000 thousand, are still valid.

## 17. Lease

### 17.1. 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 30 September 2015 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:

	<i>As of 30 September 2016</i> <i>(unaudited)</i>		<i>As of 31 December 2015</i>	
	<i>minimum payments</i>	<i>present value of payments</i>	<i>minimum payments</i>	<i>present value of payments</i>
Up to 1 year	10 503	10 172	15 065	14 246
1 to 5 years	4 242	3 813	11 155	11 250
Over 5 years	-	-	-	-
Total minimal lease payments	14 745	13 985	26 220	25 496
Minus finance expenses	(760)	-	(724)	-
Present value of minimal lease payments, including:	14 739	13 985	26 151	25 496
short-term	10 476	10 172	15 031	14 246
long-term	4 263	3 813	11 120	11 250

## 18. Intangible assets

### *Long-term intangible assets – for the period of 9 months ended 30 September 2016 (unaudited)*

	<i>Development costs</i>	<i>Patents and licenses</i>	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
Transfer of EUA	-	19 558	1 949	12 450	33 957
Decreases	-	-	-	(18 764)	(18 764)
Increases	-	-	(3)	-	(3)
Transfer of EUA	-	1 904	62	6 742	8 708
Gross value as of 30 September 2016	-	21 462	2 008	428	23 898
Depreciation and impairment write-downs as at 1 January 2016	-	14 525	1 719	323	16 567
Depreciation write-down for the period	-	917	154	11	1 082
Impairment write-down	-	-	-	-	-
Decreases	-	-	(3)	-	(3)
Depreciation and impairment write-downs as at 30 September 2016	-	15 442	1 870	334	17 646
Net value as at 1 January 2016	-	5 033	230	12 126	17 389
Net value as at 30 September 2016	-	6 020	138	94	6 252

In the other intangible assets item, the Group presents mainly purchased CO<sub>2</sub> emission allowances over the redemption obligation related to the emission for the period ended 30 September 2016. In the item “Transfer of EUA”, the Group presents transfer of CO<sub>2</sub> allowances between long-term and short-term intangible assets.

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**Long-term intangible assets – for the period of 9 months ended 30 September 2015 (unaudited)**

	<i>Development costs</i>	<i>Patents and licenses</i>	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
Gross value as of 1 January 2015	-	18 549	1 847	76 922	97 318
Transfer of EUA	-	-	-	(105 700)	(105 700)
Decreases	-	(1)	(158)	-	(159)
Increases	-	942	297	29 173	30 412
Gross value as of 30 September 2015	-	19 490	1 986	395	21 871
Depreciation and impairment write-downs as at 1 January 2015	-	13 286	1 475	294	15 055
Depreciation write-down for the period	-	938	329	23	1 290
Impairment write-down	-	-	-	-	-
Decreases	-	-	(136)	-	(136)
Depreciation and impairment write-downs as at 30 September 2015	-	14 224	1 668	317	16 209
Net value as at 1 January 2015	-	5 263	372	76 628	82 263
Net value as at 30 September 2015	-	5 266	318	78	5 662

### Short-term intangible assets

	30 September 2016 (unaudited)	30 September 2015 (unaudited)
	Certified emission reduction units (EUAs)	Certified emission reduction units (EUAs)
Gross value as of 1 January	354 389	176 957
Purchase of EUA	192 687	217 213
Redemption of EUA	(354 389)	(174 281)
Transfer of EUA	18 764	105 700
Gross value as of 30 September 2016	211 451	325 589
Redemption and impairment as of 1 January	-	-
Impairment write-down of a period	-	-
Depreciation and impairment write-down as of 30 September 2016	-	-
Net value as of 1 January	354 389	176 957
Net value as of 30 September 2016	211 451	325 589

## 19. Assets for overburden removal and other mining assets

As of 30 September 2016, the item of assets concerning stripping and other mining assets mainly includes assets concerning stripping and other mining assets of PAK KWB Konin in the amount of PLN 82 029 thousand.

	30 September 2016 (unaudited)	31 December 2015
Status as of 1 January	94 057	150 457
Impairment (change)	940	1 976
Increases	-	-
Decreases	(12 758)	(42 187)
Depreciation for the period	-	(16 189)
Status as of end of period:	<b>82 239</b>	<b>94 057</b>
– long-term	82 239	92 748
– short-term	-	1 309

## 20. Other assets

### 20.1 Other financial assets

	30 September 2016 (unaudited)	31 December 2015
Deposits for debt service security	74 940	74 789
Investments and deposits	3 997	2 709
Investments and MLF and MRF deposits	6 761	7 637
Shares	167	2 451
Other	2 620	3 145
Total other financial assets:	<b>88 485</b>	<b>90 731</b>
– short-term	77 598	76 979
– long-term	10 887	13 752

### 20.2 Other non-financial assets

	30 September 2016 (unaudited)	31 December 2015
VAT receivables	788	4 031
Insurance	464	1 519
Other receivables from the state budget	-	1 783
Other non-financial assets	-	-
Other accruals	8 662	6 235
Delivery prepayments	3 524	813
Prepayments for intangible assets	165	1 834
Prepayments for assets under construction	6 097	5 848
Prepayments for tangible assets – land	-	-
Other	1 381	461
Total other non-financial assets:	<b>21 081</b>	<b>22 524</b>
– short-term	15 325	12 497
– long-term	5 756	10 027

The greatest components of the item of other prepayments are the payments related to license fees in the amount of PLN 1 009 thousand in ZE PAK S.A., the payments related to fees for the exclusion of land from agricultural and forestry production in the amount of PLN 1 786 thousand in PAK KWB Adamów S.A. and PLN 1 654 thousand in PAK KWB Konin S.A. Moreover in PAK KWB Konin SA cost accounting valuations of assets held for sale in the amount of PLN 1 017 thousand. The main components of the “Other” item is a concession fee associated with the sale of electricity in the amount of PLN 159 thousand and the exemption from excise duty related to the redemption of energy certificates of origin in the amount of PLN 178 thousand in PAK-Volt S.A., accounting due to write down for ZFŚS in PAK KWB Adamów SA I EKO-Surowce sp. z o.o. in amount of PLN 522 thousand.

## 21. Inventories

	<i>30 September 2016</i> <i>(unaudited)</i>	<i>31 December 2015</i>
Production fuel	7 913	14 745
Spare parts and other materials	94 762	67 019
Certificates of origin of energy	23 194	75 532
Goods	214	219
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	<b>126 083</b>	<b>157 515</b>

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

As of 30 September 2016, the Group in total possessed, according to entries in the records, 513 285.023 MWh of property rights of green certificates and the produced green energy that is not yet verified by ERO, 398 135.556 MWh of which are the already obtained property rights, while 40 998.503 MWh are the green power generation in July 2016 awaiting for confirmation in the ERO, and 74 150.964 MWh are the generation of August and September 2016 awaiting for the balance sheet day, submission of an application by the Group. The application for granting property rights for August 2016 was submitted by the Group to PSE S.A. on 6 October 2016. And for September 2016 is not submitted yet. In the period of three quarters of 2016, the Group received the outstanding certificates for 2015 in the number of 115 301.589 MWh for production in fourth quarter of 2015, and 174 206.391 MWh for production in first half of 2016. During current reporting period the Group produced in renewable sources and presented green certificates in balance sheet in prices as at the end of each month.

The impairment write-down as of 30 September 2016 in the amount of PLN 32 550 thousands relates to the revaluation of rights in possession of the Group on 30 September 2016 to the unit price in the amount of 32.69 PLN/MWh, including PLN 13 854 thousands is connected with the impairment write-down for the rights for production in the first three quarters of 2016.

## 22. Trade receivables and other receivables

	<i>30 September 2016</i> <i>(unaudited)</i>	<i>31 December 2015</i>
Trade receivables	121 299	179 735
Receivables due to compensation related to the termination of the PPAs	78 168	57 307
Receivables due to security of purchase of electricity in the balancing market	5 500	7 826
Other receivables	25 862	23 255
Net receivables	<b>230 829</b>	<b>268 123</b>
Write-down of receivables impairment	41 867	41 840
Gross receivables	<b>272 696</b>	<b>309 963</b>

In the item “others receivables” as of 30 September 2016 the Group presents mostly receivables due to the security deposit in the amount of PLN 21 312 thousand.

Terms of transactions with affiliates are presented in the note 32.

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.

## 23. Cash and cash equivalents

Cash at bank are subject to interest at floating 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 30 September 2016 amounts to PLN 458 488 thousand (as of 30 September 2015: PLN 263 972 thousand).

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



## Structure of cash

	30 September 2016 (unaudited)	30 September 2015 (unaudited)
Cash in hand and at bank	269 179	31 137
Short-term deposits	189 309	232 835
<b>Total cash and cash equivalents in the balance sheet</b>	<b>458 488</b>	<b>263 972</b>
Cash in hand and at bank		
Foreign exchange differences	424	(1 031)
<b>Total cash and cash equivalents in cash flow statement</b>	<b>458 912</b>	<b>262 941</b>

## 24. Payment of dividend

On 28 June 2015, the Ordinary General Meeting adopted a resolution on covering the incurred net loss in 2015 in the amount of PLN 1 515 850 561.87 in the following way:

- a) Supplementary capital of the Company in the amount of PLN 1 513 445 655.87,
- b) Reserve capital of the Company in the amount of PLN 2 404 906.00.

Due to the unknown amount of the financial result for 2016, the Company is not certain as to the dividend payment for the current year.

## 25. Interest-bearing bank credits and loans

<i>Short-term</i>	<i>Maturity</i>	30 September 2016 (unaudited)	31 December 2015
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	138 624	136 548
Overdraft facility at mBank in the amount of PLN 9 700 thousand; interest rate at WIBOR 1M + bank margin	21.04.2016	-	9 580
Overdraft facility at BZ WBK in the amount of PLN 65 000 thousand; interest rate at WIBOR 1M + bank margin	30.06.2017	16 828	64 385
Investment loan from BZ WBK S.A. in the amount of PLN 46 463 thousand; interest rate at WIBOR 1M + bank margin	31.12.2016	3 109	12 438
Credit services agreement in mBank S.A. to amount of PLN 61 590 thousand – discounting of bills of exchange, interest rate at WIBOR 1M + bank margin	30.06.2016	-	3 851
Bank BPH S.A. – loan agreement in the amount of PLN 67 000 thousand	31.05.2017	63 524	50 884
Overdraft facility at Millennium Bank in the amount of PLN 76 500 thousand; interest rate at WIBOR 3M + bank margin	31.12.2017	28 765	28 765
Syndicated investment loan in amount of PLN 577 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.03.2020	148 545	67 642
Syndicated overdraft facility in amount of PLN 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.03.2020	12 583	12 300

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Overdraft facilities up to PLN 1 000 thousand	30.05.2017	-	150
<b>Total</b>		<b>411 978</b>	<b>386 543</b>

<i>Long-term</i>	<i>Maturity</i>	<i>30 September 2016 (unaudited)</i>	<i>31 December 2015</i>
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	270 493	360 627
Overdraft facility at Millennium Bank in the amount of PLN 76 500 thousand; interest rate at WIBOR 3M + bank margin	31.12.2017	7 191	28 765
Syndicated investment loan in amount of PLN 577 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.03.2020	317 318	465 400
Syndicated overdraft facility in amount of PLN 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.03.2020	62 999	69 727
<b>Total</b>		<b>658 001</b>	<b>924 519</b>

In the period of 9 months ended 30 September 2016, the Group paid off the principal and interest on loans in the amount of PLN 289 043 thousand, including:

- repayment, by Elektrownia Pątnów II sp. z o.o., of the principal and interest on syndicated investment loan in the amount of PLN 105 125 thousand,
- repayment, by ZE PAK S.A., of the principal and interest on syndicated investment loan (the Loan A) for modernisation of units 1-4 in the Pątnów I power plant in the amount of PLN 78 612 thousand,
- repayment, by ZE PAK S.A., of the principal and interest on syndicated overdraft facility (the Loan B) for IOS in the amount of PLN 9 490 thousand,
- repayment, by PAK KWB Konin S.A., of the principal and interest on investment credit in BZ WBK S.A. in the amount of PLN 9 730 thousand,
- repayment, by PAK KWB Konin S.A., of the principal and interest on overdraft (discounting of bills of exchange) in mBank S.A., in the amount of PLN 3 903 thousand,
- repayment, by PAK KWB Konin S.A., of the principal and interest on overdraft in Bank Millennium Bank S.A. in the amount of PLN 22 604 thousand,
- repayment, by PAK KWB Konin S.A., of interest on overdraft in mBank in the amount of PLN 9 655 thousand,
- repayment, by PAK KWB Konin S.A., of the principal and interest on overdraft in BZ WBK S.A. in the amount of PLN 48 684 thousand,
- repayment, by PAK KWB Konin S.A., of interest on multipurpose bank loan in BPH S.A. in the amount of PLN 1 240 thousand.

On 13 March 2014, ZE PAK S.A. concluded the Syndicated Investment Loan with mBank, Millennium, PEKAO S.A. and PKO BP banks in the amount of PLN 1 200 000 thousand. The bank loan was divided into two parts, the Loan A in the amount of PLN 1 110 000 thousand for modernisation of units 1-4 in the Pątnów I power plant, the Loan B in the amount of PLN 90 000 thousand for the purpose of refinancing the IOS credit repaid on 2 January 2014. Interest of A and B Loans 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 the Loan A part was released. Therefore, the amount of the used loan as of 30 June 2016 was PLN 667 000 thousand (including the Loan A in the amount of PLN 577 000 thousand and the Loan B in the amount of PLN 90 000 thousand). In connection with a decrease in the loan limit to be used, the repayment schedule also changed. Both the Loan A and the Loan B will be completely repaid on 20 March 2020. As a result of changes in estimates of future payments related to the debt service, the recalculation of the existing financial liability balance value. The effect of the liability valuation adjustment in the amount of about PLN 8 million will be prospectively recognised in the remaining term of the corporate credit repayment..

## 26. Provisions and accruals

### 26.1 Accruals

	<i>30 September 2016</i> <i>(unaudited)</i>	<i>31 December 2015</i>
Provision for bonuses and holiday leaves	24 017	35 624
Compensations from insurance company	129	41
Audit of the financial statement	145	393
Others	38 777	1 717
Total	<b>63 068</b>	<b>37 775</b>
– short-term	63 068	37 775
– long-term	-	-

The main component of item "Other" are fees for the economic use of the environment in the amount of PLN 30 818 thousand in the ZE PAK S.A. and PLN 6 476 in Elektrownia Pątnów II sp. z o.o.

## 26.2 Change in provisions

	<i>Land and perpetual usufruct</i>	<i>Provision for the fixed assets liquidation costs</i>	<i>Provision for the reclamation of ash storage yards</i>	<i>Provision for the long-term con- tract loss</i>	<i>Provision for the certificates of origin of energy redemption</i>	<i>Reclamation provisions and other provisions related to mining activities</i>	<i>Other</i>	<i>Total</i>
<b>As of 1 January 2016</b>	<b>354 389</b>	<b>16 419</b>	<b>1 698</b>	<b>148</b>	<b>9 449</b>	<b>330 561</b>	<b>53 487</b>	<b>766 151</b>
Increases	241 106	322	-	83	508	1 569	11 892	255 480
Decreases	(354 389)	-	(269)	(221)	(4 183)	(8 214)	(11 945)	(379 221)
<b>As of 30 September 2016 (unedited)</b>	<b>241 106</b>	<b>16 741</b>	<b>1 429</b>	<b>10</b>	<b>5 774</b>	<b>323 916</b>	<b>53 434</b>	<b>642 410</b>
Long-term	-	16 741	863	-	-	303 483	6 429	327 516
Short-term	241 106	-	566	10	5 774	20 433	47 005	314 894
<b>As of 1 January 2015</b>	<b>176 957</b>	<b>14 671</b>	<b>4 025</b>	<b>98</b>	<b>6 056</b>	<b>343 828</b>	<b>66 357</b>	<b>611 992</b>
Increases	351 713	1 748	-	64	9 449	10 718	4 509	378 201
Decreases	(174 281)	-	(2 327)	(14)	(6 056)	(23 985)	(17 379)	(224 042)
<b>As of 31 December 2015</b>	<b>354 389</b>	<b>16 419</b>	<b>1 698</b>	<b>148</b>	<b>9 449</b>	<b>330 561</b>	<b>53 487</b>	<b>766 151</b>
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

## 26.3 Description of significant titles of provisions

### **26.3.1 The provision for liabilities due to the emission of greenhouse gases and provisions for the redemption of certified emission reductions (EUA, CER)**

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

Since 1 January 2013, the next reporting period of 2013 – 2020 concerning 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 Group 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 2015, the ZE PAK Group submitted the material and financial statement on the executed investment expenses within the National Investment Plan to the Ministry of the Environment concerning the free EUAs of the article 10c for 2015, applying for granting 329 417 EUAs. In April 2016 the Group received free EUA in the amount consistent with the submitted application.

The emission in the ZE PAK Group in 2015 amounted to 12 257 921 tons of CO<sub>2</sub>.

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

In the first three quarters of 2016, the Group purchased 7 972 500 EUAs. At the same time, in February 2016, the Group received free EUAs for heat for 2016 (Article 10a) in the amount of 101 259 EUAs. Then in April 2016, the Group received free EUA under the derogation for 2015 year (Article 10c) in the amount of 329 417 EUAs and made redemption of CO<sub>2</sub> for 2015 year in the amount of 12 257 921 tons of CO<sub>2</sub>. After these events, the state of the EUAs in the ZE PAK Group as of 30 June 2016 amounted to 8 402 841 EUAs.

The provision for the burden of core operating activities for purchased CO<sub>2</sub> 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 terminated.

### **26.3.2 Provision for reclamation of ash storage yards and costs of liquidation of fixed assets**

The Group is creating the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the "Integrated Approval Entries." The basis of estimation of the provision size are specialised studies and technical and economical expert opinions developed by domestic services, or external experts. Values of the provision is estimated and verified on every balance sheet date on the basis of current cost estimates and a discount. As of 30 September 2016, the created provision amounted to PLN 1 429 thousand.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group is creating the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 30 September 2016, the provision due to this amounted to PLN 16 741 thousand.

### **26.3.3 Reclamation provisions and other provisions related to mining activities**

PAK KWB Konin S.A. and PAK KWB Adamów S.A. are obliged to reclaim areas of extraction works pursuant to the Geological and Mining Law act. Due to this, the Group is creating 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 Board. 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.

PAK KWB Konin S.A. and PAK KWB Adamów S.A., 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 is creating 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 provision for the liquidation of facilities and reclamation of mining areas, and due to preparation of exploration areas in PAK KWB Konin S.A. and PAK KWB Adamów S.A. according to the status as of 30 September 2016 amounted to PLN 323 915 thousand and decreased in comparison with the year ended 31 December 2015 by PLN 6 646 thousand. Calculating the provisions, the Group accepted following assumption: the discount rate at the level of 2.6%, the level of inflation at the level of 2.5%. Changes in provisions also result from changes in estimated costs of reclamation and liquidation on the basis of data of the independent experts' report and the percentage coal extraction, as well as the report of the environmental protection division.

#### **26.3.4 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 cogeneration. As of 30 September 2016, the provision due to this amounted to PLN 5 774 thousand.

#### **26.3.5 Other provisions**

In PAK KWB Konin S.A., the main items of other provisions as of 30 September 2016 are: the provisions for mining damage in the amount of PLN 15 790 thousand, the provision for property tax in the amount of PLN 2 082 thousand, the provisions for proceedings in progress in the amount of PLN 425 thousand, the provision for remuneration for mining usufruct in the amount of PLN 3 912 thousand. In PAK KWB Adamów S.A.: the provision for permanent taking out of production for the final reservoir of the Adamów pit in the amount of PLN 15 828 thousand, the provisions for mining damage in the amount of PLN 3 383 thousand, the provisions for proceedings in progress in the amount of PLN 1 159 thousand, the provision for the mining fee in the amount of PLN 1 539 thousand. In addition, in El PAK sp. z o.o., the provisions for warranty repairs in the amount of PLN 1 286 thousand.

## **27. CO2 emission allowances**

Since 1 January 2013, the next reporting period of 2013-2020 concerning CO<sub>2</sub> 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 a sample of a material and financial statement, which is sent annually by the ZE PAK 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 ZE PAK Capital Group submitted the material and financial statement and, at the same time, applied for admitting 329 417 free EUAs. The Group received the above units on 22 April 2016 and used them to redeem the emissions for 2015 in April 2016.

Since 2015, there has been a change in the way of the publication of information on free CO<sub>2</sub> allowances. According to the new Act of 12 June 2015 on the CO<sub>2</sub> 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 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 the ZE PAK Group will receive 329 417 of EUAs for 2015 acc. to the Article 10c (derogation) and 101 259 EUAs for 2016 from Article 10a for heat production.

For the Elektrownia Pątnów II sp. z o.o. system, a certain number of CO<sub>2</sub> allowances was allocated. However, for this system, any investment tasks that would cover receivables for CO<sub>2</sub> allowances are not reported to the National Investment Plan (KPI), so allocation of free EUAs for this system depends on expenses for tasks conducted for systems of ZE PAK S.A.

The emission in the ZE PAK Group in 2015 amounted to 12 257 921 tons of CO<sub>2</sub>.

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

In the three quarters of 2016, the Group purchased 7 972 500 EUAs. At the same time, in February 2016, the Group received free EUAs for heat for 2016 (Article 10a) in the amount of 101 259 EUAs. Then, on 22 April 2016, the Group received 329 417 free EUAs pursuant to Article 10c for 2015.

Also in April 2016, the Group, in the period from 1 to 25 April this year, made the redemption of CO<sub>2</sub> for 2015. ZE PAK S.A. made the redemption of 9 907 506 EUAs for 2015, including 329 417 free EUAs under Article 10c and 121 398 free EUAs under Article 10a for 2015, while Elektrownia Pątnów II sp. o.o. made the redemption of 2 350 415 EUAs.

In the three quarters of 2016 the Group purchased 7 972 500 EUAs. State of EUAs in the Group as of 30 September 2016 amounted to 8 402 841 EUAs.

In tables presented below, carbon dioxide allowances granted in the scope of the National Allocation, purchased on the secondary market including with division into the part used for their own purposes, and the one sold in periods ended 30 September 2015 and 30 September 2016.

**CO<sub>2</sub> emission allowances in the period of 9 months ended 30 June 2016 (unaudited)**

<i>(in tons)</i>	<i>Zespół Elektrowni Pątnów-Adamów-Konin SA</i>	<i>„Elektrownia Pątnów II” sp. z o.o.</i>
	<i>Emission of CO<sub>2</sub>*</i>	
	7 058 712	2 016 867
<b>EUA</b>	Balance at the beginning of the period	9 689 990
	Purchased	7 269 500
	Free of charge	430 676
	Redemption	(9 907 506)
	Sale	-
	Exchange	-
	Balance at the end of the period	7 482 660
		920 181

**CO<sub>2</sub> emission allowances in the period of 9 months ended 30 September 2015 (unaudited)**

<i>(in tons)</i>	<i>Zespół Elektrowni Pątnów-Adamów-Konin SA</i>	<i>„Elektrownia Pątnów II” sp. z o.o.</i>
	<i>Emission of CO<sub>2</sub>*</i>	
	7 214 958	1 782 720
<b>EUA</b>	Balance at the beginning of the period	10 697 412
	Purchased	6 044 000
	Free of charge	2 363 357
	Redemption	(10 085 564)
	Sale	-
	Exchange	-
	Balance at the end of the period	9 019 205
		2 110 096

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

## **28. Trade liabilities, other liabilities and accruals**

### **28.1 Trade liabilities and other financial liabilities (short-term)**

	<i>30 December 2016 (unaudited)</i>	<i>31 December 2015</i>
Trade liabilities	112 486	111 622
Financial liabilities	-	-
Other liabilities:	107 000	119 822

Liabilities due to the put option	6 061	6 061
Investment liabilities	3 897	68 882
Liabilities to employees due to salaries	17 741	18 234
Other liabilities	85 362	32 706
<b>Total</b>	<b>225 547</b>	<b>237 505</b>

In the line “other liabilities” as of 30 September 2016, the Group presents mostly liabilities due to financial lease in the amount of PLN 10 218 thousand, liabilities related to settlement of adjustment of PPA for 2008 year, on the basis of the judgment of the Court of Appeal in Warsaw of 4 November 2014 and of the agreement concluded on 2 October 2014 between Elektrownia Pątnów II sp. z o.o. and Zarządca Rozliczeń in the amount of PLN 67 820 thousand. The remaining amount in the other liabilities item as of 30 September 2016 concerns mostly settlements with employees and deductions from the pay roll amounting to PLN 3 762 thousand, settlements due to tender guarantee in the amount of PLN 1 034 thousand.

Liabilities due to the put option concern obligation of ZE PAK S.A. to redemption of employee shares pursuant to the PAK KWB Konin S.A. and PAK KWB Adamów S.A.'s shares sale agreement, in case when employees request for resale. The agreement's provisions determine the price and the term of redemption. In accordance with IFRS ZE PAK S.A. recognised the obligation to redeem shares owned by non-controlling interests in the amount of PLN 11 880 thousand, in the case of PAK KWB Adamów S.A., and in the amount of PLN 19 091 thousand, in the case of PAK KWB Konin S.A. as of the day of the acquisition of control. In connection with ongoing redemption of employee shares, as of 30 September 2016, the remaining commitments amount is PLN 6 061 thousand. During the 9 months ended 30 September 2016 the amount of liabilities has not changed.

Principles and terms of payment of above financial liabilities:

- Terms of transactions with affiliates are presented in the note 32 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.

## 28.2 Trade liabilities and other financial liabilities (long-term)

	30 September 2016 (unaudited)	31 December 2015
Liability due to financial lease	4 472	11 909
Liability due to put option	-	-
Short-term liabilities to other entities – over 12 months	671	1 375
Other financial liabilities	-	-
Other	627	67 467
<b>Total</b>	<b>5 770</b>	<b>80 751</b>

## 28.3 Other non-financial liabilities

	30 September 2016 (unaudited)	31 December 2015
VAT tax liabilities	18 854	20 551
Liabilities due to environmental charges	-	53 893
Liabilities due to the excise tax	501	701
Liabilities due to social insurance	22 305	26 964
Personal income tax	5 806	6 797
Other budget liabilities	16	89



Advanced payments for deliveries	4 864	265
Mining fee	-	12 768
Other	544	525
<b>Total</b>	<b>52 890</b>	<b>122 553</b>

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

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

## 28.4 Derivative financial instruments

	<i>30 September 2016</i> <i>(unaudited)</i>	<i>31 December 2015</i>
Instruments securing floating interest rates (SWAP)	11 786	16 292
Other currency options	827	-
<b>Total</b>	<b>12 613</b>	<b>16 292</b>
– short-term		
– long-term	7 034	7 349
Instruments securing floating interest rates (SWAP)	5 579	8 943

## 28.5 Grants and deferred income (long-term)

	<i>30 September 2016</i> <i>(unaudited)</i>	<i>31 December 2015</i>
Long-term preferential loans	-	-
Long-term settlement of sale-and-lease-back	-	5 163
Long-term grants	44 260	45 600
Other	303	305
<b>Total</b>	<b>44 563</b>	<b>51 068</b>

The main component of long-term grants is the difference between the value of the valuation and the nominal value of the loan from the National Fund for Environmental Protection and Water Management, granted in 2005 to Elektrownia Pątnów II sp. o.o. on terms other than market (preferential). This difference has been recognized as a grant and subject to settlement over time.

## 28.6 Grants and deferred income (short-term)

	<i>30 September 2016</i> <i>(unaudited)</i>	<i>31 December 2015</i>
Short-term preferential loans	-	-
Short-term settlement of sale-and-lease-back	7 909	10 984
Short-term grants	1 786	1 786
Other	1	4
<b>Total</b>	<b>9 696</b>	<b>12 774</b>

## **29. Contingent liabilities and description of significant judicial cases**

Apart from liabilities described in the note below, as of 30 September 2016, the Group did not possess other contingent liabilities, granted guarantees, and sureties.

### **29.1. Judicial cases**

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

The subsidiary “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. Revenue due to compensations is included successively obtained rights to compensations to the end of the period of their application. In order to estimate value of revenue assigned to a given period, the company estimates in order to determine a ratio of estimated stranded costs to total sum of earned, returned, and expected discounted annual advanced payments (including annual advanced payments earned so far), annual adjustments, and a projected final adjustment.

The “Elektrownia Pątnów II” sp. z o.o. company, in accordance with accepted policy of accounting, on the basis of the built financial model, in 2014 and 2015, recognised revenues due to compensations in respective amounts of PLN 99 223 thousand and PLN 173 435 thousand.

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

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

On 1 December 2010, the SOKiK decided about a dismissal of the company's appeal against the ERO President's decision, acknowledging legitimacy of his arguments.

On 9 February 2011, Company filed an appeal to the Court of Appeal of Warsaw against the judgment of the Court of first instance.

On 11 October 2012, the Court of Appeal passed a beneficial judgment for the company changing the judgment of the Court of first instance and the ERO President's decision of 31 July 2009. The Court determined the amount of the annual adjustment of the stranded costs for 2008 for the “Elektrownia Pątnów II” sp. z o.o. company, which Zarządca Rozliczeń S.A. is obliged to pay to the “Elektrownia Pątnów II” sp. z o.o. company in the amount plus PLN 29 082 thousand. The judgment of the Court of Appeal is legally binding. Due to the above, on 17 October 2012, the “Elektrownia Pątnów II” sp. z o.o. company summoned Zarządca Rozliczeń S.A. to pay the judged amount of the adjustment for 2008, and to return the amount of PLN 26 493 thousand paid by the “Elektrownia Pątnów II” sp. z o.o. company due to partial execution of the decision of the ERO President pursuant to the SOKiK decision of 23 September 2009. The request for payment was issued for the total amount of PLN 55 576 thousand. On 22 October 2012, Zarządca Rozliczeń S.A. paid the amount mentioned above to the Company's account.

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

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

On 4 November 2014, the Court of Appeal of Warsaw issued a judgment dismissing appeal of Elektrownia Pątnów II sp. z o.o. against the judgment of the Regional Court of 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 the stranded costs for 2008 for the “Elektrownia Pątnów II” sp. z o.o., which the Elektrownia Pątnów II sp. z o.o. is obliged to return to Zarządca Rozliczeń S.A. the amount of PLN 52 493 thousand. Elektrownia Pątnów II sp. z o.o. included the Court's judgment in the statement for three quarters of this year taking into account

previous settlements of the parties in the subject case, i.e. taking into account the necessity to return the amount of PLN 29 082 thousand obtained from Zarządca Rozliczeń S.A. by Elektrownia Pątnów II sp. z o.o. by virtue of the judgment of the Court of Appeal of 11 October 2012.

As a result of the judgment Elektrownia Pątnów II sp. z o.o. has decreased the revenues from the compensation related to PPAs termination in 2014 at the amount to PLN 81.5 million.

On 15 April 2015 Elektrownia Pątnów II sp. z o.o. filed a cassation appeal against this judgment.

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

The judgment of the Court of Appeal in Warsaw of 4 November 2014 is legally binding and is to be executed by Elektrownia Pątnów II sp. z o.o. In accordance with the arrangements made between Elektrownia Pątnów II sp. z o.o. and the Zarządca Rozliczeń S.A. the amount subject of the dispute is subsequently repaid to Zarządca Rozliczeń S.A. in accordance with 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 initiate proceedings due to impose a pecuniary penalty on the ZE PAK S.A. company due to failure to perform obligation to maintain stocks of fuel securing continuity of supplies of electricity and heat to recipients on 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 President of the Energy Regulatory Office of 28 December 2010, ZE PAK S.A. was imposed the pecuniary penalty due to failure to perform obligation to maintain stocks of fuel in the quantity securing continuity of supplies of electricity and heat to recipients in 2008 and 2009 in the amount of PLN 1 500 thousand. At the beginning, the Company created the provision for the costs of the penalty in the full amount in 2010, which they then redeemed in 2015 in connection with the payment of the penalty.

On 30 January 2014, the SOKiK 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 judgment of the SOKiK of 30 January 2014, the result of which is to uphold the ERO President's decision.

On 11 December 2015, the Company filed with the Supreme Court a cassation complaint against the judgment of the Court of Appeal in Warsaw on 13 May 2015.

The proceeding is 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), the ZE PAK S.A. 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 PLN 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 S.A. are not subject to excise tax. Particular applications were recognised at the following levels: Customs Office in Kalisz, 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 regarding the overpaid excise tax, ZE PAK S.A., 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 tax to the price excludes the possibility of refunding the excess payment. 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 S.A. submitted to the District Court of Warszawa Śródmieście a summon for the State Treasury for a conciliatory hearing for the amount of approximately PLN 626 460 thousand and thus stopped the statute of limitation. The conciliatory settlement was not reached since during the hearing of 16 April 2012, case ref. No. VI Co 311/12, the representatives of the Treasury did not agree to settle. Simultaneously, on 14 September 2012, while waiting for the results of the tax proceedings regarding the previously submitted applications for excess payment, the Company submitted in writing, to the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic study, the purpose of which was to demonstrate whether the Company suffered a loss related to the payment of the excise tax to which it was not obligated. The Company is of the opinion 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 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 punitive damage in them. 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 judgments for the Company were given. The Company decided to file a cassation to the Supreme Administrative Court.
- 14 proceedings for the period December 2007 – February 2009 (excluding July 2008) are suspended in the Provincial Administrative Court pursuant to the amicable application of both parties because of the resolution ref. II FPS 5/13 passed by the Supreme Administrative Court on 27 January 2014. So far, none of the parties has applied for resumption of the proceedings. These proceedings also included annual economic analysis.,
- the proceeding for November 2006 was concluded with a negative judgment of the Supreme Administrative Court of 8 December 2011
- the proceeding for July 2008 reached the recognition of the Company's 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 judgment, against which the cassation appeal was submitted.

Depending on the provisions of the issued decisions, the Company will take further actions.

In case of Elektrownia Pątnów II sp. z o.o., the proceeding for all period (one case) was included in the cause lists of the Provincial Administrative Court after the negative decision of the Head of Customs Chamber 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 judgment 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.

#### ***The proceeding due to determining the amount of the annual adjustment of the stranded costs for 2015***

On 29 March 2016, the President of the Energy Regulatory Office ("the ERO President") like every year initiated administrative proceedings ex officio in order to determine the amount of the annual adjustment of the stranded costs for 2015 for "Elektrownia Pątnów II" sp. z o.o. On 28 July 2016 the ERO President issued a decision setting for Elektrownia Pątnów II sp. z o.o. positive adjustment of stranded costs in the amount of PLN 57 310 thousand.

On 30 September 2016 Zarządca Rozliczeń SA paid to Elektrowni Pątnów II sp. z o.o. an amount reflected in ERO President decision.

The proceeding completed.

#### ***The proceeding in the case of release from the obligation to sale of electricity pursuant to an Article 49a section 2 of the Act – Energy Law.***

On 27 January 2016 Elektrownia Pątnów II sp. z o.o., submitted a request to the President of the ERO for release from sales of electricity the obligation to sale of electricity pursuant to Article 49a section 2 of the Act – Energy Law in relation to 60% of net electricity generated in the generating unit of Elektrownia Pątnów II sp. z o.o. as the one sold for the need for long-term obligations arising from contracts 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 upholding in its entirety the application of the Company. The Company received relief compared to 60% of the volume for the period from 1 January 2017 until 31 December 2019.

The proceeding is completed.

***The proceeding in the case of release from the obligation to sale of electricity pursuant to an Article 49a section 2 of the Act – Energy Law***

On 27 September 2016 President of the Energy Regulatory Office („President of ERO”) initiated ex officio administrative proceedings against Pątnów II sp. o.o. due to non-compliance by Elektrownia Pątnów II sp. o.o. the obligations referred to in Article. 49a paragraphs 1 and 2 of the Act - Energy Law, i.e. An obligation to sell the electricity generated in the period from 1 January 2012 to 31 December 2012. By the so-called. public trading.

On 12 October 2016, Elektrownia Pątnów II sp. o.o. sent to the President of ERO relevant explanations and its position in the above case.

The proceeding is not completed.

***The dispute between PAK KWB Konin S.A. and FUGO S.A. concerning damages and the unjust enrichment***

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

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

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, 31 January 2010 – was 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.

On demand of PAK KWB Konin S.A. of 29 July 2010, the Guarantor, HDI-Gerling Polska Towarzystwo Ubezpieczeń S.A., 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 S.A. the amount of PLN 762 thousand due to failure to perform within the term by obliged FUGO S.A. – the Leader of the Consortium in the composition of: FUGO S.A. and SKW Biuro Projektowo-Techniczne Sapkowski, Kanczewski, Wocka spółka jawna, the Agreement of 26 June 2008, included in the guarantee in the scope of the first excavator.

Furthermore, on demand of PAK KWB Konin S.A. of 20 October 2010, the Guarantor, HDI-Gerling Polska Towarzystwo Ubezpieczeń S.A., paid to PAK KWB Konin S.A. the amount of PLN 2 349 thousand due to damages for the period between 16 September 2010 and 25 October 2010 due to delay of the execution by obliged FUGO S.A. – the Leader of the Consortium in the composition of: FUGO S.A. and SKW Biuro Projektowo-Techniczne Sapkowski, Kanczewski, Wocka spółka jawna, the Agreement of 26 June 2008, included in the guarantee in the scope of the second excavator.

Then, PAK KWB Konin S.A., on the basis of the charge memo of 26 May 2011 in the amount of PLN 2 762 thousand, burdened FUGO S.A. with remaining damages of the Agreement of 26 June 2008. Due to lack of payment of the above mentioned receivable, PAK KWB Konin S.A. deducted from remunerations entitled to FUGO S.A. 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 S.A. submitted to the District Court in Konin a summons for a conciliatory hearing for the amount of PLN 12 896 thousand. The amount consists of the following claims:

- the amount of PLN 5 872 thousand due to the unjust enrichment,
- the amount of PLN 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 S.A. refused to reach conciliatory settlement and considered claims unjustified. In this situation, the proceedings of the summons was 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 S.A. cannot exclude that FUGO S.A. may submit to the common court of law with the claim for payment of indicated amounts. Currently, there is no formal court dispute.

FUGO S.A. only attempted to conclude the Conciliation Settlement before the court at no cost, which enabled to stop the statute of limitation of reported claims, and further steps depend on the evaluation by the above mentioned company the possibility to bear provision in the trial.

The dispute with FUGO S.A. was not reflected in the books of account of PAK KWB Konin S.A. According to the Management Board's assessment, there are no premises justifying creation of provisions in relation with the dispute

***The proceedings in the case of the environmental decision issued in favour of PAK KWB Konin S.A. concerning the Tomislawice brown coal deposit***

PAK KWB Konin S.A. is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomislawice. 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 Tomislawice deposit was granted, infringes the regulations of the law in a major manner. PAK KWB Konin S.A. and the Self-government Appeal Court submitted an appeal against this judgment. 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 Tomislawice open pit by PAK KWB Konin S.A. On 7 January 2013, PAK KWB Konin S.A. 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 KWB Konin S.A.'s cassation appeal from the judgment 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 Tomislawice open pit.

Dismissal of the cassation appeal of PAK KWB Konin S.A. means that the judgment 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 Tomislawice.

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 Tomislawice open pit. The environmental decision of the Head of the Wierzbinek Commune of 7 August 2007 still remains in the legal transactions, and it causes legal consequences until issuing the final settlement by the Local Government Court.

## **29.2. Tax settlements**

Tax settlements and other regulated areas of activities (for example, customs or foreign exchange matters) may be the subject to inspection of the 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 businesses, cause uncertainty and conflicts. Such phenomena result in the significantly higher tax risks 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 payment of the tax. As a result of the conducted inspections, the current tax settlements of the Group may be increased by the additional tax liabilities. In the Group's opinion, as of 30 September 2016 and 31 December 2015, appropriate provisions for recognised and calculable tax risks were created.

### 30. Liability repayment securities

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

As of 30 September 2016 and 31 December 2015, the Group had liabilities protected with its assets and other protections of payment of liabilities:

#### *Liabilities protected with the entity's assets*

<i>Kind of liabilities, guarantees, and sureties</i>	<i>30 September 2016 (unaudited)</i>		<i>31 December 2015</i>	
	<i>Amount of security</i>	<i>Currency</i>	<i>Amount of security</i>	<i>Currency</i>
<b>„EL PAK SERWIS” sp. z o.o.</b>				
1. Payment of security deposit				
1.1. the agreement with PAK KWB KONIN SA electrical services	3	PLN	3	PLN
<b>„Elektrownia Pątnów II” sp. z o.o.</b>				
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	PLN	339 750	PLN
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 in favour of mBank S.A.	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 in favour of mBank S.A.	339 750	PLN	339 750	PLN
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	PLN	339 750	PLN
<b>„PAK – HOLDCO” sp. z o.o.</b>				
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. in favour of mBank S.A.	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. in favour of mBank S.A.	339 750	PLN	339 750	PLN
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	PLN	339 750	PLN
<b>„PAK Infrastruktura” sp. z o.o.</b>				
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

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1.2. Registered pledge on a group of items and rights of PAK Infrastruktura sp. z o.o.	339 750	PLN	339 750	PLN
<b>PAK Kopalnia Węgla Brunatnego Konin SA</b>				
1. Registered and financial pledges				
1.1. Registered pledge on machines and devices, including assignment of insurance policy	100 500	PLN	100 500	PLN
1.2. Registered pledge on receivables of agreements of lignite sales to Elektrowni Pątnów II Sp. z o.o. (Millennium Bank)	122 400	PLN	122 400	PLN
1.3. Transfer of title to one excavator including assignment of insurance	-	PLN	46 942	PLN
1.4. Registered pledge on machinery and equipment	115 050	PLN	-	PLN
2. Mortgage				
2.1. Mortgage on right of perpetual usufruct	100 500	PLN	100 500	PLN
<b>Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.</b>				
1. Bank deposit				
1.1. Bank deposit above the guaranteed amount - bank performance bond	672	PLN	1 013	PLN
2. Payment of security				
2.1. Cash - transfer	88	PLN	8	PLN
<b>Zespół Elektrowni Pątnów-Adamów-Konin SA</b>				
1. Registered and financial pledges				
1.1. Financial pledge on cash in bank accounts ZE PAK SA in banks: mBank, BGK, Pekao SA, PKO BP, Millennium in connection with a loan of PLN 667 million dated 03.13.2014.	2 040 000	PLN	2 040 000	PLN
2. . Registered and financial pledges on shares in affiliates				
2.1. Registered and financial pledges on shares held by ZE PAK S.A. in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO Sp. z o.o. in favour of mBank S.A. (ZE PAK as a guarantor of the "Pątnów II" project)	339 750	PLN	339 750	PLN
2.2. Registered and financial pledges on shares held by ZE PAK S.A. in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO Sp. z o.o. in favour of mBank S.A. (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 nosh 89/20, 89/53, 89/57, 89/55, 89/56, and 89/21 and on 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, KN1N/00072270/2, KN1N/00073272,	2 040 000	PLN	2 040 000	PLN
4. Registered pledge				
4.1. Registered pledge on the set of ZE PAK SA (power units No. 1-4 in Pątnów) for the bank mBank in connection with a loan of PLN 667 million dated 13.03.2014	2 040 000	PLN	2 040 000	PLN
4.2. Registered pledge on bank accounts ZE PAK SA established for the bank mBank in connection with a loan of PLN 667 million dated 13.03.2014.	2 040 000	PLN	2 040 000	PLN

**Other repayment securities of liabilities**

<i>Kind of liabilities, guarantees, and sureties</i>	<i>30 September 2016 (unaudited)</i>		<i>31 December 2015</i>	
	<i>Amount of security</i>	<i>Currency</i>	<i>Amount of security</i>	<i>Currency</i>
<b>„Elektrownia Pątnów II” sp. z o.o.</b>				
1. Assignment				
1.1. Assignment from the Framework Electricity Sales	-	PLN	236 716	PLN



Agreement no. TPE/HOU/2009/0082 concluded on 30 April 2009 between EPII and TAURON Polska Energia S.A. including Transaction Agreements for 2015 concluded in 2014				
1.2. Assignment from the Framework Electricity Sales Agreement no. SPOT/127/EPII/Inter Energia/2009 concluded on 9 December 2009 between EPII and Inter Energia S.A. including Transaction Agreements for 2015 concluded in 2014	-	PLN	66 251	PLN
1.3. Assignment from the Framework Electricity Sales Agreement no. TPE/HOU/2009/0082 concluded on 30 April 2009 between EPII and TAURON Polska Energia S.A. including Transaction Agreements for 2016	121 381	PLN	-	PLN
1.4. Assignment from the Framework Electricity Sales Agreement no. SPOT/127/EPII/Inter Energia/2009 concluded on 9 December 2009 between EPII and Inter Energia S.A. including Transaction Agreements for 2016	62 024	PLN	-	PLN
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
<b>PAK Kopalnia Węgla Brunatnego Konin SA</b>				
1. Guarantees				
1.1. Guarantee of Bank Przemysłowo-Handlowy S.A.	4 000	PLN	4 000	PLN
1.3. Guarantee of Bank Przemysłowo-Handlowy S.A.	4 800	PLN	4 800	PLN
2. Sureties				
2.1. Zakład opieki zdrowotnej i Medycy Pracy "MED ALKO" [in Polish: the Health Care and Occupational Medicine Facility "MED ALKO"]	-	PLN	800	PLN
2.2. Surety of the credit in the amount of PLN 1 million for AQUAKON Sp. z o.o.	1 000	PLN	1 000	PLN
2.3. Surety of the credit in the amount of PLN 1 million for Eko-Surowce Sp. z o.o.	1 000	PLN	1 000	PLN
3. Assignments of receivables				
3.1. Assignment of receivables 1.6 million zlotys monthly value of the ordered monthly supply of coal to ZE PAK in accordance with the agreement (BANK mBank)	-	PLN	19 200	PLN
3.2. Assignment of receivables 3 million zlotys monthly value of the ordered monthly supply of coal to ZE PAK in accordance with the agreement (BANK mBank)	36 000	PLN	36 000	PLN
3.3. Assignment of receivables 120 million zlotys monthly value of the ordered monthly supply of coal to ZE PAK in accordance with the agreement (Bank BPH)	120 000	PLN	120 000	PLN
<b>Przedsiębiorstwo Remontowe „PAK SERWIS” sp. z o.o.</b>				
1. Guarantees				
1.1. Performance Bond	9 529	PLN	12 133	PLN
1.2. Defect Liability Guarantee	279	EUR	781	EUR
1.3. Defect Liability Guarantee	4 264	PLN	3 246	PLN
1.4. Payment Guarantee	11	PLN	4	PLN
1.5. Performance Bond	195	EUR	-	EUR
1.6. Advanced Payment Refund Guarantee	6 025	PLN	134	PLN
2. Sureties				
2.1. Surety of Pak Serwis for Energoinwest's credit agreement in Bank Millennium	-	PLN	4 800	PLN
2.2. Surety of PAK Serwis for Energoinwest's multi-product limit agreement in the bank BGŻ BNP PARIBAS	-	PLN	1 500	PLN

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3. Promissory notes				
3.1. Blank promissory note in favour of PAK KWB KONIN S.A.	148	PLN	148	PLN
4. Assignment				
4.1. The agreement on transfer of receivables for contracts for the repair and maintenance of ZE PAK SA	309 018	PLN	-	PLN.
4.2. The agreement on transfer of receivables concerning agreement UM140076 of ZE PAK SA	6 238	PLN	-	PLN
4.3. The agreement on transfer of receivables concerning agreements UM160041 and UM160043 of ZE PAK SA	630	PLN	-	PLN
4.4. The agreement on transfer of receivables concerning agreements UM160010, UM160012 and UM160036 of Elektrownia Pątnów II sp. z o.o.	4 174	PLN	-	PLN
<b>Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.</b>				
1. Guarantees				
1.1. 1. Proper Performance of the Contract Guarantees	5 603	PLN	5 388	PLN
1.2. 3. Security Payment Guarantee	220	PLN	560	PLN
1.3. 2. Receivables Payment Guarantee due to use of fleet cards of PKN ORLEN S.A.	-	PLN	33	PLN
2. Other				
2.1. Transfer of title to fixed assets securing the insurance guarantee	-	PLN	702	PLN
<b>Zespół Elektrowni Pątnów-Adamów-Konin SA</b>				
1. Sureties				
1.1. Surety of ZE PAK for PAK KWB due to the investment credit in the BZ WBK bank in the amount of PLN 46 463 thousand	23 839	PLN	23 839	PLN
1.2. Surety of ZE PAK for PAK KWB Konin due to the overdraft facility in the BZ WBK bank in the amount of PLN 61 680 thousand	65 000	PLN	65 000	PLN
1.3 Surety of ZE PAK for PAK KWB Konin due to the working capital facility in the Millennium bank in the amount of PLN 76,500 thousand	76 500	PLN	76 500	PLN
1.4. Surety of ZE PAK for PAK KWB Adamów due to the overdraft facility in the BZ WBK bank in the amount of PLN 10 000 thousand	-	PLN	10 000	PLN
2. Assignment				
2.1. Assignment from the insurance agreement of property of Elektrownia Pątnów and assignment from insurance of the investment entitled "Modernisation of Units 1-4 in Elektrownia Pątnów" due to the credit of PLN 667 million of 13.03.2014 r. in favour of the mBank bank	200 000	PLN	1 200 000	PLN
2.2. Assignment from electricity sales agreements with ENERGA Obrót, PAK-Volt, RWE Polska, Tauron and PSE Operator due to the credit of PLN 667 million of 13.03.2014 in favour of the mBank bank	-	PLN	1 200 000	PLN
2.3. Assignment from electricity sales agreements with ENEA Trading, ENERGA Obrót, PAK-Volt, GET En Tra, RWE Polska and PSE Operator due to the credit of PLN 667 million of 13.03.2014r. in favour of the mBank bank	1 200 000	PLN	-	PLN
3. Other				
3.1. . Power of attorney to bank accounts of ZE PAK S.A. in mBank, PEKAO S.A., BGK, PKO BP and Millennium banks due to the credit of PLN 667 million of 13.03.2014	1 200 000	PLN	1 200 000	PLN
3.2. . Power of attorney to the bank account of ZE PAK S.A. in the PEKAO S.A. bank due to the overdraft facility in the amount of PLN 80,0 million of 20.12.2005	120 000	PLN	-	PLN
3.3. Power of attorney to the bank account of ZE PAK SA in		PLN	80 000	PLN

Bank Pekao SA in connection with the overdraft facility in the amount of PLN 40.0 million of 20.12.2005.	40 000			
3.4. Statement on submission to enforcement due to the credit of PLN 667 million of 13.03.2014 r.	2 040 000	PLN	2 040 000	PLN

## 31. Obtained guarantees and sureties

<i>Kind of liabilities, guarantees, and sureties</i>	<i>30 September 2016 (unaudited) Obtained in PLN</i>	<i>30 September 2016 (unaudited) Obtained in EUR</i>	<i>31 December 2015 Obtained in PLN</i>	<i>31 December 2015 Obtained in EUR</i>
<b>„Elektrownia Pątnów II” sp. z o.o.</b>				
1. Guarantees				
1.1. Payment guarantees	10 158	-	10 891	-
1.2. Performance bond	4 743	-	3 425	-
1.3. Advance payment guarantee	291	-	-	-
<b>„PAK Infrastruktura” sp. z o.o.</b>				
1. Guarantees				
1.1. Performance and retention bonds	-	34	-	-
<b>Energoinwest Serwis sp. z o.o.</b>				
1. Guarantees				
1.1. Performance and retention bonds PZU SA	620	-	620	-
2. Sureties				
2.1. Surety of the multi-product limit agreement in Bank BGŻ from PAK Serwis	-	-	4 800	-
2.2. . Surety of the credit agreement in Bank Millennium from PAK Serwis	-	-	1 500	-
<b>PAK Kopalnia Węgla Brunatnego Konin SA</b>				
1. Sureties				
1.3. Surety of ZE PAK S.A.	76 500	-	76 500	-
1.4. Surety of ZE PAK S.A.	65 000	-	65 000	-
1.5. Surety of ZE PAK S.A.	26 223	-	26 223	-
<b>Przedsiębiorstwo Remontowe „PAK SERWIS” sp. z o.o.</b>				
1. Bills of exchange				
1.1. In Blanco from FABRYKA WENTYLATORÓW FAWENT S.A.	338	-	169	-
2. Guarantees				
2.1. Guaranteed removal of defects (including starting on or after 30/09/2016)	2 814	-	2 519	40
2.2. Guarantees good performance (including starting on or after 09/30/2016)	2 382	-	1 212	-
2.3. Advance payment guarantee	738	-	-	-
<b>Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.</b>				
1. Guarantees				
1.1. Performance and retention bonds (cash payment)	181	-	409	-
1.2. Performance and retention bonds	1 017	-	2 656	-
<b>Zespół Elektrowni Pątnów-Adamów-Konin SA</b>				
1. Bills of exchange				
1.1. Bills of exchange	2 525	363	27 500	363
2. Guarantees				

2.1. Performance bonds	36 908	-	49 774	351
2.2. Advanced payment refund guarantees	5 929	-	5 692	-
2.3. Payment guarantees	8 551	-	-	-
3. Sureties				
3.1. Sureties*	-	-	211 143	17 550

\* Sureties in the amount of PLN 211 143 thousand concern the agreement no. 1/2009 of 30 July 2009 with Foster Wheeler Energia Polska sp. z o.o.

## 32. Information about related entities

The following table presents total amounts of transactions with affiliates for a period of 9 months ended 30 September 2016 and 30 September 2015:

*(unaudited)*

		<i>Sales to related entities</i>	<i>Purchase from related entities</i>	<i>Receivables from related entities</i>	<i>Liabilities towards related entities</i>
<i>Related entity</i>					
Elektrim SA	2016	-	90	-	-
	2015	-	90	-	-
Megadex Serwis Sp. z o.o.	2016	1	35 706	617	4 783
	2015	10	95 240	921	14 751
Polkomtel sp. z o.o.	2016	90 296	3 384	14 538	1 716
	2015	36 182	2 707	8 018	1 679
Laris Investments sp. z o.o.	2016	384	730	231	21
	2015	309	727	216	-
<b>Total</b>	<b>2016</b>	<b>90 681</b>	<b>39 910</b>	<b>15 386</b>	<b>6 520</b>
	<b>2015</b>	<b>36 501</b>	<b>98 764</b>	<b>9 155</b>	<b>16 430</b>

### 32.1. Loan granted to a member of the Management Board

Both in the 9-month period ended 30 September 2016, and in the one ended 30 September 2015, the Parent Company did not grant any loans and similar benefits to members of the management and supervisory authorities.

### 32.2. Other transactions involving members of the Management Board

Both in the 9-month period ended 30 September 2016, and in the one ended 30 September 2015, there were no transactions with members of the management and supervisory authorities.

### 32.3. Remuneration of chief executive staff of the Group

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

<i>9 months period ended 30 September 2016 (unaudited)</i>	<i>9 months period ended 30 September 2015 (unaudited)</i>
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<b>Management Board of the parent company</b>	3 307	3 022
Short-term employee benefits	2 434	2 205
Long-service bonuses	-	-
Post-employment benefits	-	-
Benefits for termination of the contract of employment	28	-
<b>Supervisory Board of the parent company</b>	0	0
Short-term employee benefits	845	817
Long-service bonuses	-	-
Post-employment benefits	-	-
Benefits for termination of the contract of employment	-	-
<b>Management Boards of subsidiaries</b>	4 212	5 003
Short-term employee benefits	4 212	4 537
Long-service bonuses	-	406
Post-employment benefits	-	49
Benefits for termination of the contract of employment	-	11
Share-based employee benefits	-	-
<b>Supervisory Board of subsidiaries</b>	0	0
Short-term employee benefits	-	-
Long-service bonuses	-	-
Post-employment benefits	-	-
Benefits for termination of the contract of employment	-	-
<b>Total</b>	<b>7 519</b>	<b>8 025</b>

### **32.3.2. Remuneration paid or entitled to other members of the main management**

	<i>9 months period ended 30 September 2016 (unaudited)</i>	<i>9 months period ended 30 September 2015 (unaudited)</i>
Short-term employee benefits	11 326	12 359
Long-service bonuses	64	1 392
Post-employment benefits	15	86
Benefits for termination of the contract of employment	164	-
Share-based employee benefits	-	-
<b>Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)</b>	<b>11 569</b>	<b>13 837</b>

## **33. Goals and rules of financial risk management**

Apart from derivative instruments, 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 obtaining 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 run activities.

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

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

Main kinds of risk resulting from financial instruments of the Group include the interest rate risk management, liquidity risk, foreign currency risk, and credit risk. The Board verifies and consults rules of the management of any of these kinds of risk – these rules were discussed shortly below. The Group also monitors market price risk regarding all possessed financial instruments.

### **33.1. 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 an interest rate quoted on the interbank market for foreign currencies, for which the Group has the exposition to interest rate risk from the balance sheet date.

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Classes of financial instruments	As of 30 September 2016 (unaudited)		Interest rate risk sensitivity study as of 30 September 2016							
	WIBOR		WIBOR + 68 bp				EURIBOR			
	Carrying amount	Value at risk	WIBOR + 68 bp		WIBOR - 68 bp		EURIBOR + 18,35 bp		EURIBOR - 18,35 bp	
			Profit / loss	Other comprehensive income	Profit / loss	Other comprehensive income	Profit / loss	Other comprehensive income	Profit / loss	Other comprehensive income
Other financial assets	88 485	85 698	78	-	(78)	-	136	-	(136)	-
Trade and other receivables	230 829	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	458 488	458 488	2 650	-	(2 650)	-	126	-	(126)	-
Interest-bearing loans and borrowings	(1 069 979)	(1 069 979)	(4 493)	-	4 493	-	(751)	-	751	-
Trade payables and other financial liabilities	(231 317)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(12 613)	(12 613)	-	-	-	-	-	657	-	(657)
<b>Total</b>	<b>(536 107)</b>	<b>(538 406)</b>	<b>(1 765)</b>	<b>-</b>	<b>1 765</b>	<b>-</b>	<b>(489)</b>	<b>657</b>	<b>489</b>	<b>(657)</b>

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<i>Classes of financial instruments</i>	<i>As of 30 September 2015 (unaudited)</i>				<i>Classes of financial instruments 30 September 2015</i>					
	<i>Carrying amount</i>	<i>WIBOR Value at risk</i>	<i>Profit / loss</i>	<i>WIBOR + 59 bp Other comprehensive income</i>	<i>Profit / loss</i>	<i>WIBOR - 59 bp Other comprehensive income</i>	<i>Profit / loss</i>	<i>EURIBOR + 5 bp Other comprehensive income</i>	<i>EURIBOR EURIBOR - 5 bp Profit / loss</i>	<i>Other comprehensive income</i>
Other financial assets	51 827	47 888	68	-	(68)	-	18	-	(18)	-
Trade and other receivables	275 210	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	263 972	263 972	1 152	-	(1 152)	-	34	-	(34)	-
Interest-bearing loans and borrowings	(1 282 921)	(1 282 921)	(4 477)	-	4 477	-	(262)	-	262	-
Trade payables and other financial liabilities	(423 429)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(17 789)	(17 790)	-	-	-	-	-	303	-	(303)
<b>Total</b>	<b>(1 133 130)</b>	<b>(988 851)</b>	<b>(3 257)</b>	<b>-</b>	<b>3 257</b>	<b>-</b>	<b>(210)</b>	<b>303</b>	<b>210</b>	<b>(303)</b>

### 33.2. Currency risk

The Group is exposed to currency risk due to concluded transactions. Such risk also concerns credit and loan liabilities. The Group does not use derivative instruments protecting from the change of currency rate.

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

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



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Classes of financial instruments	As of 30 September 2016 (unaudited)		Analysis of sensitivity to interest rate risk as of 30 September 2016			
	Carrying amount	Value at risk	EUR/PLN			
			rate EUR/PLN + 7,4% 4,6311	Other comprehensive income	rate EUR/PLN - 7,4% 3,9929	Other comprehensive income
			Profit / (loss)		Profit / (loss)	
Other financial assets	88 485	74 268	5 496	-	(5 496)	-
Trade and other receivables	230 829	3 380	250	-	(250)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	458 488	68 794	5 091	-	(5 091)	-
Interest-bearing loans and borrowings	(1 069 979)	(409 116)	(30 275)	-	30 275	-
Trade payables and other financial liabilities	(231 317)	(2 174)	(161)	-	161	-
Derivative financial instruments	(12 613)	(827)	(61)	-	61	-
<b>Total</b>	<b>(536 107)</b>	<b>(265 675)</b>	<b>(19 660)</b>	<b>-</b>	<b>19 660</b>	<b>-</b>

Classes of financial instruments	As of 30 September 2015 (unaudited)		Analysis of sensitivity to interest rate risk as of 30 September 2015			
	Carrying amount	Value at risk	EUR/PLN			
			rate EUR/PLN + 7,675% 4,5639	Other comprehensive income	rate EUR/PLN - 7,675% 3,9133	Other comprehensive income
			Profit / (loss)		Profit / (loss)	
Other financial assets	51 827	36 360	2 791	-	(2 791)	-
Trade and other receivables	275 210	304	23	-	(23)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	263 972	68 800	5 280	-	(5 280)	-
Interest-bearing loans and borrowings	(1 282 921)	(524 102)	(40 225)	-	40 225	-
Trade payables and other financial liabilities	(423 429)	(1 189)	(91)	-	91	-
Derivative financial instruments	(17 789)	-	-	-	-	-
<b>Total</b>	<b>(1 133 130)</b>	<b>(419 827)</b>	<b>(32 222)</b>	<b>-</b>	<b>32 222</b>	<b>-</b>

### **33.3. Credit risk**

Credit risk is a potential credit event, which may be materialised in the form of following factors: counterpart insolvency, partial repayment of receivables, significant delay in receivables repayment, or other not predicted default on contractual terms.

The Group concludes transactions only with reputable companies of good credit rating. All customer who want to use credit terms, are subject to procedures of initial verification. Moreover, thanks to current monitoring of receivables, exposure of the Group to non-collectible receivables risk is insignificant.

Main recipients of electricity are big energy groups, such as ENERGA S.A., ENEA Trading, PAK-Volt S.A. and RWE Polska. Transactions concluded on an exchange are settled on a day-by-day basis by the Towarowa Giełda Energii S.A. company, which minimises credit risk.

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

### **33.4. 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 table below presents financial liabilities of the Group as of 30 September 2016 and 31 December 2015 according to the maturity date based on contractual non-discounted payments

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<i>30 September 2016</i>	<i>Less than 3 months</i>	<i>3 – 12 months</i>	<i>1 – 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Interest bearing loans and borrowings	91 786	326 165	710 536	-	1 128 487
Trade payables and other financial liabilities	165 415	60 131	5 746	25	231 317
Derivative financial instruments	2 429	4 008	4 965	-	11 402
<b>Total</b>	<b>259 630</b>	<b>390 304</b>	<b>721 247</b>	<b>25</b>	<b>1 371 206</b>

<i>31 December 2015</i>	<i>Less than 3 months</i>	<i>3 – 12 months</i>	<i>1 – 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
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
<b>Total</b>	<b>283 114</b>	<b>351 481</b>	<b>883 968</b>	<b>235 309</b>	<b>1 753 872</b>

Derivative instruments indicated in above tables were presented in gross values of non-discounted payments. However, these contracts can be settled in either gross values or net amounts. Below table's present agreements of these values to balance sheet values of derivative instruments:

<i>30 September 2016( )unaudited)</i>	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 – 12 months</i>	<i>1 – 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Inflows	-	(154)	(435)	(359)	-	(948)
Outflows	-	1 603	4 008	4 965	-	10 576
Net amount	-	(1 757)	(4 443)	(5 324)	-	(11 524)
<b>Discounted using appropriate</b>	<b>-</b>	<b>(1 757)</b>	<b>(4 450)</b>	<b>(5 579)</b>	<b>-</b>	<b>(11 786)</b>

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

## 34. Financial instruments

### 34.1. Fair values of particular classes of financial instruments

The tables shown below present 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	Carrying amount		Fair value		Level of the fair value hierarchy for needs of disclosures
		30 September 2016	31 December 2015	30 September 2016	31 December 2015	
Financial assets	PiN	88 485	90 731	88 485	90 731	2
Other financial assets	PiN	230 829	268 123	230 829	268 123	2
Trade receivables and other receivables	WwWGpWF	-	-	-	-	2
Derivative financial instruments	UdtW	458 488	383 354	458 488	383 354	1
Financial liabilities		1 313 909	1 645 610	1 313 909	1 645 610	
Interest-bearing bank credits and loans, including:		1 069 979	1 311 062	1 069 979	1 311 062	3
- long-term ones interested according to a variable rate	PZFwgZK	658 001	924 519	658 001	924 519	
- short-term ones interested according to a variable rate	PZFwgZK	411 978	386 543	411 978	386 543	
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	231 317	318 256	231 317	318 256	2
Derivative financial instruments	WwWGpWF	12 613	16 292	12 613	16 292	2

Abbreviations used:

*UdtW* – Financial assets held to maturity

*WwWGpWF* – Financial assets/ financial liabilities at fair value through profit or loss,

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<i>PiN</i>	– Loans and receivables,
<i>DDS</i>	– Financial assets held for sale
<i>PZFwgZK</i>	– Other financial liabilities at amortised cost

As of 30 September 2016 and 31 December 2015, the Group had following financial instruments evaluated in the fair value:

	<i>30 September 2016</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	12 613	-
	<i>31 December 2015</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	16 292	-

In the period of 9 months ended 30 September 2016 and in the year 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.

### 34.2. 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 effect of protection transactions Interest Rate Swap exchanging stream of cash interest payments based on the variable EURIBOR rate for the fixed rate in EUR

	<i>Type of interest rate</i>	<i>Carrying amount as of 30 September 2016</i>	<i>Carrying amount as of 31 December 2015</i>
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	401 125	362 966
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	143 062	105 523
Financial liabilities at interest rate risk – PLN	Fixed	-	-
	Variable	660 863	813 887
Financial liabilities at interest rate risk – Other currencies	Fixed	204 780	248 947
	Variable	204 336	248 228
Net exposure – PLN	Fixed	-	-
	Variable	(259 738)	(450 921)
Net exposure – Other currencies	Fixed	(204 780)	(248 947)
	Variable	(61 274)	(142 705)

Interest rate of financial instrument of variable interest rate is updated in periods shorter than one year. Interests on financial instruments of 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 above tables are not subject to interest and they are not subject to interest rate risk.

#### 34.2.1. 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 below tables, basic parameters of derivative transaction indicates as security instruments, including periods, when cash flows due to cash flow securities, and when they will influence on the financial result, as well as their fair value in PLN as of 30 September 2016 and 31 December 2015 are presented.

<i>Instrument type</i>	<i>Nominal value in the transaction currency [EUR]*</i>	<i>Fair value in PLN</i>	<i>Expected duration of hedged item's realisation</i>
	<i>30 September 2016 (unaudited)</i>	<i>30 September 2016 (unaudited)</i>	<i>30 September 2016</i>

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IRS transaction	47 491	(11 787)	in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019
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*\* the nominal values depreciated in accordance with the credit repayment schedule*

<i>Instrument type</i>	<i>Nominal value in the transaction currency [EUR]*</i>	<i>Fair value in PLN</i>	<i>Expected duration of hedged item's realisation</i>
	<i>31 December 2015</i>	<i>31 December 2015</i>	<i>31 December 2015</i>

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
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*\* 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:

	<i>9 months period ended</i>	<i>Year ended</i>
	<i>30 September 2016 (unaudited)</i>	<i>31 December 2015</i>
Opening balance	(14 742)	(21 902)
Effective part of profits / losses on a security instrument	(1 254)	(1 217)
Amounts charged to the income statement, including:	(5 584)	(8 377)
– adjustment of costs of interest	(5 584)	(8 377)
– adjustment under ineffective hedging	-	-
Closing balance	(10 412)	(14 742)
Deferred tax assets – recognized in the revaluation reserve	1 978	2 801
Closing balance including deferred tax	(8 434)	(11 941)

In the third quarter of 2016 the Group companies did not use instruments for reducing risks arising from fluctuations in exchange rates, with the exception of ZE PAK SA which secured the euro exchange rate for the part of cash flows associated with the purchase of CO<sub>2</sub> emission allowances units. To hedge the exchange rate used forward transactions with a settlement date in December 2016. The following table provides a summary of active on the balance sheet date forward contracts to buy EUR.

<i>Transaction type</i>	<i>Currency cross</i>	<i>Amount (nominal value in EUR thousand) 30 September 2016 (unaudited)</i>	<i>Net market value (fair value in PLN thousand) 30 September 2016 (unaudited)</i>	<i>Maturity date (maturity period of hedged position)</i>
Forward transaction to buy EUR	(EUR / PLN)	20 000	(827)	December 2016

The Group hedges also the risk of changes in the prices of CO<sub>2</sub> emission allowances units using forward contracts for the purchase of their own needs. The following table provides a summary of the active at the balance sheet transactions.

<i>Type of concluded transactions</i>	<i>Number of purchased allowances</i>	<i>Total value of transactions</i>	<i>Currency of transactions</i>	<i>Maturity</i>
Forward	5 880 000	46 004	EUR	Up to 1 year
Forward	650 000	5 336	EUR	Up to 2 years

### 35. Capital management

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

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. In the period ended 30 September 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.

	30 September 2016 (unaudited)	31 December 2015
Interest-bearing credits and loans	1 069 979	1 311 062
Derivative financial instruments (liabilities)	12 613	16 292
Trade liabilities and other financial liabilities	231 317	318 256
Minus cash and its equivalents	458 488	383 354
Net debt	<u>855 421</u>	<u>1 262 256</u>
Equity	2 106 053	1 884 823
Capitals from revaluation of security instruments	(8 434)	(11 941)
Total capital	<u>2 114 487</u>	<u>1 896 764</u>
<b>Net capital and debt</b>	<b><u>2 969 908</u></b>	<b><u>3 159 020</u></b>
Leverage ratio	28,80%	39,96%

### 36. Events after the balance sheet date

Except for these described in the additional explanatory notes, from the balance sheet date to date of this interim condensed consolidated financial report for the period of 9 months ended 30 September 2016 there were no significant events.



# **ZESPÓŁ ELEKTROWNI PAŃNÓW-ADAMÓW-KONIN SA**

## **QUARTERLY CONDENSED FINANCIAL STATEMENT FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2016**

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

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## BALANCE SHEET

### Assets

	<i>As of 30 September 2016 (unaudited)</i>	<i>As of 30 June 2016 (unaudited)</i>	<i>As of 31 December 2015</i>	<i>As of 30 September 2015 (unaudited)</i>	<i>As of 30 June 2015 (unaudited)</i>
<b>A. Non-current assets</b>	<b>2 065 000</b>	<b>2 070 559</b>	<b>2 184 042</b>	<b>3 735 548</b>	<b>3 586 924</b>
<b>I. Intangible assets</b>	<b>193 376</b>	<b>185 580</b>	<b>289 858</b>	<b>265 791</b>	<b>197 417</b>
1. Development expenses	-	-	-	-	-
2. Goodwill	-	-	-	-	-
3. Other intangible assets	193 376	185 580	289 858	265 791	197 417
4. Prepayments for intangible assets	-	-	-	-	-
<b>II. Property, plant and equipment</b>	<b>668 280</b>	<b>676 107</b>	<b>684 220</b>	<b>2 216 153</b>	<b>2 139 547</b>
1. Tangible fixed assets	625 318	634 417	392 252	1 243 342	1 254 405
a) land (including perpetual usufruct)	1 244	1 245	1 248	1 249	1 250
b) buildings, premises and constructions	190 211	192 766	178 928	570 925	573 431
c) plant and machinery	431 539	437 941	209 074	666 808	675 386
d) motor vehicles	965	1 103	1 381	2 064	2 029
e) other	1 359	1 362	1 621	2 296	2 309
2. Construction in progress	39 053	37 781	287 639	965 442	872 300
3. Prepayments for construction in progress	3 909	3 909	4 329	7 369	12 842
<b>III. Long-term receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
1. From affiliates	-	-	-	-	-
2. From other entities	-	-	-	-	-
<b>IV. Long-term investments</b>	<b>1 202 323</b>	<b>1 207 577</b>	<b>1 205 340</b>	<b>1 248 264</b>	<b>1 244 916</b>
1. Property	-	-	-	-	-
2. Intangible assets	-	-	-	-	-
3. Long-term financial assets	1 202 323	1 207 577	1 205 340	1 248 264	1 244 916
a) in affiliates	1 202 172	1 207 426	1 205 189	1 248 113	1 244 765
– shares	1 139 747	1 143 453	1 143 453	1 171 334	1 168 739
– other securities	-	-	-	-	-
– loans granted	62 425	63 973	61 736	76 779	76 026
– other long-term financial assets	-	-	-	-	-
b) in other entities	151	151	151	151	151
– shares	151	151	151	151	151
– other securities	-	-	-	-	-
– loans granted	-	-	-	-	-
– other long-term financial assets	-	-	-	-	-
4. Other long-term investments	-	-	-	-	-
<b>V. Long-term prepayments and deferred costs</b>	<b>1 021</b>	<b>1 295</b>	<b>4 624</b>	<b>5 340</b>	<b>5 044</b>
1. Deferred tax assets	-	-	-	-	-
2. Other prepayments and deferred costs	1 021	1 295	4 624	5 340	5 044
<b>B. Current assets</b>	<b>440 663</b>	<b>442 799</b>	<b>465 329</b>	<b>427 274</b>	<b>450 430</b>
<b>I. Inventories</b>	<b>72 881</b>	<b>92 252</b>	<b>104 156</b>	<b>203 064</b>	<b>186 755</b>
1. Raw materials	52 844	49 142	38 536	47 388	53 390
2. Semi-finished goods and work-in-	-	-	-	-	-

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progress					
3. Finished goods	-	-	-	-	-
4. Goods	17 088	40 358	64 816	132 514	117 602
5. Inventory prepayments	2 949	2 752	804	23 162	15 763
<b>II. Short-term receivables</b>	<b>134 329</b>	<b>146 018</b>	<b>153 828</b>	<b>171 327</b>	<b>141 671</b>
1. Receivables from affiliates	65 059	68 927	51 587	71 095	57 806
a) trade receivables, due in:	46 646	46 514	44 187	55 711	42 422
– up to 12 months	46 646	46 514	44 187	55 711	42 422
– over 12 months	-	-	-	-	-
b) other	18 413	22 413	7 400	15 384	15 384
2. Receivables from other entities	69 270	77 091	102 241	100 232	83 865
a) trade receivables, due in	50 406	47 944	78 595	69 830	56 886
– up to 12 months	50 406	47 944	78 595	69 830	56 886
– over 12 months	-	-	-	-	-
b) taxation, subsidy, customs duty, social security, health insurance and other debtors	8 522	7 044	8 030	16 303	14 464
c) other	10 342	22 103	15 616	14 099	12 515
d) submitted to court	-	-	-	-	-
<b>III. Short-term investments</b>	<b>231 708</b>	<b>202 149</b>	<b>206 163</b>	<b>48 632</b>	<b>119 736</b>
1. Short-term financial assets	231 708	202 149	206 163	48 632	119 736
a) in affiliates	16 484	24 197	23 174	24 055	23 602
– shares	-	-	-	-	-
– other securities	-	7 522	7 537	7 522	7 522
– loans granted	16 484	16 675	15 637	16 533	16 080
– other long-term financial assets	-	-	-	-	-
b) in other entities	-	-	-	-	-
– shares	-	-	-	-	-
– other securities	-	-	-	-	-
– loans granted	-	-	-	-	-
– other long-term financial assets	-	-	-	-	-
c) cash and other monetary assets	215 224	177 952	182 989	24 577	96 134
– cash on hand and cash at bank	215 224	177 952	182 989	24 577	96 134
– other cash and cash equivalents	-	-	-	-	-
– other monetary assets	-	-	-	-	-
2. Other short-term investments	-	-	-	-	-
<b>IV. Short-term prepayments and deferred costs</b>	<b>1 745</b>	<b>2 380</b>	<b>1 182</b>	<b>4 251</b>	<b>2 268</b>
<b>TOTAL ASSETS</b>	<b>2 505 663</b>	<b>2 513 358</b>	<b>2 649 371</b>	<b>4 162 822</b>	<b>4 037 354</b>

## Liabilities and equity

	As of 30 September 2016 (unaudited)	As of 30 June 2016 (unaudited)	As of 31 December 2015	As of 30 September 2015 (unaudited)	As of 30 June 2015 (unaudited)
<b>A. Equity</b>	<b>1 500 094</b>	<b>1 488 233</b>	<b>1 360 431</b>	<b>2 926 249</b>	<b>2 937 594</b>
<b>I. Share capital</b>	<b>101 647</b>	<b>101 647</b>	<b>101 647</b>	<b>101 647</b>	<b>101 647</b>
<b>II. Unpaid share capital (negative value)</b>	-	-	-	-	-
<b>III. Treasury shares (negative value)</b>	-	-	-	-	-
<b>IV. Reserve capital</b>	<b>1 028 639</b>	<b>1 028 639</b>	<b>2 542 060</b>	<b>2 542 060</b>	<b>2 542 058</b>
<b>V. Revaluation reserve</b>	<b>227 507</b>	<b>227 506</b>	<b>227 531</b>	<b>286 222</b>	<b>286 224</b>
<b>VI. Other reserves</b>	<b>3 472</b>	<b>3 472</b>	<b>5 877</b>	<b>5 877</b>	<b>5 877</b>
<b>VII. Accumulated profits (losses) from previous years</b>	<b>(834)</b>	<b>(834)</b>	<b>(834)</b>	<b>(834)</b>	<b>(834)</b>
<b>VIII. Net profit (loss) for the period</b>	<b>139 663</b>	<b>127 803</b>	<b>(1 515 850)</b>	<b>(8 723)</b>	<b>2 622</b>
<b>IX. Deductions from net profit during the period (negative value)</b>	-	-	-	-	-
<b>B. Liabilities and provisions for liabilities</b>	<b>1 005 569</b>	<b>1 025 125</b>	<b>1 288 940</b>	<b>1 236 573</b>	<b>1 099 760</b>
<b>I. Provisions for liabilities</b>	<b>283 498</b>	<b>237 059</b>	<b>374 770</b>	<b>283 621</b>	<b>217 365</b>
1. Deferred tax liability	74 789	82 284	62 920	60 149	62 685
2. Provision for retirement benefits and similar obligations	11 808	11 737	11 598	11 820	11 642
– long-term	11 798	11 530	10 967	11 544	11 281
– short-term	10	207	631	276	361
3. Other provisions	196 901	143 038	300 252	211 652	143 038
– long-term	17 604	17 497	17 424	17 096	16 992
– short-term	179 297	125 541	282 828	194 556	126 046
<b>II. Long-term liabilities</b>	<b>381 101</b>	<b>415 790</b>	<b>536 213</b>	<b>472 688</b>	<b>508 532</b>
1. To affiliates	744	778	845	843	749
2. To other entities	380 357	415 012	535 368	471 845	507 783
a) loans	380 318	414 926	535 127	463 180	497 793
b) debt securities issued	-	-	-	-	-
c) other financial liabilities	-	-	-	-	-
d) other	39	86	241	8 665	9 990
<b>III. Short-term liabilities</b>	<b>292 288</b>	<b>332 457</b>	<b>343 449</b>	<b>413 716</b>	<b>323 232</b>
1. To affiliates	55 205	84 327	85 602	117 282	93 919
a) trade creditors, payable in:	52 803	80 520	75 744	109 567	85 471
– up to 12 months	52 803	80 520	75 744	109 567	85 471
– over 12 months	-	-	-	-	-
b) other	2 402	3 807	9 858	7 715	8 448
2. To other entities	231 994	242 666	253 112	290 799	223 274
a) loans	161 128	162 389	79 943	95 675	52 307
b) debt securities issued	-	-	-	-	-
c) other financial liabilities	827	-	-	-	4
d) trade liabilities payable in:	32 409	35 625	15 184	20 864	31 008
– up to 12 months	32 409	35 625	15 184	20 864	31 008
– over 12 months	-	-	-	-	-
e) advance payments received	90	79	124	98	98
f) bills of exchange payable	-	-	-	-	-
g) taxation, customs duty and social	27 511	29 841	83 113	18 910	17 200

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security creditors					
h) payroll	4 114	4 050	4 067	4 059	4 050
i) other	5 915	10 682	70 681	151 193	118 607
3. Special funds	5 089	5 464	4 735	5 635	6 039
<b>IV. Accruals and deferred income</b>	<b>48 682</b>	<b>39 819</b>	<b>34 508</b>	<b>66 548</b>	<b>50 631</b>
1. Negative goodwill	-	-	-	-	-
2. Other accruals and deferred income	48 682	39 819	34 508	66 548	50 631
– long-term	14 987	15 069	15 234	15 313	15 396
– short-term	33 695	24 750	19 274	51 235	35 235
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2 505 663</b>	<b>2 513 358</b>	<b>2 649 371</b>	<b>4 162 822</b>	<b>4 037 354</b>

## PROFIT AND LOSS ACCOUNT (CALCULATION VARIANT)

	<i>9 months period ended 30 September 2016 (unaudited)</i>	<i>3 months period ended 30 September 2016 (unaudited)</i>	<i>9 months period ended 30 September 2015 (unaudited)</i>	<i>3 months period ended 30 September 2015 (unaudited)</i>
<b>A. Net sales of finished goods, goods for resale and raw materials, of which:</b>	<b>1 208 091</b>	<b>392 083</b>	<b>1 188 994</b>	<b>390 478</b>
– from affiliates	427 700	141 872	415 136	146 024
I. Net sales of finished goods	1 124 335	352 303	1 105 060	362 351
II. Net sales of goods for resale and raw materials	83 756	39 780	83 934	28 127
<b>B. Cost of finished goods, goods for resale and raw materials sold, of which:</b>	<b>1 067 873</b>	<b>362 175</b>	<b>1 194 780</b>	<b>413 508</b>
– to affiliates	379 653	130 828	439 808	172 657
I. Cost of finished goods sold	988 801	329 375	1 118 275	386 743
II. Cost of goods for resale and raw materials sold	79 072	32 800	76 505	26 765
<b>C. Gross profit (loss) on sales (A–B)</b>	<b>140 218</b>	<b>29 908</b>	<b>(5 786)</b>	<b>(23 030)</b>
D. Selling expenses	2 129	700	2 197	856
E. Administrative expenses	19 177	6 895	26 665	9 805
<b>F. Profit (loss) on sales (C–D–E)</b>	<b>118 912</b>	<b>22 313</b>	<b>(34 648)</b>	<b>(33 691)</b>
G. Other operating income	3 675	775	1 322	282
I. Gains on the sale of non-financial non-current assets	-	-	123	27
II. Grants	247	82	249	83
III. Other	3 428	693	950	172
H. Other operating expenses	32 745	9 579	26 088	(19 289)
I. Loss on the sale of non-financial non-current assets	-	-	-	-
II. Impairment of non-financial assets	30 814	9 083	23 683	(20 077)
III. Other	1 931	496	2 405	788
<b>I. Operating profit (loss) (F+G–H)</b>	<b>89 842</b>	<b>13 509</b>	<b>(59 414)</b>	<b>(14 120)</b>
J. Finance income	82 526	(860)	44 583	435
I. Dividends and shares in profits, of which:	78 778	-	42 948	1
– from affiliates	78 722	-	42 898	0
II. Interest, of which:	2 858	1 081	1 621	431
– from affiliates	803	253	1 000	334
III. Gains on the sale of investments	-	-	-	-
IV. Revaluation of investments	856	(1 951)	-	-
V. Other	34	10	14	3
K. Finance costs	20 826	8 273	5 611	196
I. Interest, of which:	15 807	7 178	2 171	718
– to affiliates	-	-	-	-
II. Loss on the sale of investments	33	33	-	-
III. Impairment of investments	827	827	471	(914)
IV. Other	4 159	235	2 969	392
<b>L. Gross profit (loss) on ordinary activities (I+J–K)</b>	<b>151 542</b>	<b>4 376</b>	<b>(20 442)</b>	<b>(13 881)</b>
M. Result on extraordinary items (M.I.–M.II.)	-	-	-	-

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I. Extraordinary gains	-	-	-	-
II. Extraordinary losses	-	-	-	-
<b>N. Gross profit (loss) (L±M)</b>	<b>151 542</b>	<b>4 376</b>	<b>(20 442)</b>	<b>(13 881)</b>
O. Corporate profits tax	11 879	(7 484)	(11 719)	(2 536)
P. Other tax charges	-	-	-	-
<b>R. Net profit (loss) (N–O–P)</b>	<b>139 663</b>	<b>11 860</b>	<b>(8 723)</b>	<b>(11 345)</b>



## STATEMENT OF CASH FLOWS

	<i>9 months period ended 30 September 2016 (unaudited)</i>	<i>3 months period ended 30 September 2016 (unaudited)</i>	<i>9 months period ended 30 September 2015 (unaudited)</i>	<i>3 months period ended 30 September 2015 (unaudited)</i>
<b>A. Cash flow from operating activities</b>				
I. Net profit (loss)	139 663	11 860	(8 723)	(11 345)
II. Adjustments, total	(7 815)	61 088	(60 776)	(9 795)
1. Depreciation	27 129	9 482	63 215	21 472
2. Foreign exchange gains (losses)	(854)	2 010	1 016	(833)
3. Interest and shares in profits (dividends)	(63 777)	6 924	(41 777)	384
4. Profit (loss) on investing activities	859	859	189	(27)
5. Change in provisions	190 863	46 440	149 201	53 922
6. Change in inventories	31 275	19 371	(22 545)	(16 308)
7. Change in receivables	36 318	7 632	(6 648)	(29 705)
8. Change in short-term liabilities, except for loans and borrowings	(62 650)	-33 355	(49 513)	15 129
9. Change in prepayments, accruals and deferred income	17 533	9 772	31 196	14 179
10. Other adjustments	(184 511)	-8 047	(185 110)	(68 008)
<b>III. Net cash flow from operating activities (I±II)</b>	<b>131 848</b>	<b>72 948</b>	<b>(69 499)</b>	<b>(21 140)</b>
<b>B. Cash flow from investing activities</b>				
I. Inflows	73 293	15 293	28 190	133
1. Sale of intangible assets and tangible fixed assets	1 594	-	154	42
2. Sale of investments in property and intangible assets	-	-	-	-
3. From financial assets, of which:	71 699	15 293	28 036	91
a) in affiliates	71 643	15 237	27 986	41
b) in other entities	56	56	50	50
– sale of financial assets	-	-	-	-
– dividends and shares in profits	56	56	50	50
– repayment of long-term loans granted	-	-	-	-
– interest received	-	-	-	-
– other	-	-	-	-
4. Other investing inflows	-	-	-	-
II. Outflows	82 502	7 824	300 923	54 489
1. Purchase of intangible assets and tangible fixed assets	82 502	7 824	268 833	51 894
2. Investments in property and intangible assets	-	-	-	-
3. For financial assets, of which:	-	-	32 090	2 595
a) in affiliates	-	-	32 090	2 595
b) in other entities	-	-	-	-
– purchase of financial assets	-	-	-	-
– long-term loans granted	-	-	-	-
4. Other investing outflows	-	-	-	-

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<b>III. Net cash flow from investing activities (I-II)</b>	<b>(9 209)</b>	<b>7 469</b>	<b>(272 733)</b>	<b>(54 356)</b>
C. Cash flow from financing activities		-		
I. Inflows	-	-	236 066	27 066
1. Net inflows from issue of shares, issue of other capital instruments and additional payments to capital	-	-	-	-
2. Loans and borrowings	-	-	236 066	27 066
3. Issue of debt securities	-	-	-	-
4. Other financial inflows	-	-	-	-
II. Outflows	90 403	43 087	42 495	23 047
1. Re-acquisition of own shares	-	-	-	-
2. Dividends and other payments to shareholders	-	-	-	-
3. Outflows due to appropriation of profit other than payments to shareholders	-	-	-	-
4. Repayment of loans and borrowings	74 741	37 136	29 517	18 803
5. Redemption of debt securities	-	-	-	-
6. Relating to other financial liabilities	-	-	-	(46)
7. Finance lease payments	97	33	87	87
8. Interest paid	15 505	5 918	12 726	4 148
9. Other financing outflows	60	-	165	55
<b>III. Net cash flow from financing activities (I-II)</b>	<b>(90 403)</b>	<b>-43 087</b>	<b>193 571</b>	<b>4 019</b>
<b>D. Total net cash flow (A.III±B.III±C.III)</b>	<b>32 236</b>	<b>37 330</b>	<b>(148 661)</b>	<b>(71 477)</b>
E. Balance sheet change in cash and cash equivalents, of which:	32 235	37 272	(149 206)	(71 558)
– change in cash and cash equivalents due to foreign exchange gains/losses	(1)	-58	(545)	(81)
<b>F. Cash and cash equivalents at the beginning of the period</b>	<b>182 989</b>	<b>177 895</b>	<b>173 239</b>	<b>96 055</b>
<b>G. Cash and cash equivalents at the end of the period (F±D), of which:</b>	<b>215 225</b>	<b>215 225</b>	<b>24 578</b>	<b>24 578</b>
– of restricted use	6 088	760	5 707	5 707

## STATEMENT OF CHANGES IN EQUITY

	As of 30 September 2016 (unaudited)	As of 30 June 2016 (unaudited)	As of 31 December 2015	As of 30 September 2015 (unaudited)	As of 30 June 2015 (unaudited)
<b>I. Equity at the beginning of the period (OB)</b>	<b>1 360 431</b>	<b>1 360 431</b>	<b>2 995 960</b>	<b>2 995 960</b>	<b>2 995 960</b>
– changes in accounting policy	-	-	-	-	-
– correction of prior period error	-	-	-	-	-
<b>I.a. Equity at the beginning of the period (OB), after adjustments</b>	<b>1 360 431</b>	<b>1 360 431</b>	<b>2 995 960</b>	<b>2 995 960</b>	<b>2 995 960</b>
1. Share capital at the beginning of the period	101 647	101 647	101 647	101 647	101 647
1.1. Changes in share capital	-	-	-	-	-
a) increases	-	-	-	-	-
b) decreases	-	-	-	-	-
<b>1.2. Share capital at the end of the period</b>	<b>101 647</b>	<b>101 647</b>	<b>101 647</b>	<b>101 647</b>	<b>101 647</b>
2. Unpaid share capital at the beginning of the period	-	-	-	-	-
2.1. Changes to unpaid share capital	-	-	-	-	-
a) increases (due to)	-	-	-	-	-
b) decreases (due to)	-	-	-	-	-
<b>2.2. Unpaid share capital at the end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
3. Treasury shares at the beginning of the period	-	-	-	-	-
a) increases	-	-	-	-	-
b) decreases	-	-	-	-	-
<b>3.1. Treasury shares at the end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
4. Reserve capital at the beginning of the period	2 542 060	2 542 060	2 398 399	2 398 399	2 398 399
4.1. Changes in reserve capital	1 513 421	1 513 421	143 661	143 661	-
a) increases (due to)	25	25	143 661	143 661	143 659
– share premium	-	-	143 654	143 654	143 654
– statutory profit appropriation	25	25	7	7	5
– liquidation and disposal of fixed assets	1 513 446	1 513 446	-	-	-
<b>4.2. Reserve capital at the end of the period</b>	<b>1 028 639</b>	<b>1 028 639</b>	<b>2 542 060</b>	<b>2 542 060</b>	<b>2 542 058</b>
5. Revaluation reserve at the beginning of the period	227 531	227 531	286 229	286 229	286 229
5.1. Changes in revaluation reserve	(24)	(25)	(58 698)	(7)	(5)
a) increases	-	-	-	-	-
b) decreases (due to)	24	25	58 698	7	5
– liquidation and disposal of fixed assets	24	25	7	7	5
– correction of revaluation	-	-	58 691	-	-
<b>5.2. Revaluation reserve at the end of the period</b>	<b>227 507</b>	<b>227 506</b>	<b>227 531</b>	<b>286 222</b>	<b>286 224</b>

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6. Other reserves at the beginning of the period	5 877	5 877	5 877	5 877	5 877
6.1. Changes in other reserves	-	-	-	-	-
a) increases	-	-	-	-	-
b) decreases	2 405	2 405	-	-	-
<b>6.2. Other reserves at the end of the period</b>	<b>3 472</b>	<b>3 472</b>	<b>5 877</b>	<b>5 877</b>	<b>5 877</b>
7. Accumulated profits from previous years at the beginning of the period	-	-	204 642	-	-
7.1. Accumulated profits from previous years at the beginning of the period	-	-	-	204 642	204 642
– changes in accounting policy	-	-	-	-	-
– correction of prior period error	-	-	-	-	-
7.2. Accumulated profits from previous years at the beginning of the period, after adjustments	-	-	204 642	204 642	204 642
a) increases (due to)	-	-	-	-	-
– appropriation of profit from previous years	-	-	-	-	-
b) decreases (due to)	-	-	204 642	204 642	204 642
– transfer of profit to reserve capital	-	-	143 654	143 654	143 654
– dividend payments to shareholders	-	-	60 988	60 988	60 988
7.3. Accumulated profits from previous years at the end of the period	-	-	-	-	-
7.4. Accumulated losses from previous years at the beginning of the period	(1 516 684)	(1 516 684)	(834)	(834)	(834)
– changes in accounting policy	-	-	-	-	-
– correction of prior period error	-	-	-	-	-
7.5. Accumulated losses from previous years at the beginning of the period, after adjustments	(1 516 684)	(1 516 684)	(834)	(834)	(834)
a) increases (due to)	-	-	-	-	-
– transfer of prior year losses	-	-	-	-	-
b) decreases (due to)	(1 515 850)	(1 515 850)	-	-	-
<b>7.6. Accumulated losses from previous years at the end of the period</b>	<b>(1 515 850)</b>	<b>(1 515 850)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>8. Net result</b>	<b>(834)</b>	<b>(834)</b>	<b>(834)</b>	<b>(834)</b>	<b>(834)</b>
a) net profit	139 663	127 803	(1 515 850)	<b>(8 723)</b>	<b>2 622</b>
b) net loss	139 663	127 803	(1 515 850)	-	2 622
c) deductions from profit	-	-	-	(8 723)	-
<b>II. Equity at the end of the period (CB)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>III. Equity after proposed profit distribution (loss coverage)</b>	<b>1 500 094</b>	<b>1 488 233</b>	<b>1 360 431</b>	<b>2 926 249</b>	<b>2 937 594</b>
7.3. Accumulated profits from previous years at the end of the period			<b>1 360 431</b>		

## ADDITIONAL INFORMATION TO THE QUARTERLY CONDENSED FINANCIAL STATEMENT

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

The Company is entered into the Register of Entrepreneurs under the KRS number 0000021374 assigned on 21 June 2001.

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

The duration of the Company is indefinite.

At the date of preparation of this financial statement, the shareholder structure is as follows:

Shareholder	volume	in zlotys	%	volume	%
	Number of shares	The nominal value of one share	Share in the total number of shares	Number of votes	Share in the total number of votes
Zygmunt Solorz-Żak (indirectly) through: Elektrim SA, Embud Sp. z o.o., Trigon XIX Fundusz Inwestycyjny Zamknięty, Argumenol Investment Company Limited	26 200 867	2,00	51,55	26 200 867	51,55
ING Otwarty Fundusz Emerytalny	5 068 410	2,00	9,97	5 068 410	9,97
TFI PZU SA	3 081 567	2,00	6,06	3 081 567	6,06
Other shareholders	16 472 703	2,00	32,42	16 472 703	32,42
<b>Total shareholders</b>	<b>50 823 547</b>	<b>2,00</b>	<b>100,00</b>	<b>50 823 547</b>	<b>100,00</b>

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

The main subject of the Company's activities is:

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

### 1. Continuation of activity

The financial statement of the Company was developed with the assumption of continuing business activity by the Company in the foreseeable future, at least 12 months after the balance sheet date that is after 30 September 2016.

As of signature of this financial statement, The Company's Management Board states that there are no facts and premises, which would affect the opportunity to continue activities by the Company.

### 2. Merger of commercial companies

In the reporting period, for which the financial statement was developed, there was no merger pursuant to Article 492 paragraph 1 point 1 of the Code of Commercial Companies with other commercial company.

### 3. Accepted principles (policy) of accounting

The Company operates on the basis of the following legal acts:

- 1) The Act on accounting of 29 September 1994 (consolidated text Journal of Laws no. 2013, item 330, as amended – hereinafter "UoR", "the Act"),
- 2) The Corporate Income Tax Law of 15 February 1992 (Journal of Laws of 2000, no. 54, item 654) as amended,
- 3) The Regulation of the Minister of Finance 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 not comprising a Member State (Journal of Laws of 2009, no. 33, item 259) as amended,

- 4) The Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (consolidated text Journal of Laws of 2009 no. 185, item 1439 as amended).

The Company introduced the following ordinances to be used in the scope of methods of assets and liabilities quotation:

- 1) The ordinance no 35 of the ZE PAK S.A. in Konin President of 1 July 2003 in case of the management of the physical assets of the fixed asset,
- 2) The ordinance no 34 of the ZE PAK S.A. in Konin President of 1 July 2003 in case of the Corporate Chart of Accounts for ZE PAK S.A.

The financial statement has been prepared under the historical cost convention, which was modified in the case of:

- intangible assets,
- fixed assets,
- investments in subsidiaries and other long-term investments,
- other short-term investments (excluding cash and financial assets),
- financial instruments.

# **ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA CAPITAL GROUP**

## **ADDITIONAL INFORMATION FOR EXPANDED CONSOLIDATED REPORT FOR 3rd QUARTER OF 2016**

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

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## 1. SELECTED FINANCIAL DATA

<i>Selected consolidated financial data</i>	<i>PLN thousand 9 months of 2016 period from 01.01.2016 to 30.09.2016</i>	<i>PLN thousand 9 months of 2015 period from 01.01.2015 to 30.09.2015</i>	<i>EUR thousand 9 months of 2016 period from 01.01.2016 to 30.09.2016</i>	<i>EUR thousand 9 months of 2015 period from 01.01.2015 to 30.09.2015</i>
Sales revenue	2 053 540	2 254 784	470 047	542 211
Operating profit/loss	311 727	53 855	71 353	12 951
Profit/Loss before tax	262 470	26 482	60 078	6 368
Net profit/loss for the period	218 665	21 321	50 052	5 127
Net profit attributable to equity holders of the parent	216 208	21 179	49 489	5 093
Total comprehensive income	221 274	24 224	50 649	5 825
Net cash flow from operating activities	474 869	165 062	108 696	39 693
Net cash flow from investing activities	(95 707)	(284 023)	(21 907)	(68 299)
Net cash flow from financing activities	(303 569)	26 634	(69 486)	6 405
Net increase / (decrease) in cash and cash equivalents	75 593	(92 327)	17 303	(22 202)
Net profit per share (in PLN/EUR per share)	4,25	0,42	0,97	0,10
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>as of 30.09.2016</i>	<i>as of 31.12.2015</i>	<i>as of 30.09.2016</i>	<i>as of 31.12.2015</i>
Total assets	4 702 469	4 974 381	1 090 554	1 167 284
Non-current assets	3 570 092	3 714 123	827 943	871 553
Current assets	1 132 377	1 260 258	262 611	295 731
Total equity	2 106 053	1 884 823	488 417	442 291
Share capital	101 647	101 647	23 573	23 852
Share capital attributable to equity holders of the parent	2 106 053	1 884 823	488 417	442 291
Total liabilities	2 596 416	3 089 558	602 137	724 993
Non-current liabilities	1 495 092	1 829 696	346 728	429 355
Current liabilities	1 101 324	1 259 862	255 409	295 638
Book value per share (in PLN/EUR per share)	41,44	37,09	9,61	8,70
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA CAPITAL GROUP  
 ADDITIONAL INFORMATION FOR EXPANDED CONSOLIDATED REPORT FOR THE 3rd QUARTER OF 2016

<i>Selected financial data of ZE PAK SA</i>	<i>PLN thousand 9 months of 2016 period from 01.01.2016 to 30.09.2016</i>	<i>PLN thousand 9 months of 2015 period from 01.01.2015 to 30.09.2015</i>	<i>EUR thousand 9 months of 2016 period from 01.01.2016 to 30.09.2016</i>	<i>EUR thousand 9 months of 2015 period from 01.01.2015 to 30.09.2015</i>
Sales revenue	1 208 091	1 188 994	276 527	285 919
Operating profit/loss	89 842	(59 414)	20 564	(14 287)
Profit/Loss before tax	151 542	(20 442)	34 687	(4 916)
Net profit/loss for the period	139 663	(8 723)	31 968	(2 098)
Net cash flow from operating activities	131 848	(69 499)	30 179	(16 713)
Net cash flow from investing activities	(9 209)	(272 733)	(2 108)	(65 584)
Net cash flow from financing activities	(90 403)	193 571	(20 693)	46 548
Total net cash flow	32 236	(148 661)	7 379	(35 749)
Net earnings per share (in PLN/EUR per share)	2,75	(0,17)	0,63	(0,04)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 30.09.2016</i>	<i>As at 31.12.2015</i>	<i>As at 30.09.2016</i>	<i>As at 31.12.2015</i>
Total assets	2 505 663	2 649 371	581 091	621 699
Non-current assets	2 065 000	2 184 042	478 896	512 505
Current assets	440 663	465 329	102 195	109 194
Total equity	1 500 094	1 360 431	347 888	319 238
Share capital	101 647	101 647	23 573	23 852
Liabilities and provisions for liabilities	1 005 569	1 288 940	233 202	302 462
Non-current liabilities	381 101	536 213	88 381	125 827
Current liabilities	292 288	343 449	67 785	80 593
Book value per share (in PLN/EUR per share)	29,52	26,77	6,85	6,28
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 and 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 end of every month of the reporting period starting from 1 January 2016 to 30 September 2016, which is 4.3688 EUR/PLN and starting from 1 January 2015 to 30 September 2015, which is 4.1585 EUR/PLN;*
- particular items of the statement of financial position (balance sheet) according to average EUR/PLN exchange rate published by the National Bank of Poland as of 30 September 2016, which is 4.3120 EUR/PLN and as of 31 December 2015, which is 4.2615 EUR/PLN.*

## 2. DESCRIPTION OF THE GROUP

### 2.1. Basic information

As of 30 September 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 55 MW power unit with biomass fired boiler. Total installed gross power output of the production facilities of the Group was 2506 MWe as of 30 September 2016.

The Group’s mining assets are concentrated in three companies: PAK KWB Konin SA, which currently operates on Józwin, Tomisławice and Drzewce open casts, PAK KWB Adamów SA, which operates on Adamów and Koźmin open casts as well as PAK GÓRNICTWO sp. z o.o. which executes works related to search and 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) and revenue from energy certificates. This is supplemented by revenues from sale of heat 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.

## 2.2. Structure

Picture 1: Structure of the Group as of 30 September 2016

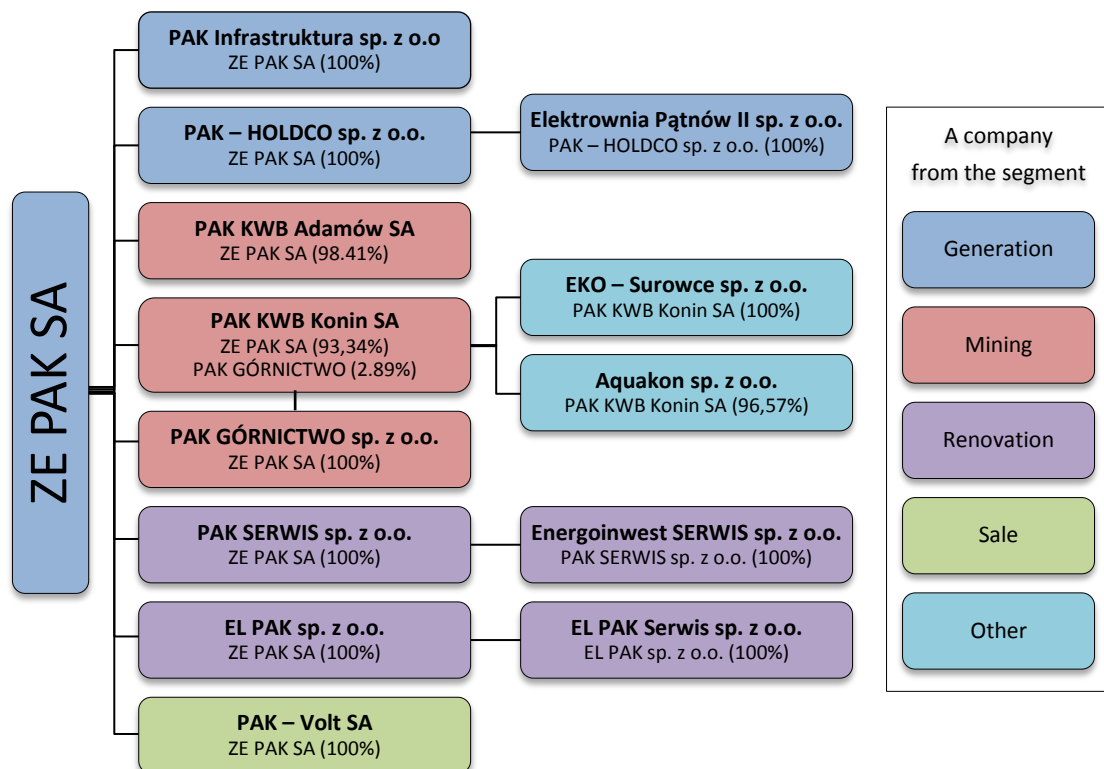


Table 1: Listing of the Group companies (without ZE PAK SA)

Entity	Registered office	Scope of activity	Percentage of capital held by the Group as of	
			30.09.2016	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.

## 2.3. Composition of the Management Board

The Company's Management Board composition was as follows at the date of submission of the report:

- Adam Kłapszta Vice President of the Management Board, acting President of the Management Board
- Aneta Lato-Żuchowska Vice President of the Management Board,
- Tomasz Zadroga Vice President of the Management Board,
- Zygmunt Artwik Vice President of the Management Board,
- Katarzyna Sobierajska Vice President of the Management Board.

The current composition of the Board changed in relation to the composition as of 30 September 2016. At the meeting of the Supervisory Board on 26 October 2016, Mr. Adrian Kaźmierczak resigned from the position of Vice President of the Management Board. Mr. Adrian Kaźmierczak has been assigned new tasks in the ZE PAK SA Group. At the same time, at the same meeting, the Supervisory Board appointed to the position of Vice President Ms. Katarzyna Sobierajska.

## 2.4. Description of changes within the Group's structure during the period covered by the report

In the third quarter of 2016 there have been no significant changes in the structure of the ZE PAK Capital Group.

## 3. SIGNIFICANT EVENTS AFFECTING THE GROUP'S ACTIVITY

### 3.1. Significant achievements and failures during the period covered by the report

#### Short description of the achieved financial results

In the third quarter of 2016, the total sales revenues amounted to PLN 686 020 thousand and they decreased by PLN 61 242 thousand in comparison to the third quarter of 2015, i.e. by 8.20%. In the 9-month period of 2016, the total sales revenues amounted to PLN 2 053 540 thousand and they were lower by PLN 201 244 thousand in comparison to the analogous period of the last year, i.e. by 8.93%.

Total electricity sales revenues (own production and from the market) in the third quarter of 2016, in comparison to the third quarter of 2015, decreased by PLN 26 556 thousand i.e. by 4.16%. The decrease in revenues is the result of the lower achieved average price by 6.06 PLN/MWh i.e. by 3.40%. Additionally the decrease in sale revenues was caused by the lower volume of electricity sold by 0.02 TWh. A similar trend occurred in the nine months of 2016, in which, in comparison to the analogous period of the last year, we recorded an decrease in electricity sales revenues by PLN 106 912 thousand in total i.e. by 5.62%. However, in case of 9 months of 2016 the lower volume of electricity sale by 0.46 TWh was more important than decrease of achieved average electricity price by 2.53 PLN/MWh.

The total electricity sales revenues (own production and from the market) in the third quarter of 2016, in comparison to the third quarter of 2015, decreased by PLN 26 556 thousand that is by 4.16%. The decrease in revenues in the third quarter of 2016 is the result of getting a lower average electricity sales price by PLN/MWh 6.06 that is by 3.40%. In addition, the lower level of revenues was influenced by an electricity sales volume lower by 0.02 TWh. A similar trend occurred in the 9 months of 2016, when, in relation to the analogous period of the last year, we recorded a decrease in electricity sales revenues by PLN 106 912 thousand in total that is by 5.62%. Whereas in the case of the 9 months of 2016, the decrease in revenues was influenced by the total electricity sales volume lower by 0.46 TWh to the greater extent than the decrease in an average electricity sales price by PLN/MWh 2.53.

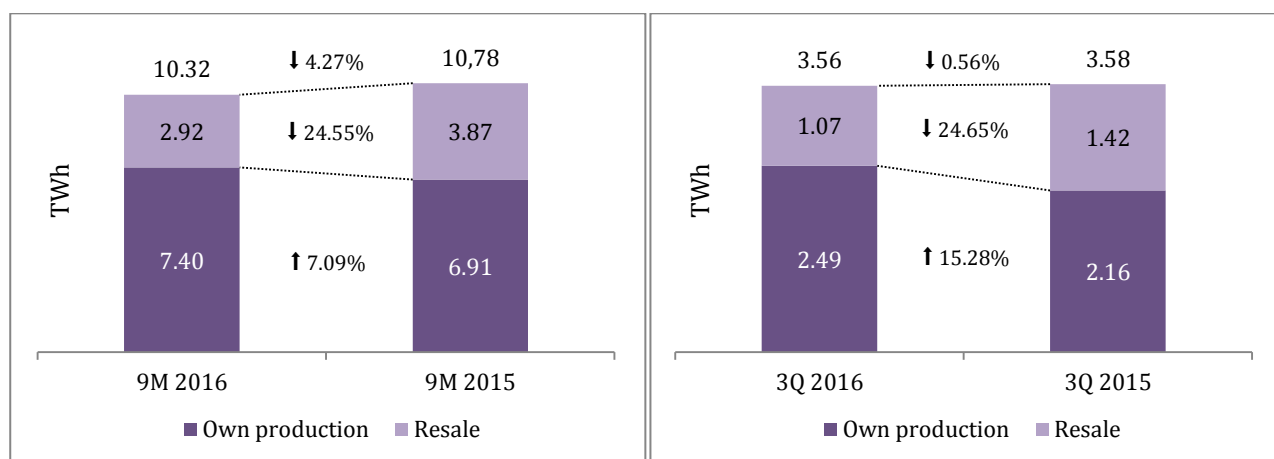
In the third quarter of 2016, the revenues from the sale of energy certificates of origin's ownership units amounted to PLN (5 583) thousand. A negative value of revenues is the result of a decrease in the market value of the green certificates in the third quarter of 2016, as well as the implementation of the sales of part of the inventories in the amount of 0.18 TWh below the price of PLN/MWh 69, at which they were valued as of 30 June 2016. In the 9 months of 2016, the revenues from the sale of energy certificates of origin's ownership unit amounted to PLN 14 239 thousand and they decreased in comparison to the analogous period of the last year by PLN 24 710 thousand. The decrease in revenues in the 9 months of 2016 were influenced by the same factors as in the third quarter of 2016 that is in the decrease in market prices of green certificates, as well as the sale of inventory at prices lower in comparison with the earlier valuation.

In the third quarter of 2016, the revenues from compensation related to long-term contracts termination for Elektrownia Pątnów II sp. z o.o. were lower by PLN 2 343 thousand, i.e. by 4.89% in comparison with the compensation obtained in the third quarter of 2015. In the 9 months of 2016, in comparison with the 9 months of 2015, the value of compensation is higher by PLN 438 thousand, that is by 0.32%.

The construction contracts revenues in the third quarter of 2016, in comparison with the revenues earned in the analogous quarter of the previous year, decreased by PLN 11 746 thousand that is by 38.89%. Whereas in the 9 months of 2016, in comparison with the 9 months of 2015, the decrease in revenues amounted to PLN 66 400, that is 59.62%. The main reason for the decrease in the revenues is the lower range of construction works than it was last year, when the Group's companies worked at the modernisation of units 1-2 in the Pątnów I power plant.

The revenues from heat sales in the third quarter of 2016 were lower by PLN 175 thousand, i.e. 1.81%, than those achieved in the third quarter of the last year, and in the 9 months of 2016 – by PLN 979, i.e. by 2.29%, thousand than in the 9 months of 2015. The decrease in revenues in the third quarter of 2016 was influenced by a lower average realised sale price, and in the 9 months of 2016, it was affected by a lower sales volume.

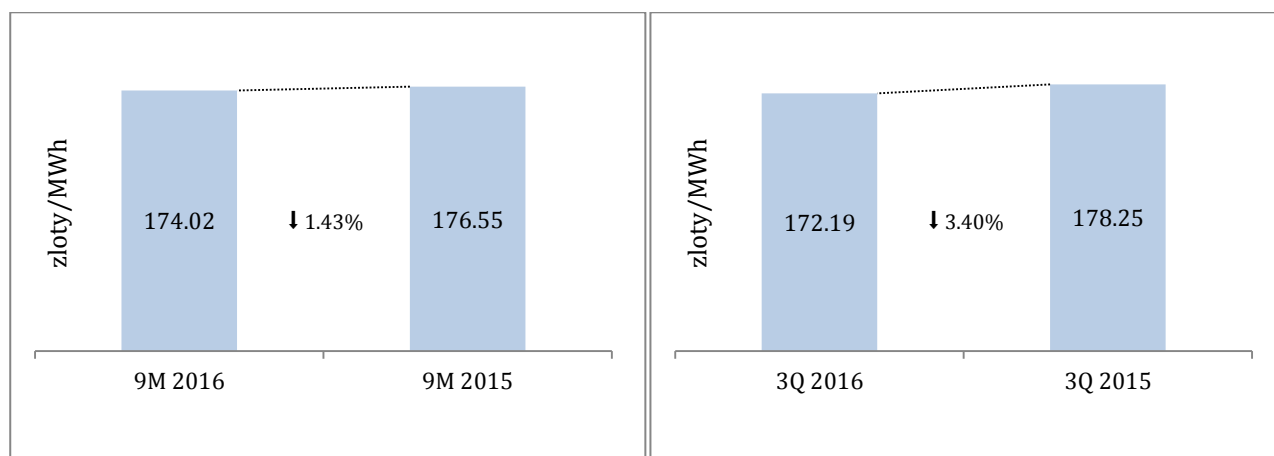
Chart 1: Sale of electricity\*



\* In addition to the values presented in the chart, additionally in 9 months 2016 years sold 0.04 TWh of electricity as a part of the production units 1 and 2 in Pątnów I during the investment period, including in the third quarter of 2016 0.00 TWh (in the corresponding periods of 2015 sales in the period of investment was respectively 0.29 TWh and 0.24 TWh).

Source: Own data

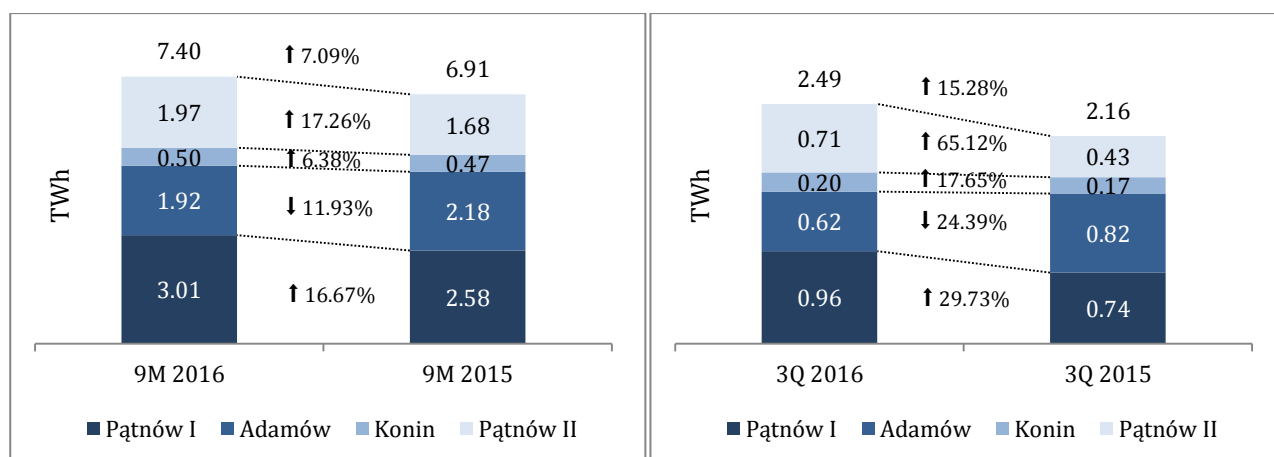
Chart 2: Average electricity sale prices\*



\* The average price is calculated as revenue from energy sales divided by sales volumes.

Source: Own data

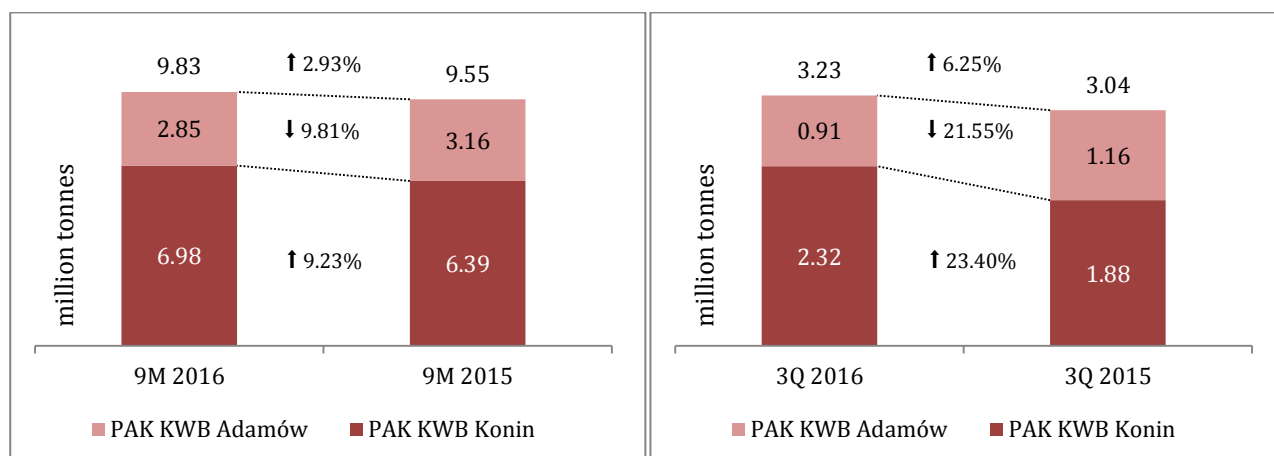
Chart 3: Net production of electricity\*



\* In addition to the values presented in the chart, additionally in 9 months 2016 years produced 0.04 TWh of electricity as a part of the production units 1 and 2 in Pątnów I during the investment period, including in the third quarter of 2016 0.00 TWh (in the corresponding periods of 2015 production in the period of investment was respectively 0.27 TWh and 0.22 TWh).

Source: Own data

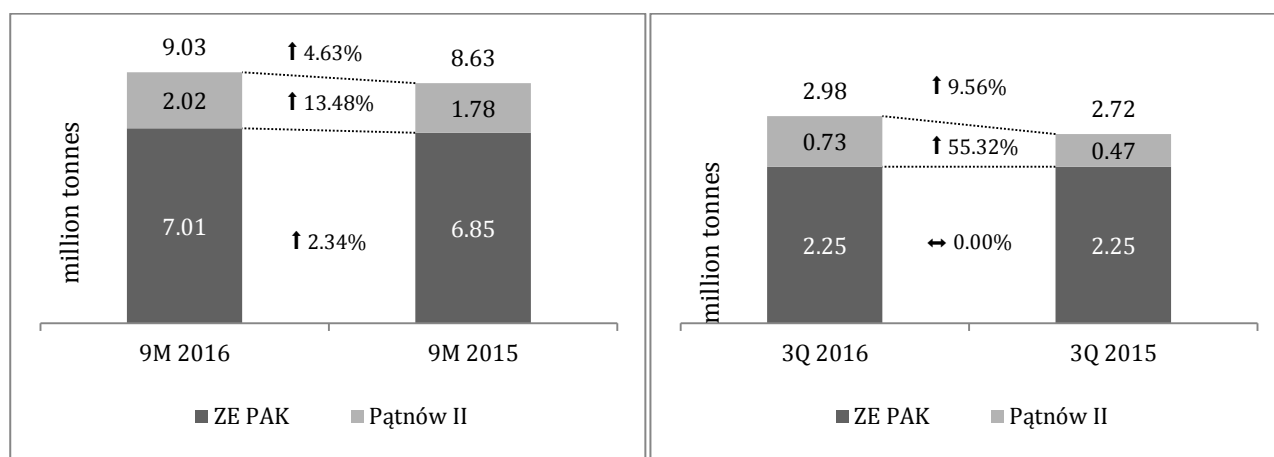
Chart 4: Consumption of lignite\*



\* In addition to the values presented in the chart, additionally in 9 months 2016 years consumed 0.05 million tons of lignite as a part of the production units 1 and 2 in Pańnów I during the investment period, including in the third quarter of 2016 0.00 million tons (in the corresponding periods of 2015 consumption in the period of investment was respectively 0.41 million tons and 0.34 million tonnes).

Source: Own data

Chart 5: CO2 emissions\*



\* In addition to the values presented in the chart, additionally in 9 months 2016 years emitted 0.04 million tonnes of CO2 as a part of the production units 1 and 2 in Pańnów I during the investment period, including in the third quarter of 2016 0.00 million tonnes of CO2 (in the corresponding periods 2015 emission in the period of investment was respectively 0.37 million tonnes and 0.30 million tonnes).

Source: Own data

Table 2: Specification of consolidated sales revenue

	PLN thousand 3 months period ended 30 September 2016	PLN thousand 3 months period ended 30 September 2015	PLN thousand change	% dynamics
Electricity (decreased by excise tax)	429 376	387 873	41 503	10.70
Electricity resold from the market	182 897	250 956	(68 059)	(27.12)
Energy certificates of origin	(5 583)	11 266	(16 849)	-
Construction contracts	18 456	30 202	(11 746)	(38.89)
Compensation related to LTC termination	45 551	47 894	(2 343)	(4.89)
Heat	9 469	9 644	(175)	(1.81)



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 ADDITIONAL INFORMATION FOR EXPANDED CONSOLIDATED REPORT FOR THE 3rd QUARTER OF 2016

Other	5 854	9 427	(3 573)	(37.90)
<b>Total sales revenues</b>	<b>686 020</b>	<b>747 262</b>	<b>(61 242)</b>	<b>(8.20)</b>

	<i>PLN thousand</i> <i>9 months period</i> <i>ended 30 September</i> <i>2016</i>	<i>PLN thousand</i> <i>9 months period</i> <i>ended 30 September</i> <i>2015</i>	<i>PLN thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Electricity (decreased by excise tax)	1 286 325	1 219 181	67 144	5.51
Electricity resold from the market	509 711	683 767	(174 056)	(25.46)
Energy certificates of origin	14 239	38 949	(24 710)	(63.44)
Construction contracts	44 965	111 365	(66 400)	(59.62)
Compensation related to LTC termination	137 574	137 136	438	0.32
Heat	41 839	42 818	(979)	(2.29)
Other	18 887	21 568	(2 681)	(12.43)
<b>Total sales revenues</b>	<b>2 053 540</b>	<b>2 254 784</b>	<b>(201 244)</b>	<b>(8.93)</b>

Table 3: Selected items from the consolidated profit and loss account

	<i>PLN thousand</i> <i>3 months period</i> <i>ended 30 September</i> <i>2016</i>	<i>PLN thousand</i> <i>3 months period</i> <i>ended 30 September</i> <i>2015</i>	<i>PLN thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
<b>Sales revenues</b>	<b>686 020</b>	<b>747 262</b>	<b>(61 242)</b>	<b>(8.20)</b>
Cost of goods sold	(570 220)	(699 115)	128 895	(18.44)
Gross profit (loss) on sales	115 800	48 147	67 653	140.51
Other operating income	7 773	4 004	3 769	94.13
Selling and distribution expenses	(966)	(1 094)	128	(11.70)
Administrative expenses	(23 996)	(29 847)	5 851	(19.60)
Other operating expenses	(5 864)	(1 012)	(4 852)	479.45
<b>Profit (loss) on operating activities*</b>	<b>92 747</b>	<b>20 198</b>	<b>72 549</b>	<b>359.19</b>
Finance income	1 160	(3 843)	5 003	-
Finance costs	(9 414)	(9 187)	(227)	2.47
<b>Gross profit (loss)</b>	<b>84 493</b>	<b>7 168</b>	<b>77 325</b>	<b>1 078.75</b>
Income tax (taxation)	(5 713)	(1 266)	(4 447)	351.26
<b>Net profit (loss)</b>	<b>78 780</b>	<b>5 902</b>	<b>72 878</b>	<b>1 234.80</b>
Net other comprehensive income	1 558	478	1 080	225.94
<b>Comprehensive income for the period</b>	<b>80 338</b>	<b>6 380</b>	<b>73 958</b>	<b>1 159.22</b>
<b>EBITDA*</b>	<b>144 367</b>	<b>114 288</b>	<b>30 079</b>	<b>26.32</b>

	<i>PLN thousand</i> <i>9 months period</i> <i>ended 30 September</i> <i>2016</i>	<i>PLN thousand</i> <i>9 months period</i> <i>ended 30 September</i> <i>2015</i>	<i>PLN thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
<b>Sales revenues</b>	<b>2 053 540</b>	<b>2 254 784</b>	<b>(201 244)</b>	<b>(8.93)</b>
Cost of goods sold	(1 677 507)	(2 122 847)	445 340	(20.98)
Gross profit (loss) on sales	376 033	131 937	244 096	185.01
Other operating income	18 747	15 396	3 351	21.77
Selling and distribution expenses	(3 105)	(3 018)	(87)	2.88
Administrative expenses	(71 791)	(86 705)	14 914	(17.20)
Other operating expenses	(8 157)	(3 755)	(4 402)	117.23
<b>Profit (loss) on operating activities*</b>	<b>311 727</b>	<b>53 855</b>	<b>257 872</b>	<b>478.83</b>
Finance income	6 334	7 775	(1 441)	(18.53)
Finance costs	(55 591)	(35 148)	(20 443)	58.16

<b>Gross profit (loss)</b>	<b>262 470</b>	<b>26 482</b>	<b>235 988</b>	<b>891.13</b>
Income tax (taxation)	(43 805)	(5 161)	(38 644)	748.77
<b>Net profit (loss)</b>	<b>218 665</b>	<b>21 321</b>	<b>197 344</b>	<b>925.59</b>
Net other comprehensive income	2 609	2 903	(294)	(10.13)
<b>Comprehensive income for the period</b>	<b>221 274</b>	<b>24 224</b>	<b>197 050</b>	<b>813.45</b>
<b>EBITDA*</b>	<b>473 170</b>	<b>337 695</b>	<b>135 475</b>	<b>40.12</b>

\* The Company defines and calculates EBITDA as gross profit/(loss) on operating activities (calculated as net profit/(loss) adjusted by (i) income tax (taxation), (ii) financial income and (iii) financial costs) adjusted by depreciation (presented in the income statement) and write-offs of fixed assets, intangible assets and mining assets.

Table 4: Consolidated cost by type

	PLN thousand 3 months period ended 30 September 2016	PLN thousand 3 months period ended 30 September 2015	PLN thousand change	% dynamics
Depreciation and amortization	51 620	94 090	(42 470)	(45.14)
Impairment of fixed assets	-	-	-	-
Impairment of inventory	9 050	(19 957)	29 007	-
Materials	91 106	100 576	(9 470)	(9.42)
External services	13 383	32 148	(18 765)	(58.37)
Taxes and fees excluding excise tax	37 969	40 708	(2 739)	(6.73)
Costs of CO <sub>2</sub> emission*	57 341	74 056	(16 715)	(22.57)
Employee benefits	117 010	126 849	(9 839)	(7.76)
Other costs by type	14 198	7 386	6 812	92.23
Cost of goods for resale and raw materials sold and resale of electricity purchased from the market	183 877	252 648	(68 771)	(27.22)
<b>Total costs by type</b>	<b>575 554</b>	<b>708 504</b>	<b>(132 950)</b>	<b>(18.76)</b>

\* CO<sub>2</sub> emission costs in cost of goods sold in third quarter of 2016 amounted to PLN 76 567 thousand (the difference in the amount of PLN 19 226 thousand, compared to the values presented in the cost by type is a component of change in the stocks of finished goods).

	PLN thousand 9 months period ended 30 September 2016	PLN thousand 9 months period ended 30 September 2015	PLN thousand change	% dynamics
Depreciation and amortization	161 443	283 840	(122 397)	(43.12)
Impairment of fixed assets	-	-	-	-
Impairment of inventory	30 891	23 754	7 137	30.05
Materials	245 031	326 109	(81 078)	(24.86)
External services	34 281	87 861	(53 580)	(60.98)
Taxes and fees excluding excise tax	117 984	124 099	(6 115)	(4.93)
Costs of CO <sub>2</sub> emission*	200 180	232 512	(32 332)	(13.91)
Employee benefits	378 946	427 715	(48 769)	(11.40)
Other costs by type	24 961	30 354	(5 393)	(17.77)
Cost of goods for resale and raw materials sold and resale of electricity purchased from the market	517 275	675 412	(158 137)	(23.41)
<b>Total costs by type</b>	<b>1 710 992</b>	<b>2 211 656</b>	<b>(500 664)</b>	<b>(22.64)</b>

\* CO<sub>2</sub> emission costs in cost of goods sold in 9 months of 2016 amounted to PLN 239 707 thousand (the difference in the amount of PLN 39 527 thousand, compared to the values presented in the cost by type is a component of change in the stocks of finished goods).

The cost of goods sold in the third quarter of 2016 amounted to PLN 570,220 thousand, and, in comparison with the one incurred in the third quarter of 2015, it decreased by PLN 128,895 thousand, i.e. by 18.44%. In the 9 months of 2016,

the cost of goods sold amounted to PLN 1 677 507 thousand and in relation to the one incurred in the same period of the last year, it decreased by PLN 445 340 thousand, i.e. by 20.98%. The following contributed to the decrease in the cost of goods sold 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, and the lower costs of employee benefits. Whereas the higher costs of CO2 emission and the higher values of impairment write-downs against the value of green certificate inventories as a result of their valuation as of 30 September 2016 at PLN/MWh 32.69 influenced the increase in the cost of goods sold.

Other operating income in the third quarter of 2016 amounted to PLN 7 773 thousand and were higher than the one achieved in the analogous period of the last year by PLN 3 769 that is by 94.13%, whereas in the 9 months of 2016, it amounted to PLN 18 747 thousand, which means that it was higher by PLN 3 351 thousand in comparison with the 9 months of 2015. Both in the third quarter and the 9 months of 2016, the largest increase in revenues in comparison with the analogous periods of the last year occurred in item of the profit on disposal of non-financial fixed assets.

The selling and distribution expenses in the third quarter of 2016 amounted to PLN 966 thousand, and, in comparison with the ones incurred in the third quarter of 2015, they were lower by PLN 128 thousand, i.e. by 11.70%. Whereas in the 9 months of 2016, they amounted to PLN 3 105 thousand and in relation to the 9 months of the last year, they increased by PLN 87 thousand, i.e. 2.88%.

In the third quarter of 2016, the administrative expenses amounted to PLN 23 996 thousand, that is decreased by PLN 5 851 thousand, i.e. 19.60% in relation to the expenses incurred in the third quarter of 2015. For the 9 months of 2016, they amounted to PLN 71 791 thousand, which means they were lower by PLN 14 914 thousand, i.e. 17.20%. The decrease in the administrative expenses is primarily the result of lower costs associated with the employee benefits.

The other operating expenses in the third quarter of 2016 amounted to PLN 5 864 thousand, and, in comparison with the ones incurred in the third quarter of the previous year, they increased by PLN 4 852 thousand, i.e. by 479.45%. In the 9 months of 2016, the other operating expenses amounted to PLN 8 157 thousand, which means they increased by PLN 4 402 thousand, i.e. 117.23%. Both in the third quarter and 9 months of 2016, the largest increase in expenses in comparison with the analogous periods of the last year occurred in the others item for an impairment write-down against capital work in progress.

The ZE PAK SA Group, in the third quarter of 2016, achieved the profit on operating activities in the amount of PLN 92 747 thousand, which increased by PLN 72 549 thousand, i.e. 359.19%, in comparison with the third quarter of 2015. In the 9 months of 2016, the profit on operating activities amounted to PLN 311 727 thousand, and, in comparison with the 9 months of the last year, it increased by PLN 257 872 thousand, i.e. 478.83%.

In the third quarter of 2016, a negative result on financial activities amounted to PLN (8 254) thousand and was better than the result in the third quarter of 2015, which amounted to PLN (13 030) thousand. The obtained better result in the third quarter is the result of favourable exchange rate developments; in the third quarter of 2016, there occurred appreciation of PLN in relation to the second quarter of 2016 than it happened in the third quarter of 2015, when the situation was reversed. For the 9 months of 2016, the result on financial activity was also negative and amounted to PLN (49 257) thousand and was worse than the result for the 9 months of 2015, which amounted to PLN (27 373) thousand. In the 9 months of 2016, in comparison with the 9 months of 2015, interest expenses increased mainly as a result of the change in accounting financial cost of the credit for modernisation of units in the Pańnów I power plant in relation to the completion of the investment. In addition, the increase in the negative financial activity result in 2016 was influenced the EUR/PLN rate increase, which adversely affected the valuation of financial instruments in EUR.

The gross profit in the third quarter of 2016 amounted to PLN 84 493 thousand and in comparison with the third quarter of 2015, it increased by PLN 77,325 thousand, i.e. by 1 078.75%. For the 9 months of 2016, the gross profit amounted to PLN 262 470 thousand that is in relation to the gross profit for the 9 months of the last year, it increased by PLN 235 988 thousand, i.e. 891.13%.

The net profit in the third quarter of 2016 amounted to PLN 78 780 thousand, and, in comparison with the third quarter of the previous year, it increased by PLN 72 878 thousand, i.e. by 1 234.80%. For the 9 months of 2016, the net profit amounted to PLN 218 665 thousand that is in relation to the net profit for the 9 months of 2015, it increased by PLN 197 344 thousand, i.e. 925.59%.

### **The description of factors and events, especially unusual events, substantially affecting the assets, liabilities, capital, net financial result or cash flows**

There were no unusual events substantially affecting the assets, liabilities, capital, net financial result or cash flows in the third quarter of 2016.

## **Execution of the investment programme**

In the period from 1 January to 30 September 2016, the investment expenses in the Group along with the renovation components amounted to PLN 43 124 thousand. The investment tasks executed in this period mostly regarded the generation segment.

### ***Generation Segment***

In the third quarter of 2016, joint acceptances of the positive conclusion of the warranty measurements of the modernised units nos. 1 and 2 in the Pańków Power Plant were conducted. The committees, on the basis of the results of guaranteed parameters measurements, which were published in the reports of measurements, granted approval to individual contractors executing modernisations of relevant process devices, such as electrostatic precipitators, boilers, high-pressure pipelines, turbogenerators, ash removal systems and cooling water pumps with pipelines. All the contractors fulfilled their commitments to meet the guaranteed technical parameters laid down in the contracts regarding the modernisation of particular process devices of the units nos. 1 and 2 in the Pańków Power Plant.

The main purpose of spending investment expenses in the last quarter was to finance the ongoing modernisation of the coal handling system of the units 1-6 in the Pańków Power Plant and the preparation of several newly started smaller investment tasks, i.e. reconstruction of the wall between the boiler room and the turbine hall of the units 1 and 2 in the Pańków Plant and replacement (modernisation) of the control cabinet of the phosphates and hydrazine dosing station.

In September 2016, the Company published a current report on postponing the decision on the construction of a gas and steam unit in the Konin Power Plant. Therefore, the conducted tender for acquiring the contractor of the investment project involving the construction of a gas and steam unit with a capacity of approx. 120 MWe and 90 MWt as well as an additional peak load boiler with a capacity of 40 MWt in the Konin Power Plant was invalidated. Consequently, the execution of preparatory works implementing this project was temporarily suspended. Due to the current external circumstances affecting the economic efficiency of the project and, above all, the uncertainty about the shape of the support system for the gas co-generation after 2018, as well as due to the present relationship between gas prices, prices of CO<sub>2</sub> allowances and electricity prices, the Company's Management Board decided that making a decision on the project implementation under the current conditions would be burdened with excessive risk that may negatively affect the financial results achieved in the future.

Regardless of the above decision, studies on implementation of 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 continued. The electricity and heat energy generation in co-generation would be based on the biomass boiler CFB K-12 and the turbogenerator TG-6. As part of this project, ZE PAK SA declared their intention to a technical dialogue conducted, according to articles 31 a and 31 b of the Act of 29 January 2004 the Public Procurement Law, by the City Hall in Konin, prior to the initiation of the procedure for the implementation of the project under the name of: "Construction of a New Heat Source for the City of Konin."

### ***Mining Segment***

The continuation of identification and designing works executed at the perspective brown coal deposits and the continuation of expenses for maintenance of the currently used open pits of Drzewce, Józwin, Tomisławice, Koźmin and Adamów.

In the period of three quarters of 2016, both mines belonging to the Capital Group executed investment tasks at active open pits with the purpose of maintaining optimal production capacities. In PAK KWB Konin SA, the greatest expenses were incurred for the extension of the Józwin open pit's power system, drilling draining wells on the Tomisławice open pit and extension of a dirty water sedimentation tank on the Tomisławice open pit. PAK KWB Adamów SA is executing the works related to the construction of the deep-seated water drainage system related to the progress of extraction works aimed at ensuring the correct utilisation of the Adamów open pit.

In relation to the perspective deposits at the current stage, the following activities are executed:

#### **Dęby Szlacheckie lignite deposit**

As the part of works aimed at documentation of the deposit, the so-called "Appendix No. 1 to the geological documentation of the Dęby Szlacheckie deposit" which was approved by the decision of the Minister of the Environment dated 13 May 2015.

In May 2015, in the Regional Directors of Environmental Protection in Poznań ("RDOŚ Poznań"), we applied for the issue of the environmental decision (including determination of the report's scope) for the project called: "Extraction of

lignite and associated minerals from the Dęby Szlacheckie deposit in districts of: Babiak and Koło, the Wielkopolska Province.” In July 2015, the RDOŚ Poznań's letter determining the material competence of the authority was received. The RDOŚ Poznań acknowledged that it is the competent authority to issue the environmental decision for the scope: execution of an opencast excavation with construction of a process system of overburden collection in it, execution of an external dump and construction of an overburden dump system, execution of the well drainage system and the surface drainage system, execution of the local yard transport facilities, execution of the final reservoir for completion of the deposit utilisation, reclamation works on dump plateaus.

In 2016, in the Babiak and Koło Communes, PAK KWB Konin SA submitted applications on amendments to the study of conditions and directions of spatial development. The study of conditions and directions of spatial development of the Babiak Commune should include the documented boundaries of the lignite deposit “Dęby Szlacheckie”, an external spoil tip and a technical infrastructure zone. Meanwhile, the study of conditions and directions of spatial development of the Koło Commune should include the documented boundaries of the lignite deposit “Dęby Szlacheckie” and a technical infrastructure zone. Moreover, the amendment to the study should take into account the reconstruction of the existing technical infrastructure necessary for exploitation of the “Dęby Szlacheckie” deposit.

#### Ościsłowo lignite deposit

In March 2015, PAK KWB Konin SA applied to the Head of the Wilczyn Commune for the closure of the proceeding for the issue of the environmental decision concerning the project “Extraction of lignite and associated minerals from the Ościsłowo deposit” because the competence of the authority issuing the environmental decision changed and, currently, the competent authority is the RDOŚ Poznań. The report on the environmental impact for the Ościsłowo 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.

On 6 August 2015, PAK KWB Konin SA submitted an application for the issue of the decisions on the environmental conditions for the projected Ościsłowo open pit in the RDOŚ Poznań. With the application, the report on the Ościsłowo open pit's impact on the environment, consisting the required attachment to the application for the issue of the environmental decision, was also submitted.

On 16 September 2015, the proceedings on the issue of the environmental decision for the Ościsłowo Open Pit were initiated. The RDOŚ (Regional Directorate of Environmental Protection) Poznań set another deadline for settlement of the matter on 5 December 2016.

#### Piaski lignite deposit

In August 2014 PAK KWB Konin SA submitted application to the Rychwał, Stare Miasto and Rzgów Communes for the amendment of the study aiming at adapting the spatial layout in the Communes to the concept of use and delivery of lignite from the Piaski deposit. By the letter of August 2014, the Mayor of the Commune and City of Rychwał informed that in August 2013, the City Council proceeded to change the study. The project of the study was approved in June 2014 and a new resolution initiating the process of changing the commune study is not expected. Nevertheless, the submitted application will be submitted to the City Council in Rychwał, which is competent to initiate works on changing the study.

In March 2016, the City Council in Rychwał issued a negative opinion on the applied amendment to the destination of the Rychwał Commune areas for the open-pit brown coal mine on the “Piaski” deposit. The consequence of the above opinion was non-adoption of a resolution on preparing the amendment to the study of conditions and directions of spatial development of the commune and the city of Rychwał.

In July 2016, PAK KWB Konin SA received a notice from the Rzgów commune on proceeding to prepare the amendment to the study of conditions and directions of spatial development of the Rzgów commune.

#### Poniec-Krobia and Oczkowice lignite deposits

The PAK GÓRNICTWO sp. z o.o. company is currently at the stage of balancing the completed works. The documentation on the formal matters related to the current activities is also completed.

### **3.2. Other significant events of the reporting period and events after the balance sheet date**

#### **Other significant events of the reporting period**

##### ***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 planned 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<sub>2</sub> 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<sub>2</sub> 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<sub>2</sub> 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.

#### **Events after the balance sheet date**

As of 26 October 2016 Mr. Zygmunt Solorz resigned from membership in the Supervisory Board of the Company, effective immediately. Mr. Zygmunt Solorz will focus on the creation of strategies and the supervision over their implementation in the group of companies controlled by him

In connection with the resignation of Mr. Zygmunt Solorz Supervisory Board emerged from among its members Mr. Tomasz Szeląg for the position of President of the Supervisory Board. Mr. Tomasz Szeląg is a member of the Supervisory Board of ZE PAK SA since 28 June 2016.

### **4. INFORMATION ON SIGNIFICANT PROCEEDINGS PENDING BEFORE A COURT, A BODY COMPETENT FOR ARBITRATION PROCEEDINGS OR A PUBLIC ADMINISTRATION BODY RELATED TO ZE PAK SA OR SUBSIDIARIES CONSOLIDATED UNDER THE GROUP**

In the third quarter of 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 PLN 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 approximately PLN 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 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 punitive damage. 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 judgments for the Company were given. The Company decided to file a cassation to the Supreme Administrative Court,
- 14 proceedings for the period December 2007 – February 2009 (excluding July 2008) are suspended in the Provincial Administrative Court pursuant to the amicable application of both parties because of the resolution ref. II FPS 5/13 passed by the Supreme Administrative Court on 27 January 2014. So far, none of the parties has applied for resumption of the proceedings. These proceedings also included annual economic analysis,
- the proceeding for November 2006 was concluded with a negative judgment of the Supreme Administrative Court of 8 December 2011,
- the proceeding for July 2008 reached the recognition of the Company's 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 judgment, 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 judgment 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 Tomislawice. On 7 August 2007, the Head of the Wierzbiniek 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 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 Tomislawice 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 judgment. 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 Wierzbiniek Commune, related to the extraction of lignite from the Tomislawice 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 judgment 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 judgment 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 judgment by the Self-government Appeal Court, it exerts legal effects.

Other legal proceedings have been described in the Interim condensed consolidated financial statement for the 9 month period ended 30 September 2016 in point 29.1.

## 5. INFORMATION REGARDING THE SHAREHOLDING STRUCTURE

Share capital of ZE PAK is represented by 50.823.547 shares. Shares are ordinary. Each share gives right to one vote at General Meeting of Shareholders.

### 5.1. Shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes

Table 1: List 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 the date of submission of this report\*

Shareholder	Number of shares and corresponding number of votes at the General Meeting*	% Share [%] in the total number of shares/votes
<b>Zygmunt Solorz (indirectly) through:</b>	<b>26 200 867</b>	<b>51.55</b>
– 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
<b>Nationale – Nederlanden OFE</b>	<b>5 068 410</b>	<b>9.97</b>
<b>TFI PZU SA</b>	<b>3 081 567</b>	<b>6.06</b>

\* According to the information available to the Company on the basis of the submission of notifications on the acquisition / disposal of shares.

List of shareholders holding directly or indirectly through subsidiaries, at least 5% of the total number of votes as at 30 September 2016, differs from the current list of absence in the statement of TFI PZU SA. The Company was notified by TFI PZU SA about exceeded the threshold of 5% as a result of the settlement on 21 October 2016 transactions on shares in ZE PAK SA.



## 5.2. List of the shareholding structure of the management and supervising personnel

Table 2: List of management and supervising personnel holding ZE PAK SA shares, including the number of held shares, as of the date of submission of this report\*

Shareholder	Position in the Company's authorities	Number of shares and the corresponding number of votes at the General Meeting	Share [%] in the total number of shares/votes
<b>Zygmunt Solorz (indirectly) through:</b>	<b>President of the Supervisory Board of the Company</b>	<b>26 200 867</b>	<b>51.55</b>
– 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

\* According to the information available to the Company on the basis of the submission of notifications on the acquisition / disposal of shares.

## 6. OPINION OF THE MANAGEMENT BOARD ON THE POSSIBILITY OF EXECUTION OF FINANCIAL FORECASTS PUBLISHED EARLIER

Zespół Elektrowni Pątnów – Adamów – Konin SA has not published any financial forecasts

## 7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS

In 2015, ZE PAK SA incurred the net loss in the amount of PLN 1 515.8 million (according to the Polish Accounting Standards). The Management Board of the Company proposed to cover this loss from the supplementary capital of the ZE PAK SA (amounting to PLN 2 542.0 million as of 31 December 2015) in the amount of PLN 1 513.4 million and from the reserve capital (amounting to PLN 5.9 million as of 31 December 2015) in the amount of 2.4 million.

The shareholders gathered at the Ordinary General Meeting of ZE PAK SA on 28 June 2016 supported the proposal of the Management Board regarding covering the loss incurred in 2015.

## 8. INFORMATION ON THE CONCLUSION BY ZE PAK SA OR ENTITIES CONSOLIDATED UNDER THE GROUP OF SIGNIFICANT TRANSACTIONS WITH ENTITIES AFFILIATED PURSUANT TO CONDITIONS OTHER THAN MARKET CONDITIONS

Zespół Elektrowni Pątnów – Adamów – Konin SA and companies consolidated under the Group have not concluded transactions with entities affiliated pursuant to conditions other than market conditions in the third quarter of 2016.

## 9. INFORMATION ON GRANTING BY ZE PAK SA OR ENTITIES CONSOLIDATED UNDER THE GROUP OF SIGNIFICANT GUARANTEES, SURETIES, CREDITS OR LOANS

Zespół Elektrowni Pątnów – Adamów – Konin SA and companies consolidated under the Group have not granted guarantees, sureties, credits or loans in the third quarter of 2016, the standalone or total value of which would comprise 10% of ZE PAK SA's equity

## **10. INFORMATION CONCERNING THE ISSUE, REDEMPTION, AND REPAYMENT OF NON-EQUITY AND CAPITAL SECURITIES**

In the third quarter of 2016, PAK KWB Konin SA, a company subject to consolidation under the ZE PAK Capital Group, has made two emission of debentures in the total amount of PLN 30 000 thousand (in total covered by the companies within the Group). In the third quarter of 2016, PAK KWB Konin SA also has made redemptions of debentures in the amount of PLN 30 000 thousand (all from entities within the Group).

## **11. FACTORS WHICH, IN THE MANAGEMENT BOARD'S OPINION, WILL AFFECT THE COMPANY'S RESULTS IN THE PERSPECTIVE OF AT LEAST ONE QUARTER**

The process of forecasting future results of the ZE PAK Capital Group must include a wide range of factors existent in the branch and markets in which the Company conducts its operations. These include both internal factors as well as factors with their source in the environment. In the view of the Board, they can be divided into factors which constantly influence the Group's functioning as well as those which appear incidentally in the period which is embraced by a given periodical report.

The most important factors which constantly affect the Company'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, coal extraction costs;
- CO<sub>2</sub> allowances costs;
- compensation for the stranded costs related to the termination of Elektrownia Pątnów II's LTC contract;
- seasonality and meteorological conditions;
- investment expenses, in particular those privileged to obtain CO<sub>2</sub> emission allowances free of charge;
- EUR/PLN exchange rate, interest rates level.

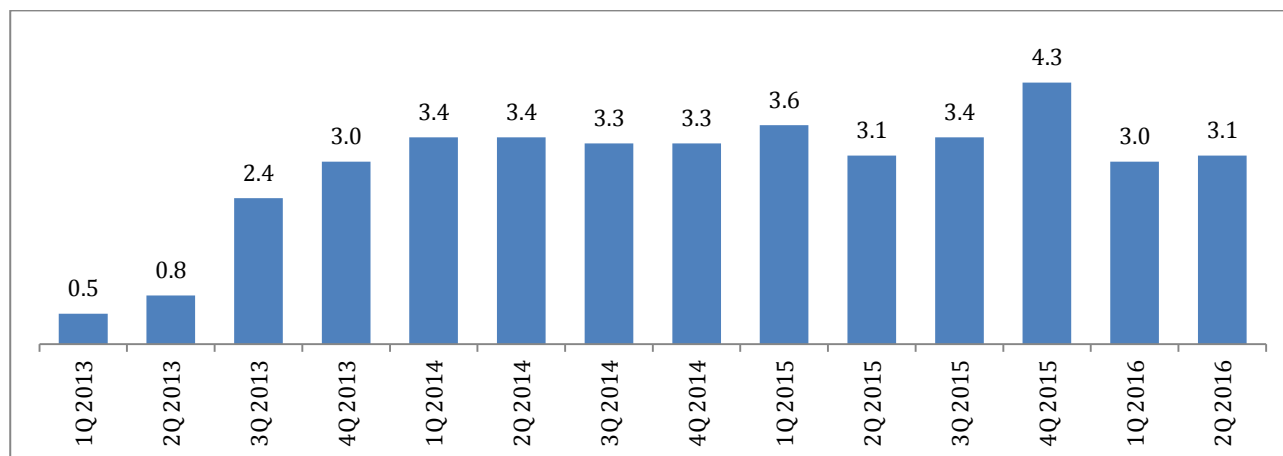
Furthermore, an important factor that could have a significant impact on the Company's financial results in the further quarters includes the value impairment test result. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last such a test was carried out on 30 September 2016, and its result justified the write-down for asset components. It should be noted that the valuation model of the Company's assets shows 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 model of the Company's assets can change, and consequently the value impairment test result may cause the necessity of verifying the value of the write-downs against the asset components in the future. Another analysis of the reasons justifying the potential necessity to conduct the value impairment test of the Company's asset components will be executed at the end of the next reporting period

### **11.1. 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 of the aforementioned factors significantly affect the demand for electricity and its consumption.

The gross domestic product ("GDP") measured in constant prices of the previous year increased actually by 3.0% in the first quarter of 2016, while in the second quarter, the increase was 3.1% (the so-called quick estimate of the gross domestic product for the third quarter of 2016 will be published by the CSO on 15 November 2016). The analogous values for the previous year are 3.6%, 3.1%, and 3.4% of the increase in the third quarter of 2015. The quarter dynamics of the gross domestic product growth has remained at a level above 3% for already 2.5 years. On the basis of the micro-data on the economy in the third quarter, it is expected that GDP dynamics is likely to remain at a similar or slightly lower level than that the one recorded in the first half-year.

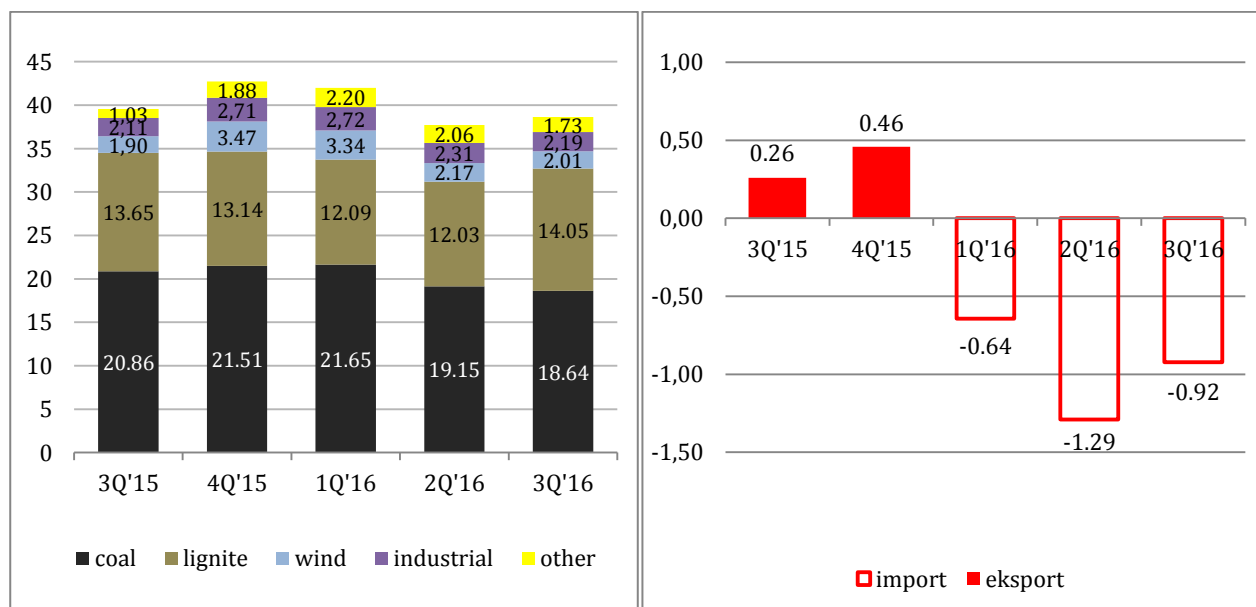
Chart 1: GDP dynamics (%) in relation to the analogous quarter of the year before (yearly average fixed prices)



Source: Own development based on the Central Statistical Office data.

Unfortunately, the industrial production remains at low levels in comparison with the previous quarters. The data on growth in the next few months of the third quarter of 2016, as compared to the analogous months of the last year, were as follows: in July, the production sold to the industry was lower by 3.4%. In August, there has been an increase by 7.5%, whereas in September, the increase amounted to 3.2%. Once again, the negative trends let know of themselves in readings concerning the construction and assembly production dynamics' indicator; in all months of the third quarter, the decrease in this indicator exceeded 15%, reaching even minus 20% in July. The cause of the stagnation in the construction industry is primarily the infrastructure segment, where smaller spending of the EU funds in combination with fewer projects commenced by the public and municipal public sectors affects the negative dynamics of this sector. The data on retail sales look much better than the industrial production and the construction and assembly production. The retail sales dynamics in the following months of the third quarter of 2016 in relation to the analogous months of the last year amounted to: 4.4% in July, 7.8% in August, and 6.3% in September. The discrepancy between the trends in the industrial production and the retail sales can be explained by the influence on the transfer expenditures associated with the "500+" child benefit programme as well as the improving situation on the labour market. The recorded unemployment rate decreased at the end of September to 8.3% that is the lowest level since 1991

Chart 2: Structure of electricity production and the balance of electricity exchange with foreign countries (gross size) – TWh



Source: Own development based on Polskie Sieci Elektroenergetyczne SA's data.

The data concerning the functioning of the Public Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne S.A., show that the gross national electricity consumption in the third quarter of 2016 was 39.54 TWh, and increased by 0.6% in comparison to the analogous third quarter of the year before. In the third quarter of 2016, the gross electricity production was 38.61 TWh, which means a decrease by 2.3% in comparison to the analogous period of the previous year. The power plants generating on hard coal had the greatest share in the generation structure but their generation decreased by 10.6% in relation to the third quarter of the last year. On the other hand, the brown coal generation increased by nearly 3% in relation to the analogous quarter of the last year. The increase of wind power plants generation was only 5.7% despite the installed electrical capacity of the wind power plants greater by 30% in relation to the third quarter of the last year. As in the previous two quarters and in third one, Poland was a net electricity importer; the electricity exchange balance amounted to 0.92 TWh on the import side

## 11.2. Regulatory environment

The entities conducting activities in the electricity market are subject to strict regulation, such as the Energy Law, 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 climatic changes (including CO<sub>2</sub> emissions), obligation of public sales of a part of the produced energy as well as the support of specific energy production 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.

On 1 July 2016, another amendment to the law on renewable energy sources entered into force. The amendment concerns mainly the chapter 4 of the law regulating the new principles of supporting green electricity producers. The law on RES entered into force on 1 January 2016. However, the date of entry into force of chapter 4 was postponed by a half of year. During this period, new support principles were developed. As soon as this year, the auction system for renewable energy sources producers, within which the amount of energy from res will be ordered in division by particular res technology basket, is to launch. 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 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 documentations and another amendment to this law.

## 11.3. Electricity prices

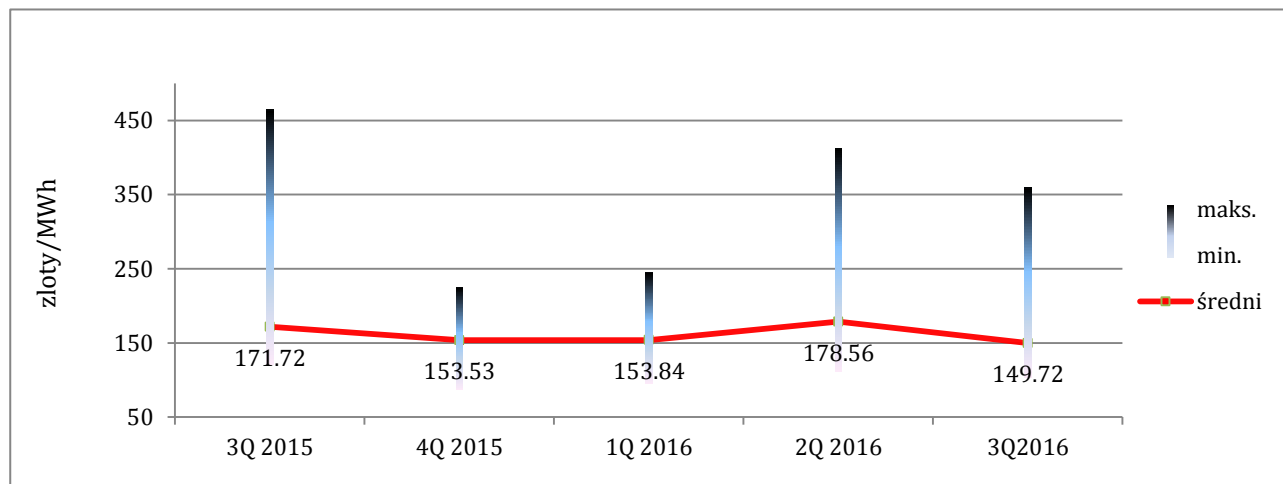
The Group generates most of their revenues from the production and sales of electricity, therefore the price for which it sells electricity is very important for the results of its activities. In addition, the Group practices the purchase of energy on the market of electricity and re-sale to recipients.

According to the notification of the Energy Regulatory Office, the average electricity sale price in the competitive market in the third quarter of 2016 amounted to PLN/MWh 172.34 in comparison to PLN/MWh 174.74 in the third quarter of 2015 (the average price of electricity sold according to principles other than those resulting from Article 49a paragraph 1 and 2 of the Act – Energy Law).

On the day-ahead-market of the Polish Power Exchange, the third quarter of 2016 was characterised by a smaller range of price fluctuations than it did in the same period of the previous year. Very high price levels were recorded in the third quarter of the last year, particularly in August, when due to the low level of rivers used for cooling of some power units, high electricity demand associated with high temperatures, and low use of wind powers, limitations in the capabilities of the energy collection for big recipients were introduced. In the third quarter of 2016, there were no problems with energy supply, even despite the new records of power demand during the summer. Average temperatures in the summer of 2016 did not deviate significantly from the long-term averages in contrast to the summer in 2015. The generation of wind turbines in the third quarter of 2016 was as similar as in the same period of the last year. Despite the increase in installed capacity, on average, about 30%, in comparison to the same period of the last year, a lower indicator of capacity utilisation did not translate significantly into the increase in wind generation in relation to the analogous period of the last year. The highest energy prices on the day-ahead-market were reported at the beginning of July. In the later periods, the prices were in the range of approximately PLN/MWh 100 to PLN/MWh 200, whereas the levels close to

the lower and upper values were achieved rarely. The weighted average price on the day-ahead market amounted to PLN/MWh 149.72, which is a decrease to the average of the same period of the previous year by PLN 22, i.e. approximately 13%.

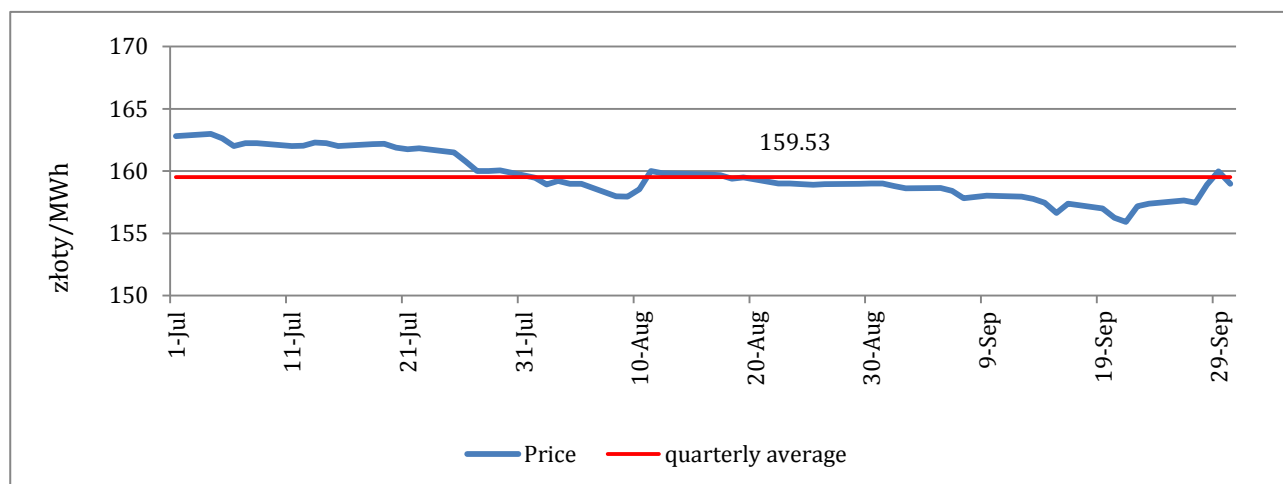
Chart 3: Energy prices (IRDN)



Source: Own development based on the TGE data.

The highest prices on the futures market of the electricity of the Polish Power Exchange in the third quarter of 2016, as in on the spot market, were in July. The BASE\_Y-17 annual contract recorded its price maximum close to PLN/MWh 163 in the third quarter. Later, the impact of lower prices on the spot market and the prices of CO2 allowances resulted in a decrease on the futures market. Most of the time in the third quarter of 2016, the price of the futures contract for the supply of band in 2017 was within PLN/MWh 160. The arithmetic mean for the BASE\_Y-17 contract in the third quarter of 2016 shaped at PLN/MWh 159.53. The analogous average for the BASE\_Y-16 contract in the previous year amounted to PLN/MWh 157.93.

Chart 4: The price of the futures contract for the supply of electricity (band) for 2017



Source: Own development based on the TGE data.

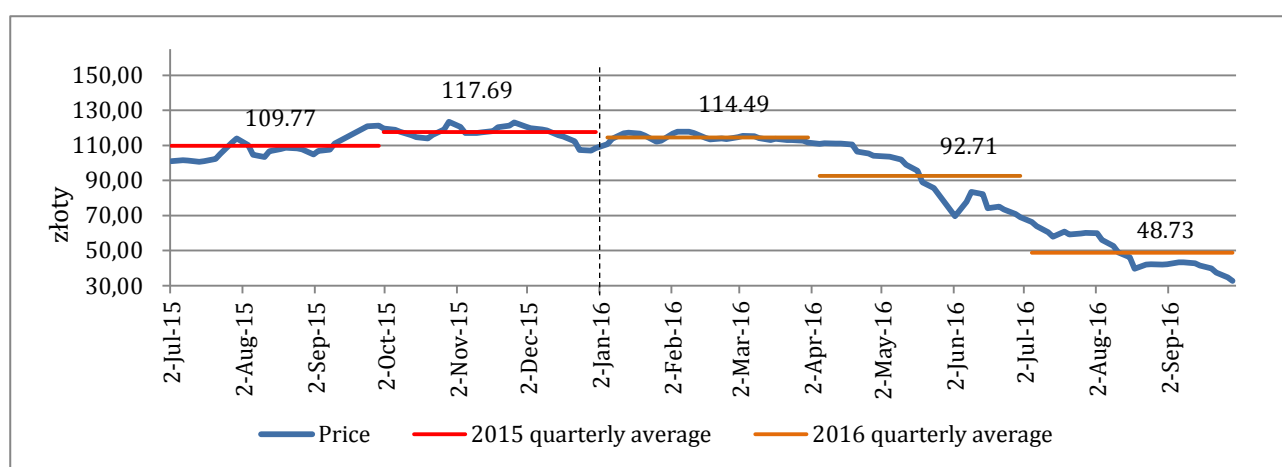
## 11.4. Prices and supply of certificates of origin

Due to the fact that a part of the generated electricity 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.

On the market of property rights deriving from certificates of origin from renewable energy in the third quarter of 2016, a clear downward trend dominated, which was a direct continuation of the trend from the previous period. The prices once again reached the historical minimums. The sellers' motivation was so strong that even an attempt to correct the dominant trend was not seen on the price chart in the third quarter. The minimum price was reached on 29 September at PLN 32.69. The value of the weighted average of the green certificates price on the basis of the TGE quotations for the third quarter of 2016 shaped at PLN 48.73 gold for the certificate. The average price recorded in the same period of the last year is higher by as much as PLN 61, i.e. over 125%. It is worth noting that a potential stimulus for the decrease in the green certificates' prices can be information on the ratio of obligation to redeem the green certificates of origin from res in 2017, which is to be 16% (including 0.6% with the new, the so-called blue certificates from agricultural biogas plants), which could arise disappointment in relation to the anticipated, higher level (20% entered into the new act on RES), which potentially could reduce the oversupply on the market in the perspective of subsequent periods.

Chart 5: Price of a certificate of origin for RES produced energy



Source: Own development based on the TGE data.

## 11.5. Fuel costs, lignite extraction costs

Fuel cost is the most important part of the costs related to the electricity and heat generation in companies of the ZE PAK Group. The prices of fuel largely determine the competitiveness of particular electricity production processes. The ZE PAK Group's power plants produce most of their electricity from lignite, but they also use forest and agricultural biomass. Furthermore, heavy and light heating oil is used in minimal quantities for heating purposes in the process of electricity production.

Two lignite mines, PAK KWB Konin SA and PAK KWB Adamów SA, which are the only suppliers of lignite to the ZE PAK Group's power plants, satisfy the entire 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 lignite 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 lignite depends on the factors which remain outside the direct control of the Group.

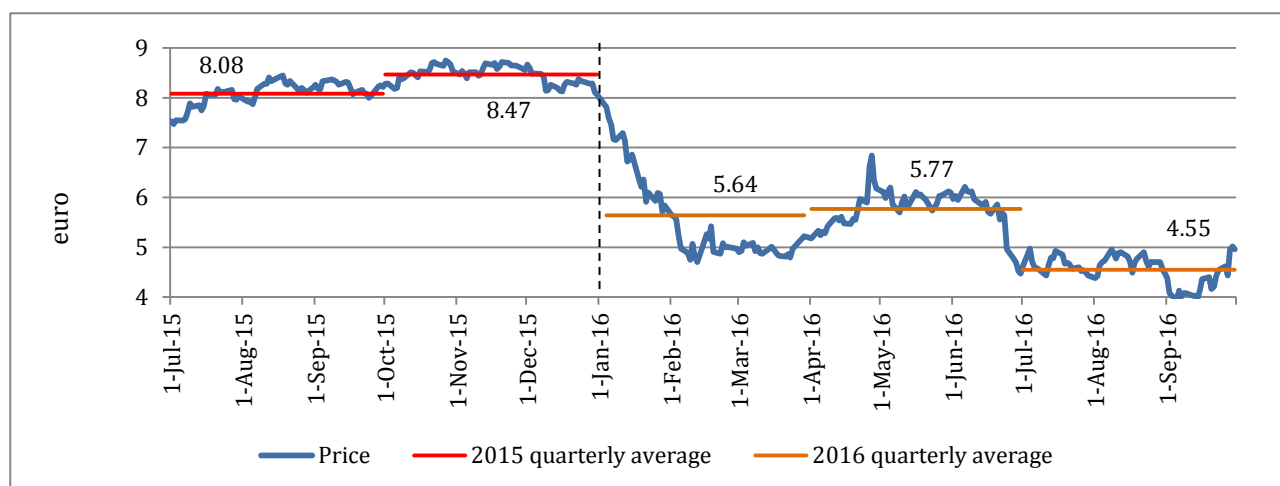
## 11.6. CO<sub>2</sub> allowances costs

The activity in the field of electricity and heat generation from conventional sources is associated with the need to bear the CO<sub>2</sub> 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<sub>2</sub> 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<sub>2</sub> allowances granted in a given period. The numbers 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 Company is obligated to purchase the other part of the missing allowances at the free market. The company use also small amount of free allowances on the basis of the art. 10a of the Directive 2003/87/EC of the European

Parliament and of the Council of 13 October 2003 (EUA from heat generation purpose). In 2016 the Group will receive a very small amount of free allowances for CO<sub>2</sub> emissions, close to 100 thousand. EUA, most of which comes from the allocation for heat production. Therefore, almost entire amount needed by ZE PAK SA Group emission allowances must be purchased on the primary market (auctions) and secondary markets (ICE exchange, EEX and bilateral contracts).

In the absence of significant impulses affecting the CO<sub>2</sub> allowances market rights, the EUAs price, for almost the first two months of the third quarter of 2016, remained in relative balance in the variability band between more or less EUR 4.4 and EUR 5.00. Such low levels, in relation to the quotations from the last year and the previous quarters of 2016, were caused by an earlier decrease in prices in response to the result of the British voting on leaving of the European Union by the United Kingdom and low levels of energy sources prices. At the end of August, there was another decrease in the prices and the establishment of a new minimum price for the carbon market in the current year at below EUR 4.00 (at session closing prices). However, in the second half of September, in response to increasing energy prices on the markets of the Western Europe and the increasing prices of energy resources on the world markets, the EUAs prices managed to return to the level of EUR 5.00. The arithmetic average of the EUAs prices for the third quarter of 2016 was EUR 4.55, which means a decrease by EUR 3.53, i.e. c. 43% in relation to a similar price for the third quarter of the last year.

Chart 6: Price of the futures contract for the supply of EUA



Source: Own development based on the ICE data.

### 11.7. Compensation for the stranded costs related to the termination of Elektrownia Pątnów II sp. z o.o.'s "Long-term Contract" ("LCT")

The long-term contract for the sale of power and electricity (LCT) 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's LCT, 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.

### 11.8. Seasonality and meteorological 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.

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 energy generated by the Group's power plants may be subject to periodic deductions.

## **11.9. 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<sub>2</sub> emission. However, in the absence of the implementation of these investment it also is prevented the ability to take advantage of the free allocation.

## **11.10. 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 PLN, 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 PLN in relation to EUR has negative impact on financial results, because it increases the financing costs in PLN related to the foreign currency debt, whereas the depreciation of the value of EUR in relation to PLN has positive impact on financial results, because it decreases the financial costs in PLN 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 relate to the purchase of EUAs are settled in EUR.

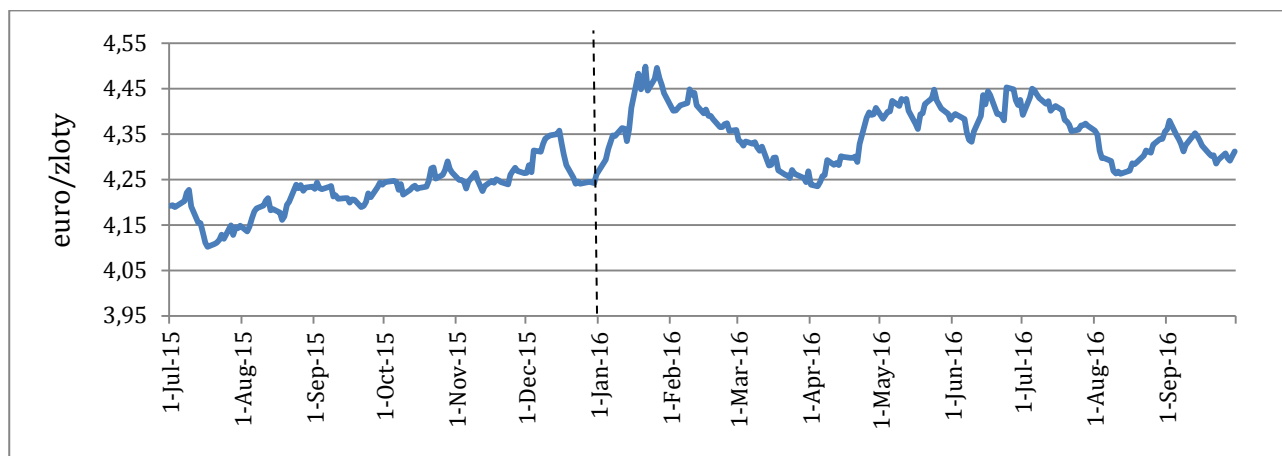
In the third quarter of 2016, the Group's companies did not apply instruments to mitigate risks arising from changes in exchange rates, except for ZE PAK S.A., which secured the EUR exchange rate for part of the flows related to the purchase of units allowing for CO<sub>2</sub> emission. To secure the exchange rate, the forward transactions with settlement date in December 2016 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 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 the risk caused by the changes of interest rates mainly concerns long-term financial liabilities related to the financing of investments in ZE PAK S.A. 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 secure financial liabilities and concern the Elektrownia Pątnów II sp. z o.o.'s corporate credit based on the variable EURIBOR interest rate. IRS instruments were used in security.

In the third quarter, PLN strengthened in relation to EUR from the level close to 4.45 EUR/PLN in early July to a level close to 4.25. However, in September, the rate grew by a few Polish groszes, ending the quarter at 4.31. It seems that now the most important for the relationship of two currencies will be further policy of the European Central Bank on interest rates and the manner of further shape of programmes to support liquidity on the bond markets and, on the other hand, expectations as to the response of the Polish National Bank on shaping the inflation rates and fiscal policy discipline in Poland.



Chart 12: Average EUR/PLN exchange rate



Source: Own development based on NBP average exchange rate tables