ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA

FINANCIAL STATEMENT
FOR THE PERIOD OF 12 MONTHS ENDED 31 DECEMBER 2017
INCLUDING THE AUDIT REPORT

19 APRIL 2018

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(in thousand PLN)

BALANCE SHEET

Assets

	Note	As of 31 December 2017	As of 31 December 2016
A. Fixed assets		**2 021 250**	**2 219 586**
I. Intangible assets	6	**196 877**	**368 132**
1. Development expenses		-	-
2. Goodwill		-	-
3. Other intangible assets		196 877	368 132
4. Prepayments for intangible assets		-	-
II. Tangible fixed assets	7	**647 725**	**662 844**
1. Tangible assets		582 725	617 868
a) land (including perpetual usufruct)		1 286	1 290
b) buildings, premises and constructions		177 803	187 386
c) plant and machinery		401 664	426 981
d) motor vehicles		715	854
e) other		1 257	1 357
2. Construction in progress		64 302	41 067
3. Prepayments for construction in progress		698	3 909
III. Long-term receivables		-	-
1. from affiliates		-	-
2. from others, of which entity has capital engagement		-	-
3. from others		-	-
IV. Long-term investment	8.1	**1 176 097**	**1 187 862**
1. Property		-	-
2. Intangible fixed assets		-	-
3. Long-term financial assets		1 176 097	1 187 862
a) in affiliates		1 175 946	1 187 711
– shares		1 142 196	1 139 747
– other securities		-	-
– loans granted		30 250	47 964
– other long-term financial assets		3 500	-
b) in other entities of which entity has capital engagement		-	-
– shares		-	-
– other securities		-	-
– loans granted		-	-
– other long-term financial assets		-	-
c) in other entities		151	151
– shares		151	151
– other securities		-	-
– loans granted		-	-
– other long-term financial assets		-	-
4. Other long-term investments		-	-
V. Long-term prepayments and deferred costs	9	**551**	**748**
1. Deferred tax assets		-	-
2. Other prepayments and deferred costs		551	748
B. Current assets		**346 620**	**378 620**
I. Inventories	23	**41 617**	**53 915**
1. Raw materials		39 601	39 602
2. Semi-finished goods and work-in-progress		-	-
3. Finished products		-	-

(in thousand PLN)

4. Goods		1 985	13 959
5. Inventory prepayments		31	354
II. Short-term receivables		**138 406**	**137 373**
1. Receivables from affiliates	40.2	38 983	64 297
a) trade receivables, due in:		36 626	60 639
– up to 12 months		36 626	60 639
– over 12 months		-	-
b) other		2 357	3 658
2. Receivables from other entities of which entity has capital engagement		-	-
a) trade receivables, due in:		-	-
– up to 12 months		-	-
– over 12 months		-	-
b) other		-	-
3. Receivables from other entities		99 423	73 076
a) trade receivables, due in:		60 899	53 785
– up to 12 months		60 899	53 785
– over 12 months		-	-
b) taxation, subsidy, customs duty, social security, health insurance and other debtors		19 371	7 428
c) other		19 153	11 863
d) submitted to court		-	-
III. Short-term investments	8.2	**166 063**	**186 022**
1. Short-term financial assets		166 063	186 022
a) in affiliates		18 714	16 125
– shares		-	-
– other securities		-	-
– loans granted		15 214	16 125
– other short-term financial assets		3 500	-
b) in other entities		-	296
– shares		-	-
– other securities		-	-
– loans granted		-	-
– other short-term financial assets		-	296
c) cash and other monetary assets	33	147 349	169 601
– cash on hand and cash at bank		147 349	169 601
– other cash and cash equivalents		-	-
– other monetary assets		-	-
2. Other short-term investments		-	-
IV. Short-term prepayments and deferred costs	9	**534**	**1 310**
C. Unpaid share capital (basic)		-	-
D. Own shares		-	-
Total assets		**2 367 870**	**2 598 206**

Konin, 19 April 2018

Adam Kłapszta	*Aneta Lato-Żuchowska*	*Zygmunt Artwik*	*Elżbieta Niebisz*	*Aneta Desecka*
President of the Board	*Vice President of the Board*	*Vice President of the Board*	*Vice President of the Board*	*Chief Accountant*

(in thousand PLN)

Liabilities and equity

		Note	As at 31 December 2017	As at 31 December 2016
A. Equity			**1 516 912**	**1 491 837**
I.	**Equity capital**	10	**101 647**	**101 647**
II.	**Reserve capital, including:**		**1 094 493**	**1 028 647**
	– surplus of sales value (issue value) over nominal value of shares		380 030	380 030
III.	**Revaluation reserve, including:**		**227 497**	**227 498**
	– for fair value revaluation		0	0
IV.	**Other reserves, including:**		**3 472**	**3 472**
	– created in accordance with the company's articles of association		-	-
	– for own shares		-	-
V.	**Profits (losses) from previous years**		**(834)**	**(834)**
VI.	**Net profit (loss) for the period**		**90 637**	**131 407**
VII.	**Deductions from net profit during the period (negative value)**		-	-
B. Liabilities and provisions for liabilities			**850 958**	**1 106 369**
I.	**Provisions for liabilities**	13	**329 940**	**347 396**
	1. Deferred tax liability	25	79 212	68 806
	2. Provision for retirement benefits and similar obligations		10 398	9 922
	– long-term		9 210	8 835
	– short-term		1 188	1 087
	3. Other provisions		240 330	268 668
	– long-term		17 132	17 603
	– short-term		223 198	251 065
II.	**Long-term liabilities**	15	**203 524**	**344 005**
	1. To affiliates		-	254
	2. To other entities of which entity has capital engagement		-	-
	3. To other entities		203 524	343 751
	a) loans and credits	11	201 035	343 295
	b) debt securities issued		-	-
	c) other financial liabilities	11	489	456
	d) bills of exchange		-	-
	e) other		2 000	-
III.	**Short-term liabilities**		**289 597**	**387 209**
	1. To affiliates	40.2	29 736	32 405
	a) trade liabilities:		26 687	31 922
	– up to 12 months		26 687	31 922
	– over 12 months		-	-
	b) other		3 049	483
	2. To other entities of which entity has capital engagement		-	-
	a) trade liabilities:		-	-
	– up to 12 months		-	-
	– over 12 months		-	-
	b) other		-	-
	3. To other entities		255 659	350 650
	a) loans and credits	11	153 684	158 629
	b) debt securities issued		-	-
	c) other financial liabilities	11	961	139
	d) trade liabilities:		21 586	53 247
	– up to 12 months		21 586	53 247
	– over 12 months		-	-
	e) advance payments received		-	50

(in thousand PLN)

	f) bills of exchange		-	-
	g) taxation, customs duty and social security creditors		60 402	68 521
	h) payroll		5 644	4 314
	i) other		13 382	65 750
	4. Special funds		4 202	4 154
IV.	**Accruals and deferred income**	16	**27 897**	**27 759**
	1. Negative goodwill		-	-
	2. Other accruals and deferred income		27 897	27 759
	– long-term		14 051	14 097
	– short-term		13 846	13 662
Total Liabilities and equity			**2 367 870**	**2 598 206**

Konin, 19 April 2018

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Aneta Desecka
President of the Board	*Vice President of the Board*	*Vice President of the Board*	*Vice President of the Board*	*Chief Accountant*

(in thousand PLN)

PROFIT & LOSS ACCOUNT (calculation type)

	Note	*12 months period ended 31 December 2017*	*12 months period ended 31 December 2016*
A. Net sales of finished goods, goods for resale and raw materials, of which:	20	**1 477 055**	**1 622 180**
– from affiliates	40.2	426 460	570 581
I. Net sales of finished products		1 260 372	1 490 122
II. Net sales of goods for resale and raw materials		216 683	132 058
B. Cost of finished products, goods for resale and raw materials sold, of which:		**1 352 265**	**1 509 522**
– to affiliates		438 336	566 042
I. Cost of finished products sold	26	1 181 760	1 389 927
II. Cost of goods for resale and raw materials sold		170 505	119 595
C. Gross profit (loss) on sales (A–B)		**124 790**	**112 658**
D. Selling expenses	26	2 944	3 100
E. Administrative expenses	26	35 713	30 194
F. Profit (loss) on sales (C–D–E)		**86 133**	**79 364**
G. Other operating income	27	3 260	6 993
I. Gains on the sale of non-financial fixed assets		9	-
II. Grants		46	1 421
III. Revaluation of non-financial assets		1 172	-
IV. Other operating income		2 033	5 572
H. Other operating expenses	28	3 305	12 671
I. Loss on the sale of non-financial fixed assets		-	-
II. Impairment of non-financial assets		-	9 845
III. Other		3 305	2 826
I. Operating profit (loss) (F+G–H)		**86 088**	**73 686**
J. Financial income	29	41 527	86 676
I. Dividends and shares in profits, including:		37 285	78 778
a) from affiliates, including:		37 085	78 722
– of which the entity has capital engagement		37 085	78 722
b) from others, including:		200	56
– of which the entity has capital engagement		-	-
II. Interest, including:		2 743	4 039
– from affiliates		574	974
III. Profit on the disposal of financial assets, including:		-	-
– affiliates		-	-
IV Revaluation of investments		-	1 466
V. Other		1 499	2 393
K Financial costs	30	24 101	23 057
I. Interest, including:		16 944	18 820
– to affiliates		-	-
II. Loss on the disposal of financial assets, including:		-	33
– in affiliates		-	33
III. Impairment of investments		5 292	-
IV. Other		1 865	4 204
L. Gross profit (loss) (I+J–K)		**103 514**	**137 305**
M. Corporate profits tax	25	12 877	5 898
N. Other tax charges		-	-
O. Net profit (loss) (L–M–N)		**90 637**	**131 407**

Konin, 19 April 2018

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President of the Board	*Vice President of the Board*	*Vice President of the Board*	*Vice President of the Board*	*Chief Accountant*

(in thousand PLN)

STATEMENT OF CASH FLOW (indirect method)

	Note	*12 months period ended 31 December 2017*	*12 months period ended 31 December 2016*
A. Cash flow from operating activities			
I. Net profit (loss)		90 637	131 407
II. Adjustments, total		82 981	(35 158)
1. Depreciation	26	38 333	36 925
2. Foreign exchange gains (losses)		2 819	(2 936)
3. Interest and shares in profits (dividends)		(21 035)	(61 139)
4. Profit (loss) on investing activities	34	1 092	(263)
5. Change in provisions	34	232 733	254 761
6. Change in inventories	34	12 298	50 241
7. Change in receivables	34	(1 033)	14 861
8. Change in short-term liabilities, except for loans and borrowings		(44 319)	(24 231)
9. Change in prepayments, accruals and deferred income		1 111	(2 682)
10. Other adjustments	34	(139 018)	(300 695)
III. Net cash flow from operating activities (I±II)		**173 618**	**96 249**
B. Cash flow from investing activities		-	-
I. Inflows		53 806	108 710
1. Sale of intangible assets and tangible fixed assets		56	1 613
2. Sale of investments in property and intangible assets		-	-
3. From financial assets, including:		53 750	107 097
a) in affiliates		53 550	107 041
b) in others		200	56
– disposal of financial assets		-	-
– dividends and share in profits		200	56
– repayment of long-term loans granted		-	-
– interests		-	-
– other inflows from financial assets		-	-
4. Other investing inflows		-	-
II. Outflows		19 803	85 608
1. Purchase of intangible assets and tangible fixed assets		10 354	85 608
2. Investments in property and intangible assets		-	-
3. For financial assets, including:		9 449	-
a) in affiliates		9 449	-
b) in others		-	-
– purchase of financial assets		-	-
– long-term loans granted		-	-
4. Other investing outflows		-	-
III. Net cash flow from investing activities (I-II)		**34 003**	**23 102**
C. Cash flow from financing activities		-	-
I. Inflows		-	-
1. Net inflows from issue of shares, issue of other capital instruments and additional payments to capital		-	-
2. Loans and credits		-	-
3. Issue of debt securities		-	-
4. Other financial inflows		-	-
II. Outflows		229 788	132 824
1. Reacquisition of own shares		-	-
2. Dividends and other payments to shareholders		65 562	-
3. Outflows due to appropriation of profit other than payments to shareholders		-	-
4. Repayment of loans and credits		148 543	111 877
5. Redemption of debt securities		-	-
6. Relating to other financial liabilities		-	-
7. Finance lease payments		142	130
8. Interest paid		15 541	20 757
9. Other financial outflows			60
III. Net cash flow from financial activities (I-II)		**(229 788)**	**(132 824)**

(in thousand PLN)

D. Total net cash flow (A.III±B.III±C.III)		**(22 167)**	**(13 473)**
E. Balance sheet change in cash and cash equivalents,, including:		(22 252)	(13 388)
– change in cash and cash equivalents due to foreign exchange gains/losses		(85)	85
F. Cash and cash equivalents at the beginning of the period	33	**169 516**	**182 989**
G. Cash and cash equivalents at the end of the period (F±D), including	33	**147 349**	**169 516**
– of restricted use		3 533	4 524

Konin, 19 April 2018

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President of the Board	*Vice President of the Board*	*Vice President of the Board*	*Vice President of the Board*	*Chief Accountant*

(in thousand PLN)

STATEMENT OF CHANGES IN EQUITY

	Note	*12 months period ended 31 December 2017*	*12 months period ended 31 December 2016*
I. Equity at the beginning of the period (OB)		**1 491 837**	**1 360 431**
– changes in accounting policy		-	-
– correction of prior period error		-	-
I.a. Equity at the beginning of the period (OB), after adjustments		**1 491 837**	**1 360 431**
1. Share capital at the beginning of the period		101 647	101 647
1.1. Changes in share capital		-	-
a) increases		-	-
b) decreases		-	-
1.2. Share capital at the end of the period		**101 647**	**101 647**
2. Reserve capital at the beginning of the period		1 028 647	2 542 060
2.1. Changes in reserve capital		-	-
a) increases		65 846	33
– issue of shares		-	-
– profit distribution		65 845	-
– disposal of fixed assets		1	33
b) decreases		-	1 513 446
– redemption of shares		-	-
– cover of loss		-	1 513 446
2.2. Reserve capital at the end of the period		**1 094 493**	**1 028 647**
3. Capital from revaluation at the beginning of the period – changes of accountancy policies		227 498	227 531
3.1. Changes of capital from revaluation		-	-
a) increases		-	-
b) decreases		1	33
– disposal of fixed assets		1	33
3.2. Capital from revaluation at the end of the period		**227 497**	**227 498**
4. Other reserves at the beginning of the period		3 472	5 877
4.1. Changes in other reserves		-	-
a) increases		-	-
b) decreases		-	2 405
– cover of loss		-	2 405
4.2. Other reserves at the end of the period		**3 472**	**3 472**
5. Profit (loss) from previous years at the beginning of the period		131 407	(1 516 684)
5.1. Profit from previous years at the beginning of the period		131 407	-
– changes of accountancy rules		-	-
– error adjustments		-	-
5.2. Profit from previous years at the beginning of the period, after adjustments		131 407	-
a) increases		-	-
– distribution of profits from previous years		-	-
b) decreases		131 407	-
– distribution of profit for reserve capital	12.1	65 845	-
– dividend payment	12.1	65 562	-
5.3. Profit from previous years at the end of the period		-	-
5.4. Loss from previous years at the beginning of the period		(834)	(1 516 684)
– changes of accountancy rules		-	-
– error adjustments		-	-
5.5. Loss from previous years at the beginning of the period, after adjustments		(834)	(1 516 684)
a) increases		-	-
– transfer of loss from previous years to cover		-	-
b) decreases		-	(1 515 850)
– cover of loss from reserve capital		-	(1 515 850)
5.6. Loss from previous years at the end of the period		(834)	(834)
5.7. Profit (loss) from previous years at the end of the period		**(834)**	**(834)**
6. Net result		**90 637**	**131 407**

(in thousand PLN)

a) net profit	90 637	131 407
b) net loss	-	-
c) result impairments	-	-
II. Equity at the end of the period (CB)	**1 516 912**	**1 491 837**
III. Equity after proposed result distribution (cover of loss)	**1 516 912**	**1 491 837**

Konin, 19 April 2018

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President of the Board	*Vice President of the Board*	*Vice President of the Board*	*Vice President of the Board*	*Chief Accountant*

INTRODUCTION TO THE FINANCIAL STATEMENT

1. General information about the Company

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

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

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

The Company has been established for an indefinite period.

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

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

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

2. Composition of the Management Board

On 3 March 2017, by the resolution of the Supervisory Board of the Company, Mr. Adam Kłapszta, who had previously held the position of the Vice President of the Management Board acting as the President of the Management Board, was appointed as the President of the Company's Management Board. The resolution on the appointment of the function of the President of the Company's Management Board became effective upon its adoption.

At the same time, at the meeting of the Supervisory Board on 3 March 2017, Ms. Katarzyna Sobierajska and Mr. Tomasz Zadroga submitted resignations from the positions of the Vice Presidents of the Company's Management Board as of 3 March 2017, the Company's Supervisory Board also appointed Ms. Elżbieta Niebisz to the position of the Vice President of the Management Board. The resolution on the appointment became effective upon its adoption.

From 3 March 2017 to the date of publication of this statement, the Company's Management Board has been operating in the following composition:

- Adam Kłapszta – President of the Company's Management Board,
- Aneta Lato-Żuchowska – Vice President of the Management Board,
- Zygmunt Artwik – Vice President of the Management Board,
- Elżbieta Niebisz – Vice President of the Management Board.

3. Determination and clarification of differences in the disclosed data and significant differences regarding the adopted accounting principles (policy) between the statement and the comparable data as well as the statement and the comparable data developed according to the IAS

The Company is the parent company of the Capital Group, which is obliged to develop a consolidated financial statement in accordance with IFRS standards approved by the EU ("IFRS"). The Company did not prepare and does not prepare an individual financial statement in accordance with IFRS.

The main potential differences between the IFRS and the AoA developed with the assumption of using the IFRS based on the IFRS 1 guidelines and adoption of the financial data resulting from the consolidated financial statement of the ZE PAK SA Group are presented below. The date of transition of the ZE PAK SA Group to the IFRS is 1 January 2009.

If the financial statement was developed in accordance with the IFRS, the main differences between the accounting principles adopted for the enclosed statement and the IFRS, with the assumption that the date of transition to the IFRS is 1 January 2009:

Tangible fixed assets

a) Valuation of the tangible fixed assets

According to the IFRS 1, as of the date of the first application of the IFRS, the body can make a fair value quotation of the fixed assets and recognise their fair value as the assumed cost at this date. The Company established the assumed cost of the selected tangible fixed assets by assignment of the fair value of these assets as of 1 January 2009, i.e. the assumed date of transition to the application of the IFRS.

b) Allotment of renovation components

The International Financial Reporting Standards project the allotment within the scope of fixed assets of components, provided that their use period differs from the use period of a given fixed asset. The components are depreciated during their usability period. According to the IFRS, the specific component consists of renovations and periodical inspections. In relation to the above, the Company has allotted components of values planned to be transferred to the renovation costs, as well as depreciation of the components in the period until the projected commencement of the next renovation. The recognition of this adjustment also resulted in the need to charge the deferred tax.

c) Valuation of land and perpetual usufruct

According to the AoA, the perpetual usufruct of land is subject to depreciation, and the depreciation write-downs are recognised in the income statement in the prime cost item.

For the purpose of the IFRS, due to the unspecified period of economic use of the perpetual usufruct of land, the Company would eliminate the recognised depreciation write-downs.

d) Capitalisation of external financing costs

According to the AoA, the Company recognised in the capital work in progress all the costs of servicing liabilities incurred in order to finance them along with the exchange rate differences that took place.

For the purpose of the IFRS, the Company would make an adjustment of the capitalised exchange rate differences on the liabilities incurred in foreign currencies, consisting in the adaptation of the value of these exchange rate differences to the value, in which they comprise the adjustment of the interest costs.

Furthermore, the Company would execute the capitalisation of external financing costs on the liabilities of general nature, used for the financing of capital work in progress.

Due to the above fact, in the financial statement developed according to the IFRS, the Company would capitalise the external financing costs in the value not higher than the financing costs, which would occur if the liabilities were incurred in the functional currency, i.e. PLN.

The areas of differences between the AoA and the IFRS described below were identified during the process of development of the Group's consolidated financial statement according to the IFRS and do not include the potential adjustments of the IFRS in relation to transactions with affiliated entities, which were eliminated in the scope of the Group's financial statement.

The International Accounting Standards Board (IASB) introduced many changes into the current accounting principles and issued new standards. New standards and changes to the current standards are still in the works. Furthermore, these standards are subject to the approval process by the EU. In relation to the above, it is possible that the standards, according to which the Company will develop its first financial statement compliant with the IFRS, which can include data from the past years, will differ from the standards used for the development of the below explanatory note describing the differences between the IFRS and the Polish accounting standards.

Furthermore, only a complete financial statement embracing the statement on the financial position, total income statement, statement of changes in the equity, as well as the cash flow statement, and the comparative data and explanatory notes can present the full and reliable view of the Company's financial position, the results of its activities and cash flows in accordance with the IFRS.

The presentation of some of the items in the financial statements according to the Polish accounting standards and the IFRS can differ. The differences in the presentation will not affect the equity and the Company's net result.

The components of particular items in the financial statement, as well as the scope of additional information to the financial statement compliant with the Polish accounting standards and the IFRS can differ substantially.

The following table presents the differences as of 31 December 2017:

(in thousand PLN)

	Balance sheet value Acc. to AoA	*Balance sheet value Acc. to IFRS*	*Value adjustment*
Tangible fixed assets	647 027	652 131	5 104
Equity	1 516 912	1 460 614	(56 298)
Deferred tax provision	79 212	140 575	61 363

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

	31 December 2017
AoA net profit	90 637
Adjustment of the tangible fixed assets	2 509
IAS 19 adjustment – Actuarial profits/losses	(884)

	31 December 2017
AoA capital	1 516 912
Adjustment of the tangible fixed assets	(56 298)
IAS 19 adjustment – Actuarial profits/losses	(884)

4. Assumption of continuation of economic activity

The financial statement was developed with the assumption of continuing business activity by the Company in the near future, at least 12 months after the balance sheet date, i.e. after 31 December 2017.

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

5. Merger of commercial companies

In the reporting period, for which the financial statements were developed, there was no merger with entity and no acquisition of organized part of the other company.

6. Accepted principles (policy) of accounting

The company operates based on the following legal acts:

1. The Accounting Act of September 29, 1994 (unified text Journal of Laws of 2017, item 2342, as amended) - hereinafter referred to as "AoA", "Act"),
2. The Act of 15 February 1992 on Corporate Income Tax (Journal of Laws of 2017, item 2343, as amended),
3. Ordinance of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and the conditions for obtaining information required by the law of a non-member state as equivalent (consolidated text Journal of Laws of 2014, item 133, as amended)
4. Act of 29 July 2005 on public offer and conditions for introducing financial instruments to organized trading system and on public companies (consolidated text, Journal of Laws of 2016, item 1639), as amended.

The company introduced the following regulations for use in the field of valuation of assets and liabilities:

1. Regulation No. 35/2003 of the President of the Management Board of ZE PAK SA in Konin of July 1, 2003 regarding the economy tangible fixed assets,
2. Regulation No. 34/2003 of the President of the Management Board of ZE PAK SA in Konin of 1 July 2003 regarding the Company Account Plan for ZE PAK SA.

The financial statements were prepared in accordance with the historical cost convention, which was modified in the case of the following issues:

- Intangible assets,
- Tangible assets,
- investments in subsidiary entities and other long-term investments,
- other short-term investments (excluding cash and financial assets),
- financial instruments

The Company uses the following methods for the valuation of assets and liabilities and the measurement of the financial result:

Tangible fixed assets

The initial value of fixed assets is recognized in the accounting books according to the purchase prices or costs incurred for their creation, expansion, or modernization. After the initial recognition, the value of the fixed assets is reduced by redemption and write-downs resulting from permanent loss in value.

When keeping accounts for auxiliary (analytical) accounts of tangible fixed assets in accordance with Art. 17 sec. 1 point 1 of the Act, the principles resulting from Regulation No. 35/2003 of the President of the Management Board - General Director of ZE PAK SA of July 1, 2003 regarding economy of tangible fixed assets in ZE PAK SA are applied, and so:

- Items of a value up to PLN 500 are considered to materials.
- For fixed assets of a value of PLN 500 - 3,500, depreciation writes-downs made once in the month of putting into service was established; in accordance with article 16f p. 3 of the Act on corporate income tax.
- Fixed assets of a value of over PLN 3,500 purchased before 1 January 1997, are depreciated with the straight line method, while fixed assets purchased after 1 January 1997, in accordance with the decision of the Board of the ZE PAK S.A., are depreciated with the declining balance method. The declining balance method applied until the end of 1999. Since 1 January 2000, all newly purchased fixed assets have been depreciated with the straight line method.
- Re-estimation takes place on the basis of separate provisions. The re-estimation result is transferred onto the capital from revaluation. After the sale or liquidation of the fixed asset, the amount remaining in the capital from the revaluation is transferred onto the supplementary capital. The last re-estimation took place on 1 January 1995.
- Since 1 January 2000, for tax purposes, for all newly purchased fixed assets, depreciation rates set forth in the annex to the act of 15 February 1992 on corporate income tax as amended have been adopted. In relation to the fixed assets purchased and entered in the records before 1 January 2000, the rates arising from the resolution of the Minister of Finance of 17 January 1997 on the depreciation of fixed assets and intangible assets are applied.
- The necessity of calculated depreciation adjustment in case of the items' price is higher than PLN 3,500 and the planned period of use is shorter than one year was taken into account. In practice, they will be used longer than 1 year.
- Computers and computer sets are depreciated with the straight line method with the ability of application of the increasing ratio, in accordance with article 16i point 3 of the act on corporate income tax act.
- Since January 2001, the rules of balance sheet depreciation of the fixed assets that were subject to evaluation during the privatisation of the Company have been changed. Since 1 January 2001, the fixed assets have been depreciated with the straight line method, in accordance with the expected period of economic use.
- Estimates concerning the period of economic use and the depreciation method are subject to a review at the end of each financial year in order to verify, whether the used methods and the depreciation period are consistent with the expected term structure of economic benefits provided by this fixed asset.
- Fixed assets under construction are valued at least at the balance sheet date, in the amount of total costs in a direct relationship of their purchase or production, lessened by write-downs resulting from permanent loss in value. Within the capital work in progress, investment materials are recognised as well. The capital work in progress is not depreciated until they are completed and put into service.
- External financing costs of the construction, adjustment, assembly, or improvements of fixed assets or intangible assets, for a period of construction, adjustment, assembly, or improvement, are recognised in the value of these assets if these liabilities were incurred for this purpose. Other external financing costs are recognised in an income statement.
- The act, before amendments, assumed an off balance sheet registers of the perpetual usufruct of land. The amended act includes the perpetual usufruct of land in the fixed assets. Pursuant to Art. 2 point 1 of the Act of 29 September 1990 on the amendment of the Act on Land Management and Dispossession (Journal of Laws No. 79, item. 464), the land owned by the State Treasury or a commune that, on 5 December 1990, was managed by state legal persons other than the State Treasury or municipal legal persons became the subject of the perpetual usufruct this day by operation of law. The perpetual usufruct of land acquired in this way was not included in the books, but it is recognised off-balance sheet.
- Pursuant to the Act on accounting, the Company carries out an inventory of the fixed assets every four years. The last inventory of the fixed assets took place in 2010.
- As of the balance sheet date, the Company assesses every time whether the balance sheet value of the recognised assets does not exceed the value of the expected future economic benefits. If there is an indication of such a situation, the balance sheet value of the assets is reduced to net sale price. Write-downs resulting from permanent loss in value are recognised in other operating costs. Write-downs resulting from permanent loss in value concerning the fixed assets, which were re-evaluated on the basis of separate regulations, reduce

the differences transferred onto the capital from revaluation, which were caused by revaluation. Possible excess of the write-down over the differences from revaluation is classified as other operating costs.

Intangible assets

Intangible assets are recognized if it is plausible that, in the future, they will cause inflow of economic benefits to the Company that can be directly associated with these assets. The initial recognition of the intangible assets' value takes place according to purchase prices or production cost. After the initial recognition, the intangible assets are valued according to purchase prices or production cost reduced by redemption and write-downs resulting from permanent loss in value. The intangible assets are depreciated with the straight line method in the period corresponding to the estimated period of their economic use. The expected period of economic use is as follows:

- licenses - 5 years,
- software licenses - 2 years,
- other intangible assets - 5 years.

The intangible assets of an initial value of less than PLN 3,500 are depreciated once in the month of putting into service.

Estimates concerning the period of economic use and the depreciation method are subject to a review at the end of each financial year in order to verify, whether the used methods and the depreciation period are consistent with the expected term structure of economic benefits provided by given intangible assets.

As of the balance sheet date, the Company assesses every time whether the balance sheet value of the recognised assets does not exceed the value of the expected future economic benefits. If there is an indication of such a situation, the balance sheet value of the assets is reduced to net sale price. Write-downs resulting from permanent loss in value are recognised in other operating costs.

Long-term receivables

The long-term receivables include, among others:

- receivables due to paid security deposits (e.g. within lease agreements),
- receivables from entities, with whom a bank conciliation or an arrangement was concluded.

The long-term receivables, as well as other receivables, are valued in accordance with Art. 28 of the Act on accounting during the year, which on the day of purchase or creation – according to the face value and as of the balance sheet date – in the amount of required payment, with caution, reduced by the impairment write-downs made in justified cases.

Long-term investments

The long-term investments are property resources controlled by the entity, which will cause inflow of economic benefits to the entity in the future. The investments may be non-financial assets and, then, occur as:

- real estate,
- intangible assets,

or they may be financial assets and, then, occur as:

- shares,
- capital contributions in subsidiaries,
- other securities (long-term bills, government bonds, etc.),
- granted long-term loans,
- other long-term assets (bills of exchange, payable orders, deposits, commercial papers).

As of the balance sheet date, the long-term investments are valued according to purchase price reduced by write-downs resulting from permanent loss in value.

The investments in the subsidiaries that are controlled entities, co-subsidiaries, and associated party entities are valued according to the historical expense reduced by possible loss in value.

Commercial papers not quoted on the market are valued as of the balance sheet date with the straight line method, i.e. in the purchase price enlarged by an appropriate part of the discount, falling on the period until the balance sheet date, taking into account the possible loss in value.

Short-term investments (excluding cash and financial instruments)

The short-term investments, excluding cash and financial instruments, are valued according to the market price (value), and the short-term investments, for which there is no active market, in other way of a determined fair value.

The effects of increase or decrease in the value of the short-term investments valued according to the market price (value) are classified respectively as financial expense or income.

Financial assets

Financial assets, at the time of entry into the books of accounting, are valued according to the cost (purchase price), which is the fair value of the payment. Transaction costs are recognised in the initial value of these financial instruments. Financial assets are entered into the books of accounting on the transaction date.

After initial recognition, financial assets are classified into one of four categories and valued in the following way:

	Category	*Valuation method*
1.	Financial assets maintained to the maturity date	According to the adjusted purchase price (depreciated cost) determined with the effective interest method
2.	Granted loans and receivables	According to the adjusted purchase price (depreciated cost) determined with the effective interest method. Receivables of a short maturity date, for which no interest rate was determined, valued according to the required payment
3.	Financial assets destined for trade	According to the fair value, and profits/losses due to revaluation are recognised in the income statement
4.	Available-for-sale financial assets	According to the fair value and profits/losses due to revaluation are recognised in the income statement until the investment sale or reduction of its value. At this moment, the total profit or loss due to revaluation is transferred to the income statement

The fair value of financial instruments traded on the active market is determined in relation to the prices quoted on this market as of the balance sheet date. In case of the lack of a quoted market price, the fair value is estimated on the basis of the quoted market price of a similar instrument, or on the basis of expected cash flows.

Permanent loss in value of financial assets

As of each balance sheet date, the Company assesses whether there is objective evidence of permanent loss in value of a component or a group of financial assets. If such evidence exists, the Company estimates the estimated, possible to recover value of the component of assets and makes an impairment write down resulting from the loss in value, in the amount equal to the difference between the value possible to recover and the balance sheet value. Impairment write-downs against the value of a financial asset component or a portfolio of similar financial assets are determined:

- in case of financial assets valued at the depreciated purchase cost – as the difference between the value of these assets resulting from the books of accounting as of the valuation date and the amount possible to recover. The amount possible to recover is the present value of the future cash flows expected by the entity, discounted with the effective interest rate previously used by the entity, valuing revalued financial assets' component or a portfolio of similar financial assets' components,
- in case of the financial assets valued at the fair value – as the difference between the purchase price of an assets' component and its fair value determined as of the valuation date. However, the fair value of debt financial instruments as of the valuation date is understood as the present value of expected future cash flows expected by the entity, discounted with a current market interest rate used for similar financial instruments. The loss cumulated to this day recognised in the capital (fund) from revaluation is classified as finance costs in the amount not lesser than the one indicated in the write-down reduced by the part directly classified as financial costs,
- in case of other financial assets – as the difference between the value of the assets' component resulting from the books of accounting and the present value of future cash flows expected by the entity, discounted with the current market interest rate used for similar financial instruments.

Lease

The Company is a party of lease agreements, under which it conveys in return for payment to use or taking profits, the foreign fixed assets or intangible assets for an agreed period.

In case of lease agreements, under which there is transfer of, substantially, all the risks and profits resulting from ownership of assets covered by the agreement, the leased assets are recognized as the fixed asset. At the same time, a liability in the amount equal to the current value of minimum lease payments, determined as of the inception the lease date. Lease payments are divided between the financial costs and reduction of balance of the liability in a way allowing obtaining a constant interest rate on the remaining unpaid liability. Financing costs are recognised directly in the income statement.

The fixed assets subject to a financial lease agreement are depreciated in the way specified for own fixed assets. However, if there is uncertainty as transfer of property rights for the subject of the agreement, the fixed assets used under financial lease agreements are then depreciated for the shorter of the two periods: the expected period of use or the lease term. Lease payments under the agreements, which do not meet the conditions of a financial lease agreement, are recognized as costs in the income statement with the straight line methods for the lease term.

If a sale and sale-and-lease-back is a financial lease, then that part of the amount of sales revenue, which exceeds the value recognised in the balance sheet, is deferred in time and depreciated during the period of the lease agreement. If a sale and sale-and-lease-back are operating lease and if the transaction was concluded at prices corresponding to the fair value, any profits and losses arising resulting from that are recognised in the income statement. If the sale price is lower than the fair value, profits and losses resulting from that are recognised in the income statement, except for compensation of the loss with the future lease payments lower than market prices. In such a situation, the loss is deferred in time and settlement in proportion to the lease payments for the period of the expected use of the assets' component. If the sale price exceeds the fair value, the amount exceeding the fair value is deferred in time and settled in revenues for a period of the expected use of the assets' component.

Short- and long-term receivables

Trade receivables are recognised in the required amount reduced by impairment write-downs. The receivables value is adjusted taking into account the probability of their payment with the impairment write down. The impairment write-downs are classified respectively as other operating costs or financial costs – depending on the type of receivable subject to the impairment write-down. The redeemed, expired, or non-collectible receivables reduce previously made impairment write-downs against their value. The redeemed, expired, or non-collectible receivables, for which no impairment write-downs against their value were made, or the write-downs were not made in full, are classified as other operating costs or financial costs.

Inventory

Inventory is valued at the lower of the two values: the purchase price (or production cost) and the net sale price. The particular components of the inventory are valued in the following way:
- production fuel – weighted average method,
- spare parts and other materials – weighted average method.

The net sale price is a sale price possible to achieve as of the balance sheet date without the tax on goods and services and the excise tax, reduced by rebates, discounts, etc. and the costs related to accommodation of the component for sale and making this sale.

The Company makes the impairment write-downs against possessed inventories. The impairment write-downs against inventories increase other operating costs.

In the Company, the constant inventory procedure is applied for material stocks. Because the inventory is located in the guarded area and is in a continuous quantity/quality register, each material item must be counted at least once every two years.

The last inventory of the production fuel took place according to the status as of 31 December 2017.

Certificates of origin of energy acquired free of charge due to the energy production from renewable energy sources, gas, and peak load co-generation are presented according to the fair value on the day, when their granting became certain.

Assets components internally generated

The cost of internal generation of assets includes costs remaining within the direct relationship with a given product and the justified part of costs related indirectly to their production.

Direct costs include:
- the value of used direct materials,
- direct payments,
- wearing out of specialist tools,

(in thousand PLN)

• other costs incurred in relation to bring the product to the form and place, in which it is on the day of valuation.other costs incurred in bringing the product to the form and location in which it is on the day of the valuation.

A reasonable, appropriate to the period of manufacture of the product part of the indirect costs includes variable indirect production costs corresponding to the level of these costs at the normal use of production capacities. The normal level of production capacities use is the average, in line with expectations in typical conditions production volume for a given number of periods, taking into account the scheduled overhauls.

Production costs, which are the basis of assets valuation, do not include general overheads, sale costs, other operating costs, and financial costs of financial operations. The transfer of generation costs to the assets of ZE PAK S.A. takes place no later than on the balance sheet date.

Equities

In the Company, there are the following capitals, which, in the balance sheet, are shown according to the face value, namely:
1. Share capital,
2. Supplementary capital,
3. Capital from revaluation,
4. Other reserve capitals.

The share capital is shown in the amount complying with the Company's Articles of Association and the entry into the National Court Register.

The supplementary capital is created from the profit division, an excess from the sale of shares over their nominal value, from the transfer from the Staff Fund, and from the transfer from the reserve capital from revaluation.

Special funds

The Company has the following special funds:

- Social Benefits Fund (ZFŚS),
- Staff Fund.

The Act of 4 March 1994 on the Company Social Benefits Fund (unified text Journal of Laws of 2017 item 2191, as amended) constitutes that the Company Social Benefits Fund is made up of employers employing at least 50 full-time employees. The company creates such a fund and makes periodic write-offs to the amount agreed with the Trade Unions. In accordance with the agreement signed with the Trade Unions, the Company administers the Inter-Enterprise Social Benefits Fund of the Company and its subsidiaries. The balance of the Fund is the accumulated revenues of the Fund reduced by non-recoverable expenses from the Fund. The Company shows separately the balance of the Fund and the Fund's assets in the balance sheet.

Assets and liabilities denominated in foreign currencies

As at December 31, 2017, assets and liabilities denominated in currencies other than PLN are converted into PLN using the average NBP exchange rate as at the balance sheet date. Foreign exchange rates resulting from the conversion are recognized respectively in the financial revenues (costs) or, in cases specified by law, capitalized in the value of assets.

The following rates have been accepted for the purposes of the valuation:

	31 December 2017	*31 December 2016*
EUR	4.1709	4.4240
USD	3.4813	4.1793

Exchange rates

Exchange rates regarding settlements denominated in foreign currencies, created as at the date of their valuation and when paying receivables and liabilities in foreign currencies, are included respectively in financial revenues or costs, and in justified cases - to the cost of products or the purchase price of goods, as well as the purchase price or the cost of producing fixed assets, fixed assets under construction or intangible assets. In the income statement, exchange rates are recognized after offsetting.

Cash accumulated on bank accounts

Domestic cash is shown at nominal value. Cash funds accumulated on bank accounts are confirmed on the basis of bank confirmation of balances. The cash position shown in the cash flow statement consists of cash in hand and bank deposits with a maturity of no more than 3 months, which were not treated as investment activities.

Confirmation of balances

Confirmation of receivables and loans granted as at the balance sheet date is based on sending to all counterparties written information about the balance and their confirmation by contractors.

No written confirmation is required in case of balances referred to in art. 21, paragraph 1, point 3 of the Act, among others:

- disputable and doubtful receivables,
- receivables and liabilities towards employees,
- balances due to public law liabilities and receivables,
- small balances, the amount of which does not exceed the cost of postal mail.

In accordance with the principle of materiality of the Act, if the contractors in which the receivable does not exceed 2% of the amount constituting the basis for crediting new assets to fixed assets depreciated over time, i.e. PLN 3.5 thousand, will not return the confirmation of the balance in writing, it is assumed that the balance does not raise any objections.

In accordance with the principle of materiality of the Act, if the balance of receivables does not exceed 2% of the amount constituting the basis for crediting new assets to fixed assets depreciated over time, i.e. PLN 3.5 thousand has not shown any movement for the last six months, it should be recorded in other operating costs.

Bank credits and loans

At the moment of initial recognition, bank loans and credits are recognized at the cost representing the value of cash received and including the costs of obtaining a loan / credit. Then, all bank loans and borrowings, with the exception of liabilities held for trading, are measured at adjusted purchase price (amortized cost) using the effective interest rate. Liabilities held for trading are measured at fair value. Profit or loss on revaluation to fair value is recognized in the profit and loss account for the current period.

Accruals

Loans received for financing pro-ecological investments, and then cancelled by granting subsidies, are recognized as other accrued income and settled in the income statement in subsequent periods, in proportion to the depreciation of fixed assets purchased or produced as part of financed investments.

The company makes accrued expenses to allocate costs related to the period to a given period. Prepayments include expenses relating to periods later than the period in which they were incurred, including insurance costs, subscriptions, bill of exchange discount.

Pre-paid accruals also include a part of the estimated costs of future reclamation of ash landfills used by the Company. These costs are included in the discounted value and relate to the expenditure that the Company will have to incur to complete the ash storage.

In addition, prepaid expenses consist of the amount of the provision created for the liquidation of the Company's assets to be settled.

Passive prepayments include the value of certificates of origin of energy generated in renewable energy sources, in combination with thermal energy, in cogeneration using natural gas and certificates resulting from energy efficiency, which the entity is obliged to redeem in connection with the delivery of electricity to final customers. The provision for the obligation to submit for certificates of origin of energy produced in renewable energy sources or in highly efficient cogeneration and energy efficiency is included:

- in the part covered with certificates of origin held as at the balance sheet date - in the value of certificates held,
- in the part not covered by the certificates of origin as at the balance sheet date - at the lower value of the market value of the certificates necessary to meet the obligation as at the balance sheet day and possible replacement fee.

Accruals include contractual penalties, compensation from the insurance company, interest increasing the principal amount, negative goodwill and subsidies received for the production of fixed assets.

In the item of accruals, the Company also presents deferred income related to the settlement of results on leaseback.

Provisions

Provisions are recognized when the Company has an existing obligation (legal or customary) resulting from past events and when it is certain or highly probable that fulfilment of this obligation will result in the necessity of outflow of resources, and when it is possible to reliably estimate the amount of such liability. Provisions for property decommissioning costs are included in the amount of forecasted liquidation costs in the current value of these costs. These provisions are recognized second-to-side as accrued expenses and settled over time for the remaining period of operation of the equipment designated for liquidation. In the case of devices excluded from traffic, the provisions for the costs of their liquidation are created in the burden of other operating costs. In the reserve position, the Company also recognizes a provision for future costs of land reclamation, on which the Company collects waste.

The reserve for the dismantling of the property of Adamów Power Plant is not created due to the lack of legal obligation. The integrated permit received by Adamów Power Plant for conducting operations does not contain a clause on the obligation to liquidate assets, and therefore no provision has been created.

Inventory system

Inventory of the assets of the Company is carried out in accordance with art. 26 and art. 27 of the Accounting Act. Every year, a separate Annual inventory plan is established in a separate Order of the President of ZE PAK SA.

Impairment of assets

At each balance sheet date, the Company assesses whether there is objective evidence indicating a permanent impairment of an asset or group of assets. If such evidence exists, the Company determines the estimated recoverable amount of the asset and makes an impairment loss, in an amount equal to the difference between the recoverable amount and the carrying amount. The loss resulting from impairment is recognized in the profit and loss account for the current period. In the event that an overestimation of assets was made before, the loss reduces the amount of revaluation capital and is then recognized in the profit and loss account for the current period.

Revenues from the sale of goods, products and services, interest and dividends

Revenues from sales include amounts due or received from the sale of goods and services (reduced by refunds, rebates and discounts). Sales revenues are shown in net value, i.e. decreased by VAT due. Revenues from the sale of purchased electricity are recognized as revenues from the sale of goods. The value of revenues from sales of purchased electricity is recognized according to the average price of bilateral contracts.

Revenues from the sale of products also include revenues from the sale of green and red certificates. At the time of production, certificates of origin intended for sale are recognized in sales revenues, therefore, in order to prevent inflating revenues at the time of their sale, the cost of selling certificates is recognized as an adjustment to sales revenues.

Interest income is recognized at the time of accrual (using the effective interest rate), if their receipt is unquestionable.

Dividends due are classified as financial revenues as at the date of adoption of a resolution on profit distribution by the competent authority of the relevant company, unless a different date for the right to dividend is specified in the resolution.

Operational costs

The company keeps a cost record in a generic and calculation format and prepares a calculative profit and loss account.

General production costs

The general production costs are settled statistically for sold electricity and heat and other works and services in proportion to direct wages charged to energy sold, other works and services.

Corporate Income Tax

The basis for calculating income tax is gross profit adjusted for permanent and temporary differences between income determined for tax purposes and balance sheet financial result. Transitional income tax differences are recognized in the balance sheet as provisions for deferred income tax (positive difference) or are included in active accruals (negative differences).

Deferred Income Tax

Deferred income tax is determined using the balance sheet liability method in relation to all temporary differences existing as at the balance sheet date between the tax value of assets and liabilities and their balance sheet value shown in the financial statements. Provision for deferred income tax is created in relation to all positive temporary differences, unless the provision for deferred income tax arises as a result of amortization of goodwill or initial recognition of an asset or liability in a transaction that is not a business combination, and at the time it is concluded it has no effect either on the gross financial result or on taxable income or tax loss.

The deferred tax asset is recognized in relation to all negative temporary differences and unused tax losses carried forward to the following years, in the amount in which it is probable that taxable income will be achieved, which will allow to use the above mentioned differences and losses.

In case of negative temporary differences due to shares in subsidiaries or affiliates and shares in jointly controlled entities, the deferred income tax asset is recognized in the balance sheet only in the amount in which it is probable that in the foreseeable future the above-mentioned temporary differences will be reversed and taxable income will be generated that will allow deduction of negative temporary differences.

The carrying value of a deferred tax asset is verified as at each balance sheet date and is subject to a corresponding reduction in so far as it has ceased to be probable that taxable income will be sufficient to partially or fully realize the deferred tax asset.

Deferred income tax assets and reserves for deferred income tax are valued using tax rates, which, according to the regulations enacted by the balance sheet date, will apply in the period when the asset will be realized or the provision will be terminated. Deferred tax assets and provisions for deferred tax are presented in the balance sheet at their value after offsetting.

Uncertainty related to tax settlements

Regulations regarding value added tax, corporate income tax and social security burdens are subject to frequent changes. These frequent changes result in the lack of appropriate benchmarks, inconsistent interpretations and few established precedents that could be applicable. The binding provisions also contain ambiguities that cause differences in opinions as to the legal interpretation of tax regulations, both between state authorities as well as state authorities and enterprises.

Tax settlements and other areas of activity (for example, customs or currency issues) may be subject to control by authorities that are entitled to impose high penalties and fines, and any additional tax liabilities resulting from control must be paid together with high interest. These conditions mean that the tax risk in Poland is higher than in countries with a more mature tax system.

As a consequence, the amounts presented and disclosed in the financial statements may change in the future as a result of the final decision of the tax control authority.

As of 15 July 2016, amendments to the Tax Code were introduced to take into account the provisions of the General Anti-Abuse Regulation (GAAR). GAAR is to prevent the creation and use of artificial legal structures created to avoid payment of tax in Poland. GAAR defines tax avoidance as an act performed primarily to obtain a tax advantage that is contrary to the circumstances under consideration with the subject and purpose of the tax act. According to GAAR, such an activity does not result in a tax advantage if the method of operation was artificial. Any occurrence of (i) unjustified dividing of operations, (ii) involving intermediary entities in the absence of economic or financial justification, (iii) mutually eliminating or compensating elements, and (iv) other activities with a similar effect to those previously mentioned may be treated as a prerequisite for the existence of artificial activities subject to the GAAR provisions. The new regulations will require much greater judgment in assessing the tax consequences of individual transactions.

The GAAR clause should be applied to transactions made after its entry into force and to transactions that were carried out prior to the entry into force of the GAAR clause, but for which, after the date of entry into force, the benefits were or are still being achieved. The implementation of the aforementioned provisions will enable the Polish tax inspection authorities to question the legal arrangements and arrangements made by legal taxpayers, such as the restructuring and reorganizing of the group.

The Company recognizes and measures assets and liabilities due to current and deferred income tax when applying AoA requirements. Income tax based on profit (tax loss), tax base, unsettled tax losses, unused tax credits and tax rates, including uncertainty assessments related to tax settlements.

When there is uncertainty as to whether and to what extent the tax authority will accept individual tax settlements of the transaction, the Company recognizes these settlements taking into account the uncertainty assessment.

Provision for leaves, retirement benefits and post-death benefits

The employees of the Company are entitled to holiday leaves defined in the provisions of the Labour Code. The company creates provisions at the expense of unused holidays, which the employees have acquired until the balance sheet date.

According to the company's remuneration system, employees are entitled to retirement bonuses at the time of retirement and post-mortem benefits. The reserve for severance pay that will be paid in the future is created on the basis of independent actuarial calculations.

CO_2 allowances

Emission allowances and their equivalents purchased by the Company for its own needs are disclosed as intangible assets. These rights are valued at the purchase price.

The reserve for liabilities related to the deficit of CO2 emission rights is created by the Company in the period in which the actual emission exceeds the allocated rights. The cost of the created provision is presented in the income statement in the cost of sales.

The provision is created:

- in the part covered by allowances held as at the balance sheet date - in the value of held allowances, i.e. purchased at the balance sheet value, received at zero value,
- in the part not covered by allowances held as at the balance sheet date - at the lower value of the market value of the rights necessary to meet the obligation as at the balance sheet date and possible penalty.

Konin, 19 April 2018

Adam Kłapszta	*Aneta Lato-Żuchowska*	*Zygmunt Artwik*	*Elżbieta Niebisz*	*Aneta Desecka*
President of the Board	*Vice President of the Board*	*Vice President of the Board*	*Vice President of the Board*	*Chief Accountant*

ADDITIONAL INFORMATION AND CLARIFICATION TO THE FINANCIAL STATEMENT

1. Information on significant events concerning previous years recognized in the financial statements for the financial year

Until the day of preparing the financial statements for the financial year that is until 19 April 2018 there were no events regarding previous years, which should be included in the financial statements for the financial year.

2. Information on significant events that occurred after the balance sheet date and not included in the financial statements

After the balance sheet date until the day of preparing the financial statements for the financial year, i.e. until 19 April 2018, no events occurred that should be recognized in the financial statements for the financial year.

3. Changes in accounting principles (policy) in the financial year

The financial statements for the current and previous financial year were prepared using identical accounting principles (policy) as well as the methods of data presentation in the financial statements.

4. Error adjustment

In the current financial year no adjustments were made to errors that could affect the comparability of financial data for the previous year with the data of the financial statements for the current financial year.

5. Comparability of financial data for the previous period with the report for the current period

In the current period, the Company did not change the accounting principles, therefore it was not obliged to present numerical information that would ensure comparability of data for the financial statements for the preceding year with the statement for the current financial year.

(in thousand PLN)

6. Intangible assets

12 months period ended 31 December 2017

	Research and development costs	*Goodwill*	*Concessions, patents, licenses and similar values*	*Other intangible assets*	*Advances for intangible assets*	*Total*
Initial value						
Opening balance	-	-	20 790	364 694	-	385 484
Increases, including:	-	-	-	-	-	
– Acquisition	-	-	-	79 002	-	79 002
– Other	-	-	-	-	-	-
– Transfers	-	-	771	-	-	771
Decreases, including:	-	-	-	-	-	-
– Redemption of CO2 emission rights	-	-	-	250 189	-	250 189
– Liquidation	-	-	438	-	-	438
Closing balance	**-**	**-**	**21 123**	**193 507**	**-**	**214 630**
Redemption						
Opening balance	-	-	16 071	3	-	16 074
Increase, including:	-	-	839	-	-	839
– Depreciation of a period	-	-	839	-	-	839
– Other	-	-	-	-	-	-
– Transfers	-	-	-	-	-	-
Decrease, including:	-	-	-	-	-	-
– Sale	-	-	-	-	-	-
– liquidation	-	-	438	-	-	438
Closing balance	**-**	**-**	**16 472**	**3**	**-**	**16 475**
Impairment write-downs						
Opening balance	-	-	1 278	-	-	1 278
Increases	-	-	-	-	-	-
Decreases, including:	-	-	-	-	-	-
– use	-	-	-	-	-	-
– impairment adjustment	-	-	-	-	-	-
Closing balance	**-**	**-**	**1 278**	**-**	**-**	**1 278**
Net value						
Opening balance	-	-	3 441	364 691	-	368 132
Closing balance	**-**	**-**	**3 373**	**193 504**	**-**	**196 877**

(in thousand PLN)

12 months period ended 31 December 2016

	Research and development costs	*Goodwill*	*Concessions, patents, licenses and similar values*	*Other intangible assets*	*Advances for intangible assets*	*Total*
Initial value						
Opening balance	-	-	18 859	286 230	-	305 089
Increases, including:	-	-	1 931	360 599	-	362 530
– Acquisition	-	-	-	360 599	-	-
– Other	-	-	-	-	-	-
– Transfers	-	-	1 931	-	-	1 931
Decreases, including:	-	-	-	282 135	-	282 135
– Redemption of CO2 emission rights	-	-	-	282 135	-	282 135
– Liquidation	-	-	-	-	-	-
Closing balance	**-**	**-**	**20 790**	**364 694**	**-**	**385 484**
Redemption						
Opening balance	-	-	15 228	3	-	15 231
Increase, including:	-	-	843	-	-	843
– Depreciation of a period	-	-	843	-	-	843
– Other	-	-	-	-	-	-
– Transfers	-	-	-	-	-	-
Decrease, including:	-	-	-	-	-	-
– Sale	-	-	-	-	-	-
– liquidation	-	-	-	-	-	-
Closing balance	**-**	**-**	**16 071**	**3**	**-**	**16 074**
Impairment write-downs						
Opening balance	-	-	-	-	-	-
Increases	-	-	1 278	-	-	-
Decreases, including:	-	-	-	-	-	-
– use	-	-	-	-	-	-
– impairment adjustment	-	-	-	-	-	-
Closing balance	**-**	**-**	**1 278**	**-**	**-**	**1 278**
Net value						
Opening balance	-	-	3 631	286 227	-	289 858
Closing balance	**-**	**-**	**3 441**	**364 691**	**-**	**368 132**

Ownership structure of intangible assets:

	31 December 2017	*31 December 2016*
Own	196 877	368 132
Used on the basis of a rental, lease or other contract, including lease agreements	-	-
Total	**196 877**	**368 132**

(in thousand PLN)

7. Tangible fixed assets

12 months period ended 31 December 2017

	Lands (including the right to perpetual usufruct of land)	*Buildings, premises and objects engineering land and water*	*Machines and technical equipment*	*Means of transport*	*Other fixed assets*	*Fixed assets under construction*	*Advances for fixed assets under construction*	*Total*
Initial value								
Opening balance	1 408	1 372 666	4 003 512	3 723	11 963	114 414	3 909	5 541 595
Increase, including:	-	4 642	1 325	285	296	21 857	-	28 405
– Acquisition	-	-	41	285	30	26 080	-	26 436
– Other	-	2 335	405	-	-	-	1 550	2 740
– Transfers for fixed assets	-	2 307	879	-	266	(4 223)	-	(771)
Decrease, including:	-	7	547	359	667	-	3 211	4 791
– Liquidation and sale	-	7	547	359	667	-		4 791
– Other	-	-	-	-	-	-	4 762	-
Closing balance	**1 408**	**1 377 301**	**4 004 290**	**3 649**	**11 592**	**136 271**	**698**	**5 535 209**
Redemption								
Opening balance	118	752 734	2 522 759	2 410	10 009	-	-	3 288 030
Increase, including:	4	12 847	26 641	347	396	-	-	40 235
– Depreciation of the period	4	10 512	26 236	347	396	-	-	37 495
– Other	-	2 335	405	-	-	-	-	2 740
Decrease, including:	-	7	546	282	667	-	-	1 502
– Liquidation and sale	-	7	546	282	667	-	-	1 502
– Other	-	-	-	-	-	-	-	-
Closing balance	**122**	**765 574**	**2 548 854**	**2 475**	**9 738**	**-**	**-**	**3 326 763**
Impairment write-downs								
Opening balance	-	432 546	1 053 772	459	597	73 347	-	1 560 721
Increase, including:	-	1 378	-	-	-	(1 378)	-	-
– Transfers for fixed assets	-	1 378	-	-	-	(1 378)	-	-
Decrease	-	-	-	-	-	-	-	-
Closing balance	**-**	**433 924**	**1 053 772**	**459**	**597**	**71 969**	**-**	**1 560 721**
Net value								
Opening balance	1 290	187 386	426 981	854	1 357	41 067	3 909	662 844
Closing balance	**1 286**	**177 803**	**401 664**	**715**	**1 257**	**64 302**	**698**	**647 725**

(in thousand PLN)

12 months period ended 31 December 2016

	Lands (including the right to perpetual usufruct of land)	*Buildings, premises and objects engineering land and water*	*Machines and technical equipment*	*Means of transport*	*Other fixed assets*	*Fixed assets under construction*	*Advances for fixed assets under construction*	*Total*
Initial value								
Opening balance	1 361	1 304 521	3 154 992	3 737	11 836	1 017 586	4 329	5 498 362
Increase, including:	47	68 145	848 621	2	205	(901 675)	-	15 345
– Acquisition	47	-	56	2	19	15 221	-	15 345
– Other	-	-	-	-	-	-	-	-
– Transfers for fixed assets	-	68 145	848 565	-	186	(916 896)	-	-
Decrease, including:	-	-	101	16	78	1 497	420	2 112
– Liquidation and sale	-	-	101	16	78	1 497	420	2 112
– Other	-	-	-	-	-	-	-	-
Closing balance	**1 408**	**1 372 666**	**4 003 512**	**3 723**	**11 963**	**114 414**	**3 909**	**5 511 595**
Redemption								
Opening balance	113	742 300	2 498 215	1 897	9 618	-	-	3 252 143
Increase, including:	5	10 434	24 645	529	469	-	-	36 082
– Depreciation of the period	5	10 434	24 645	529	469	-	-	36 082
– Other	-	-	-	-	-	-	-	-
Decrease, including:	-	-	101	16	78	-	-	195
– Liquidation and sale	-	-	101	16	78	-	-	195
– Other	-	-	-	-	-	-	-	-
Closing balance	**118**	**752 734**	**2 522 759**	**2 410**	**10 009**	**-**	**-**	**3 288 030**
Impairment write-downs								
Opening balance	-	383 293	447 703	459	597	729 947	-	1 561 999
Increase, including:	-	49 253	606 069	-	-	(655 322)	-	-
– Transfers for fixed assets	-	49 253	606 069	-	-	(655 322)	-	-
Decrease	-	-	-	-	-	1 278	-	1 278
Closing balance	**-**	**432 546**	**1 053 772**	**459**	**597**	**73 347**	**-**	**1 560 721**
Net value								
Opening balance	1 248	178 928	209 074	1 381	1 621	693 396	4 329	1 089 977
Closing balance	**1 290**	**187 386**	**426 981**	**854**	**1 357**	**41 067**	**3 909**	**662 844**

The value of land used perpetually as at December 31, 2017 amounted to PLN 45 510 thousand (as at December 31, 2016, this value was PLN 45 225 thousand).

Investment expenditures made by ZE PAK SA in 2017 amounted to PLN 26 080 thousand, (in 2016, PLN 15 221 thousand, respectively), including environmental protection of PLN 45 thousand (in 2016 investment outlays did not include expenditures on environmental protection).

Capital expenditures planned for 2018 amount to PLN 24 000 thousand, including environmental protection PLN 660 thousand.

Value impairment test of property fixed assets

In accordance with Article 7 paragraph 1 and Article 28 of the Act of 29 September 1994 on accountancy and the National Accounting Standard No. 4 "Value impairment of assets" at the end of every reporting period, the Company's Management Board evaluates whether there are any prerequisites indicating that there may have occurred a loss in the value of components of fixed assets. In case of statement that there are such prerequisites, the Company estimates a recoverable value of assets' components. Therefore, the Company always analyses the prerequisites that might affect a loss in the value of any of the assets' components, and determines the units generating economic benefits within the Company.

According to NAS No. 4, the units generating economic benefits are the smallest identifiable groups of assets which generate cash inflows of the current use that are largely independent of the cash inflows from other assets or groups of assets. If there are any prerequisites that a given asset may be impaired, a recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the unit generating economic benefits, to which the asset belongs.

The premises, which the Management Board took into account when assessing the need for the test, were those resulting from market conditions in the environment, in which the Company runs a business activity, out of which the most important are:

- Regulations introduced by the Power Market Act of December 8, 2017, which entered into force on January 18, 2018.
- The price of certificates of origin of energy generated in renewable sources ("green certificates") kept on a relatively low level due to oversupply of property rights of renewable energy.
- fluctuations in prices of CO_2 emission allowances (caused by the aggravating climate policy of the European Union).

While distinguishing the units generating economic benefits within the Company's assets, it was primarily important to analyse the autonomy of generated economic benefits in terms of the Company functioning.

ZE PAK S.A., apart from the manufacturing operation, within which it is responsible for ensuring a certain level of efficiency of the generating units and implementations of production schedules, is focused on significant operational and financial functions at the Capital Group level.

In carrying out the test for impairment of fixed assets, the Group based on a financial model reflecting the strategic assumptions of the parent company, ZE PAK SA.

In ZE PAK S.A., one unit generating economic benefits was determined, in which the following generation assets operate: elektrownia Pątnów I, elektrownia Konin-collector, elektrownia Konin biomass unit and elektrownia Adamów – which operated till 1 January 2018.

For each of the above units, it is possible to determine the generated economic benefits - however, these benefits are, to some extent, dependent on each other. Therefore, they had to be considered together as a single unit.

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

- Electricity prices have been adopted on the basis of developed forecasts divided into BASE, PEAK and OFFPEAK prepared for ZE PAK SA by an independent external advisor. For the nearest forecast period, prices resulting from concluded contracts were accepted,
- production assumptions result from the adopted investment and renovation programme of ZE PAK S.A.,
- the Company assumed the use of free CO_2 emission allowances in the amount resulting from Article 10a of Directive 2003/87/EC of the European Parliament and the Council of 13 October 2003,
- the costs of lignite purchased for generation were specified on the basis of the delivery schedule and prices agreed with the appropriate schedules included in the financial projections of subsidiaries,
- the effects of restructuring costs for the withdrawal of the old units in the Konin and Adamów Power Plants were taken into account

(in thousand PLN)

- the effects of labour cost optimization resulting from the implemented etatization policy were taken into account,
- revenues from the capacity market from 2021 were accepted; the assumed rates have been estimated by the Group's internal services based on available forecasts of the amount of support for the energy sector,
- the forecast of the margin on the biomass block was estimated assuming that the support mechanism will be the auctions,
- the weighted average cost of capital after taxation (WACC) in the projection period at the level of 8.25% was adopted.

The test was conducted on 31 December 2017.

On the basis of the conducted tests, no necessity of recognition of impairment write-downs against tangible fixed assets was stated.

Status as of 31 December 2017	*Tested value*	*Identified impairment value*	*Value after the conducted test*
ZE PAK SA	1 516 912	-	1 516 912

Sensitivity analysis

The changes of financial parameters underlying the evaluation of the recoverable amount would change the present value of the discounted cash flows with the amounts presented below:

Weighted average cost of capital	*(+) increase by 1.0 p.p.*	*(-) decrease by 1.0 p.p.*
	(PLN 43 million)	PLN 46 million
Changes in the revenues from sales (electricity price)	*(+) increase by 1%*	*(-) decrease by 1%.*
	PLN 54 million	(PLN 54 million)
Change in the cost of sales (price of 1 EUA)	*(+) increase by 5%*	*(-) decrease by 5%.*
	(PLN 57 million)	PLN 57 million

8. Investment projects

8.1. Long-term investments

12 months period ended 31 December 2017

	Shares and stock in affiliates	*Granted loans to affiliates*	*Other assets in affiliated companies*	*Shares and stock in other entities*	*Other assets in other entities*	*Total*
Opening balance, including:	1 139 747	47 964	-	151	-	1 187 862
Gross value	1 167 947	47 964	-	200	-	1 216 111
Impairment write-downs	(28 200)	-	-	(49)	-	(28 249)
Increase, including:	2 449	-	3 500	-	-	5 949
– Acquisition	2 449	-	-	-	-	2 449
– Values update	-	-	-	-	-	-
– Other	-	-	3 500	-	-	3 500
Decrease, including:	-	17 714	-	-	-	17 714
– Repayment	-	14 387	-	-	-	14 387
– Sale	-	-	-	-	-	-
– Values update	-	3 327	-	-	-	3 327
– Other	-	-	-	-	-	-
Closing balance, including	**1 142 196**	**30 250**	**3 500**	**151**	-	**1 176 097**
Gross value	1 170 396	30 250	3 500	200	-	1 204 346
Impairment write-downs	(28 200)	-	-	(49)	-	(28 249)

The Management Board of the Company has identified indications of impairment of shares / stock held in PAK Volt S.A and KWB Adamów S.A. and therefore tests for impairment of investments in subsidiaries were carried out, on the basis of which no impairment of these assets was identified.

(in thousand PLN)

12 months period ended 31 December 2016

	Shares and stock in affiliates	*Granted loans to affiliates*	*Other assets in affiliated companies*	*Shares and stock in other entities*	*Other assets in other entities*	*Total*
Opening balance, including:	1 143 453	61 736	-	151	-	1 205 340
Gross value	1 171 653	61 736	-	200	-	1 233 589
Impairment write-downs	(28 200)	-	-	(49)	-	(28 249)
Increase, including:	-	615	-	-	-	615
– Acquisition	-	-	-	-	-	-
– Values update	-	615	-	-	-	615
– Other	-	-	-	-	-	-
Decrease, including:	3 706	14 387	-	-	-	18 093
– Repayment	-	14 387	-	-	-	14 387
– Sale	3 706	-	-	-	-	3 706
– Values update	-	-	-	-	-	-
– Other	-	-	-	-	-	-
Closing balance, including	**1 139 747**	**47 964**	**-**	**151**	**-**	**1 187 862**
Gross value	1 167 947	47 964	-	200	-	1 216 111
Impairment write-downs	(28 200)	-	-	(49)	-	(28 249)

8.2. Short-term investments

12 months period ended 31 December 2017

	Shares and stock in affiliates	*Granted loans to affiliates*	*Other assets in affiliated companies*	*Shares and stock in other entities*	*Other assets in other entities*	*Total*
Opening balance, including:	-	16 125	-	-	296	16 421
Gross value	-	16 125	-	-	296	16 421
Impairment write-downs	-	-	-	-	-	-
Increase, including:	-	574	3 500	-	-	4 074
– Acquisition	-	574	-	-	-	574
– Values update	-	-	-	-	-	-
– Other	-	-	3 500	-	-	3 500
Decrease, including:	-	1 485	-	-	296	1 781
– Repayment	-	621	-	-	-	621
– Sale	-	-	-	-	-	-
– Values update	-	864	-	-	-	864
– Other	-	-	-	-	296	296
Closing balance, including	**-**	**15 214**	**3 500**	**-**	**-**	**18 714**
Gross value	-	15 214	3 500	-	-	18 714
Impairment write-downs	-	-	-	-	-	-

12 months period ended 31 December 2016

	Shares and stock in affiliates	*Granted loans to affiliates*	*Other assets in affiliated companies*	*Shares and stock in other entities*	*Other assets in other entities*	*Total*
Opening balance, including:	-	15 637	-	7 537	-	23 174
Gross value	-	15 637	-	7 537	-	23 174
Impairment write-downs	-	-	-	-	-	-
Increase, including:	-	1 405	-	123	296	1 824
– Acquisition	-	851	-	123	-	974
– Values update	-	554	-	-	-	554
– Other	-	-	-	-	296	296
Decrease, including:	-	917	-	7 660	-	8 577
– Repayment	-	917	-	-	-	917
– Sale	-	-	-	7 660	-	7 660
– Values update	-	-	-	-	-	-
– Other	-	-	-	-	-	-
Closing balance, including	**-**	**16 125**	**-**	**-**	**296**	**16 421**
Gross value	-	16 125	-	-	296	16 421
Impairment write-downs	-	-	-	-	-	-

(in thousand PLN)

9. Prepaid expenses

	31 December 2017	*31December 2016*
Long-term prepaid expenses		
Assets due to deferred income tax	-	-
Other, including:	551	748
– the costs of implementing the license	539	748
– other	12	-
Total (after deduction)	**551**	**748**
Short-term prepaid expenses		
Subscription	9	15
Costs of property liquidation	-	886
PPE participation fee	145	149
The costs of implementing the license	209	209
Fee for supporting IT systems	44	37
Fee for protecting the trademark	-	4
Other	127	10
Total	**534**	**1 310**

10. Share capital

31 December 2017

Shareholders	*pcs* Number of shares	*PLN* Value per one share	*%* Share in the share capital	*pcs* Number of votes	*%* Share total number of votes
Zygmunt Solorz (directly) by: Elektrim SA, Embud 2 sp. z o.o. S.K.A., Trigon XIX FIZ, Argumenol Investment Company Limited	26 200 867	2.00	51.55	26 200 867	51.55
Nationale-Nederlanden OFE	5 068 410	2.00	9.97	5 068 410	9.97
Towarzystwo Funduszy Inwestycyjnych PZU SA	3 081 567	2.00	6.06	3 081 567	6.06
OFE PZU „Złota Jesień”	2 664 378	2.00	5.24	2 664 378	5.24
Others	13 808 325	2.00	27.18	13 808 325	27.18
Total	**50 823 547**		**100.00**	**50 823 547**	**100.00**

** According to information possessed by the Company based on the delivered notices of purchase / sale of shares.*

31 December 2016

Shareholders	*pcs* Number of shares	*PLN* Value per one share	*%* Share in the share capital	*pcs* Number of votes	*%* Share total number of votes
Zygmunt Solorz (pośrednio) through: Elektrim SA, Embud sp. z o.o., Trigon XIX FIZ, Argumenol Investment Company Limited	26 200 867	2.00	51.55	26 200 867	51.55
Nationale-Nederlanden OFE	5 068 410	2.00	9.97	5 068 410	9.97
Towarzystwo Funduszy Inwestycyjnych PZU SA	3 081 567	2.00	6.06	3 081 567	6.06
OFE PZU „Złota Jesień”	2 664 378	2.00	5.24	2 664 378	5.24
Others	13 808 325	2.00	27.18	13 808 325	27.18
Total	**50 823 547**		**100.00**	**50 823 547**	**100.00**

** According to information possessed by the Company based on the delivered notices of purchase / sale of shares.*

(in thousand PLN)

11. Interest-bearing bank credits and loans and other financial liabilities

	31 December 2017	*31 December 2016*
Long-term		
Liabilities due to financial leasing and lease agreements with a purchase option	489	456
Obligation	-	-
Loans in total, including:	201 035	343 295
– Revolving loans		
– Investment loans	201 035	343 295
Other liabilities	2 000	-
Total	**203 524**	**343 751**
Short-term		
Liabilities due to financial leasing and lease agreements with a purchase option	961	139
Obligation	-	-
Loans in total, including:	153 684	158 629
Current account loans	-	-
Other loans:	153 684	158 629
– Revolving loans	-	-
– Investment loans	153 684	158 629
Total	**154 645**	**158 768**

The balance of investment credit A granted by the Consortium of mBank SA, BGK, Bank Millennium SA, PEKAO SA and PKO BP SA as at December 31, 2017 amounts to PLN 292 592 thousand. The deadline for repayment is 20 March 2020.

The balance of the investment loan B granted by the Consortium of mBank SA, BGK, Bank Millennium SA, PEKAO SA and PKO BP SA as at December 31, 2017 amounts to PLN 62 127 thousand. The deadline for repayment is 20 March 2020.

Information on collateral related to contracted liabilities is presented in note 17.

12. Profit sharing

12.1. Profit sharing for the previous year

The General Meeting, which was held on June 28, 2017, adopted a resolution to allocate a net profit of PLN 131 407 thousand to:

- Pay the dividend in the amount of PLN 65 562 thousand,
- increase in the supplementary capital in the amount of PLN 65 845 thousand.

12.2. Profit sharing for current year

The net profit for 2017 financial year amounted to PLN 90 637 thousand. As of the day of preparing this financial statement the Management Board of ZE PAK SA did not make any decision as to the proposal of profit distribution.

(in thousand PLN)

13. Reserves

In the reporting periods covered by the financial statements, the following changes occurred in the state of reserves:

12 months period ended 31 December 2017

	Deferred income tax	*Provision for retirement benefits and similar*	*Provision for CO_2 emission allowances*	*Reclamation provision*	*Liquidation provision*	*Other reserves*	*Total*
As of 1 January 2017	68 806	9 922	250 189	1 005	16 848	626	347 396
Increase	10 406	1 866	221 792	-	-	1 190	235 254
Use	-	(1 390)	(250 189)	(250)	-	(535)	(252 364)
Termination	-	-	-	-	(255)	(91)	(346)
As of 31 December 2017, including:	**79 212**	**10 398**	**221 792**	**755**	**16 593**	**1 190**	**329 940**
Long-term	79 212	9 210	-	539	16 593	-	105 554
Short-term	-	1 188	221 792	216	-	1 190	224 386

12 months ended 31 December 2016

	Deferred income tax	*Provision for retirement benefits and similar*	*Provision for CO_2 emission allowances*	*Reclamation provision*	*Liquidation provision*	*Other reserves*	*Total*
As of 1 January 2016	62 920	11 598	282 135	1 698	16 419	-	374 770
Increase	5 886	456	250 189	250	429	626	257 836
Use	-	-	(282 135)	(943)	-	-	(283 078)
Termination	-	(2 132)	-	-	-	-	(2 132)
As of 31 December 2016, including:	**68 806**	**9 922**	**250 189**	**1 005**	**16 848**	**626**	**347 396**
Long-term	68 806	8 835	-	755	16 848	-	95 244
Short-term	-	1 087	250 189	250	-	626	252 152

(in thousand PLN)

14. Impairment write-downs on receivables

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
As of 1 January	35 434	35 636
Increase		113
Use	2	315
Termination	209	-
As of 31 December	**35 223**	**35 434**

15. Long-term liabilities

The structure of the maturity of long-term liabilities:

31 December 2017

	1-3 years	*3-5 years*	*Over 5 years*	*Total*
Long-term liabilities to affiliates	-	-	-	-
Long-term liabilities to other entities, including:	203 524	-	-	203 524
– Bank credits and loans	201 035	-	-	201 035
– Other credits and loans	-	-	-	-
– due to issue of debt securities	-	-	-	-
– due to finance lease	489	-	-	489
– other	2 000	-	-	2 000
Long-term liabilities in total as of 31 December 2017	**203 524**	**-**	**-**	**203 524**

31 December 2016

	1-3 years	*3-5 years*	*Over 5 years*	*Total*
Long-term liabilities to affiliates	254	-	-	254
Long-term liabilities to other entities, including:	343 751	-	-	343 751
– Bank credits and loans	343 295	-	-	343 295
– Other credits and loans	-	-	-	-
– due to issue of debt securities	-	-	-	-
– due to finance lease	456	-	-	456
– other	-	-	-	-
Long-term liabilities in total as of 31 December 2016	**344 005**	**-**	**-**	**344 005**

16. Passive accruals

	31 December 2017	*31 December 2016*
1. Negative goodwill	-	-
2a. Other long-term passive accruals in total	14 051	14 097
Accruals of revenues, including:	14 051	14 097
– Grant settled in time	457	503
– difference in the value of in-kind property components	13 594	13 594
Other, including :	-	-
2b. Other short-term accruals in total	13 846	13 662
Accruals of revenues, including	54	70
– grant settled in time	46	46
– financial compensation	-	16
– other	8	8
Other, including:	13 792	13 592
– Reserve for an annual bonus	10 436	10 357
– Reserve for unused holidays	2 373	2 161
– Other reserves	179	143

(in thousand PLN)

– Remission of property rights „green certificates”	213	178
– Remission of property rights „white energy”	82	274
– Remission of property rights „red certificates”	88	103
– Remission of property rights „blue certificates”	62	31
– Remission of property rights gas payment „yellow”	320	307
– Remission of property rights gas payment „purple”	39	38
Accruals – total	**27 897**	**27 759**

17. Liabilities secured on the assets of the unit

The company had the following types of liabilities secured on its assets:

Agreement	*Kind of security*	*31 December 2017* *Amount of security*	*Currency*	*31 December 2016* *Amount of security*	*currency*
Syndicated loan agreement of 13 March 2014 for PLN 667 million for ZE PAK SA	Registered pledge on a collection of items Registered pledge on bank accounts Joint contractual mortgage established on real estate	Up to 2 040 000	PLN	Up to 2 040 000	PLN
Syndicated loan agreement dated 14 January 2011 for EUR 240 million for Pątnów II Power Plant	Registered and financial pledge on shares of ZE PAK in PAK Infrastruktura and PAK-HOLDCO	Up to 400 000 up to 339 750	EUR PLN	Up to 400 000 up to 339 750	EUR PLN

(in thousand PLN)

18. Contingent liabilities

	31 December 2017	*31 December 2016*
Due to guarantees and sureties granted to:	50 000	141 500
– Affiliated companies, including:	50 000	141 500
– For subsidiaries	50 000	141 500
– For the parent company	-	-
– other units in which the issuer has equity exposure	-	-
– other entities	-	-
From other titles for:	4 049 055	4 345 558
– Affiliated companies, including:	-	-
– For subsidiaries	-	-
– For the parent company	-	-
– other units in which the issuer has equity exposure	-	-
– other entities, including:	4 049 055	4 345 558
– for a partner of a subsidiary	-	-
– for a significant investor	-	-
– for other entities	4 048 110	4 344 350
– for employees	945	1 208
Total contingent liabilities	**4 099 055**	**4 487 058**

The risk of returning free allowances for CO2 emissions due to the failure to invest in blocks 3 and 4 and the gas and steam block

Due to the suspension of investments in blocks 3 and 4 and the gas and steam block, the Management Board of the Company estimated the potential risk of returning free CO2 emission rights in the amount of approximately EUR 6.5 million with interest.

In connection with the submission to the European Commission of a revised National Investment Plan for 2013-2020, the Company asked the Minister of the Environment for the possibility of replacing suspended investment tasks with new tasks. In response, the Minister of the Environment asked for a list of tasks whose deadline for completion indicated in the plan is endangered.

On February 28, 2018, the Company filed a letter to the Minister of the Environment, in which it expressed a desire to balance the value of issued CO2 emission rights for investments related to blocks 3 and 4, the costs of planned investments that were to be replaced. By the date of this report, the Company did not receive a response from the Minister of the Environment.

As at the date of this report, there was no risk of potential reimbursement of free CO2 allowances received related to the above investment tasks and no grounds for creating any provisions for this. The report discloses a conditional obligation regarding the return of allowances.

19. Other contracts not included in the balance sheet

As at December 31, 2017 and as at December 31, 2016, the Company did not have any significant contracts not included in the balance sheet.

20. Material and territorial structure of sales

The material structure of sales revenues in 2017 and 2016 was as follows:

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Revenues from electricity sale, including:	1 099 668	1 277 384
– Affiliated companies	324 063	419 052
– Other entities	775 605	858 332
Revenues from certificates of origins, including:	684	812
– Affiliated companies	-	-
– Other entities	684	812
Revenues from sale of heat, including:	57 204	60 575
– Affiliated companies	30	34
– Other entities	57 174	60 541

(in thousand PLN)

Revenues from sale of services, including:	102 816	151 351
− Affiliated companies	100 928	149 738
− Other entities	1 888	1 613
Revenues from electricity from resale, including:	214 211	129 630
− Affiliated companies	-	-
− Other entities	214 211	129 630
Revenues from other sales, including:	2 472	2 428
− Affiliated companies	1 439	1 757
− Other entities	1 033	671
Total net revenues	**1 477 055**	**1 622 180**

All sales revenues in the current and previous financial year were achieved on the domestic market.

21. Impairment write-downs of fixed assets

In the current reporting period, the Company did not make impairment write-downs of fixed assets.

22. Interest and exchange differences, which increased the purchase price of goods or the cost of manufacturing products in the financial year

Both in the financial year ended on December 31, 2017 and in the previous year, the Company did not increase the purchase price of goods or the cost of producing products with interest or exchange rate differences.

23. Inventories in the net sale price

	31 December 2017	*31 December 2016*
Materials	39 601	39 602
Semi-finished products and products in progress	-	-
Products	-	-
Goods, including:	1 985	13 959
− Green certificates	1 342	13 193
− Red certificates	510	572
− Yellow certificates	59	-
− White certificates	74	194
Advances for deliveries	31	354
Total inventories in the net sale price	**41 617**	**53 915**
Total impairment write-downs for inventories, including:	2 521	13 525
− Materials	2 521	3 680
− goods	-	9 845

24. Information on revenues, costs and results of discontinued operations in the financial year or to be discontinued in the following year

In the financial year, the Company did not discontinue and in the next year it does not plan to discontinue any type of activity.

(in thousand PLN)

25. Income tax

Reconciliation of the gross profit to the tax base is as follows:

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Gross profit (loss)	103 514	137 305
Revenues of the current year not included in the taxable income	(42 609)	(117 068)
– Valuation of the loan granted to EPII (capital)	(2 213)	(6 404)
– Revenue from certificates' production	(1 599)	-
– Depreciation write-down	(46)	(1 421)
– Accrued interest on loans granted	(89)	(137)
– Accrued interest on loans and credits	-	(442)
– Account and settlement valuation	(4)	(86)
– Accrued interest on bank accounts	(201)	(134)
– Valuation of forward contracts	-	(296)
– Termination of impairment write-downs on materials	(1 159)	(96)
– Termination of impairment write-downs on receivables	-	(14)
– Termination of impairment write-downs on certificates	(13)	(29 260)
– Received dividends	(37 285)	(78 778)
Revenues of the current year not included in the net result of the fiscal year	271	1 034
– Sale of trial production	-	732
– Interest paid on loans granted	137	203
– Received interest on bank accounts	134	99
The costs of the current year permanently not recognized as tax deductible costs	3 249	2 577
– Trade union costs	118	166
– Car depreciation of value above EUR 20 000	170	170
– Depreciation of granted fixed assets	73	86
– Payment on PFRON	1 340	1 389
– Budget interest	3	305
– Costs of representation	101	83
– Costs of Supervisory Board	6	6
– Donation	243	162
– other	1 195	210
The costs of the current year transitionally not recognized as tax deductible costs	251 602	340 759
– social security contributions	2 503	2 621
– unpaid salaries (civil contracts)	86	76
– creating a reserve for an annual bonus	9 011	4 818
– creating a reserve for audit costs	169	118
– creation of a provision for employee benefits costs	689	429
– revaluation of green certificates	-	9 845
– creation of a reserve for CO2 emission allowances	221 792	250 189
– creation of a provision for liquidation of property assets	746	1 315
– accrued interest for late payment	114	-
– creation of other reserves	-	527
– valuation of forward contract	1 101	-
– accrued interest on loans and borrowings	1 339	-
– costs of sale of green and red certificates	13 244	69 795
– RMB green certificates	213	178
– RMB red certificates	88	103
– RMB yellow certificates	320	307
– RMB purple certificates	39	39
– RMB white Energy	82	274
– RMB blue certificates	62	32
– valuation of cash at hand and on accounts in foreign currencies	4	82
– other	-	11
The costs of the previous year recognized as tax-deductible expenses in the current year	(12 205)	(12 852)
– social security contribution and remuneration	(2 696)	(2 583)
– an annual bonus paid out	(8 932)	(10 269)

(in thousand PLN)

– liquidation of fixed assets	(139)	-
– tax paid for previous years	(438)	-
The costs of the current year recognized as tax deductible expenses not recognized in profit / loss account	(124 518)	(128 827)
– tax depreciation	(124 518)	(128 827)
Other differences	(73 836)	(356 328)
– purchase of CO2 emission allowances	(79 001)	(360 599)
– termination of reclamation reserve	(250)	(693)
– termination of provision for employee benefits	-	(1 676)
– termination of provision for audit	(132)	(123)
– termination of provision for certificates payment	(39)	(288)
– termination of the reserve for liquidation	(116)	-
– termination of the reserve for payments	(89)	-
– certificates purchased to cover the obligation for the previous year	(612)	(251)
– operational lease (fee)	(147)	(130)
– interest on loans and advances paid	350	2 198
– reversal of the valuation of the loan granted (interest + capital)	6 404	5 234
– other	(204)	-
Tax income (loss)	**105 468**	**(133 400)**
– Use of income loss	(91 114)	-
– Donations to deduct	(112)	-
Tax basis income	**14 242**	**(133 400)**
Tax rate	**19%**	**19%**
Income tax (current)	**2 706**	**-**
Income tax refund from previous years	(273)	-
Income tax on dividends	38	12
Change in the provision / asset of differed income tax	10 406	5 886
Total income tax	**12 877**	**5 898**

Regulations regarding tax on goods and services, income tax from legal persons, natural persons or social security contributions are subject to frequent changes, as a result of which there is often no reference to fixed regulations or legal precedents. The binding provisions also contain uncertainties that cause differences in opinions as to the legal interpretation of tax regulations, both between state authorities and between state authorities and enterprises. Tax and other settlements (for example, customs or foreign exchange) may be subject to control by authorities that are authorized to impose high fines, and additional amounts of liabilities determined as a result of an audit must be paid with high interest. These phenomena mean that the tax risk in Poland is higher than that usually found in countries with a developed tax system. Tax settlements may be reviewed for a period of five years. As a result, the amounts disclosed in the financial statements may change at a later date after final determination of their amount by tax authorities.

(in thousand PLN)

Deferred income tax provisions / assets consist of differences from the following titles:

	Balance sheet		*Profit and loss account for the period ended*	
	31 December 2017	*31 December2016*	*31 December 2017*	*31 December 2016*
Deferred income tax reserve				
Accelerated tax depreciation	108 430	84 745	23 685	29 087
Purchased EUA	36 766	69 291	(32 525)	14 908
Loan valuation	421	1 217	(796)	222
Certificates on stock	352	2 615	(2 263)	(9 700)
Other	56	169	(113)	24
Deferred income tax reserve	**146 025**	**158 037**	**(12 012)**	**34 541**
Deferred income tax assets				
Provisions for employee benefits	4 410	4 264	(146)	1 272
Other reserves	34	127	93	(99)
Reserves for property liquidation	3 153	3 033	(120)	(250)
Reserves for reclamation	144	191	47	132
Provision for CO2 allowances	42 140	47 536	5 396	85
Unpaid social security contributions XI-XII	476	498	22	(20)
Impairment write-down on inventory	479	699	220	19
Impairment write-down on certificates	153	177	24	53
Impairment write-down on receivables	367	367	-	2
Impairment write-down on financial property	2 220	2 220	-	-
Leaseback	92	100	8	115
Tax loss asset	12 673	29 984	17 311	(29 984)
Other	472	35	(437)	20
Deferred income tax assets	**66 813**	**89 231**	**22 418**	**(28 655)**
	-	-	-	-
Net provision of deferred income tax	**79 212**	**68 806**	**10 406**	**5 886**

(in thousand PLN)

26. Costs by type

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Depreciation	38 333	36 925
Usage of materials and energy	617 823	758 536
External service	152 381	182 899
Tax and fees	288 532	323 851
Remuneration	91 163	92 777
Social security contribution and other benefits	24 991	24 287
Other costs by type	7 072	8 570
Total costs by type	**1 220 295**	**1 427 845**
Change in inventories, products and accruals	177	(4 521)
The cost of manufacturing products for the entity's own needs (negative value)	(55)	(103)
Costs of sale (negative value)	(2 944)	(3 100)
Administrative costs (negative value)	(35 713)	(30 194)
Costs of manufacturing products sold	1 181 760	1 389 927

27. Other operating revenues

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Profit from disposal of non-financial fixed assets, including:	9	-
– Profit from disposal of tangible and intangible fixed assets	9	-
– Net value of fixed assets and liquidation costs	-	-
Grants	46	1 421
Other operating revenues, including:	3 205	5 572
– Termination of reclamation	205	96
– Inventory differences	-	510
– Reduction of impairment write-downs on inventory	1 172	-
– Reduction of impairment write-downs on receivables	1	14
– Received compensations and contractual penalties	354	26
– Actuarial gains	-	1 661
– other	1 473	3 265
Total other operating revenues	**3 260**	**6 993**

28. Other operating costs

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Revaluation of non-financial assets, including:	-	9 845
– Impairment write-downs on receivables	-	-
– Impairment write-downs on inventories	-	9 845
– Impairment write-downs on tangible fixed assets	-	-
Other operating costs, including:	6 818	2 826
– costs of contentious and enforcement proceedings	203	324
– provision for liquidation of property assets	-	886
– other reserves	1 190	527
– material and financial donations transferred	243	162
– Damage costs due to equipment failures	470	218
– Costs of inventory liquidation	15	98
– Paid compensations and penalties	33	50
– Actuarial losses	1 092	-
– Other operating costs	59	561
Total other operating costs	**3 305**	**12 671**

(in thousand PLN)

29. Financial revenues

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Profits from dividends and share in profits, including:	37 285	78 778
– profits from participation in affiliates	37 085	78 722
– profits from participation in other entities	200	56
Interest, including:	2 743	4 039
– interest on loans granted to affiliates	574	851
– remaining interest from affiliates	-	123
– interest on other contractors	-	112
– bank interest	2 030	2 953
– other interest	139	-
Profit from disposal of investments, including:	-	-
– revenues from the sale of shares	-	-
– net value of the shares	-	-
Revaluation of investment, including:	-	1 466
– impairment write-down on financial assets	-	-
Other, including:	1 499	2 393
– realized positive exchange rates	1 415	1 335
– profit from realized forward contract	-	1 011
– other	84	47
Total financial revenues	**41 527**	**86 676**

30. Financial costs

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Loss on disposal of investment	-	33
Interest, including:	16 944	18 820
– Interest for affiliates	-	-
– Interest for other entities	116	1
– Budget interest	3	206
– Bank interest	16 526	16 796
– Other interest (including those from lease liabilities)	299	1 817
Revaluation of financial assets, including:	5 292	-
– revaluation of financial assets held for resale	1 101	-
– valuation of the loan	4 191	-
Other, including:	1 865	4 204
– exchange rates	-	-
– other financial costs	1 119	3 775
– discount of the reserve	746	429
Total financial costs	**24 101**	**23 057**

31. The cost of producing fixed assets under construction

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
The cost of producing fixed assets under construction, including:	26 080	15 221
– interest on liabilities (taken out to finance the production of fixed assets)	-	-
– exchange rates on liabilities (taken out to finance the production of fixed assets)	-	-

(in thousand PLN)

32. Income and costs of extraordinary value or which occurred incidentally

Until the date of preparation of the financial statements for the period ended December 31, 2017, i.e. until April 19, 2018, there were no other significant events concerning prior years that have not been and should have been included in the financial statements for the financial year.

33. The structure of cash received in the cash flow statement

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Cash at bank accounts	147 331	169 569
Cash on hand	18	32
Other cash	-	-
Total cash	**147 349**	**169 601**
Cash in PLN currency	147 348	132 608
Cash in foreign currency (after conversion)	1	36 993
Cash in EUR currency	-	8 362

34. The reasons for differences between changes in the balance of certain items in the balance sheet and changes in the same items reported in the cash flow statement

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Receivables		
Balance sheet change in long-term and short-term net receivables	(1 033)	16 455
– Loans granted to affiliates	-	-
– change in the balance of investment receivables	-	(1 594)
Change in the balance of investment in cash flow statement	**(1 033)**	**14 861**

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Liabilities		
Balance sheet change in short-term and long-term liabilities and loans	(238 093)	(148 448)
– change in liabilities due to loans	147 205	113 146
– change in liabilities due to purchase of CO2 emission allowances	59 951	(59 951)
– change in leasing liabilities	(850)	130
– change in investment liabilities	(12 532)	70 892
– other	-	-
Change in liabilities in the cash flow statement	**(44 319)**	**(24 231)**

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Reserves		
Balance sheet change in provisions	(17 456)	(27 374)
– change in the EUA redemption reserve	250 189	282 135
Change in provisions in the cash flow statement	**232 733**	**254 761**

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Investment activity		
– profit (loss) on disposal of investments	(9)	33
– valuation of forward contract	1 101	(296)
Profit (loss) on investing activities in the cash flow statement	**1 092**	**(263)**

(in thousand PLN)

	12 months period ended 31 December 2017	12 months period ended 31 December 2016
Other adjustments		
Balance change in the status of other adjustments	-	-
– purchase of CO_2 emission allowances	138 953	300 648
– acquisition of land by acquisitive prescription	-	47
– assignment of a car leasing contract	65	-
Change in other adjustments in the cash flow statement	**139 018**	**300 695**

35. Information on average employment divided into professional groups

	12 months period ended 31 December 2017	12 months period ended 31 December 2016
Group of employed		
Management	4,17	5,06
Administration	40,30	39,96
Sales department	10,28	15,64
Production department	915,18	966,94
Others	258,97	275,26
Total employment	**1 228,90**	**1 302,86**

36. Information on the remuneration of an audit firm

The table below presents the remuneration of the entity authorized to audit financial statements paid or due for the year ended 31 December 2017 and 31 December 2016, divided into types of services:

	12 months period ended 31 December 2017	12 months period ended 31 December 2016
Audit of an annual financial statements	194	212
Other certified services	-	-
Tax advisory services	-	-
Other services	23	104
Total, including:	**217**	**316**
– Due at the balance sheet day	**204**	
– Paid out at the balance sheet day	13	316

37. Information on remuneration, including remuneration from profits and pensions paid or due to persons who are members of management and supervisory bodies

The remuneration of persons who are members of the managing and supervising or administering bodies of the Company amounted to:

	12 months period ended 31 December 2017	12 months period ended 31 December 2016
Remuneration		
Management Board	2 400	2 825
Supervisory Board	993	1 029
Total remuneration	**3 393**	**3 854**

38. Information on loans and benefits of a similar nature granted to persons who are members of the managing and supervising bodies

In both the financial year ended December 31, 2017 and the previous year, the Company did not grant any loans and benefits of a similar nature to persons who are members of the management and supervisory bodies.

(in thousand PLN)

39. Information on joint ventures that are not consolidated

The company did not undertake joint ventures that are not consolidated.

40. Information on joint ventures that are not consolidated

40.1. Capital Group

The company is a parent company and prepares consolidated financial statements. The Capital Group of Zespół Elektrowni Pątnów - Adamów - Konin SA ("Group", "Capital Group", "ZE PAK SA Group") consists of Pątnów - Adamów - Konin SA Power Plant (" parent Company"," Company "," ZE PAK SA ") and its subsidiaries. The consolidated financial statements of the Group cover the year ended on December 31, 2017 and contain comparative data for the year ended December 31, 2016.

The duration of the parent company and entities comprising the Capital Group is unlimited.

The basic subject of the Group's operations is:
1) Generation and sale of electricity,
2) Production and sale of heat (water steam and hot water),
3) Lignite mining.

The consolidated financial statements include the Reports of the following Companies:

Entity	*Registered office*	*Scope of operations*	*Group's share in the capital in %*	
			31.12.2017	*31.12.2016*
„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 Kopalnia Węgla Brunatnego Konin SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	97.58%*	96.23%*
PAK Kopalnia Węgla Brunatnego Adamów SA	62-700 Turek Warenka 23	Lignite extraction	99.26%	98.41%
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	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%
PAK – Volt SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	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 Adamów sp. z o.o	62-510 Konin Ul. Kazimierska 45	Buying and selling real estate	100.00%	-
„Aquakon" sp. z o.o. in liquidation	62-610 Sompolno Police	Mechanical services, repairs, reclamation of land, production and trade of mineral water	96.2%*	92.57%*
Eko-Surowce sp. z o.o. in liquidation	62-540 Kleczew ul. 600-lecia 9	Vulcanization services, sales of lignite	100.00%*	96.23%*
Energoinwest Serwis sp. z o.o. in liquidation	62-510 Konin ul. Spółdzielców 3	Repair-construction service	100.00%*	100.00%*
EL PAK Serwis sp. z o.o. in liquidation	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.*

As at 31 December 2017, the share in the total number of votes held by the Group in subsidiaries is equal to the Group's share in the capital of these entities.

(in thousand PLN)

40.2. Transactions with affiliated entities

The volume of transactions with entities under the control of the parent company amounted to:

Elektrownia Pątnów II sp. z o.o.

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	106	155
Sale	78 075	125 443
Exchange rates – financial costs	2 734	2 851
Interest – financial revenues	574	851
Received dividends and share in profit	-	-

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	8 080	24 373
Liabilities for deliveries, works and services	63	72
Loans granted	45 464	64 089
Loans received	-	-
Other receivables	2 357	3 658
Other liabilities	-	-

PAK Infrastruktura sp. z o.o.

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	10 582	11 039
Sale	9 986	10 824
Interest – financial costs	-	-
Interest – financial revenues	-	-
Received dividends and share in profit	3 139	2 815

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	1 019	1 113
Liabilities for deliveries, works and services	1 085	1 131
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

PAK - HOLDCO sp. z o.o.

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	-	-
Sale	6	10
Interest – financial costs	-	-
Interest – financial revenues	-	-
Received dividends and share in profit	25 000	41 994

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	-	-
Liabilities for deliveries, works and services	-	-
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

(in thousand PLN)

Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK sp. z o.o.

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	-	27 468
Sale	-	2 582
Interest – financial costs	-	-
Interest – finencial revenues	-	-
Received dividends and share in profit	-	7 129

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	-	243
Liabilities for deliveries, works and services	-	5 728
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	305

On July 1, 2017, Przedsiębiorstwo Automatyki Serwis i Urządzeń Elektrycznych EL PAK sp. Z o.o. merged with Przedsiębiorstwo Remontowe PAK SERWIS sp. o.o. through the acquisition of EL PAK sp. o.o. by PAK SERWIS sp. o.o.

PAK Kopalnia Węgla Brunatnego Konin SA

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	386 852	396 169
Sale	4 440	4 471
Interest – financial costs	-	123
Interest – finencial revenues	-	-
Received dividends and share in profit	-	-

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	7 803	4 615
Liabilities for deliveries, works and services	-	-
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

PAK Kopalnia Węgla Brunatnego Adamów SA

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	176 351	214 225
Sale	1 663	1 719
Interest – financial costs	-	-
Interest – finencial revenues	-	-
Received dividends and share in profit	-	-

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	305	270
Liabilities for deliveries, works and services	11 835	9 170
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

(in thousand PLN)

Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	88 300	77 593
Sale	6 162	4 312
Interest – financial costs	-	-
Interest – finencial revenues	-	-
Received dividends and share in profit	5 646	21 284

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	920	604
Liabilities for deliveries, works and services	12 037	9 014
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	3 049	432

EL PAK Serwis sp. z o.o. in liquidation

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	-	-
Sale	369	631
Interest – financial costs	-	-
Interest – finencial revenues	-	-
Received dividends and share in profit	-	-

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	3	366
Liabilities for deliveries, works and services	-	-
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

Energoinwest Serwis sp. z o.o. in liquidation

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	2 216	3 772
Sale	462	799
Interest – financial costs	-	-
Interest – finencial revenues	-	-
Received dividends and share in profit	-	-

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	4	72
Liabilities for deliveries, works and services	-	664
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

PAK Górnictwo sp. z o.o.

	12 months period ended	*12 months period ended*

	31 December 2017	*31 December 2016*
Purchase	3 659	-
Sale	1 230	24
Interest – financial costs	-	-
Interest – finencial revenues	-	-
Received dividends and share in profit	-	-

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	624	2
Liabilities for deliveries, works and services	1 467	-
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

PAK – Volt SA

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	5	5
Sale	323 608	418 542
Interest – financial costs	-	-
Interest – finencial revenues	-	-
Received dividends and share in profit	3 300	5 500

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	17 860	28 802
Liabilities for deliveries, works and services	200	200
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

Aquakon sp. z o.o. in liquidation

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	266	918
Sale	137	169
Interest – financial costs	-	-
Interest – finencial revenues	-	-
Received dividends and share in profit	-	

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	3	29
Liabilities for deliveries, works and services	-	116
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

Eko – Surowce sp. z o.o. in liquidation

	12 months period ended 31 December 2017	*12 months period ended 31 December 2016*
Purchase	1 868	3 742
Sale	617	1 368

(in thousand PLN)

Interest – financial costs	-	-
Interest – fínencial revenues	-	-
Received dividends and share in profit	-	-

	31 December 2017	*31 December 2016*
Receivables due to deliveries, works and services	5	149
Liabilities for deliveries, works and services	-	374
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

41. List of companies in which the Company has a capital interest or 20% in the total number of votes in the company's governing body

As at 31 December 2017

	Name of the entity	*Seat*	*Number of shares*	*Balance value of shares*	*Share in equity (%)*	*Net profit (loss) for the year ended on December 31, 2017*	*Equity capitals as at December 31, 2017*
1.	Elektrownia Pątnów II sp. z o.o.	Konin	200	750 500	100.00	145 614	1 448 836
2.	PAK KWB Konin SA	Kleczew	23 176 446	125 244	97.58	8 707	293 003
3.	PAK KWB Adamów SA	Turek	119 111 565	79 291	99.26	(41 143)	56 422
4.	Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.	Konin	189 419	11 842	100.00	3 715	30 397
5.	PAK Górnictwo sp. z o.o.	Konin	141 000	-	100.00	454	11 291
6.	PAK – Volt SA	Warszawa	2 950 000	118 500	100.00	3 286	43 500
7.	PAK – HOLDCO sp. z o.o.	Konin	200	750 550	100.00	49 972	775 726
8.	PAK Infrastruktura sp. z o.o.	Konin	200	60 392	100.00	3 505	63 898
9.	PAK Adamów sp. z o.o.	Konin	1 000	50	100.00	(1)	49
10.	Aquakon sp. z o.o. in liquidation	Police	5 060	1 536	96.20	143	3 498
11.	Eko – Surowce sp. z o.o. in liquidation	Kleczew	100	102	100.00	(51)	(6 728)
12.	EL PAK Serwis sp. z o.o. in liquidation	Konin	5 000	507	100.00	2 036	(446)
13.	Energoinwest Serwis sp. z o.o. in liquidation	Konin	1 050	3 061	100.00	6 509	9 850

As at 31 December 2016

	Name of the entity	*Seat*	*Number of shares*	*Balance value of shares*	*Share in equity (%)*	*Net profit (loss) for the year ended on December 31, 2016*	*Equity capitals as at December 31, 2016*
1.	Elektrownia Pątnów II sp. z o.o.	Konin	200	750 500	100.00	77 517	1 348 816
2.	PAK KWB Konin SA	Kleczew	22 845 017	123 520	96.23	60 135	284 297
3.	PAK KWB Adamów SA	Turek	11 809 182	78 616	98.41	12 580	97 567
4.	Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.	Konin	121 773	9 985	100.00	1 452	21 225
5.	Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.	Konin	37 138	1 857	100.00	2 194	11 103
6.	PAK Górnictwo sp. z o.o.	Konin	141 000	-	100.00	(16 917)	3 875

(in thousand PLN)

7.	PAK – Volt SA	Warszawa	2 950 000	118 500	100.00	3 328	43 542
8.	PAK – HOLDCO sp. z o.o.	Konin	200	750 550	100.00	103	750 754
9.	PAK Infrastruktura sp. z o.o.	Konin	200	60 392	100.00	3 139	63 532
10.	Aquakon sp. z o.o.	Police	5 060	506	92.57	1 378	3 433
11.	Eko – Surowce sp. z o.o.	Kleczew	100	100	96.23	(8 113)	(6 114)
12.	EL PAK Serwis sp. z o.o.	Konin	5 000	507	100.00	(3 434)	(2 527)
13.	Energoinwest Serwis sp. z o.o.	Konin	100	1 113	100.00	(3 514)	3 439

All shares in subsidiaries as at December 31, 2017 and as at December 31, 2016 were not preferential.

42. Information on meeting the requirements of art. 44 of the Energy Law

Article 44 paragraph 1 of the Energy Law Act, in order to ensure equal treatment of recipients and eliminate cross-subsidies, obliges energy companies to keep accounting records in a way that allows separate calculation of costs and revenues, profits and losses for business operations in the supply of gaseous fuels or energy, including costs fixed, variable costs and revenues, separately for the production, transmission, distribution and trade in gaseous fuels or energy, storage of gaseous fuels and liquefied natural gas or regasification of liquefied natural gas, as well as for groups of customers defined in the tariff and not related to mentioned above.

In order to meet the aforementioned requirement, the Company keeps an accounting register enabling the separate calculation of costs and revenues, profits and losses for particular types of activities listed in art. 44 item 1 of the Energy Law. In terms of revenues, revenues related to the sale of electricity, heat energy, property rights and system services were separated. In terms of costs, the Company keeps records ensuring the division of costs into variable and permanent. Variable costs depend on the volume of electricity and heat production; these are costs of coal, biomass, auxiliary liquid fuels like mazout or heating oil and limestone flour, costs of chemicals consumption for technological purposes, fees for economic use of the environment in the field of water, post-production waste and emissions of volatile pollutants into the air, costs of purchasing allowances for CO2 emissions. Costs dependent on the production volume also include costs related to the sale of energy: excise duty, statutory fees related to certification and participation in open energy markets. Other costs are fixed costs. The basis for the settlement of costs for individual activities are distribution keys based on which the type costs are accounted for at the own cost of generating electricity and heat and other activities.

Article 44 paragraph 2 of the Energy Law Act, in order to meet the requirements to ensure equal treatment of recipients and eliminating cross-subsidies between activities, obliges energy enterprises as part of disclosures in the additional information of the annual financial statements to present relevant balance sheet items and profit and loss account separately for individual types of business activity in the scope of transmission or distribution of electricity, transmission, distribution or storage of gaseous fuels, trade in gaseous fuels, liquefaction of natural gas or regasification of liquefied natural gas, as well as indication of the principles of allocation of assets and liabilities and costs and revenues for each of these activities.

As part of its operations, the company has not identified the activities listed in art. 44 item 2 of the Energy Law.

43. Events after the balance sheet date

Decision on Ościsłowo open pit

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

PAK KWB Konin SA, by the letter of December 18, 2017 filed an objection against the abovementioned decision of GDOŚ in Warsaw to the Provincial Administrative Court in Warsaw (WSA). In the opinion of PAK KWB Konin S.A. there were grounds for issuing a reformatory decision by GDOŚ in Warsaw, i.e. amending the contested decision of RDOŚ in Poznań and substantive decision in this matter, and not referring the matter for reconsideration. The participant in the opposition proceedings to construct the open pit Ościsłowo also appealed to the Provincial Administrative Court. Both objections were dismissed by the WSA. The judgement was issued on March 1, 2018.

At present, the case is being reconsidered by RDOŚ in Poznań, which announced on April 5, 2018 that due to the complex nature of the case, a new deadline for handling the case was set for 5 June 2018.

Konin, 19 April 2018

Adam Kłapszta	*Aneta Lato-Żuchowska*	*Zygmunt Artwik*	*Elżbieta Niebisz*	*Aneta Desecka*
President of the Board	*Vice President of the Board*	*Vice President of the Board*	*Vice President of the Board*	*Chief Accountant*