ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA
CAPITAL GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT
FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2017
TOGETHER WITH INDEPENDENT AUDITOR’S REVIEW

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

31 AUGUST 2017

Table of content

CONSOLIDATED PROFIT AND LOSS ACCOUNT 4
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 6
CONSOLIDATED STATEMENT OF FINANCIAL POSITION 7
CONSOLIDATED STATEMENT OF CASH FLOWS 9
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 10
ADDITIONAL EXPLAINING NOTES 12
1. General information 12
2. Composition of the Group 13
3. Composition of the Management Board of the parent company 14
4. Basis for development of the consolidated financial statement 14
5. New standards and interpretations, which have been issued, but are not applicable yet 14
6. Significant principles (policy) of accounting 15
7. Essential values based on professional judgement and estimates 15
8. Change of estimates 15
9. Seasonality of the activities 16
10. Operating segments 16
11. Revenues and costs 19
11.1. Sales revenue 19
11.2. Other operating revenues 19
11.3. Other operating expenses 20
11.4. Financial income 20
11.5. Financial costs 20
11.6. Construction agreement 21
12. Components of other comprehensive income 21
13. Income tax 22
13.1. Tax load 22
13.2. Deferred income tax 23
14. Profit / (loss) per one share 24
15. Tangible fixed assets 26
15.1. The value impairment test of assets of ZE PAK SA Capital Group 28
16. Lease 31
16.1. Liabilities under financial lease agreements and lease agreement with purchase option 31
17. Intangible assets 32
18. Assets for overburden removal and other mining assets 34
19. Other assets 35
19.1. Other financial assets 35
19.2. Other non-financial assets 35
20. Inventories 36
21. Trade receivables and other receivables 36
22. Cash and cash equivalents 37
23. Payment of dividend 38
24. Interest-bearing loans and borrowings 39
25. Provisions and accruals 40
25.1. Accruals 40
25.2. Change in provisions 41
25.3. Description of significant titles of provisions 42
25.3.1. The provision for liabilities due to the emission of greenhouse gases and provisions for the redemption of certified emission reductions (EUA) 42
25.3.2. Provision for reclamation of ash storage yards and costs of liquidation of fixed assets 42
25.3.3. Reclamation provisions and other provisions related to mining activities 42

25.3.4. Provision for redemption of energy certificates ... 43
25.3.5. Other provisions ... 43
26. CO2 emission allowances ... 43
27. Trade liabilities, other liabilities and accruals ... 44
27.1. Trade liabilities and other financial liabilities (short-term) ... 44
27.2. Trade liabilities and other financial liabilities (long-term) ... 45
27.3. Other non-financial liabilities ... 45
27.4. Derivative financial instruments ... 46
27.5. Grants and deferred income (long-term) ... 46
27.6. Grants and deferred income (short-term) ... 46
28. Contingent liabilities and description of significant judicial cases ... 46
28.1. Court proceedings ... 46
28.2. Tax settlements ... 51
29. Liability repayment securities ... 51
30. Obtained guarantees and sureties ... 53
31. Information about related entities ... 54
31.1. Loan granted to a member of the Management Board ... 54
31.2. Other transactions involving members of the Management Board ... 54
31.3. Remuneration of chief executive staff of the Group ... 55
31.3.1. Remuneration paid or payable to the members of the Management Board and to the members of the Supervisory Council of the Group ... 55
31.3.2. Remuneration paid or entitled to other members of the main management ... 55
32. Goals and rules of financial risk management ... 55
32.1. Interest rate risk ... 56
32.2. Currency risk ... 58
32.3. Credit risk ... 61
32.4. Liquidity risk ... 61
33. Financial instruments ... 63
33.1. Fair values of particular classes of financial instruments ... 63
33.2. Interest rate risk ... 65
33.2.1. Hedging ... 65
34. Capital management ... 67
35. Events after the balance sheet date ... 67

(in thousands of PLN)

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the 6 months period ended 30 June 2017

		6 months period ended	*3 months period ended*	*6 months period ended*	*3 months period ended*
		30 June 2017 (unaudited)	*30 June 2017 (unaudited)*	*30 June 2016 (unaudited)*	*30 June 2016 (unaudited)*
Continuing operations	*Note*	0	0	0	0
Sales revenue	*11.1*	**1 177 556**	**577 909**	**1 367 520**	**687 478**
Cost of goods sold	*11.6*	(978 974)	(480 021)	(1 107 287)	(563 693)
Gross profit / (loss)		**198 582**	**97 888**	**260 233**	**123 785**
Other operating revenues	*11.2*	9 452	4 819	10 974	3 710
Selling and distribution expenses	*11.6*	(2 202)	(905)	(2 139)	(995)
Administrative expenses	*11.6*	(56 539)	(25 718)	(47 795)	(20 473)
Other operating expenses	*11.3*	(1 990)	(1 111)	(2 293)	(1 433)
Gross profit / (loss) from operations		**147 303**	**74 973**	**218 980**	**104 594**
Finance income	*11.4*	13 571	1 170	5 174	1 274
Finance costs	*11.5*	(26 377)	(13 010)	(46 177)	(30 532)
Profit / (loss) before tax		**134 497**	**63 133**	**177 977**	**75 336**
Income tax expense (taxation)	*13.1*	(30 121)	(14 764)	(38 092)	(10 267)
Net profit / (loss) for the period from continuing operations		**104 376**	**48 369**	**139 885**	**65 069**
Discontinued operations		0	0	0	0
Profit/ (loss) for the period from discontinued operations		-	-	-	-
Net profit / (loss) for the period		**104 376**	**48 369**	**139 885**	**65 069**
Net profit/ (loss) attributable to equity holders of the parent		103 372	48 058	138 404	64 453
Net profit/ (loss) attributable to non-controlling interests		1 004	311	1 481	616

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 thousands of PLN)

Earnings per share (in PLN):

	Note	*6 months period ended 30 June 2017 (unaudited)*	*3 months period ended 30 June 2017 (unaudited)*	*6 months period ended 30 June 2016 (unaudited)*	*3 months period ended 30 June 2016 (unaudited)*
		0	0	0	0
Basic, for profit for the period attributable to equity holders of the parent	*14*	2.03	0.95	2.72	1.27
Basic, for profit for the period from continuing operations attributable to equity holders of the parent	*14*	2.03	0.95	2.72	1.27
Diluted, for profit for the period attributable to equity holders of the parent	*14*	2.03	0.95	2.72	1.27
Diluted, for profit for the period from continuing operations attributable to equity holders of the parent	*14*	2.03	0.95	2.72	1.27

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 thousands of PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for a 6-month period ended 30 June 2017

	Nota	*6 months period ended 30 June 2017 (unaudited)*	*3 months period ended 30 June 2017 (unaudited)*	*6 months period ended 30 June 2016 (unaudited)*	*3 months period ended 30 June 2016 (unaudited)*
Net profit / (loss) for the period		**104 376**	**48 369**	**139 885**	**65 069**
Other comprehensive income		0	0	0	0
Items to be reclassified to the profit / (loss) in subsequent reporting periods:		-	-	-	-
Cash flow hedges	*12*	3 193	1 330	2 206	1 121
Income tax on other comprehensive income	*13.1,12*	(607)	(253)	(419)	(213)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		2 586	1 077	1 787	908
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:		-	-	-	-
Profits / (losses) on provisions for post-employment	*12*	(342)	(329)	(909)	(217)
Income tax on other comprehensive income	*13.1,12*	65	62	173	41
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		(277)	(267)	(736)	(176)
Net other comprehensive income		**2 309**	**810**	**1 051**	**732**
Comprehensive income for the period		**106 685**	**49 179**	**140 936**	**65 801**
Comprehensive income attributable to equity holders of the parent		105 681	48 868	139 455	65 185
Comprehensive income attributable to non-controlling interests		1 004	311	1 481	616

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 thousands of PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2017

	Note	30 June 2017 (unaudited)	31 December 2016
ASSETS		4 411 390	4 801 300
Non-current assets		3 502 787	3 702 058
Property, plant and equipment	*15*	3 314 933	3 391 246
Investment property		2 323	2 337
Intangible assets	*17*	4 177	119 282
Assets of removing overburden and other mining assets (long-term)	*18*	76 609	80 524
Other long-term financial assets	*19.1*	11 979	11 945
Other long-term non-financial assets	*19.2*	5 605	5 726
Deferred tax assets	*13.2*	87 161	90 998
Total non-current assets		**3 502 787**	**3 702 058**
Current assets		908 603	1 099 242
Short-term intangible assets	*17*	145 777	273 036
Inventories	*20*	96 720	105 296
Trade and other receivables	*21*	300 559	246 025
Income tax receivables		1 330	10 227
Short-term financial derivatives (assets)	*27.4*	-	296
Other short-term financial assets	*19.1*	74 294	77 317
Other short-term non-financial assets	*19.2*	20 696	28 776
Amounts due from customers under long-term construction contracts	*11.7*	13 838	8 168
Cash and cash equivalents	*22*	255 389	350 101
Total current assets		**908 603**	**1 099 242**
Assets classified as held for sale		-	-
TOTAL ASSETS		**4 411 390**	**4 801 300**

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*

	Note	*30 June 2017 (unaudited)*	*31 December 2016*
LIABILITIES AND EQUITY		4 411 390	4 801 300
Equity		2 184 753	2 143 658
Share capital		101 647	101 647
Reserve capital		1 094 492	1 028 647
Revaluation reserve from valuation of hedging instruments		(4 498)	(7 084)
Other reserve capital		3 472	3 472
Retained earnings / Accumulated losses		886 268	769 302
Net profit / (loss)		103 372	247 674
Equity attributable to equity holders of the parent		**2 184 753**	**2 143 658**
Equity attributable to non-controlling interests		-	-
Total equity		**2 184 753**	**2 143 658**
Non-current liabilities		1 **274 981**	1 **389 715**
Interest-bearing loans and borrowings	*24*	440 875	587 851
Long-term employee benefits		47 867	48 587
Trade liabilities and other long-term financial liabilities	*27.2*	4 085	5 069
Long-term financial derivatives (liabilities)	*27.4*	2 169	4 294
Long-term subsidies	*27.5*	42 548	43 302
Other long-term provisions and accruals	*25*	326 661	312 253
Deferred tax liability	*13.2*	410 776	388 359
Total non-current liabilities		**1 274 981**	**1 389 715**
Current liabilities		951 **656**	1 **267 927**
Trade liabilities and other short-term financial liabilities	*27.1*	211 830	302 662
Current portion of interest-bearing loans and borrowings	*24*	392 365	421 958
Short-term financial derivatives (liabilities)	*27.4*	4 965	5 759
Other non-financial liabilities	*27.3*	64 035	116 431
Current income tax liability		204	166
Short-term employee benefits		6 936	6 503
Short-term subsidies	*27.6*	1 504	6 670
Amounts due to customers under long-term construction contracts	*11.7*	3 151	3 990
Other short-term provisions and accruals	*25*	266 666	403 788
Total current liabilities		**951 656**	**1 267 927**
Total liabilities		**2 226 637**	**2 657 642**
TOTAL LIABILITIES AND EQUITY		**4 411 390**	**4 801 300**

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 thousands of PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the 6 months period ended 30 June 2017

	Nota	*Period ended 30 June 2017 (unaudited)*	*Period ended 30 June 2016 (unaudited)*
Cash flow from operating activities		0	0
Profit /(loss) before tax		134 497	177 977
Adjustments for:		-10 234	20 656
Depreciation and amortization	*22*	97 787	103 435
Interests and shares in profits		17 983	22 098
(Profit) / loss on foreign exchange differences		(10 215)	14 439
(Profit) / loss on investing activities		612	(1 044)
(Increase) / decrease in receivables	*22*	(52 569)	(30 703)
(Increase) / decrease in inventories	*22*	8 575	14 366
Increase / (decrease) in payables except for loans and borrowings	*22*	(132 549)	(63 364)
Change in provisions, prepayments, accruals and employee benefits	*22*	189 601	162 934
Income tax paid		4 153	(13 377)
Allowances for emission of CO_2		(131 295)	(188 143)
Other		(2 317)	15
Net cash flow from operating activities		**124 263**	**198 633**
Cash flow from investing activities		0	0
Proceeds from sale of property, plant and equipment and intangible assets		1 340	1 401
Purchase of property, plant and equipment and intangible assets		(33 735)	(87 146)
Proceeds and expenses relating to other financial assets		2 415	5 743
Interest received		2	3
Other		(148)	45
Net cash flow from investing activities		**(30 126)**	**(79 954)**
Cash flow from financing activities		0	0
Payment of finance lease liabilities		(6 377)	(7 995)
Proceeds from loans and borrowings and debt securities		8 831	3 100
Repayment of loans and borrowings and debt securities		(170 823)	(146 682)
Interest paid		(18 583)	(24 854)
Other		(350)	(913)
Net cash flow from financing activities		**(187 302)**	**(177 344)**
Net increase / (decrease) in cash and cash equivalents		**(93 165)**	**(58 665)**
Cash and cash equivalents at the beginning of the period		**348 646**	**383 319**
Cash and cash equivalents at the end of the period	*22*	**255 481**	**324 654**

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 thousands of PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 6 months period ended 30 June 2017 (unaudited)

	Nota	*Issued capital*	*Reserve capital*	*Revaluation reserve of financial instruments*	*Other reserve capital*	*Retained earnings / Accumulated losses*	*Total*	*Non-controlling interest*	*Total Equity*
as of 1 January 2017		**101 647**	**1 028 647**	**(7 084)**	**3 472**	**1 016 976**	**2 143 658**	**-**	**2 143 658**
Net profit for the period		-	-	-	-	103 372	103 372	1 004	104 376
Total other comprehensive income		-	-	2 586	-	(277)	2 309	-	2 309
Total income for the period		**-**	**-**	**2 586**	**-**	**103 095**	**105 681**	**1 004**	**106 685**
Distribution of profits from previous years		-	65 845	-	-	(65 845)	-	-	-
Dividend for previous years		-	-	-	-	(65 562)	(65 562)	-	(65 562)
The effect of the settlement of a put option on the shares of non-controlling interests		-	-	-	-	1 004	1 004	(1 004)	-
Other changes		-	-	-	-	(28)	(28)	-	(28)
as at 30 June 2017		**101 647**	**1 094 492**	**(4 498)**	**3 472**	**989 640**	**2 184 753**	**-**	**2 184 753**

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 thousands of PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 6 months period ended 30 June 2016 (unaudited)

	Nota	*Issued capital*	*Reserve capital*	*Revaluation reserve of financial instruments*	*Other reserve capital*	*Retained earnings / Accumulated losses*	*Total*	*Non-controlling interest*	*Total Equity*
as at 1 January 2016		**101 647**	**2 542 060**	**(11 941)**	**5 877**	**(752 820)**	**1 884 823**	**-**	**1 884 823**
Net profit for the period		-	-	-	-	138 404	138 404	1 481	139 885
Total other comprehensive income		-	-	1 787	-	(736)	1 051	-	1 051
Total income for the period		**-**	**-**	**1 787**	**-**	**137 668**	**139 455**	**1 481**	**140 936**
Distribution of profits from previous years		-	(1 513 421)	-	(2 405)	1 515 826	-	-	-
Share of profits from previous years for ZFŚS		-	-	-	-	(58)	(58)	-	(58)
The effect of the settlement of a put option on the shares of non-controlling interests		-	-	-	-	1 481	1 481	(1 481)	-
Other changes		-	-	-	-	5	5	-	5
as at 30 June 2016		**101 647**	**1 028 639**	**(10 154)**	**3 472**	**902 102**	**2 025 706**	**-**	**2 025 706**

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 EXPLAINING NOTES

1. General information

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

The interim consolidated condensed financial statement of the Group covers the 6-month period concluded on 30 June 2017 and includes comparative data for the 6-month period concluded on 30 June 2016 and the data as of 31 December 2016. The interim consolidated condensed financial statement of comprehensive income, the consolidated income statement, and additional explanatory notes present additional financial information for the 3-month period concluded on 30 June 2017 and comparative data for the 3-month period concluded 30 June 2016.

The data for the 6-month period concluded on 30 June 2017 and as of this day included in this interim consolidated condensed financial statement and the comparative data for the 6-month period concluded on 30 June 2016 were reviewed by the statutory auditor. The statutory auditor audited the comparative data as of 31 December 2016.

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

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

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

The main activities of the Group are:

1) generation and sale of electricity,

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

3) lignite extraction.

This interim condensed consolidated financial report of the Group for the period of 6 months ended 30 June 2017 was approved for issuing by the Management Board on 31 August 2017.

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

(in thousands of PLN)

2. Composition of the Group

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

Entity	*Seat*	*Scope of activities*	*Percentage share of the Group in capital as of*	
			30 June 2017	*31 December 2016*
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and construction services	100,00%	100,00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production and distribution of electricity from the unit 464 MW	100,00%*	100,00%*
„PAK – Holdco" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activities	100,00%	100,00%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction works with regard to engineering structures not elsewhere classified	100,00%	100,00%
„PAK Górnictwo" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Lignite mining	100,00%	100,00%
„Energoinwest Serwis" sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Repair and construction services	100,00%*	100,00%*
„PAK Kopalnia Węgla Brunatnego Konin" SA	62-540 Kleczew ul. 600-lecia 9	Lignite mining	97,53%*	96,23%
„PAK Kopalnia Węgla Brunatnego Adamów" SA	62-700 Turek ul. Uniejowska 9	Lignite mining	99,24%	98,41%
„Aquakon" sp. z o.o.	62-610 Sompolno Police	Production and sale of mineral waters	96,2%*	92,57%*
„Eko-Surowce" sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Railway transport of lignite, sale of lignite	100,00%*	96,23%*
„PAK-Volt" SA	00-834 Warszawa ul. Pańska 77/79	Sale of electricity	100,00%	100,00%
„EL PAK Serwis" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and service of electric devices and machinery	100,00%*	100,00%*

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

As of 30 June 2017, the share in the general number of votes held by the Group in subsidiaries is equal to the Group's share in capitals of these subsidiaries.

As a result of the process of redeeming shares from eligible employees and after the transfer of shares repurchased from the State Treasury, the share of ZE PAK SA Capital Group's companies in the shareholding of PAK Coal Mine of Konin SA increased to 97.53% and in PAK Coal Mine Brunatnego Adamów SA to 99.24%.

On 9 May 2017 PAK Górnictwo sp. Z o.o. has made agreements with PAK KWB Konin SA, PAK Serwis sp. z o.o. and EL PAK sp. z o.o., as a result of which PAK Górnictwo sp. z o.o. acquired shares in the following companies: EL PAK Serwis sp. z o.o., Aquakon sp. z o.o., Eko-Surowce sp. z o.o., Energoinwest Serwis sp. z o.o. On August 1, 2017, the Extraordinary General Meeting of Shareholders of four companies acquired by PAK Górnictwo sp. Z o.o. took resolution on terminating the companies and starting their liquidation as of 1 August 2017. The initiated liquidation process is a consequence of the restructuring of the auxiliary activity towards the main segments of the Capital Group. The activities carried out by the abovementioned companies will be carried out by PAK Górnictwo sp. Z o.o. that takes over the rights and obligations of the liquidated companies.

On 30 June 2017, EL PAK sp. Z o.o. (acquired company) and PAK Serwis sp. z o.o. (acquirer) have merged into one Company pursuant to Art. 492 § 1 point 1 of the CCC by transferring all the assets of EL PAK sp. Z o.o. to PAK Service sp. z o.o. Legal status EL PAK sp. Z o.o. ceased from 1 July 2017. This change in the Group's structure is also a consequence of the consolidation of auxiliary activities to the Group's main segments. As of December 31, 2016 ZE PAK SA held 100% of shares in EL PAK sp. Z o.o.

3. Composition of the Management Board of the parent company

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

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

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

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

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

4. Basis for development of the consolidated financial statement

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

The interim condensed consolidated financial statement does not include all information and disclosures required in the annual financial statement and should be read together with the consolidated financial statement of the Group for the year concluded on 31 December 2016 authorised for issue on 21 March 2017.

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

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

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

As at 30 June 2017, short-term liabilities of the Group exceeded current assets by PLN 43,053 thousand. Taking into account the long-term financial projections indicating the generation of positive cash flows, the consolidated financial statements have been prepared on the assumption that the activities will continue for a period of at least 12 months after the balance sheet date. As at the date of approval of these financial statements, there are no circumstances indicating the continuation of activities of the Group's companies would be threatened, wherein the activities concerning the allocations of certain types of activities between the Companies are carried out. The indicated activities will not affect the limitation of the scope of economic activity conducted by the Capital Group of ZE PAK SA. Relating to information provided in note 15.1, the Management Board of the Company maintains that there are no threats identified for continuation of activity of the Group's companies.

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

After 1 January 2016 both new or revised standards and interpretations obligatory for annual periods beginning on 1 January 2016 have not been published. Standards and interpretations issued but not valid because they have not been approved by EU, or have been approved by EU but have not been applied by the Capital Group, have been presented in the annual financial statement for 2016. In the first half of year 2017 only the MSSF 17 standard – Insurance Contracts, and KIMSF 23 interpretation - Uncertainty Related to the Recognition of Income Taxes, have been published.

The Group has not decided to apply earlier any other standard, that have been published but have not entered into force. Due to planned deadlines for implementing MSSF 9 – Financial instruments and MSSF 15 – Revenues from customer contracts as of 1 January 2018 and MSSF 16 – Leasing from the annual period beginning on 1 January 2019, on the day of approval of this consolidated financial statement, the Group is analysing the impact of the above MSSF on the accounting policies applied by the Group.

As of 30 June 2017 the Group has not yet got reliable estimation of the impact of above MSSF on consolidated financial statement. The Group is planning to carry out detailed analysis and calculations in scope of implementation of MSSF 9 and MSSF 15 in the second half of 2017 and in year 2018 in scope of MSSF 16.

6. Significant principles (policy) of accounting

The principles (policy) of accounting used to prepare the interim condensed consolidated financial statements are coherent with those used for preparing the annual consolidated financial statements of the Group for the year beginning on 1 January 2016. After 1 January 2016 both new or revised standards and interpretations obligatory for annual periods beginning on 1 January 2016 have not been published. Standards and interpretations issued but not valid because they have not been approved by EU, or have been approved by EU but have not been applied by the Capital Group, have been presented in the annual financial statement for 2016. In the first half of year 2017 only the MSSF 17 standard – Insurance Contracts, and KIMSF 23 interpretation - Uncertainty Related to the Recognition of Income Taxes, have been published.

The Management of the company does not foresee that implementation of the above standards and interpretations would have a significant impact on the principles of accounting applied by the Group.

The Group has not decided to apply earlier any other standard, interpretation or change that have been published but have not entered into force yet, in the lights of the EU rules.

7. Essential values based on professional judgement and estimates

The scope of essential values based on professional judgement and estimates has been presented in consolidated financial statement made as on 31 December 2016 and has not been changed in the current year, excluding the items described below.

Evaluation of energy certificates

The Group recognises the energy certificates of origin (green and red certificates) due to the energy generation from renewable energy sources, gas, and peak load co-generation according to fair value at the end of the month, when they were produced. As of the balance sheet date, the Group evaluates certificates of origin to a net value possible to achieve – for the green certificates as of 30 June 2017 to the price amounting to 69.00 PLN/MWh. An impairment write-down is established in case when the sale price possible to achieve diminished by disposition costs is lower than the historical cost of generation.

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

The Group recognises the provision for the redemption of greenhouse gases allowances and certified emission reductions. Due to the conclusion of the period related to the settlement of allocation of allowances of KPRU II, since 1 January 2013, another settlement period of 2013 – 2020 concerning allowances has been applicable. The assumption of this period is granting free EUA allowances to the Group resulting from the production of heat. Although, power engineering was additionally covered by opportunity of derogation resulting from Article 10c of the ETS Directive based on granting additional free allowances, if declared investment expenses for investments reported to the National Investment Plan (KPI) are paid.

In 2016, the emission in ZE PAK Group amounted to 11 456 099 tonnes of CO_2.

In April 2017 the Group made redemption of CO_2 emission for 2016.

As for 30 June 2017, the Group created a provision for the allowances in relation to the actual emission size for the period from 1 January 2017 till 30 June 2017.

Details concerning the provision for liabilities due to the redemption of greenhouse gases emission allowances and certified emission reduction units were presented in note 25.3.1.

8. Change of estimates

Within the 6-month-period concluded on 30 June 2017, except for these described in the financial statement, there were no significant changes in estimated sizes and the methodology of estimates that would affect the current period or future period.

9. Seasonality of the activities

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

10. Operating segments

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

Therefore, there are following operating segments:

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

The Group ZE PAK SA also performs other kinds of activities included in the "Other" column. In first half of 2017 there is the Eko – Surowce sp. z o.o. and Aquakon sp. z o.o. companies' activity.

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

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

The Board monitors separate results of the operating activities of segments in order to decide on allocation of resources, evaluation of this allocation's outcomes, and the results of activities. The basis of assessment of the results of activities is profit or loss on the operating activity and EBITDA (Operating profit without accounting for financial income and expenses, plus depreciation and amortization charges).

Segments' results for periods concluded on 0 June 2017 and 30 June 2016 are presented below:

(in thousands of PLN)

For the period of 6 months ended 30 June 2016 (unaudited)

	Generation	*Mining*	*Renovation*	*Sale*	*Other*	*Consolidation adjustment*	*Total*
Sales revenue to external customers	836 540	3 135	50 005	284 366	3 510	-	1 177 556
Sales revenue between segments	171 501	423 606	113 772	2	45 118	(753 999)	-
Sales revenue	**1 008 041**	**426 741**	**163 777**	**284 368**	**48 628**	**(753 999)**	**1 177 556**
Cost of goods sold	(871 770)	(384 840)	(151 164)	(280 074)	(48 598)	757 472	(978 974)
Gross profit / (loss)	**136 271**	**41 901**	**12 613**	**4 294**	**30**	**3 473**	**198 582**
Other operating income	2 724	6 163	593	22	95	(145)	9 452
Selling and distribution expenses	(1 357)	(3)	-	(248)	(594)	-	(2 202)
Administrative expenses	(18 976)	(23 174)	(9 968)	(2 110)	(2 311)	-	(56 539)
Other operating expenses	(606)	(877)	(394)	(342)	(12)	241	(1 990)
Finance income	13 548	1 292	1 950	71	7	(3 297)	13 571
Finance costs	(18 104)	(8 194)	(1 880)	(65)	(28)	1 894	(26 377)
Profit / loss before tax	**113 500**	**17 108**	**2 914**	**1 622**	**(2 813)**	**2 166**	**134 497**
Income tax expense	(21 551)	(6 191)	(1 262)	(560)	121	(678)	(30 121)
Net profit/loss for the period from continuing operations	**91 949**	**10 917**	**1 652**	**1 062**	**(2 692)**	**1 488**	**104 376**
Profit / (loss) from operating activities, without financial operations and income tax	**118 056**	**24 010**	**2 844**	**1 616**	**(2 792)**	**3 569**	**147 303**
Depreciation / Amortization	62 523	39 561	3 369	38	872	(2 657)	103 706
Change in impairment	-	-	-	-	-	-	-
Ebitda	**180 579**	**63 571**	**6 213**	**1 654**	**(1 920)**	**912**	**251 009**

(in thousands of PLN)

For the period of 6 months ended 30 June 2016 (unaudited)

	Generation	*Mining*	*Renovation*	*Sale*	*Other*	*Consolidation adjustment*	*Total*
Sales revenue to external customers	892 056	5 064	28 491	438 179	3 730	-	1 367 520
Sales revenue between segments	217 551	443 000	113 698	2	47 749	(822 000)	-
Sales revenue	**1 109 607**	**448 064**	**142 189**	**438 181**	**51 479**	**(822 000)**	**1 367 520**
Cost of goods sold	(939 304)	(370 195)	(138 905)	(430 817)	(53 037)	824 971	(1 107 287)
Gross profit / (loss)	**170 303**	**77 869**	**3 284**	**7 364**	**(1 558)**	**2 971**	**260 233**
Other operating income	3 627	6 614	546	-	240	(53)	10 974
Selling and distribution expenses	(1 302)	-	-	(272)	(565)	-	(2 139)
Administrative expenses	(16 037)	(17 352)	(10 129)	(2 245)	(2 034)	2	(47 795)
Other operating expenses	(696)	(1 136)	(442)	(42)	(36)	59	(2 293)
Financial income	2 066	3 010	240	145	6	(293)	5 174
Financial costs	(37 515)	(8 841)	(80)	-	(34)	293	(46 177)
Profit / loss before tax	**120 446**	**60 164**	**(6 581)**	**4 950**	**(3 981)**	**2 979**	**177 977**
Income tax expense	(25 211)	(11 748)	339	(897)	(10)	(565)	(38 092)
Net profit/loss for the period from continuing operations	**95 235**	**48 416**	**(6 242)**	**4 053**	**(3 991)**	**2 414**	**139 885**
Profit / (loss) from operating activities, without financial operations and income tax	**155 895**	**65 995**	**(6 741)**	**4 805**	**(3 953)**	**2 979**	**218 980**
Depreciation / Amortization	53 815	53 453	3 838	32	991	(2 306)	109 823
Change in impairment	-	-	-	-	-	-	-
Ebitda	**209 710**	**119 448**	**(2 903)**	**4 837**	**(2 962)**	**673**	**328 803**

(in thousands of PLN)

11. Revenues and costs

11.1. Sales revenue

	6 months period ended 30 June 2017 (unaudited)	*3 months period ended 30 June 2017 (unaudited)*	*6 months period ended 30 June 2016 (unaudited)*	*3 months period ended 30 June 2016 (unaudited)*
Revenues by type	1 177 556	577 909	1 367 520	687 478
Electricity	758 040	366 492	857 331	432 993
Electricity resold from the market	237 927	127 086	326 814	167 709
Energy certificates of origin	(35)	(388)	19 822	6 014
Construction contracts	44 802	22 271	26 509	17 560
Compensation related to PPAs termination	92 427	43 805	92 023	44 336
Heat	32 382	11 829	32 370	11 476
Other	13 814	7 615	13 033	7 188
Excise	(1 801)	(801)	(382)	202
Total	1 177 556	577 909	1 367 520	687 478

The fall in revenues from the sale of Energy certificates of origin is due to the fact that because of the low prices of green certificates in 2017 the production of energy from biomass unit was stopped.

11.2. Other operating revenues

	6 months period ended 30 June 2017 (unaudited)	*3 months period ended 30 June 2017 (unaudited)*	*6 months period ended 30 June 2016 (unaudited)*	*3 months period ended 30 June 2016 (unaudited)*
Compensations received	1 208	824	3 307	537
Reversal of write-downs against receivables	239	177	11	1
Grants settlements	768	376	893	447
Grants received	5 434	2 118	4 947	2 085
Reversal of provisions for costs and losses and liabilities write-off	1 091	1 089	539	188
Other	712	235	1 277	452
Total	9 452	4 819	10 974	3 710

(in thousands of PLN)

11.3. Other operating expenses

	6 months period ended 30 June 2017 (unaudited)	*3 months period ended 30 June 2017 (unaudited)*	*6 months period ended 30 June 2016 (unaudited)*	*3 months period ended 30 June 2016 (unaudited)*
Loss on the sale of property, plant and equipment	214	188	579	576
Impairment write-down against receivables	230	204	426	88
Compensations paid	17	13	324	55
Electricity-related damages	510	-	-	-
Donations given	73	3	35	35
Cost of trade unions	43	10	190	184
Cost of shortages and damages	29	13	45	26
Other	134	60	131	73
Total	740	620	563	396
Total of other operating expenses	1 990	1 111	2 293	1 433

The main item of „other" for a period of 6 months ended 30 June 2017 is the revaluation of provisions for energy certificates of origin in the amount of PLN 342 thousand.

11.4. Financial income

	6 months period ended 30 June 2017 (unaudited)	*3 months period ended 30 June 2017 (unaudited)*	*6 months period ended 30 June 2016 (unaudited)*	*3 months period ended 30 June 2016 (unaudited)*
Interest income	1 436	667	2 161	1 063
Dividends	201	201	56	56
Foreign exchange gains	11 575	275	147	145
Other	359	27	2 810	10
Total	13 571	1 170	5 174	1 274

11.5. Financial costs

	6 months period ended 30 June 2017 (unaudited)	*3 months period ended 30 June 2017 (unaudited)*	*6 months period ended 30 June 2016 (unaudited)*	*3 months period ended 30 June 2016 (unaudited)*
Interest expenses	15 508	7 211	18 344	9 540
Valuation and realization of financial derivatives	3 672	1 672	3 912	1 916
Foreign exchange losses	601	601	14 748	12 814
Power units utilisation provision discount	277	168	215	108
Reclamation provision discount	4 928	2 464	3 944	2 543
Other	1 391	894	5 014	3 611
Total	26 377	13 010	46 177	30 532

(in thousands of PLN)

The „other" item for a period of 6 months ended 30 June 2017 there are mainly presented the commissions related to unused credit facilities, bank loans and bank guaranties in the amount of PLN 639 thousand and a reversal of discount of actuarial provisions in the amount of PLN 587 thousand.

11.6. Construction agreement

	6 months period ended 30 June 2017 (unaudited)	*3 months period ended 30 June 2017 (unaudited)*	*6 months period ended 30 June 2016 (unaudited)*	*3 months period ended 30 June 2016 (unaudited)*
Revenues from contracts for construction services recognised in the period	44 802	22 271	26 509	17 560
Revenues invoiced in the period	38 293	16 186	22 088	14 397
Balance sheet valuation	6 509	6 085	4 421	3 163
Costs applied in the period	40 692	20 031	21 962	15 245
Expected losses due to the contracts recognised in the period	-	(118)	(46)	(48)
Results due to performance of the contracts included in the period	4 110	2 358	4 593	2 363

	6 months period ended 30 June 2017 (unaudited)	*3 months period ended 30 June 2017 (unaudited)*	*6 months period ended 30 June 2016 (unaudited)*	*3 months period ended 30 June 2016 (unaudited)*
Gross amount payable by contracting parties due to works resulting from the contract	13 838	6 026	3 500	1 435
Gross amount paid to contracting parties due to works resulting from the contract	3 151	(59)	5 809	(1 730)

12. Components of other comprehensive income

Components of other total revenues present as follows:

	6 months period ended 30 June 2017 (unaudited)	*3 months period ended 30 June 2017 (unaudited)*	*6 months period ended 30 June 2016 (unaudited)*	*3 months period ended 30 June 2016 (unaudited)*
Cash flow securities h	0	0	0	0
Profits (losses) for the period	2 806	1 350	(3 912)	(1 916)
Adjustment resulting from reclassification of profits (loses) included in the profit or the loss	387	(20)	6 118	3 037
Gross cash flow securities for the period	**3 193**	**1 330**	**2 206**	**1 121**
Income tax concerning cash flow securities	(607)	(253)	(419)	(213)

(in thousands of PLN)

Net cash flow securities for the period	**2 586**	**1 077**	**1 787**	**908**
Actuarial gross profits (losses) concerning provisions for post-employment employee benefits	**(342)**	**(329)**	**(909)**	**(217)**
Income tax concerning actuarial profits (losses)	65	62	173	41
Actuarial net profits (losses) concerning provisions for post-employment employee benefits	**(277)**	**(267)**	**(736)**	**(176)**
Other gross comprehensive income	**2 851**	**1 001**	**1 297**	**904**
Income tax concerning other comprehensive income	**(542)**	**(191)**	**(246)**	**(172)**
Other net comprehensive income	**2 309**	**810**	**1 051**	**732**

13. Income tax

13.1. Tax load

The main components of tax load for the 6 months ended 30 June 2017 and 30 June 2016 are as follows:

	6 months period ended 30 June 2017 (unaudited)	*3 months period ended 30 June 2017 (unaudited)*	*6 months period ended 30 June 2016 (unaudited)*	*3 months period ended 30 June 2016 (unaudited)*
Included in the profit or the loss	930	547	0	0
Current income tax	0	0	0	0
Current income tax load	5 103	2 567	8 081	3 317
Deferred income tax load	0	0	0	0
Related to creation and reversal of temporary differences	25 017	11 409	29 956	6 941
Other changes	1	788	55	9
Tax load in the consolidated profit or loss	**30 121**	**14 764**	**38 092**	**10 267**
Included in the consolidated statement of the comprehensive income	0	0	0	0
Net profit (loss) tax due to revaluation of cash flow securities	(607)	(253)	(419)	(213)
Actuarial allowance concerning actuarial profits/losses	65	62	173	41
Tax advantage/(tax load) included in comprehensive income	**(542)**	**(191)**	**(246)**	**(172)**

(in thousands of PLN)

13.2. Deferred income tax

Deferred income tax results from the following items:

	30 June 2017 (unaudited)	*31 December 2016*
Deferred tax asset	184 528	236 942
Balance sheet provisions	108 187	127 581
Overburden and other mining assets	7 900	7 571
Interest and exchange rate differences	6 882	11 377
Hedging instruments	1 355	1 910
Valuation of non-terminated agreements for building services	2 192	1 726
Tax loss from previous years	23 391	35 964
Impairment write-down against inventories	1 661	1 936
Impairment write-down against receivables	670	714
Impairment write-downs against fixed assets	3 913	-
Difference between the carrying amount and tax value of fixed assets	166	3 537
Settlements with employees	3 225	5 139
Other	24 986	39 487
Total	184 528	236 942
	508 143	534 303
Provision under deferred income tax		
Difference between the balance sheet value and the tax value of fixed assets	447 286	436 426
Receivables under PPAs	28 504	16 787
Energy certificates	340	2 615
Interest and exchange rate differences	1 110	2 531
Valuation of non-terminated construction agreements	3 098	2 247
Purchased CO_2 allowances	27 698	73 632
Other	107	65
Total	508 143	534 303
After offsetting the balances at the level of the Group companies, the deferred tax is presented as:	497 937	479 357
Asset:	**87 161**	**90 998**
Provision:	**410 776**	**388 359**

In the "other deferred tax asset" item, the main items as of 30 June 2017 consist of PLN 4 940 thousand of the provision for the liability in relation to the Zarządca Rozliczeń (Claims Manager) company in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2016, the amount was PLN 12 589 thousand), PLN 8 214 thousand is a valuation of preferential loans in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2016, the amount was PLN 8 629 thousand), PLN 8 152 thousand is the provision for redemption of CO2 emission allowances in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2016, the amount was PLN 13 728 thousand).

Below, the status of the tax settlements of the Group's companies for tax losses as of 30 June 2017, taking into account the deferred tax was presented.

As of 30 June 2017, Elektrownia Pątnów II sp. z o.o showed the tax loss in the amount of PLN 35 667 thousand. The cumulated value of tax losses as of 30 June 2017 amounted to PLN 44 980 thousand. The Company created a tax asset to the value of the cumulated tax losses, predicting that these losses will be entirely settled with tax incomes from future periods. The value of the created tax asset as of 30 June2017 amounts to PLN 8 546 thousand.

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

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

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

On 24 April 2017, the Company received an individual interpretation of tax law provisions regarding recognition in time of expenses for returning funds to Zarządca Rozliczeń for covering stranded costs as a tax deductible cost. This interpretation assumes that the company's position on the settlement of the aforementioned costs is incorrect.

In the current tax settlements for 2014-2017, the company assumed that the repayment of stranded costs from the company to Zarządca Rozliczeń SA, the validity of which arises from the PPA act, constitute the tax deductible costs at the time of making such payments. The tax authority, on the other hand, acknowledges that the company has the right to recognise the costs as tax deductible costs on the day they are incurred, i.e. accounted in the books of account. In the light of receiving the individual tax interpretation, considering unsettled losses for 2011 the Management assessed that there is no risk of tax arrears on this account. The Company appealed against the received individual interpretation.

As of 30 June 2017, PAK KWB Konin SA settled all tax losses for 2012-2015 in the amount of PLN 22 327 thousand. As of 30 June 2017, the deferred income tax asset is PLN 60 283 thousand.

On 7 July 2017 Pątnów II Power Plant submitted to the Provincial Administrative Court in Poznań (through the Director of the National Tax Information Office), complaining about the above individual interpretation of the tax law.

The purpose of the Management Board is to finally determine the correctness of tax settlements, in the light of tax regulations. The review of Administrative Courts' interpretation line allows believing that the Company applies a correct approach to stranded costs' settlement.

As of 30 June 2017, PAK KWB Adamów SA shows a tax loss in the amount of PLN 15 043 thousand. The deferred income tax asset is PLN 30 228 thousand.

As of 31 December 2016, ZE PAK SA showed the unsettled tax losses asset for 2013-2014 in the amount of PLN 24 414 thousand and the tax loss asset for 2016 in the amount of PLN 133 230 thousand. As of 31 March 2017, the Company achieved a tax profit, thanks to which it could settle and presented the use of the asset for 2013-2014 in whole in the financial statement in the amount of PLN 47 078 thousand.

14. Profit / (loss) per one share

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

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

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

(in thousands of PLN)

	6 months period ended *30 June 2017 (unaudited)*	*3 months period ended* *30 June 2017 (unaudited)*	*6 months period ended* *30 June 2016 (unaudited)*	*3 months period ended* *30 June 2016 (unaudited)*
Net profit / (loss) on continued activities of the parent company's shareholders	103 372	48 058	138 404	64 453
Profit / (loss) on abandoned activities of the parent company's shareholders	-	-	-	-
Net profit / (loss) of ordinary shareholders used for calculation of diluted profit / (loss) per one share	103 372	48 058	138 404	64 453
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547	50 823 547	50 823 547

The table below shows the profit per one share for the period of 6 months ended 30 June 2017 and 30 June 2016 presented in the profit and loss account.

	6-months period ended *30 June 2017 (unaudited)*	*3-months period ended* *30 June 2017 (unaudited)*	*6-months period ended* *30 June 2016 (unaudited)*	*3-months period ended* *30 June 2016 (unaudited)*
Basic and diluted profit / (loss) per share for the financial year attributable to equity holders of the parent	2,03	0,95	2,72	1,27
Basic and diluted profit / (loss) per share from continuing operations attributable to equity holders of the parent	2,03	0,95	2,72	1,27

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

(in thousands of PLN)

15. Tangible fixed assets

6 months period ended 30 June 2017 (unaudited)

	*Land and perpetual usufruct**	*buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2017	235 209	2 014 362	4 862 243	69 615	29 082	243 951	7 454 462
Purchase	-	12	3 507	110	251	19 447	23 327
Repairs	-	-	63 845	-	-	(63 845)	-
Transfer from fixed assets under construction	13 555	5 279	40 054	357	157	(59 402)	-
Sale and liquidation	(521)	(933)	(1 322)	(647)	(151)	-	(3 574)
Gross value as at 30 June 2017	248 243	2 018 720	4 968 327	69 435	29 339	140 151	7 474 215
Depreciation and impairment write-downs as at 31 January 2017	7 932	1 128 103	2 763 323	38 921	20 766	104 171	4 063 216
Depreciation write-down for the period	1 477	22 819	69 757	3 896	912	-	98 861
Impairment write-downs	-	-	-	-	-	-	-
Sale and liquidation	-	(797)	(1 283)	(568)	(147)	-	(2 795)
Depreciation and impairment write-downs as at 30 June 2017	9 409	1 150 125	2 831 797	42 249	21 531	104 171	4 159 282
Net value as at 1 January 2017	227 277	886 259	2 098 920	30 694	8 316	139 780	3 391 246
Net value as at 30 June 2017	238 834	868 595	2 136 530	27 186	7 808	35 980	3 314 933

*this item includes also lands used for opencast mining

(in thousands of PLN)

6 months period ended 30 June 2016 (unaudited)

	*Land and perpetual usufruct**	*buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2016	224 845	1 927 605	3 968 357	70 298	28 563	1 119 881	7 339 549
Purchase	-	31	965	278	251	20 869	22 394
Repairs	-	-	-	-	-	3 796	3 796
Transfer from fixed assets under construction	5 924	73 135	882 710	-	25	(961 794)	-
Sale and liquidation	(1 186)	(509)	(3 407)	(518)	(164)	-	(5 784)
Gross value as at 30 June 2016	229 583	2 000 262	4 848 625	70 058	28 675	182 752	7 359 955
Depreciation and impairment write-downs as at 1 January 2016	5 431	1 024 185	1 994 015	30 556	19 012	791 121	3 864 320
Depreciation write-downs for the period	1 142	27 065	64 845	4 640	1 200	-	98 892
Impairment write-downs	-	51 530	631 517	-	-	(683 047)	-
Sale and liquidation	(7)	(289)	(2 163)	(466)	(159)	-	(3 084)
Depreciation and impairment write-downs as at 30 June 2016	6 566	1 102 491	2 688 214	34 730	20 053	108 074	3 960 128
Net value as at 1 January 2016	219 414	903 420	1 974 342	39 742	9 551	328 760	3 475 229
Net value as at 30 June 2016	223 017	897 771	2 160 411	35 328	8 622	74 678	3 399 827

*this item includes also lands used for opencast mining

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

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

The main reason for analysing the impairment of components identified by the Management is the steady lower market level of the Group's net assets from their balance sheet value. As a result, the identified independent cash flow generation centres have been analysed.

According to MSR 36, cash generating units are the smallest identifiable groups of assets generating revenues from current use that are independent of other assets or group of assets' revenues. If there are any circumstances providing that the given asset might lose some of its value, the recoverable amount of that individual asset is estimated. If the estimation of the recoverable amount of a single asset is not possible, the recoverable amount of the cash-generating unit to which the asset belongs is determined (cash-generating unit of the asset).

By extracting the CGUs within the Group's Companies there has been made the analysis of cash flow generation independence in the aspect of particular Companies operations.

The parent company of the Group, ZE PAK SA, apart from its manufacturing activity within it is responsible for ensuring a certain level of efficiency of production units and realization of production schedules, it also concentrates on significant operational and financial functions at the Group level.

Elektrownia Pątnów II Sp. Z o.o. – second producer of electricity in the Group, under the Act of LTC termination, participates in the programme of covering the stranded costs by the end of 2015.

Final settlement of the programme is planned to be set out in 2026

PAK KWB Konin SA and PAK KWB Adamów SA operate on several lignite open casts.

In these Companies, as profit generating units, the smaller groups of assets generating the independent cash inflow have not been identified, as for many reasons the assets generated by the various asset groups are very closely related. As a result the mine is to deliver a particular amount of coal to the power plant, regardless of the area in which it will originate. The organisational structure and accounting system are subordinated to the set production purpose as well.

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

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

Additionally, other CGUs were separated within the segments: Repairs, Sales and Other.

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

In ZE PAK S.A. there was established one economic benefit generating unit, with the following production assets:

- Pątnów I Power Plant – operation time till 31.12.2030
- Adamów Power Plant- operation time till 1.01.2018
- Konin Power Plant-collector - operation time till 30.06.2020
- Konin Power Plant biomass unit - operation time till 31.12.2047

Estimation of economic benefits generation is possible for each of the above units, nevertheless the inflows depends on each other to a certain extent, therefore they should be considered as one unit.

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

- the forecast of the electricity prices with the division into BASE, PEAK and OFFPEAK was adopted on the basis of the Report on the energy market in Poland prepared for ZE PAK SA by an independent external consultant;
- production assumptions result from the adopted investment and a renovation programme of ZE PAK SA. Reduction of electricity generation from brown coal and maintenance of generation for biomass-fired boiler are assumed.
- in the structure of total revenue in 2016-2017, nearly 87% are revenues from own and purchased electricity. From 2018, due to the exclusion of production in Adamów Power Plant, total revenue will decrease by 30% in relation to 2017. In 2021, another decrease will take place when the units 5 and 6 as well as the boiler part in the Konin Power Plant do not work,
- the Company assumed the use of the free CO_2 emission allowances in the amount resulting from Article 10a of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003,
- the costs of lignite purchased for generation were specified on the basis of the delivery schedule and the prices agreed with the appropriate schedules in financial projections of the subsidiaries,
- the effects of restructuring costs for the withdrawal of the old units in the Konin and Adamów Power Plants were taken into account,
- the weighted average cost of capital after taxation (WACC) in the projection period at the level of 8.45 % was adopted (in 2016 – 7.37 %).

The Company has analysed the published draft law act on the power market in Poland. According to the Company, there is no certainty that the final provisions of the law will not change in the legislative process, which could have an impact on the Company's future results. Therefore, the projections for future cash flows did not take into account the effects on the power market.

The test was conducted on June 30, 2017.

Based on the tests there is no need of recognition of write-offs updating the value of fixed assets.

In case of Elektrownia Pątnów II sp. Z o.o., due to its participation in the program of covering the costs of stranded costs (PPAs) and estimation of inflows because of that, there is no evidence of tangible assets loss of value, requiring testing for that CGU.

Similarly for other CGUs, operating within the segments as Repairs, Sale or Others - no indications of a possible impairment of assets have been identified.

The tests for both lignite mines are based on long-term financial projections covering the life cycles of both mines and their individual openings, which were agreed upon with the assumptions adopted for the ZE PAK SA model. The adaptation of financial projections of the mines to the operating periods of generating units results from the assumption that the Companies of the Capital Group are the only Customers.

The financial projection for PAK KWB Konin S.A. and PAK KWB Adamów S.A. were created with the following parameters taken into account:

- production (coal generation) and revenue volumes were set on the basis of the forecast of the main recipient of coal – ZE PAK S.A. and Elektrownia Pątnów II sp. Z o.o. and their foreseen price way of coal based on lignite open cast funding agreement,
- the overburden removal and coal extraction were developed according to the current exploitation schedule and predicted lignite open casts,
- The level of investment expenditures has been assumed to enable the construction of a new opencast supplying power plants and maintaining specific production capacities in the course of their operation,
- The effects of employment restructuring processes have been taken into account,
- The costs of incidents such as:
    - Reclamation costs of the open casts
    - Pension reserves
    - severance pay for group layoffs

(in thousands of PLN)

  - income of the sale of property after the exploitation of the open casts is finished.

- for KWB, weighted average cost of capital after taxation (WACC) in the projection period for PAK KWB Adamów SA at 7.5% and for PAK KWB Konin SA at the level of 8.0% was adopted; the higher discount rate reflects the higher risk associated with the operation of PAK KWB Konin SA in the long term (longer perspective of the forecast), in particular in relation to investment activities related to the development of new lignite deposits.

On the basis of the conducted tests, it was found that there is no need for recognition of impairment write-downs of the tangible fixed assets for CGU PAK KWB Adamów SA, and for CGU PAK KWB Konin SA.

On the basis of the carried-out analysis and tests results, an increase in the estimated service potential of fixed assets for CGU ZE PAK SA was not determined, therefore, the reversal of impairment write-downs in the amount of PLN 1 880 000 thousands was not conducted.

Sensitivity analysis

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

Zespół Elektrowni Pątnów-Adamów-Konin SA	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
weighted average cost of capital	(PLN 19 million)	PLN 20 million
	(+) increase by 1%	(-) decrease by 1%.
change in sales revenues (electricity price)	PLN 65 million	(PLN 65 million)
	(+) increase by 5%	(-) decrease by 5%.
change in cost of sales (price of 1 EUA)	(PLN 44 million)	PLN 44 million

On March 13, 2017, PAK KWB Konin SA received a decision from the Regional Director for Environmental Protection in Poznan refusing to determine the environmental conditions for the project under the name: "Extraction of lignite and associated minerals from Ościsłowo open cast". The decision of RDEP in Poznań is not final and PAK KWB Konin SA appealed to the General Directorate for Environmental Protection in Warsaw, in accordance with the law, on 22 March 2017. The appeal was filed to set aside the contested decision entirely and to determine the environmental conditions for the implementation of the project. Based on the legal analysis, the Management Board believes there are real reasons to expect that the final decision will be positive in case of application of solutions proposed by PAK KWB Konin SA. On 23 June 2017 PAK KWB Konin SA received a notice from the General Director for Environmental Protection in Warsaw, stating that due to the complex nature of the case, a new deadline was set for September 22, 2017.

As a result, the Company's Management Board maintains a position regarding Ościslowo open cast, presented in the consolidated financial statements for 2016, as of March 21, 2017, and upholds these assumptions for impairment testing as of June 30, 2017.

PAK KWB Konin SA	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
Weighted average cost of capital	(PLN 65 million)	PLN 74 million
	(+) increase by 1%	(-) decreases by 1%
Change in sales revenues	PLN 45 million	(PLN -45 million)

In case of a decrease in revenues from sales by 0.8% in a perspective of the forecast as the other parameters of the recoverable value evaluation remain unchanged and in case of decrease of the weighted average cost of capital by 0.46 percentage points, while the other model parameters are unchanged, the recoverable value of the CGU would be equal to the balance sheet value.

(in thousands of PLN)

PAK KWB Adamów SA	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
weighted average cost of capital	PLN 4 million	(PLN 4 million)
	(+) increase by 1%	(-) decrease by 1%
change in sales revenues	PLN 2 million	(PLN 2 million)

In the case of a decrease in revenues from sales by 15.5% in a perspective of the forecast as the other parameters of the recoverable value evaluation remain unchanged and in case of decrease of the weighted average cost of capital by 5.2 percentage points, while the other model parameters are unchanged, the recoverable value of the CGU would be equal to the balance sheet value.

16. Lease

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

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

As of 30 June 2017, and 31 December 2016, future minimal lease payments due to financial lease agreements and lease agreements with purchase option, as well as current value of minimal net lease payments are as follows:

	as at 30 June 2017 (unaudited)		*as at 31 December 2016*	
	minimum payments	*present value of payments*	*minimum payments*	*present value of payments*
Up to 1 year	1 712	1 339	7 572	7 189
1 to 5 years	3 477	3 348	4 249	3 962
Over 5 years	-	-	-	-
Total minimum lease payments	5 189	4 687	11 821	11 151
Minus financial expenses	(502)	-	(670)	-
Present value of minimal lease payments, including::	4 687	4 687	11 151	11 151
Short-term	1 339	1 339	7 171	7 189
Long-term	3 348	3 348	3 980	3 962

(in thousands of PLN)

17. Intangible assets

Long-term intangible assets – 6 months period ended 30 June 2017 (unaudited)

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as at 1 January 2017	114 503	21 540	1 998	431	138 472
Transfer EUA *	(123 225)	-	-	-	(123 225)
Decrease	-	-	(45)	(2)	(47)
Increase	8 722	-	8	-	8 730
Gross value as at 30 June 2017	-	21 540	1 961	429	23 930
Depreciation and impairment write-downs as at 1 January 2017	-	16 943	1 903	344	19 190
Depreciation write-down for the period	-	538	59	11	608
Impairment write-down	-	-	-	-	-
Decreases	-	-	(45)	-	(45)
Depreciation and impairment write-downs as at 30 June 2017	-	17 481	1 917	355	19 753
Net value as at 1 January 2017	114 503	4 597	95	87	119 282
Net value as at 30 June 2017	-	4 059	44	74	4 177

* *transfer to a short-term part*

(in thousands of PLN)

Long-term intangible assets – 6 months period ended 30 June 2016 (unaudited)

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as at 1 January 2017	12 054	19 558	1 949	396	33 957
Transfer EUA *	(18 764)	-	-	-	(18 764)
Decrease	-	-	(3)	-	(3)
Increase	6 710	1 850	55	-	8 615
Gross value as at 30 June 20176	-	21 408	2 001	396	23 805
Depreciation and impairment write-downs as at 1 January 2016	-	14 525	1 719	324	16 568
Depreciation write-down for the period	-	573	101	5	679
Impairment write-down	-	-	-	-	-
Decreases	-	-	(3)	-	(3)
Depreciation and impairment write-downs as at 30 June 2016	-	15 098	1 817	329	17 244
Net value as at 1 January 2016	12 054	5 033	230	72	17 389
Net value as at 30 June 2016	-	6 310	184	67	6 561

* *transfer to a short-term part*

(in thousands of PLN)

Short-term intangible assets

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
	CO_2 Emission units (EUA)	*CO_2 Emission units (EUA)*
Gross value as of 1 January	273 036	354 389
Purchase of EUA	62 621	181 433
Redemption of EUA	(313 105)	(354 389)
Transfer EUA	123 225	18 764
Gross value as at 30 June 2017	145 777	200 197
Redemption and impairment as of 1 January	-	-
Impairment write-down of a period	-	-
Redemption and impairment as of 30 June	-	-
Net value as of 1 January	273 036	354 389
Net value as of 30 June	145 777	200 197

18. Assets for overburden removal and other mining assets

As of 30 June 2017, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets of PAK KWB Konin in the amount of PLN 76 448 thousand.

	30 June 2017 (unaudited)	*31 December 2016*
as at 1 January	80 524	94 057
Increases	322	1 306
Decreases	-	(455)
Depreciation for the period	(4 237)	(14 384)
as at the end of the period	76 609	80 524
long-term	76 609	80 524
short-term	-	-

(in thousands of PLN)

19. Other assets

19.1. Other financial assets

	30 June 2017 (unaudited)	*31 December 2016*
Deposits for debt service security	73 027	76 484
Investments and deposits	4 933	2 540
Investments and FLZG and FRZG deposits	6 182	7 810
Shares	220	167
Other	1 911	2 261
Total other financial assets	86 273	89 262
short-term	74 294	77 317
long-term	11 979	11 945

19.2. Other non-financial assets

	30 June 2017 (unaudited)	*31 December 2016*
VAT receivables	2 040	22 184
Insurance	2 047	1 561
Other receivables from the state budget	4 047	-
Other accruals	9 145	3 359
Delivery prepayments	491	905
Prepayments for intangible assets	187	187
Prepayments for assets under construction	5 880	5 880
Other	2 464	426
Total other non-financial assets	26 301	34 502
short-term	20 696	28 776
long-term	5 605	5 726

The main components of „other accruals" as at 30 June 017 are the settlements concerning the license fees in the amount of PLN 852 thousand, settlements concerning the fees for land exclusion from agricultural and forestry production in the amount of PLN 2 472 thousand, settlements connected with the costs of property valuation in the amount of PLN 911 thousand, settlements connected with the settlements during construction works in the amount of PLN 1 628 thousand.

The main components of "other" item there is the concession fee connected with the sale of electricity in the amount of PLN 263 thousand, property insurance in the amount of PLN 609 thousand.

(in thousands of PLN)

20. Inventories

	30 June 2017 (unaudited)	*31 December 2016*
Production fuel	10 216	9 161
Spare parts and other materials	81 648	74 608
Certificates of origin of energy	4 659	21 406
Goods	197	121
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	96 720	105 296

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

As of 30 June 2017, the Group possessed in total, according to entries in the records, 39 836.654 MWh of property rights of green certificates including 4014.442 MWh of the produced and not yet verified by ERO green energy for production in June 2017..

In the first half of 2017, the Group received outstanding certificates for 2016 in number of 219 465.611 MWh for generation in July-December 2016, which were successively sold. During the current reporting period, the Group stopped the generation from renewable sources because of too low allowance prices on the market.

Impairment allowance for inventories of property rights as at 31 March 30 June 2017 in the amount of PLN 548 thousand concerns the revaluation of rights in the Group's condition at 31 March 30 June 2017 to the unit price of 22.46 PLN / MWh.

21. Trade receivables and other receivables

	30 June2017 (unaudited)	*31 December 2016*
Trade receivables	124 156	126 793
Receivables due to compensation related to the termination of the PPAs	150 020	88 350
Receivables due to security of purchase of electricity in the balancing market	7 685	8 674
Other receivables	18 698	22 208
Net receivables	300 559	246 025
Write-down of receivables impairment	41 516	41 947
Gross receivables	342 075	287 972

In the other receivables line, as of 30 June 2017, the Group presents mainly receivables due to the security deposit in the amount of PLN 13 959 thousand.

Terms of transactions with affiliates are presented in the note 31.

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

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

(in thousands of PLN)

22. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, that amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 30 June2017 amounts to PLN 255 389 thousand (as of 30 June 2016: PLN 325 316 thousand).

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

Cash structure

	30 June2017 (unaudited)	*30 June 2016 (unaudited)*
Cash in hand and at bank	199 544	206 181
Short-term deposits	55 845	119 135
Total cash and cash equivalents in the balance sheet	255 389	325 316
Foreign exchange differences	92	(662)
Total cash and cash equivalents in cash flow statement	255 481	324 654

Clarification of changes in balance sheet items and changes in items included in the cash flow statement

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Depreciation	-	-
Depreciation revealed in the profit and loss account	103 706	109 823
Grant settlement	(5 919)	(6 388)
Depreciation revealed in cash flow statement	97 787	103 435

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Receivables:	-	-
Balance sheet change in trade receivables and other receivables	(54 534)	(27 159)
Balance sheet change in other long and short-term non-financial assets	8 201	(1 964)
Balance sheet change in amounts due from clients under PPAs	(5 670)	(151)
Change in advances for fixed assets under construction	-	(1 166)
Other changes	(566)	(263)
Change in receivables shown in the cash flow statement	(52 569)	(30 703)

(in thousands of PLN)

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Liabilities:	-	-
Balance sheet change in trade liabilities and other financial liabilities, long and short-term	(91 817)	(81 188)
Balance sheet change in other non-financial liabilities	(52 396)	(53 889)
Balance sheet change in amounts owed to contracting authority under long-term contracts	(839)	(4 271)
Change in liabilities under investment settlements	11 528	62 628
Purchase of debt securities	(54)	5 030
New lease agreements and payment of lease liabilities	6 460	8 073
Other changes		
Change in liabilities shown in the cash flow statement	(5 431)	253
Balance sheet change in trade liabilities and other financial liabilities, long and short-term	(132 549)	(63 364)

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Provisions, prepayments and accruals and employee benefits:		
Change in provisions and prepayments	(122 715)	(189 547)
Change in long and short-term employee benefits	(286)	(244)
Change in provision under CERs redemption	313 105	354 389
Change in actuarial provisions indicated in other comprehensive income	(342)	(909)
Other changes	(161)	(755)
Change in provisions, prepayments and accruals and employee benefits	189 601	162 934

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Inventories	-	-
Balance sheet change in inventories	8 575	14 366
Other changes	-	-
Change in inventories shown in the statement of cash flows	8 575	14 366

23. Payment of dividend

Dividend from ordinary shares for 2016, paid on 16 August 2017, amounted to PLN 65,562 thousand.

Dividend per share paid for 2016 amounted to PLN 1.29.

Due to the loss in 2015, the dividend for 2015 was not paid out in 2016.

(in thousands of PLN)

24. Interest-bearing loans and borrowings

Short-term	*Maturity*	*30 June 2017 (unaudited)*	*31 December 2016*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	137 484	142 567
Overdraft facility at BZ WBK in the amount of PLN 50 000 thousand; interest rate at WIBOR 1M + bank margin	30.06.2018	36 571	28 670
Loan agreement in the amount of PLN 66 700 thousand in Alior Bank SA - interest rate at WIBOR 1M + bank margin	30.05.2018	46 846	63 061
Revolving loan in the amount of PLN 76 500 thousand in Bank Millennium SA, interest rate at WIBOR 1M + bank margin	31.12.2017	14 382	28 765
Syndicated overdraft in PEKAO SA in the amount of PLN10 000 thousand, interest rate at WIBOR 1M+ bank margin	30.11.2017	930	-
Bank loan (syndicated) in the amount of PLN 577 000 thousand (Loan A), interest rate at WIBOR 3M+ bank margin	20.03.2020	143 955	146 260
Bank loan in the amount of PLN90 000 thousand (Loan B). interest rate at WIBOR 3M+bank margin	20.03.2020	12 197	12 369
Syndicated overdraft in Alior Banku SA in the amount of PLN 1 000 thousand, interest rate at WIBOR 1M+bank margin	31.05.2017	-	266
Total		**392 365**	**421 958**

Long-term	*Maturity*	*30 June 2017 (unaudited)*	*31 December 2016*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	168 787	244 556
Syndicated investment loan in amount of zloty 577 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.03.2020	216 924	283 045
Syndicated overdraft facility in amount of zloty 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.03.2020	55 164	60 250
Total		**440 875**	**587 851**

(in thousands of PLN)

25. Provisions and accruals

25.1. Accruals

	30 June 2017 (unaudited)	*31 December 2016*
Bonus and holiday leave provision	25 548	29 371
Insurance company compensations	241	16
Audit of the financial statement	46	570
Others	19 908	1 886
Total	45 743	31 843
short-term	45 742	31 843
long-term	1	-

The main component of the "Other" item is the economic use of the environment in the amount of PLN 18,609 thousand.

(in thousands of PLN)

25.2. Change in provisions

	Provision for EUA redemption	*Provision for the fixed assets liquidation costs*	*Provision for the reclamation of ash storage yards*	*Provision for the long-term contract loss*	*Provision for the certificates of origin of energy redemption*	*Reclamation provisions and other provisions related to mining activities*	*Other*	*Total*
as at 1 January 2017	**313 105**	**16 848**	**1 005**	**13**	**7 838**	**307 837**	**37 552**	**684 198**
increase	168 094	278	235	123	304	17 152	3 851	190 037
decrease	(313 105)	(1 002)	(50)	(119)	(3 243)	(3 938)	(5 194)	(326 651)
as at 30 June 2017 ***(unaudited)***	**168 094**	**16 124**	**1 190**	**17**	**4 899**	**321 051**	**36 209**	**547 584**
Long-term	-	16 124	990	-	-	303 359	6 187	326 660
Short-term	168 094	-	200	17	4 899	17 692	30 022	220 924
as at 1 January 2016	**354 389**	**16 419**	**1 698**	**148**	**9 449**	**330 561**	**53 487**	**766 151**
increase	164 539	214	-	5	463	1 471	5 683	172 375
decrease	(354 389)	-	(269)	(137)	(5 938)	(5 849)	(8 677)	(375 259)
as at 30 June 2016	**164 539**	**16 633**	**1 429**	**16**	**3 974**	**326 183**	**50 493**	**563 267**
Long-term	-	16 633	863	-	-	307 069	6 581	321 146
Short-term	164 539	-	566	16	3 974	19 114	43 912	232 121

25.3. Description of significant titles of provisions

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

The Group recognises the provision for the redemption of greenhouse gases emission allowances.

Since 1 January 2013, the next reporting period of 2013 – 2020 concerning emission allowances has been applicable. The assumption of this period is the allocation of free EUA rights resulting from the production of heat, but the energy sector has additionally been a subject to derogation.

Derogation resulting from Article 10c of the ETS Directive is based on granting additional free allowances, provided that declared investment expenses for investments reported to the National Investment Plan are paid. The ZE PAK SA submits to the Ministry of the Environment the annual material and financial statements from investment expenses paid for tasks reported to the National Investment Plan, applying for granting free EUAs for the subsequent reporting years at the same time.

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

In 2016, the emission in the ZE PAK SA Group amounted to 11 456 099 tonnes of CO2.

As of 1 January 2017, the Group held physically EUAs in the number of 13 820 841 on its accounts in the Union Registry. In February 2017, the Group received free EUAs for heat for 2017 (Article 10a of the ETS Directive) in the amount of 83 317 EUAs. In addition, in the first quarter of 2017, the Group completed purchases of emission allowances under futures contracts concluded at the turn of 2015 and 2016 for the production needs of 2016. After these operations, the levels of the held EUAs on the Group's accounts in the Union Registry, as of 31 March 2017, amounted to 15 249 158. 3 793 059 EUAs remaining on the Group's accounts in the Union Register, after the redemption process in April 2017, will be used for the needs of the redemptions of 2017.

The provision for the burden of core operating activities for the purchased CO_2 emission allowances, which the Group wants to present for the redemption for 2017, is being created. As the actual redemption of allowances happens, the provision created earlier will be used.

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

The Group creates the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the "Integrated Permits." The basis of estimation of the provision size are specialised studies and technical and economical expert reports developed by domestic services or external experts. The value of the provision is estimated and verified on every balance sheet date on the basis of current cost estimates and a discount. As of 30June 2017, the created provision amounted to PLN 1 190 thousand.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group creates the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 30 June 2017, the provision due to this amounted to PLN 16 124 thousand.

25.3.3. Reclamation provisions and other provisions related to mining activities

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

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

As at the date of preparation of this condensed interim financial statement, works related to updating of the level of reclamation reserves in respect of the PAK KWB Konin SA open pit mines are being carried out.

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

The provision for the liquidation of facilities and reclamation of mining areas, and due to preparation of exploration areas in PAK KWB Konin and PAK KWB Adamów according to the status as of 30 June 2017 amounted to PLN 304 266 thousand and increased in comparison with the year concluded on 31 December 2016 by PLN 13 215 thousand. While calculating the provision, the Group accepted the following assumptions: the discount rate at the level of 3.5%, inflation at the level of 2.5%.

25.3.4. Provision for redemption of energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation. As of 30 June 2017, the provision due to this amounted to PLN 4 899 thousand.

25.3.5. Other provisions

The main items of other provisions as of 30 June 2017 are, in PAK KWB Konin: provisions for mining damage in the amount of PLN 8 345 thousand, provisions for pending legal proceedings in the amount of PLN 425 thousand, provision for remuneration for mining usufruct in the amount of PLN 2 564 thousand; in PAK KWB Adamów: provisions for permanent taking out of production for the final reservoir of the Adamów open pit in the amount of PLN 15 828 thousand, provision for mining damage in the amount of PLN 3 383 thousand, provision for court proceedings in the amount of PLN 684 thousand, provision for remuneration for mining usufruct in the amount of PLN 642 thousand, provision related to the settlement of purchase of fixed assets from the mine liquidation fund in the amount of PLN 522 thousand. In addition, in EL PAK, the provisions for warranty repairs in the amount of PLN 2 503 thousand.

26. CO2 emission allowances

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

In September 2016, the Ministry of Environment issued the sample of a material and financial statement, which is sent annually by the ZE PAK SA Capital Group to the Ministry in the scope of incurred investment expenses for investment tasks reported to the National Investment Plan in order to use derogation for power engineering within Article 10c of the ETS Directive. The Group submitted a material and financial statement to the Ministry of the Environment for the incurred investment expenses from 1 July 2015 to 30 June 2016. However, due to the uncertainty regarding the emergence of a dual-commodity energy market, including power market, which will have a direct impact on the possible modernisation of units nos. 3 and 4 in the Pątnów Power Plant, despite showing further small expenses, the Group has not applied for free allowances in view of the possible need to return them for not carrying out further modernisation of these units. Therefore, the Group did not receive EUAs for 2016 under Article 10c.

For Elektrownia Pątnów II sp. z o.o. system, a specified number of CO2 emission allowances were allocated. However, for this system, any investment task that would cover receivables for CO2 emission allowances were not reported to the National Investment Plan (KPI), so allocation of free EUA units for this system depends on expenses for tasks conducted for the systems of ZE PAK SA. In 2013-2016, ZE PAK SA did not incur significant expenses so that the part of them would meet the requirements for receiving free EUA allowances by the Pątnów II Power Plant. Currently, Elektrownia Pątnów II sp. z o.o. does not assume that it will receive any free allowances for surplus of the expenses incurred by ZE PAK SA.

In 2016, the emission in the ZE PAK SA Group amounted to 11 456 099 tonnes of CO2.

As of 30 June 2017, the Group held physically EUAs on its accounts in the Union Registry in the number of 4 903 059 of which 4 665 715 tonnes (ZE PAK SA) and 237 344 tonnes (Elektrownia Pątnów II sp. z o.o.). In the first half of

(in thousands of PLN)

2017, the Group received free EUAs for heat for 2017 (acc. to Art. 10a of the ETS Directive) in the amount of 83 317 EUAs. In addition, in the first quarter of 2017, the Group completed purchases of emission allowances under futures contracts concluded at the turn of 2015 and 2016 for the production needs of 2016. Additionally 1 110 000 was purchased on the SPOT market Throughout 2017, the Group will continue to purchase CO_2 emission allowances both on the SPOT market and in futures contracts. In April 2017, the Group redeemed the CO_2 emission for 2016 in the amount of 11 456 099 tonnes.

The tables below present carbon dioxide emission allowances granted in the scope of the National Allocation Plan for Allowances, purchased on the secondary market in periods concluded on 30 June 2017 and 30 June 2016

CO2 emission allowances in the 6 months period ended 30 June 2017 (unaudited)

(in tonnes)		***Zespół Elektrowni Pątnów-Adamów-Konin SA***	***Elektrownia Pątnów II sp. z o.o.***
	CO_2 emission*	4 023 281	1 413 131
EUA	Balance at the beginning of the period	12 900 660	920 181
	Purchased	1 110 000	1 345 000
	Free of charge	83 317	-
	Redemption	(9 428 262)	(2 027 837)
	Balance at the end of the period	4 665 715	237 344

CO2 emission allowances in the 6 months period ended 30 June 2016 (unaudited)

(in tonnes)		***Zespół Elektrowni Pątnów-Adamów-Konin SA***	***Elektrownia Pątnów II sp. z o.o.***
	*CO_2 emission**	4 808 926	1 287 054
EUA	Balance at the beginning of the period	9 689 990	2 567 596
	Purchased	6 944 500	526 000
	Free of charge	430 676	-
	Redemption	(9 907 506)	(2 350 415)
	Balance at the end of the period	7 157 660	743 181

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

27. Trade liabilities, other liabilities and accruals

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

	30 June 2017 (unaudited)	*31 December 2016*
Trade liabilities	89 390	186 493
Liabilities due to the put option	3 755	6 061
Investment liabilities	1 581	12 814
Liabilities to employees due to salaries	17 976	15 325
Financial lease liabilities	1 339	7 189
Other	97 789	74 780
Total	211 830	302 662

In the “other liabilities” item as of 30 June 2017, the Group presents mainly liabilities due dividend in the amount of PLN 65 562 thousand, liabilities related to settlement of adjustment of PPA for 2008, on the basis of the judgement of the Court of Appeal in Warsaw of 4 November 2014 and an agreement of 2 October 2014 concluded between the Elektrownia Pątnów II Sp. Z o.o. and Zarządca Rozliczeń in the amount of PLN 26 125 thousand (PLN 66 573 thousand as of 31 December 2016). The remaining amount in the other liabilities item as of 30 June 2017 concerns mostly settlements with employees and deductions from the pay roll amounting to PLN 2 399 thousand (PLN 5 315 in 2016), liabilities for the Company Social Insurance Fund in the amount of PLN 429 thousand, and settlements due to security amounting to PLN 1 830 thousand (PLN 1 579 thousand in 2016).

(in thousands of PLN)

Liabilities due to the "put" option concern obligation of ZE PAK to redeem the employee shares pursuant to the PAK KWB Konin and PAK KWB Adamów's shares sale agreement. The agreement's provisions determine the price and the term of redemption. In accordance with IFSR, ZE PAK recognised the obligation to redeem shares owned by non-controlling interests on the day of the acquisition of control. In relation with the ongoing process of the employee shares redemption, as of 30 June 2017, the remaining liability amount is PLN 3 755 thousand.

Principles and terms of payment of above financial liabilities:

Terms of transactions with affiliates are presented in the note 31 of additional information and explanations.

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

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

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

	30 June 2017 (unaudited)	*31 December 2016*
Liability due to financial lease	3 348	3 962
Short-term liabilities to other entities – over 12 months	440	483
Other	297	624
Total	4 085	5 069

27.3. Other non-financial liabilities

	30 June 2017 (unaudited)	*31 December 2016*
VAT tax liabilities	22 571	13 637
Liabilities due to environmental charges	-	48 650
Liabilities due to the excise tax	803	543
Liabilities due to social insurance	21 736	24 373
Personal income tax	4 926	6 200
Other budget liabilities	379	7 405
Advanced payments for deliveries	2 033	4 299
Service charge	10 689	10 771
Other	898	553
Total	64 035	116 431

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

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

(in thousands of PLN)

27.4. Derivative financial instruments

	30 June 2017 (unaudited)	*31 December 2016*
Instruments securing floating interest rates (SWAP)	6 578	10 053
Other currency options	556	-
Total	7 134	10 053
Short-term	4 965	5 759
Long-term	2 169	4 294

27.5. Grants and deferred income (long-term)

	30 June 2017 (unaudited)	*31 December 2016*
Long-term grants	42 256	43 006
Other	292	296
Total	42 548	43 302

27.6. Grants and deferred income (short-term)

	30 June 2017 (unaudited)	*31 December 2016*
Settlement of short-term return lease	-	5 163
Short-term grants	1 502	1 502
Other	2	5
Total	1 504	6 670

28. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in the note below, as of 31 March 2017, the Group did not possess other contingent liabilities, granted guarantees, and sureties

28.1. Court proceedings

The court proceedings did not change from those presented in the financial statement for the year ended 31 December 2016, except from those mentioned below.

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

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

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

Whereas, in 2015 and 2016, compensation revenues amounted to PLN 173 435 thousand and PLN 207 158 thousand respectively. The higher level of compensations in 2016 is due to the fact that major overhaul were conducted in the third quarter of 2016 that contributed to the company's lower revenues and generated higher maintenance and operation costs for the conducted overhaul.

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

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

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

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

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

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

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

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

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

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

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

The judgement of the Court of Appeal in Warsaw of 4 November 2014 is legally binding and is subject to execution by Elektrownia Pątnów II sp. z o.o. In accordance with the arrangements made between Elektrownia Pątnów II sp. z o.o.

and Zarządca Rozliczeń SA, the amount being the dispute subject is subsequently repaid to Zarządca Rozliczeń SA according to the adopted payment schedule. The las payment was made on July 28, 2017.

Proceedings due to determining the amount of the annual adjustment of the stranded costs for 2016

On 27 March 2017, the President of the Energy Regulatory Office ("the ERO President") initiated ex officio administrative proceedings in order to determine the amount of the annual adjustment of stranded costs for 2016 for Elektrownia Pątnów II sp. z o.o. On 27 July 2017 the President of ERO issued a decision fixing the annual cost of stranded costs for Elektrownia Pątnów II sp. z o.o. for 2016 in the amount of PLN 88 354 thousand.

The proceeding is completed.

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

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

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

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

On 13 May 2015, the Court of Appeal in Warsaw dismissed the Company's appeal against the judgement of the Court for Protection of Competition and Consumers of 30 January 2014 that consequently upholds the decision of the ERO President.

On 11 December 2015, the Company submitted a cassation appeal from the judgement of the Court of Appeal of Warsaw of 13 May 2015 before the Supreme Court.

On 22 March 2017, the Supreme Court issued a judgement, which revoked the contested sentence of the Court of Appeal in Warsaw of 13 May 2015 and handed over the case to the Court of Appeal in Warsaw for repeated examination and stating on costs of cassation proceedings.

The proceedings are not completed.

Proceedings on refund of excise duty overpayment

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

As of 1 March 2009, the Act of 6 December 2008 on excise duty entered into force, according to which the sale of electricity to an entity which is not its final customer is not subject to excise duty.

Due to the above fact, pursuant to Article 75 § 1, in relation to Article 75 § 2 of the Act of 29 August 1997 – Tax Ordinance, ZE PAK SA submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008, as well as January and February 2009 for the total amount of zloty 626 000 thousand, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK SA are not subject to the excise tax. Particular applications were recognised at the following levels: the Customs Office in Kalisz, the Customs Chamber in Poznań, and, currently, the Provincial Administrative Court in Poznań („PAC"), as well as the Supreme Administrative Court. Due to the position of judicature presented in the course of court proceedings, the amount of overpayment, the repayment of which the Company submits, has been reduced to the amount of damages caused by economic analyses, i.e. currently up to the amount of approximately PLN 108 000 thousand.

Moreover, in association with the rulings of the Administrative Courts regarding other power companies, in the subject of overpaid excise duty and the resolution I GPS 1/11 of the National Administrative Court (”NSA”) of 22 June 2011 (where the NSA ruled that transferring the tax load in price, excludes the possibility to return the overpayment), notwithstanding the ongoing administrative proceedings, on 10 February 2012, the Company initiated a civil-law proceedings, filling an application to summon the State Treasury to a conciliation hearing regarding the amount of PLN 626 406 thousand, to the District Court Warszawa Śródmieście. A conciliatory settlement was not reached since during the hearing of 16 April 2012, the representatives of the Treasury did not agree to settle. Simultaneously, the Company, waiting for the results of the tax proceedings regarding the previously submitted application for overpayment, submitted in writing, on 14 September 2012, in the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic analysis, the purpose of which was to demonstrate whether the Company suffered loss related to the payment of excise tax to which it was not obliged. The Company's opinion is that the submitted document also applies to other overpayment applications from the entire period embraced by the proceedings, i.e. between January 2006 and February 2009. Ultimately, all applications were included in the cause lists of the Provincial Administrative Court (WSA) and the Supreme Administrative Court (NSA). As of the date of development of this statement, the status of the proceeding is as follows:

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

Notwithstanding the foregoing proceedings, ZE PAK SA lodged a complaint against the actions of the Polish authorities to the European Commission (“EC”), pursuant to art. 258 of the Treaty on the Functioning of the European Union. The opinion issued by the EC may oblige the Polish tax authorities to pass a ruling beneficial to ZE PAK SA. On 21 March 2017, ZE PAK SA received a “pre-closure letter” from the EC, which initially denied the relevance of ZE PAK SA's position, however, at the same time giving the right to a second comment on the subject, which ZE PAK SA exercised. On 9 June 2017, a letter summarising the reasoning of ZE PAK SA, in terms of the overpaid excise tax. Currently, ZE PAK SA is awaiting the EC to take the final position on the case in question.

In case of the Elektrownia Pątnów II sp. z o.o., the proceedings for all periods (one case) were included in the cause lists of the Provincial Administrative Court after a negative decision of the Head of Customs Chamber. The aforementioned company does not have access to comparative analyses of suffering the prejudice. On 4 November 2015, a hearing in the Provincial Administrative Court in Poznań took place. On 18 November 2015, a negative ruling was given. On 8 February 2016, the company filed a cassation appeal to the Supreme Administrative Court. Currently, the Elektrownia Pątnów II sp. z o.o. is awaiting the setting of a hearing before the Supreme Administrative Court

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

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

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

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

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

The proceeding is in progress.

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

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

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

(in thousands of PLN)

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

Proceedings on an environmental decision on lignite deposit in Ościsłowo

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017, refusing the establishment of the environmental conditions for the investment titled: "Extraction of lignite and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. PAK KWB Konin SA appealed accordingly to the General Directorate for Environmental Protection in Warsaw. The appeal included a request to revoke the appealed ruling in its entirety and determine the environmental conditions for the execution of the above-mentioned project. On 23 June 2017, PAK KWB Konin SA received a notification from the General Director for Environmental Protection in Warsaw stating that, due to the complicated nature of the case, a new settlement date was set for 22 September 2017. The proceedings for issuing the environmental decision were initiated on 16 September 2015.

Dispute of PAK KWB Konin S.A. with FUGO S.A. for contractual penalties and unfounded enrichment

The proceeding has expired – FUGO SA cannot complain to the court about payment of the indicated amounts.

28.2. Tax settlements

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

Tax settlements may be subject to inspection for a period of five years, starting from the end of the year of the tax payment. As a result of the conducted inspections, the current tax settlements of the Group may be increased by additional tax liabilities. In the Group's opinion, as of 30 Jun 2017 and 31 December 2016, appropriate provisions for the recognised and calculable tax risk were created.

29. Liability repayment securities

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

As at 30 June 2017, the Group did not record any changes in liabilities secured on the assets and other repayment obligations in relation to the state at 31 December 2016, except for the following items.

Liabilities secured with the entity's assets

Kind of liabilities, guarantees, and sureties	*30 June 2017 (unaudited)* Security amount	*Currency*	*31 December 2016* Security amount	*Currency*
EL PAK SERWIS sp. z o.o.				
1. Payment-bid security				
1.1. Agreement with PAK KWB KONIN SA for electrical service	-	PLN	3	PLN
PAK Kopalnia Węgla Brunatnego Konin SA				
1. Registered and financial pledges				
1.1 Registered pledge on machines and devices, including	115 050	PLN	100 500	PLN

(in thousands of PLN)

assignment of insurance policy				
Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.				
1. Registered pledge				
1.1. Registered pledge for Bank BGŻ BNP PARIBAS on fixed assets	5 674	PLN	-	PLN
Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK sp. z o.o.				
1. Payment-bid security				
1.1. Cash - transfer of deposit	50	PLN	255	PLN

Other securities of liabilities

Kind of liabilities, guarantees and sureties	*30 June 2017 (unaudited)* *Security amount*	*Currency*	*31 December 2016* *Security amount*	*Currency*
Elektrownia Pątnów II sp. z o.o.				
1. Assignment				
1.1. Assignment from the Framework Electricity Sales Agreement no. TPE/HOU/2009/0082 concluded on 30.04.2009 between EPII and TAURON Polska Energia SA including Transaction Agreements for 2017	-	PLN	121 381	PLN
1.2. Assignment from the Framework Electricity Sales Agreement no. SPOT/127/EPII/Inter Energia/2009 concluded on 9.12.2009 between EPII and Inter Energia SA including Transaction Agreement for 2017	-	PLN	62 024	PLN
1.3. Assignment from the Framework Electricity Sales Agreement no 73/16/EPII/InnogyPolska/2017 concluded on 20.10.2016 between EPII and innogy Polska S.A. including Transaction Agreements for 2017	67 735	PLN	-	PLN
1.4. Assignment from the Framework Electricity Sales Agreement no SPOT/127/EPII/Inter Energia/2009 concluded on 9.12.2009 between EPII and Inter Energia S.A. including Transaction Agreements for 2017	14 147	PLN	-	PLN
1.5. Assignment from the Framework Electricity Sales Agreement no SPOT/17/EPII/ ENEATrading/2015 concluded on 3.08.2015 between EPII and ENEA Trading Sp. z o.o. including Transaction Agreements for 2017	7 118	PLN	-	PLN
1.6. Assignment from the Framework Electricity Sales Agreement no 23/15/PAK/ENERGA/2016-2018 concluded on 29.07.2015 between ZE PAK, EPII and ENERGA-OBRÓT S.A including Transaction Agreements for 2017	123 357	PLN	-	PLN
PAK Kopalnia Węgla Brunatnego Konin SA				
1. Guarantees				
1.1. Surety of the credit amounting to zloty 1 million for AQUAKON sp. z o .o.	-	PLN	1 000	PLN
1.2. Surety of the credit amounting to zloty 1 million for Eko-Surowce sp. z o .o.	-	PLN	1 000	PLN
Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.				
1. Guarantees				
1.1. Performance Bond	7 053	PLN	6 590	PLN
1.2. Payment guarantee	13	PLN	11	PLN
1.3. Performance Bond	-	EUR	195	EUR
1.4. Advance repayment guarantee	3 837	PLN	5 658	PLN
4. Assignment				
4.1. Debt assignment agreement for repair and maintenance services from ZE PAK SA	246 915	PLN	273 602	PLN
4.2. Debt assignment agreement on UM140076 agreement from ZE PAK SA	2 629	PLN	3 209	PLN

(in thousands of PLN)

4.3. Debt assignment agreement on UM160041 and UM160043 with ZE PAK SA	-	PLN	630	PLN
4.4. Debt assignment agreement on UM160010, UM160012 and UM160036 with Elektrowni Pątnów II sp. z o.o.	-	PLN	2 089	PLN
4.5. Debt assignment agreement on 4101223823/0 with GE POWER Sp. z o.o.	2 046	PLN	-	PLN
4.6. Debt assignment agreement on 1394/ZU/0057/11/16 with SBB ENERGY S.A.	4 979	PLN	-	PLN
3.7. Debt assignment agreement on UM160079 with ZE PAK	1 290	PLN	-	PLN
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Guarantees				
1.1. Insurance Performance Bonds and faults and defects removal	5 469	PLN	3 407	PLN
1.2. Insurance Bid Security Payment Guarantee	150	PLN	120	PLN
Zespół Elektrowni Pątnów-Adamów-Konin SA				
1. Sureties				
1.1. Surety of ZE PAK for PAK KWB Konin due to the overdraft facility in the BZ WBK bank in the amount of PLN 56,700 thousand	50 000	PLN	65 000	PLN

30. Obtained guarantees and sureties

As at 30 June 2017, the Group did not record any changes in given guarantees and sureties in relation to the state at 31 December 2016, except for the following items.

Kind of liabilities, guarantee and sureties	*30 June 2017 (unaudited) PLN*	*30 June 2017 (unaudited) EUR*	*31 December 2016 PLN*	*31 December 2016 EUR*
Elektrownia Pątnów II sp. z o.o.				
1. Guarantees				
1.1. Payment guarantees	2 860	-	10 158	-
1.2. Performance bonds	4 043	-	4 144	-
1.3. Advanced Payment Refund Guarantees	-	-	291	-
AQUAKON sp. z o.o.				
1. Sureties				
1.1. P Overdraft facility in Alior Bank SA secured by PAK KWB Konin SA in the amount of zloty 1 million	-	-	1 000	-
Eko-Surowce sp. z o.o.				
1. Sureties				
1.1. Overdraft facility in Alior Bank SA secured by PAK KWB Konin SA in the amount of zloty 1 million	-	-	1 000	-
PAK -Volt SA				
1. Guarantees				
1.1. Alpiq Energy - bank guarantee securing the payment	4 820	-	19 482	-
1.2. Polenergia Obrót S.A. - bank guarantee securing the payment	7 550	-	9 321	-
Energoinwest Serwis sp. z o.o.				
1. Guarantees				
1.1. Performance and Retention Bonds of PZU SA	-	-	389	-
PAK Kopalnia Węgla Brunatnego Konin SA				

1. Surety				
1.1. Surety from ZE PAK SA due to overdraft facility in bank BZ WBK SA in the amount of PLN 50million	50 000	-	65 000	-
Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.				
1. Guarantees				
1.1. Faults and defects removal guarantee	2 959	18	2 889	-
1.2. Performance Bonds	1 974	-	1 736	-
Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK sp. z o.o.				
1. Guarantees				
1.1. Performance Bonds - cash payment	173	-	181	-
1.2. Insurance and bank performance Bonds, faults and defects removal guarantees	1 404	-	1 017	-
Zespół Elektrowni Pątnów-Adamów-Konin SA				
1. Guarantees				
1.1. Payment guarantees	17 577	-	8 551	-
1.2. Performance Bonds	33 598	-	36 958	-
1.3. Advance repayment guarantees	-	-	5 929	-

31. Information about related entities

The following table presents total amounts of transactions concluded with affiliates for the period of 6 months ended 30 June 2017 and 3 June 2016 as well as receivables and liabilities as at 30 June 2017 and 31 December 2016:

affiliated entity		*Sales to related entities (unaudited)*	*Purchase from related entities (unaudited)*	*Receivables from related entities (unaudited)*	*Liabilities towards related entities (unaudited)*
Elektrim SA	2017	-	60	-	-
	2016	-	61	-	-
Megadex Serwis Sp. z o.o.	2017	2	-	-	-
	2016	1	22 667	210	5 432
Polkomtel sp. z o.o.	2017	63 658	1 372	15 988	343
	2016	61 197	1 288	15 400	891
Laris Investments sp. z o.o.	2017	219	412	225	22
	2016	237	487	217	22
Total	**2017**	**63 879**	**1 844**	**16 213**	**365**
	2016	**61 435**	**24 503**	**15 827**	**6 345**

31.1. Loan granted to a member of the Management Board

Both in the 6-month period ended 30 June 2017, and in the one ended 30 June 2016, the Parent Company did not grant any loans and similar benefits to any of members of Management Board and supervisory staff.

31.2. Other transactions involving members of the Management Board

Both in the 6-month period ended 30 June 2017, and in the one ended 30 June 2016, there were no transactions with members of Management Board and supervisory staff.

(in thousands of PLN)

31.3. Remuneration of chief executive staff of the Group

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

	6 months period ended 30 June 2017 (unaudited)	*6 months period ended 30 June 2016 (unaudited)*
Management Board of the parent company	2 085	2 059
Short-term employee benefits	1 602	1 448
Supervisory Board of the parent company	0	0
Short-term employee benefits	483	583
Management Boards of subsidiaries	2 654	2 660
Short-term employee benefits	2 649	2 660
Supervisory Board of subsidiaries	5	-
Short-term employee benefits	0	0
Total	-	-
Management Board of the parent company	4 739	4 719

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

	6 months period ended 30 June 2017 (unaudited)	*6 months period ended 30 June 2016 (unaudited)*
Short-term employee benefits	8 396	7 808
Jubilee awards	-	37
Post-employment benefits	15	-
Benefits for termination of the contract of employment	-	110
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	8 411	7 955

32. Goals and rules of financial risk management

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

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

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

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

32.1. Interest rate risk

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

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

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

Interest rate risk – the sensitivity gap

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

(in thousands of PLN)

Classes of financial instruments	*30 June 2017 (unaudited)*		*Interest rate risk sensitivity study as of 30 June2017*							
			WIBOR				*EURIBOR*			
			WIBOR + 46pb		*WIBOR - 46pb*		*EURIBOR + 12,8pb*		*EURIBOR - 12,8pb*	
	Carrying amount	*Value at risk*	*Profit / loss*	*Other comprehensive income*	*Profit / loss*	*Other comprehens ive income*	*Profit / loss*	*Other comprehensive income*	*Profit / loss*	*Other comprehensive income*
Other financial assets	86 273	84 141	54	-	(54)	-	93	-	(93)	-
Trade and other receivables	300 559	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	255 389	255 389	1 006	-	(1 006)	-	47	-	(47)	-
Interest-bearing loans and borrowings	(833 240)	(833 240)	(2 424)	-	2 424	-	(392)	-	392	-
Trade payables and other financial liabilities	(215 915)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(7 134)	(6 578)	-	-	-	-	-	260	-	(260)
Total	**(414 068)**	**(500 288)**	**(1 364)**	**-**	**1 364**	**-**	**(252)**	**260**	**252**	**(260)**

(in thousands of PLN)

Classes of financial instruments	*30 June 2016 (unaudited)*		*Interest rate risk sensitivity study as of 30 June2016*							
			WIBOR				*EURIBOR*			
			WIBOR + 73 pb		*WIBOR - 73 pb*		*EURIBOR + 19,72 pb*		*EURIBOR - 19,72 pb*	
	Carrying amount	*Value at risk*	*Profit / loss*	*Other comprehensive income*	*Profit / loss*	*Other comprehensive income*	*Profit / loss*	*Other comprehensive income*	*Profit / loss*	*Other comprehensive income*
Other financial assets	90 239	83 801	75	-	(75)	-	145	-	(145)	-
Trade and other receivables	295 282	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	325 316	325 316	2 054	-	(2 054)	-	87	-	(87)	-
Interest-bearing loans and borrowings	(1 190 011)	(1 190 011)	(5 385)	-	5 385	-	(892)	-	892	-
Trade payables and other financial liabilities	(237 067)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(14 015)	(14 015)	-	-	-	-	-	845	-	(845)
Total	**(730 256)**	**(794 909)**	**(3 256)**	**-**	**3 256**	**-**	**(660)**	**845**	**660**	**(845)**

32.2. Currency risk

The Group is exposed to the currency risk due to concluded transactions. Such risk also concerns credit and loans. The Group does not take benefits from the Derivative financial instruments protecting against exchange rate fluctuations.

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

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

(in thousands of PLN)

Classes of financial instruments	***30 June 2017 (unaudited)***		***Analysis of sensitivity rate risk as of 30 June 2017 EUR/PLN***			
			EUR/PLN + 6,525% 4,5023		***EUR/PLN - 6,525% 3,9507***	
	Carrying amount	**Value at risk**	**Profit / loss**	**Other comprehensive income**	**Profit / loss**	**Other comprehensive income**
Other financial assets	86 273	72 433	4 726	-	(4 726)	-
Trade and other receivables	300 559	693	45	-	(45)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	255 389	36 684	2 394	-	(2 394)	-
Interest-bearing loans and borrowings	(833 240)	(306 272)	(19 984)	-	19 984	-
Trade payables and other financial liabilities	(215 915)	(487)	(32)	-	32	-
Derivative financial instruments	(7 134)	(556)	(36)	-	36	-
Total	**(414 068)**	**(197 505)**	**(12 887)**	**-**	**12 887**	**-**

Classes of financial instruments	***30 June 2016 (unaudited)***		***Analysis of sensitivity rate risk as of 30 June 2016 EUR/PLN***			
			EUR/PLN + 9,1% 4,8282		***EUR/PLN - 9,1% 4,0228***	
	Carrying amount	**Value at risk**	**Profit / loss**	**Other comprehensive income**	**Profit / loss**	**Other comprehensive income**
Other financial assets	90 239	73 514	6 690	-	(6 690)	-
Trade and other receivables	295 282	9 242	841	-	(841)	-
Derivative financial instruments	-	-	-	-	-	-

Cash and cash equivalents	325 316	43 985	4 003	-	(4 003)	-
Interest-bearing loans and borrowings	(1 190 011)	(452 371)	(41 166)	-	41 166	-
Trade payables and other financial liabilities	(237 067)	(2 322)	(211)	-	211	-
Derivative financial instruments	(14 015)	-	-	-	-	-
Total	**(730 256)**	**(327 952)**	**(29 843)**	**-**	**29 843**	**-**

32.3. Credit risk

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

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

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

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

32.4. Liquidity risk

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

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

The tables below present financial liabilities of the Group as of 30 June 2017 and 31 December 2016 according to the maturity date based on contractual non-discounted payments.

(in thousands of PLN)

30 June2017 (unaudited)	*Less than 3 months*	*3 - 12 months*	*1 - do 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	82 684	315 962	472 267	-	870 913
Trade payables and other financial liabilities	204 188	7 642	4 085	-	215 915
Derivative financial instruments	1 185	86 003	2 056	-	89 244
Total	**288 057**	**409 607**	**478 408**	**-**	**1 176 072**

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

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

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

30 June 2017 (unaudited)	*On demand*	*Less than 3 months*	*3- 12months*	*1- 5 years*	*Over 5 years*	*Total*
Inflows	-	(128)	(280)	(105)	-	(513)
Outflows	-	1 185	2 810	2 056	-	6 051
Net amount	-	(1 313)	(3 090)	(2 161)	-	(6 564)
Discounted using appropriate interbank rates	**-**	**(1 869)**	**(3 096)**	**(2 169)**	**-**	**(7 134)**

31 December2016	*On demand*	*Less than 3 months*	*3- 12months*	*1- 5 years*	*Over 5 years*	*Total*
Inflows	-	(154)	(365)	(302)	-	(821)
Outflows	-	1 516	3 716	3 973	-	9 205
Net amount	-	(1 670)	(4 081)	(4 275)	-	(10 026)
Discounted using appropriate interbank rates	**-**	**(1 671)**	**(4 088)**	**(4 294)**	**-**	**(10 053)**

(in thousands of PLN)

33. Financial instruments

33.1. Fair values of particular classes of financial instruments

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

Financial assets	*Category according to IAS 39*	*Balance sheet value*		*Fair value*		*Level of the fair value hierarchy for needs of disclosures*
		30 June 2017 (unaudited)	*31 December 2016*	*30 June 2017 (unaudited)*	*31 December 2016*	
Other financial assets	PiN	86 273	89 262	86 273	89 262	2
Trade receivables and other receivables	PiN	300 559	246 025	300 559	246 025	2
Derivative financial instruments	WwWGpWF	-	296	-	296	2
Cash and cash equivalents	UdtW	255 389	350 101	255 389	350 101	1
Financial liabilities		1 056 289	1 327 593	1 056 289	1 327 593	
Interest-bearing bank credits and loans, including:		833 240	1 009 809	833 240	1 009 809	3
long term	PZFwgZK	440 875	587 851	440 875	587 851	
short term	PZFwgZK	392 365	421 958	392 365	421 958	
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	215 915	307 731	215 915	307 731	2
Derivative financial instruments	WwWGpWF	7 134	10 053	7 134	10 053	2

Used abbreviations:

UdtW – Financial assets maintained to the maturity date, *WwWGpWF – Financial assets/liabilities evaluated in the fair value by the financial result,*

(in thousands of PLN)

PiN – Loans and receivables

DDS – Financial assets available for sale,

PZFwgZK – Other financial liabilities evaluated according to the depreciated cost.

As of 30 June 2017 and 31 December 2016, the Group had following financial instruments evaluated in the fair value:

30 June 2017 (unaudited)		*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	7 134	-

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

In the 6 months period ended 30 June 2017 and the one ended 31 December 2016, there were no shifts between the level 1 and the level 2 of the fair value hierarchy, and none of instruments was shifted to the level 3 of the fair value hierarchy

(in thousands of PLN)

33.2. Interest rate risk

The below table presents the interest rate gap constituting the Group's exposure to interest rate risk and concentration of this risk divided into currencies and kind of interest rate taking into account the effect of protection transactions Interest Rate Swap exchanging the stream of cash interest payments based on the variable EURIBOR rate for the fixed rate in EUR.

	Type of interest rate	*Carrying amount as of 30 June 2017 (unaudited)*	*Carrying amount as of 31 December 2016*
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	230 412	236 701
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	109 536	200 708
Financial liabilities at interest rate risk – PLN	Fixed	-	-
	Variable	526 969	622 686
Financial liabilities at interest rate risk – Other currencies	Fixed	153 098	193 703
	Variable	153 174	193 420
Net exposure – PLN	Fixed	-	-
	Variable	(296 557)	(385 985)
Net exposure – Other currencies	Fixed	(153 098)	(193 703)
	Variable	(43 638)	6 815

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

33.2.1. Hedging

The Group secures interest rate risk related to the incurred corporate credit denominated in EUR of variable interest rate based on the EURIBOR 3M benchmark interest rate using derivative transactions. The instrument securing exposure to interest risk rate is the Interest Rate Swap transaction, within which the Groups exchanges stream of cash interest payments based on the variable EURIBOR 3M rate for payments of fixed interest rate at 3.1050%. The Groups indicates designated derivative instruments as protecting instruments in the model of cash flow security, and includes them in accordance with protections accounting rules.

The below tables present basic parameters of derivative transaction indicated as security instruments, including periods, when cash flows due to cash flow securities and when they will influence the financial result, as well as their fair value in PLN as of 30 June 2017 and 31 December 2016.

(in thousands of PLN)

Instrument type	*Nominal value in the transaction currency [euro]**	*Fair value in zloty*	*Expected duration of hedged item's realisation*
	31 June 2017 (unaudited)	*31 June 2017 (unaudited)*	*31 June 2017 (unaudited)*
IRS transaction	36 223	(6 578)	in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019

** the nominal values depreciated in accordance with the credit repayment schedule*

Instrument type	*Nominal value in the transaction currency [EUR]**	*Fair value in PLN*	*Expected duration of hedged item's realisation*
	31 December 2016	*31 December 2016*	*31 December 2016*
IRS transaction	43 785	(10 053)	in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019

** the nominal values depreciated in accordance with the credit repayment schedule*

The change in the fair value of cash flow securities transferred onto the equity is presented below:

	6 months period ended 30 June 2017 (unaudited)	*Year ended 31 December 2016*
Opening balance	(6 883)	(14 742)
Effective part of profits / losses on a security instrument	1 403	(1 278)
Amounts charged to the income statement, including:	73	(7 274)
− adjustment of costs of interest	73	(7 274)
− adjustment under ineffective hedging	-	-
Closing balance	(5 553)	(8 746)
Deferred tax assets – recognized in the revaluation reserve	1 055	1 662
Closing balance including deferred tax	(4 498)	(7 084)

In first half of 2017, the Group's companies did not apply the instruments to limit the risk arising from changes in exchange rates, with the exception of ZE PAK SA, which secured the EUR exchange rate for part of the flows related to the purchase of CO2 emission allowances. In order to secure the exchange rate, the forward transactions with the settlement date in December 2017 and in March 2018 were applied. The below table presents a summary of the active forward transactions as of the balance sheet date for the purchase of EUR currency.

Type of concluded transactions	*Currency cross*	*Transaction amount (nominal value in euro thousand) 30 June2017*	*Net market value (fair value in zloty thousand) 30 June 2017*	*Maturity*
Purchase of EUR transaction (forward)	(EUR/PLN)	9 837	(486)	December 2017
Purchase of EUR transaction (forward)	(EUR/PLN)	9 500	(70)	March 2018

The Group also secures the risk of changing the prices of CO2 emission allowances using forward transactions to purchase the allowances for its own needs. The following table presents a summary of the active forward transactions as of the balance sheet date.

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions (thou. EUR)*	*Currency of transactions*	*Maturity*
Forward transaction	4 250 000	23 493	EUR	Up to 1 year
Forward transaction	875 000	4 341	EUR	Up to 2 years

(in thousands of PLN)

34. Capital management

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

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. In period ended 30 June 2017 and on 31 December 2016, there were no introduced amendments to goals, rules and processes applying in this area.

The Group monitors the balance of its capitals using the leverage ratio, which is calculated as a relation of net debt to the sum of capitals enlarged with net debt. The Group's Principles state that this rate was within the range of 20-60%. The Group includes interest bank credits and loans, liabilities due to supplies and services, and other liabilities, decreased by the cash and cash equivalents in the net debt. The capital includes the equity decreased by reserve capitals due to unrealised net profits.

	30 June 2017 (unaudited)	*31 December 2016*
Interest-bearing credits and loans	833 240	1 009 809
Derivative financial instruments (liabilities)	7 134	10 053
Trade liabilities and other financial liabilities	215 915	307 731
Minus cash and its equivalents	255 389	350 101
Net debt	800 900	977 492
Equity	2 184 753	2 143 658
Capitals from revaluation of security instruments	(4 498)	(7 084)
Total capital	2 189 251	2 150 742
Net capital and debt	**2 990 151**	**3 128 234**
Leverage ratio	26,78%	31,25%

35. Events after the balance sheet date

After the balance sheet date, until the date of preparation of these interim condensed consolidated financial statements for the 6 months ended 30 June 2017, there were no other significant events than those described in the additional explanatory notes.

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*

ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA

STANDALONE FINANCIAL STATEMENT
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2017
INCLUDING THE REPORT OF THE INDEPENDENT AUDITOR OF THE REVIEW

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

31 AUGUST 2017

TABLE OF CONTENT

BALANCE SHEET 3
PROFIT & LOSS ACCOUNT (CALCULATION TYPE) 7
STATEMENT OF CASH FLOW (INDIRECT METHOD) 8
STATEMENT OF CHANGES IN EQUITY 10
ADDITIONAL INFORMATION TO THE SEMI-ANNUAL SUMMARY FINANCIAL STATEMENT 12

1. GENERAL INFORMATION ABOUT THE COMPANY 12
2. 2. DESCRIPTION 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 ACC. TO THE IAS 12
3. ASSUMPTION OF CONTINUATION OF ECONOMIC ACTIVITY 14
4. MERGER OF COMMERCIAL COMPANIES 14
5. ADOPTED ACCOUNTING PRINCIPLES (POLICY) 14
6. COMPARABILITY OF FINANCIAL DATA FOR THE PRECEDING PERIOD WITH THE STATEMENT FOR THE CURRENT PERIOD 14
7. ERROR ADJUSTMENT 14
8. THE AMOUNT AND NATURE OF ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS THAT ARE ABNORMAL DUE TO THEIR NATURE, VALUE OR FREQUENCY 14
9. INFORMATION ON IMPAIRMENT WRITE-DOWNS AGAINST PROVISIONS VALUE, IMPAIRING TO THE NET VALUE POSSIBLE TO ACHIEVE AND ON THE REVERSAL OF SUCH WRITE-DOWNS 14
10. INFORMATION ON THE WRITE-DOWNS AGAINST THE IMPAIRMENT OF FINANCIAL ASSETS, TANGIBLE FIXED ASSETS, NON-MATERIAL AND LEGAL VALUES OR OTHER ASSETS AND THE REVERSAL OF SUCH WRITE-DOWNS 15
11. INFORMATION ON THE CREATION, INCREASE, USE OR LIQUIDATION OF THE PROVISIONS 15
12. INFORMATION ON THE PROVISIONS AND ASSETS RELATED TO DEFERRED INCOME TAX 15
13. INFORMATION ON SIGNIFICANT ACQUISITION AND SALES TRANSACTIONS OF TANGIBLE FIXED ASSETS AND ANY SIGNIFICANT LIABILITY DUE TO PURCHASING TANGIBLE FIXED ASSETS 15
14. 14. INFORMATION ABOUT THE FAILURE TO REPAY A BANK CREDIT OR LOAN, OR THE BREACH OF SIGNIFICANT PROVISIONS OF A BANK CREDIT OR LOAN AGREEMENT, IN RELATION TO WHICH NO REMEDIAL ACTIONS HAVE BEEN UNDERTAKEN UNTIL THE END OF THE REPORTING PERIOD 16
15. INFORMATION ON THE ISSUER OR ITS SUBSIDIARY, CONCLUDING ONE OR MULTIPLE TRANSACTIONS WITH ASSOCIATED ENTITIES, SHOULD THEY HAVE BEEN CONCLUDED UNDER CONDITIONS OTHER THAN MARKET CONDITIONS 16
16. INFORMATION ON THE CHANGE IN THE MANNER (METHOD) OF APPRAISAL OF FINANCIAL INSTRUMENTS, APPRAISED AT FAIR VALUE 16
17. INFORMATION ON THE CHANGES IN THE CLASSIFICATION OF FINANCIAL ASSETS 16
18. INFORMATION ON THE ISSUE, REDEMPTION AND REPAYMENT OF NON-EQUITY AND EQUITY SECURITIES 16
19. EVENTS OF THE ACCOUNTING YEAR NOT SPECIFIED IN THE BALANCE SHEET AND THE INCOME STATEMENT 16
20. EVENTS OF PREVIOUS YEARS RECOGNISED IN THE FINANCIAL STATEMENT 16
21. INFORMATION ON THE CHANGES IN THE BUSINESS OR ECONOMIC CIRCUMSTANCES THAT SIGNIFICANTLY AFFECT THE FAIR VALUE OF THE ENTITY'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES, REGARDLESS OF THE FACT, WHETHER THOSE ASSETS AND LIABILITIES ARE RECOGNISED IN THE FAIR VALUE OR THE CORRECTED PURCHASE COST (AMORTISED COST) 16
22. ADDITIONAL INFORMATION 17

(in thousands PLN)

BALANCE SHEET

Assets

	30 June 2017 (unaudited)	*31 December 2016*	*30 June 2016 (unaudited)*
A. Non-current assets	**1 981 651**	**2 219 586**	**2 070 559**
I. Intangible assets	**140 068**	**368 132**	**185 580**
1. Development expenses	-	-	-
2. Goodwill	-	-	-
3. Other intangible assets	140 068	368 132	185 580
4. Prepayments for intangible assets	-	-	-
II. Property, plant and equipment	**645 792**	**662 844**	**676 107**
1. Tangible fixed assets	599 840	617 868	634 417
a) land (including perpetual usufruct)	1 288	1 290	1 245
b) buildings, premises and constructions	182 421	187 386	192 766
c) plant and machinery	414 319	426 981	437 941
d) motor vehicles	627	854	1 103
e) other	1 185	1 357	1 362
2. Construction in progress	42 043	41 067	37 781
3. Prepayments for construction in progress	3 909	3 909	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	**1 195 148**	**1 187 862**	**1 207 577**
1. Property	-	-	-
2. Intangible assets	-	-	-
3. Long-term financial assets	1 195 148	1 187 862	1 207 577
a) in affiliates	1 194 997	1 187 711	1 207 426
– shares	1 142 053	1 139 747	1 143 453
– other securities	-	-	-
– loans granted	45 944	47 964	63 973
– other long-term financial assets	7 000	-	-
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	151
– shares	151	151	151
– other securities	-	-	-
– loans granted	-	-	-
– other long-term financial assets	-	-	-
4. Other long-term investments	-	-	-
V. Long-term prepayments and deferred costs	**643**	**748**	**1 295**
1. Deferred tax assets	-	-	-
2. Other prepayments and deferred costs	643	748	1 295
B. Current assets	**334 598**	**378 620**	**442 799**
I. Inventories	**45 932**	**53 915**	**92 252**
1. Raw materials	44 145	39 602	49 142
2. Semi-finished goods and work-in-progress	-	-	-
3. Finished products	-	-	-
4. Goods	1 787	13 959	40 358
5. Inventory prepayments	-	354	2 752
II. Short-term receivables	**122 498**	**137 373**	**146 018**
1. Receivables from affiliates	50 586	64 297	68 927
a) trade receivables, due in:	41 640	60 639	46 514

(in thousands PLN)

– up to 12 months	41 640	60 639	46 514
– over 12 months	-	-	-
b) other	8 946	3 658	22 413
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	71 912	73 076	77 091
a) trade receivables, due in:	48 708	53 785	47 944
– up to 12 months	48 708	53 785	47 944
– over 12 months	-	-	-
b) taxation, subsidy, customs duty, social security, health insurance and other debtors	7 977	7 428	7 044
c) other	15 227	11 863	22 103
d) submitted to court	-	-	-
III. Short-term investments	**162 558**	**186 022**	**202 149**
1. Short-term financial assets	162 558	186 022	202 149
a) in affiliates	15 752	16 125	24 197
– shares	-	-	-
– other securities	-	-	7 522
– loans granted	15 752	16 125	16 675
– other short-term financial assets	-	-	-
b) in other entities	-	296	-
– shares	-	-	-
– other securities	-	-	-
– loans granted	-	-	-
– other short-term financial assets	-	296	-
c) cash and other monetary assets	146 806	169 601	177 952
– cash on hand and cash at bank	146 806	169 601	177 952
– other cash and cash equivalents	-	-	-
– other monetary assets	-	-	-
2. Other short-term investments	-	-	-
IV. Short-term prepayments and deferred costs	**3 610**	**1 310**	**2 380**
C. Unpaid share capital (basic)	**-**	**-**	**-**
D. Own shares	**-**	**-**	**-**
Total assets	**2 316 249**	**2 598 206**	**2 513 358**

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 thousands PLN)

Liabilities and equity

		30 June 2017 (unaudited)	*31 December 2016*	*30 June 2016 (unaudited)*
A.	**Equity**	**1 460 667**	**1 491 837**	**1 488 233**
I.	**Share capital**	**101 647**	**101 647**	**101 647**
II.	**Reserve capital, including:**	**1 094 492**	**1 028 647**	**1 028 639**
	– surplus of sales value (issue value) over nominal value of shares	380 030	380 030	380 030
III.	**Revaluation reserve, including:**	**227 498**	**227 498**	**227 506**
	– for fair value revaluation	227 498	227 498	227 506
IV.	**Other reserves, including:**	**3 472**	**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)**	**(834)**
VI.	**Net profit (loss) for the period**	**34 392**	**131 407**	**127 803**
VII.	**Deductions from net profit during the period (negative value)**	-	-	-
B.	**Liabilities and provisions for liabilities**	**855 582**	**1 106 369**	**1 025 125**
I.	**Provisions for liabilities**	**226 428**	**347 396**	**237 059**
	1. Deferred tax liability	74 158	68 806	82 284
	2. Provision for retirement benefits and similar obligations	9 764	9 922	11 737
	– long-term	9 006	8 835	11 530
	– short-term	758	1 087	207
	3. Other provisions	142 506	268 668	143 038
	– long-term	17 114	17 603	17 497
	– short-term	125 392	251 065	125 541
II.	**Long-term liabilities**	**272 473**	**344 005**	**415 790**
	1. To affiliates	-	254	778
	2. To other entities of which entity has capital engagement	-	-	-
	3. To other entities	272 473	343 751	415 012
	a) loans and credits	272 087	343 295	414 926
	b) debt securities issued	-	-	-
	c) other financial liabilities	386	456	-
	d) bills of exchange	-	-	-
	e) other	-	-	86
III.	**Short-term liabilities**	**321 791**	**387 209**	**332 457**
	1. To affiliates	72 521	32 405	84 195
	a) trade liabilities:	38 275	31 922	80 520
	– up to 12 months	38 275	31 922	80 520
	– over 12 months	-	-	-
	b) other	34 246	483	3 675
	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	243 824	350 650	242 798
	a) loans and credits	156 152	158 629	162 389
	b) debt securities issued	-	-	-
	c) other financial liabilities	694	139	132
	d) trade liabilities:	18 661	53 247	35 625
	– up to 12 months	18 661	53 247	35 625
	– over 12 months	-	-	-
	e) advance payments received	75	50	79
	f) bills of exchange	-	-	-
	g) taxation, customs duty and social security	27 602	68 521	29 841

(in thousands PLN)

creditors			
h) payroll	4 123	4 314	4 050
i) other	36 517	65 750	10 682
4. Special funds	5 446	4 154	5 464
IV. Accruals and deferred income	**34 890**	**27 759**	**39 819**
1. Negative goodwill	-	-	-
2. Other accruals and deferred income	34 890	27 759	39 819
– long-term	14 074	14 097	15 069
– short-term	20 816	13 662	24 750
Total Liabilities and equity	**2 316 249**	**2 598 206**	**2 513 358**

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 thousands PLN)

PROFIT & LOSS ACCOUNT (calculation type)

	6 months period ended 30 June 2017 (unaudited)	*6 months period ended 30 June 2016 (unaudited)*
A. Net sales of finished goods, goods for resale and raw materials, of which:	**698 558**	**816 008**
– from affiliates	215 358	285 828
I. Net sales of finished products	621 353	772 032
II. Net sales of goods for resale and raw materials	77 205	43 976
B. Cost of finished products, goods for resale and raw materials sold, of which:	**642 950**	**705 698**
– to affiliates	213 799	248 825
I. Cost of finished products sold	583 107	659 426
II. Cost of goods for resale and raw materials sold	59 843	46 272
C. Gross profit (loss) on sales	**55 608**	**110 310**
D. Selling expenses	1 516	1 429
E. Administrative expenses	15 605	12 282
F. Profit (loss) on sales	**38 487**	**96 599**
G. Other operating income	1 556	2 900
I. Gains on the sale of non-financial non-current assets	9	-
II. Grants	23	165
III. Revaluation of non-financial assets	-	-
IV. Other operating income	1 524	2 735
H. Other operating expenses	1 259	23 166
I. Loss on the sale of non-financial non-current assets	-	-
II. Impairment of non-financial assets	548	21 731
III. Other	711	1 435
I. Operating profit (loss)	**38 784**	**76 333**
J. Finance income	13 806	83 386
I. Dividends and shares in profits, including:	12 285	78 778
a) from affiliates, including:	12 085	78 722
– of which the entity has capital engagement	12 085	78 722
b) from others, including:	200	56
– of which the entity has capital engagement	-	-
II. Interest, including:	1 105	1 777
– from affiliates	307	550
III. Profit on the disposal of financial assets, including:	-	-
– affiliates	-	-
IV Revaluation of investments	-	2 807
V. Other	416	24
K Finance costs	12 970	12 553
I. Interest, including:	8 969	8 629
– to affiliates	-	-
II. Loss on the disposal of financial assets, including:	-	-
– in affiliates	-	-
III. Impairment of investments	3 552	-
IV. Other	449	3 924
L. Gross profit (loss)	**39 620**	**147 166**
M. Corporate profits tax	5 228	19 363
N. Other tax charges	-	-
O. Net profit (loss)	**34 392**	**127 803**

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 thousands PLN)

STATEMENT OF CASH FLOW (indirect method)

	6 months period ended 30 June 2017 (unaudited)	*6 months period ended 30 June 2016 (unaudited)*
A. Cash flow from operating activities		
I. Net profit (loss)	34 392	127 803
II. Adjustments, total	35 234	(68 903)
1. Depreciation	19 033	17 647
2. Foreign exchange gains (losses)	2 786	(2 864)
3. Interest and shares in profits (dividends)	(3 627)	(70 701)
4. Profit (loss) on investing activities	843	-
5. Change in provisions	129 219	144 423
6. Change in inventories	7 983	11 904
7. Change in receivables	24 021	28 686
8. Change in short-term liabilities, except for loans and borrowings	(67 456)	(29 295)
9. Change in prepayments, accruals and deferred income	4 936	7 761
10. Other adjustments	(82 504)	(176 464)
III. Net cash flow from operating activities	**69 626**	**58 900**
B. Cash flow from investing activities	-	-
I. Inflows	3 195	58 000
1. Sale of intangible assets and tangible fixed assets	56	1 594
2. Sale of investments in property and intangible assets	-	-
3. From financial assets, including:	3 139	56 406
a) in affiliates	3 139	56 406
b) in others	-	-
– disposal of financial assets	-	-
– dividends and share in profits	-	-
– repayment of long-term loans granted	-	-
– interests	-	-
– other inflows from financial assets	-	-
4. Other investing inflows	-	-
II. Outflows	12 785	74 678
1. Purchase of intangible assets and tangible fixed assets	3 479	74 678
2. Investments in property and intangible assets	-	-
3. For financial assets, including:	9 306	-
a) in affiliates	9 306	-
b) in others	-	-
– purchase of financial assets	-	-
– long-term loans granted	-	-
4. Other investing outflows	-	-
III. Net cash flow from investing activities	**(9 590)**	**(16 678)**
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 borrowings	-	-
3. Issue of debt securities	-	-
4. Other financial inflows	-	-
II. Outflows	82 746	47 316
1. Reacquisition of own shares	-	-
2. Dividends and other payments to shareholders	-	-
3. Outflows due to appropriation of profit other than payments to shareholders	-	-
4. Repayment of loans and borrowings	74 272	37 605
5. Redemption of debt securities	-	-
6. Relating to other financial liabilities	-	-
7. Finance lease payments	67	64
8. Interest paid	8 407	9 587
9. . Other financing outflows	-	60
III. Net cash flow from financing activities	**(82 746)**	**(47 316)**

(in thousands PLN)

D. Total net cash flow	**(22 710)**	**(5 094)**
E. Balance sheet change in cash and cash equivalents,, including:	(22 795)	(5 037)
– change in cash and cash equivalents due to foreign exchange gains/losses	(85)	57
F. Cash and cash equivalents at the beginning of the period	**169 516**	**182 989**
G. Cash and cash equivalents at the end of the period, including	**146 806**	**177 895**
– of restricted use	4 651	5 328

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 thousands PLN)

STATEMENT OF CHANGES IN EQUITY

	30 June 2017 (unaudited)	*31 December 2016*	*30 June 2016 (unaudited)*
I. Equity at the beginning of the period (OB)	**1 491 837**	**1 360 431**	**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**	**1 360 431**
1. Share capital at the beginning of the period	101 647	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**	**101 647**
2. Reserve capital at the beginning of the period	1 028 647	2 542 060	2 542 060
2.1. Changes in reserve capital	-	-	-
a) increases	65 845	33	25
– issue of shares	-	-	-
– profit distribution	65 845	-	-
– disposal of fixed assets	-	33	25
b) decreases	-	1 513 446	1 513 446
– redemption of shares	-	-	-
– cover of loss	-	1 513 446	1 513 446
2.2. Reserve capital at the end of the period	**1 094 492**	**1 028 647**	**1 028 639**
3. Capital from revaluation at the beginning of the period – changes of accountancy policies	227 498	227 531	227 531
3.1. Changes of capital from revaluation	-	-	-
a) increases	-	-	-
b) decreases	-	33	25
– disposal of fixed assets	-	33	25
3.2. Capital from revaluation at the end of the period	**227 498**	**227 498**	**227 506**
4. Other reserves at the beginning of the period	3 472	5 877	5 877
4.1. Changes in other reserves	-	-	-
a) increases	-	-	-
b) decreases	-	2 405	2 405
– cover of loss	-	2 405	2 405
4.2. Other reserves at the end of the period	**3 472**	**3 472**	**3 472**
5. Profit (loss) from previous years at the beginning of the period	131 407	(1 516 684)	(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	65 845	-	-
– dividend payment	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	-	(1 516 684)	(1 516 684)
– changes of accountancy rules	-	-	-
– error adjustments	-	-	-
5.2. Loss from previous years at the beginning of the period, after adjustments	(834)	(1 516 684)	(1 516 684)
a) increases	-	-	-
– transfer of loss from previous years to cover	-	-	-
b) decreases	-	(1 515 850)	(1 515 850)
– cover of loss from reserve capital	-	(1 515 850)	(1 515 850)
5.6. Loss from previous years at the end of the period	(834)	(834)	(834)
5.7. Profit (loss) from previous years at the end of the period	**(834)**	**(834)**	**(834)**
6. Net result	**34 392**	**131 407**	**127 803**

(in thousands PLN)

a) net profit	34 392	131 407	127 803
b) net loss	-	-	-
c) result impairments	-	-	-
II. Equity at the end of the period (CB)	**1 460 667**	**1 491 837**	**1 488 233**
III. Equity after proposed result distribution (cover of loss)	**1 460 667**	**1 491 837**	**1 488 233**

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 TO THE SEMI-ANNUAL SUMMARY FINANCIAL STATEMENT

1. General information about the Company

The Zespół Elektrowni Pątnów – Adamów – Konin Spółka Akcyjna ("ZE PAK SA", „Company") was established by a Notarial Deed of 29 December 1994. The company headquarters are located in Konin, at ul. Kazimierska 45.

The company is entered in the National Court Register, under a KRS number 0000021374, assigned on 21 June 2001.

The Company operates under the Tax. Number (NIP) 665-00-01-645 assigned on 17 September 1993 and the REGON number 310186795.

The Company has been established for an indefinite period.

The Company is the dominating entity of the Capital Group Zespół Elektrowni Pątnów – Adamów – Konin SA ("Group", "Capital Group", "ZE PAK SA Group").

According to the Articles of Association, the Company's business activity is:

1) the generation and distribution of electricity,
2) the generation and sale of thermal power (steam and hot water).

The semi-annual summary financial statement from ZE PAK SA as developed based on the provisions of the regulation of the Minister of Finances of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for regarding information required by the law of a non-member state as equivalent (Dz.U. 2014 item 133, as amended). The format, basis and scope of the developed statement is in accordance with the requirements of that regulation.

2. 2. Description 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 acc. to the IAS

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

Below, the main potential differences between IFRS and the Act on Accounting are presented (Dz.U. 2016, item 1047, as amended) (AoA), under the assumption of adopting IFRS on the basis of IFRS 1 guidelines and adopting financial data resulting from the consolidated financial statement of the ZE PAK SA Group. 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, under the assumption that the date of transition to the IFRS is 1 January 2009, would particularly regard the following aspects:

1. Tangible Fixed Assets

   a) Appraisal of 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.

      Due to the differences in the valuation of tangible fixed assets according to the Act on Accounting (AoA) and according to IFRS, the amount of the impairment write-downs against tangible fixed asset values is also different.

   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.

(in thousands PLN)

c) Appraisal 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 borrowing 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 capitalise 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 has issued new standards. New standards and changes to the current standards are still being developed. 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 shall develop its first financial statement compliant with the IFRS, which can include data for 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 certain positions in the financial statement acc. to AoA and IFRS may 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 in accordance with AoA and IFRS can differ substantially.

The below table presents the differences as of 30 June 2017 (unaudited data):

	Balance sheet value acc to AoA	*Balance sheet value acc. to IFRS*	*Value adjustment*
Tangible Fixed Assets	641 883	643 004	1 121
Equity	1 460 667	1 400 779	(59 888)
Provisions due to deferred tax assets	74 158	134 679	60 521

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

	30 June 2017 (non-audited)
AoA Net profit	34 392
Adjustment of the tangible fixed assets	(1 965)
IAS19 Correction - Actuarial profits (losses)	86

(in thousands PLN)

	30 June 2017 (non-audited)
AoA Capital	1 460 667
Adjustment of the tangible fixed assets	(59 888)
IAS19 Correction - Actuarial profits (losses)	(86)

3. Assumption of continuation of economic activity

The financial statement was developed under the assumption of continuing the Company's business activity in the foreseeable future, at least 12 months after the balance sheet date, i.e. after 30 June 2016.

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

4. Merger of commercial companies

In the reporting period for which the financial statement was developed, the Company did not merge with any other business entity, nor did it purchase an organised part of an enterprise.

5. Adopted accounting principles (policy)

The accounting principles adopted by the Company, including the assets and liabilities valuation method and the method of measuring the financial result are in accordance with the provisions of the act of 29 September 1994 on accounting (Dz.U. 2016, item 1047, as amended) and were described in the financial statement of the Zespół Elektrowni Pątnów - Adamów - Konin SA for the financial year ended on 31 December 2016 and published on 21 March 2017.

6. Comparability of financial data for the preceding period with the statement for the current period

In the current period, the Company made no changes to the accounting principles, hence, it was not obliged to present numerical information ensuring comparability of the financial statement data for the previous year with the statement for the current accounting year.

7. Error adjustment

The current period featured no adjustments of errors, which would affect the comparability of the financial data for the preceding period with the data of the financial statement for the current period.

8. The amount and nature of items affecting assets, liabilities, equity, net income or cash flows that are abnormal due to their nature, value or frequency

During the current reporting period, there have been not events impacting the assets, liabilities, equities, net result or cash flow, which would be abnormal due to their nature, value or frequency.

9. Information on impairment write-downs against provisions value, impairing to the net value possible to achieve and on the reversal of such write-downs

The gross financial result for the current period includes the effects of creating and reversing the provision impairment write-down:

Impairment write-downs	*31 December 2016*	*changes*			*30 June 2017 (unaudited)*
		creation	*use*	*liquidation*	
Inventories	13 525	548	9 824	-	4 249

Certificates of origin of energy arising from the energy production from renewable energy sources and peak load co-generation are presented according to fair value at the end of the month, in which the energy based on renewable sources was produced.

As of 30 June 2017, the Company had, as per the register, a total of 39 836.654 MWh green certificate property rights, including 4 014.442 MWh of green energy for the generation in June 2017, which had already been generated and not verified by the Energy Regulatory Authority,.

(in thousands PLN)

In the first half of 2017, the Company received outstanding certificates for 2016 in the amount of 219 465.611 MWh, for the generation in the period of July-December 2016. These certificates were gradually sold. During the current reporting period, the Company halted generation from renewable sources due to the market prices of the rights being too low.

The property rights write-down presented in the balance sheet as of 30 June 2017, in the amount of PLN 569 thousand, concerns the revaluation of rights in possession of the Company on 30 June 2017 to the unit price in the amount of PLN 22.46/MWh.

10. Information on the write-downs against the impairment of financial assets, tangible fixed assets, non-material and legal values or other assets and the reversal of such write-downs

The gross financial result for the current year includes the effects of creating and reversing impairment write-downs, in particular:

Impairment write-downs	*31 December 2016*	*changes*			*30 June 2017 (unaudited)*
		creation	*use*	*liquidation*	
Intangible assets	1 279	-	-	-	1 279
Tangible fixed assets	1 560 722	-	-	-	1 560 722
Financial assets	28 249	-	-	-	28 249
Receivables	35 434	-	1	210	35 223

11. Information on the creation, increase, use or liquidation of the provisions

The gross financial result for the current year includes the effects of creating the estimates of future obligations, in particular:

Provisions and accruals	*31 December 2016*	*changes*			*30 June 2017 (unaudited)*
		creation	*use*	*liquidation*	
Provisions for pension and post-mortem benefits	9 922	-	-	158	9 764
Provisions for CO2 emission allowances	250 189	125 192	250 189	-	125 192
Provisions for reclamation	1 005	235	50	-	1 190
Provisions for liquidation	16 848	-	-	724	16 124
Provision for payments	626	-	535	91	-
Cost prepayments for:	13 592	16 926	9 997	-	20 521
– annual bonus provision	10 357	-	8 933	-	1 424
– unused holidays provision	2 161	992	-	-	3 153
– fees for commercial utilization of the environment	-	15 630	-	-	15 630
– duty to redeem property rights	931	304	931	-	304
– provision for current year costs	143	-	133	-	10
Prepayment income settlement	14 167	202	-	-	14 369
Total	**306 349**	**142 555**	**260 771**	**973**	**187 160**

12. Information on the provisions and assets related to deferred income tax

In the 6-month period ended on 30 June 2017, there had been a change in the state of the provisions and assets related to deferred income tax, i.e.:

- a change in the state of assets, decreasing tax burden in the amount of PLN 39 546 thousand,
- a change in the state of the provisions, increasing tax burden in the amount of PLN 34 194 thousand,

13. Information on significant acquisition and sales transactions of tangible fixed assets and any significant liability due to purchasing tangible fixed assets

In the 6-month period ended on 30 June 2017, the Company:

- Purchased, or accepted from investments, tangible fixed assets in the amount of PLN 623 thousand,
- sold or liquidated fixed tangible asset component in the amount of PLN 46 thousand net.

As of 30 June 2017, the liabilities of the Company for the purchase of tangible fixed assets amount to PLN 197 thousand.

14. 14. Information about the failure to repay a bank credit or loan, or the breach of significant provisions of a bank credit or loan agreement, in relation to which no remedial actions have been undertaken until the end of the reporting period

During the current reporting period, the Company made bank credit payments in accordance with the provisions of credit agreements. As of the balance sheet day of 30 June 2017, the Company met the covenants, pursuant to the credit agreement of 13 March 2017.

15. Information on the issuer or its subsidiary, concluding one or multiple transactions with associated entities, should they have been concluded under conditions other than market conditions

The Zespół Elektrowni Pątnów-Adamów-Konin S.A. and subsidiaries, consolidated under the Group, did not conclude transactions with the affiliates pursuant to conditions other than market conditions in the first half of 2017.

16. Information on the change in the manner (method) of appraisal of financial instruments, appraised at fair value

There have been no changes to the manner (method) of appraising financial instruments according to fair value in the Company's financial statement presented for the current reporting period.

17. Information on the changes in the classification of financial assets

In the current reporting period, there have been no changes to the classification of financial assets.

18. Information on the issue, redemption and repayment of non-equity and equity securities

In the current reporting period, the Company did not issue, redeem or repay any non-equity and equity securities.

19. Events of the accounting year not specified in the balance sheet and the income statement

During the reporting period until the development date of this financial statement, i.e., 31 August 2017, there had been no events, which had not been, but should have been recognised in the accounting books and the financial statement, for the period commenced on 30 June 2017.

20. Events of previous years recognised in the financial statement

Until the financial statement for the period concluded on 30 June 2017 was developed, i.e. until 31 August 2017, there had been no other significant events regarding the previous years, which were not, but should have been recognised in the financial statement for the accounting year.

21. Information on the changes in the business or economic circumstances that significantly affect the fair value of the entity's financial assets and financial liabilities, regardless of the fact, whether those assets and liabilities are recognised in the fair value or the corrected purchase cost (amortised cost)

The decision of the Regional Director for Environmental Protection, regarding the Ościsłowo open pit

As part of activities aimed at ensuring the resources for the Group's generation assets, the engineering works at the perspective lignite deposits are being continued. PAK KWB Konin SA undertakes activities to obtain all necessary decisions and documents allowing to grant the mining licence to the company. Currently, the activities are focused on the Ościsłowo open pit. The planned open pit is to ensure the lignite necessary to generate energy in the Pątnów II power plant and the modernised units in the Pątnów I power plant. Obtaining the extraction licence must be preceded by obtaining a number of formal and legal consents and documents detailing the manner of conducting the extraction activities, as well as its scope and impact on the environment of the planned investment. The environmental decision is one of these documents. The authority competent to issue the environmental decision for the project named: "Extraction of lignite and associated minerals from the Ościsłowo deposit" is the Regional Directorate for Environmental Protection in Poznań (RDOŚ).

On 13 March 2017, PAK KWB Konin SA received a decision of the Regional Director for Environmental Protection in Poznań of 10 March 2017, refusing the establishment of the environmental conditions for the project titled: "Extraction of lignite and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. The decision may be appealed against to the General Director of Environmental Protection via the RDOŚ in Poznań within 14 days after the date of delivery.

PAK KWB Konin SA appealed accordingly, within a legal deadline. The appeal included a request to revoke the judgement in its entirety and determine the environmental conditions for the execution of the a/m project. In the opinion of the Company's Management Board, there are actual grounds to expect that the final decision will be positive, should the solutions suggested by PAK KWB Konin SA be applied. On 23 June 2017, PAK KWB Konin SA received a notification from the General Director for Environmental Protection in Warsaw stating that, due to the complicated nature of the case, a new settlement date was set for 22 September 2017.

As of the date of this statement, in the Company's Management Board opinion, the risk of not meeting the construction schedule and the commencement of lignite extraction of the Ościsłowo open pit is negligible; if, however, that risk materialised, the changes concerning the production plans of the Group in future years could be significant, including a situation, in which they would impact the estimates of future expected cash flows, generated by the generation assets of the Group.

22. Additional information

Additional information and disclosures required by the provisions of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for regarding information required by the law of a non-member state as equivalent (Dz.U. Of 2014, item 133, as amended), which could significantly impact the assessment of the economic, financial situation and, which have been, as a result of the issuer's financial result, included in the explanatory notes to the semi-annual summary consolidated financial statement (scfs), including:

- explanations regarding the seasonality or cyclicality of the issuer's activities in the presented period (item 9 of scfs),

- information on significant settlements due to lawsuits (28.1 scfs),

- information on changes of contingent liabilities or contingent assets, which had occurred from the end of the last financial year (items 29 and 30 of scfs),

- information regarding the paid (or declared) dividends (item 23 of scfs).

ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA CAPITAL GROUP

MANAGEMENT BOARD'S REPORT ON ZE PAK SA CAPITAL GROUP OPERATIONS FOR THE 1st HALF OF 2017

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

31 AUGUST 2017

TABLE OF CONTENT

1. SELECTED FINANCIAL DATA ... 3
2. DESCRIPTION OF THE COMPANY AND OF THE CAPITAL GROUP ... 5
   2.1. Basic information ... 5
   2.2. Structure ... 6
   2.3. Composition of the Management Board ... 7
   2.4. Description of the changes in the Group's structure ... 7
3. SIGNIFICANT EVENTS AFFECTING THE GROUP'S ACTIVITY ... 7
   3.1. Significant achievements and failures during the period covered by the report ... 7
   3.2. Other significant events of the reporting period, events after the balance sheet date and other information which are relevant for the assessment of the human resources, property, financial situation and ability of the Company and the Group to fulfill its obligations ... 13
4. INFORMATION ON SIGNIFICANT PROCEEDINGS PENDING BEFORE A COURT, A BODY COMPETENT FOR ARBITRATION PROCEEDINGS OR A PUBLIC ADMINISTRATION BODY RELATED TO ZE PAK SA OR SUBSIDIARIES CONSOLIDATED UNDER THE GROUP ... 13
5. INFORMATION REGARDING THE SHAREHOLDING STRUCTURE ... 16
   5.1. Shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes ... 16
   5.2. List of the shareholding structure of the management and supervising personnel ... 16
6. OPINION OF THE MANAGEMENT BOARD ON THE POSSIBILITY OF EXECUTION OF FINANCIAL FORECASTS PUBLISHED EARLIER ... 16
7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS ... 16
8. INFORMATION ON THE CONCLUSION BY ZE PAK SA OR ENTITIES CONSOLIDATED UNDER THE GROUP OF SIGNIFICANT TRANSACTIONS WITH ENTITIES AFFILIATED PURSUANT TO CONDITIONS OTHER THAN MARKET CONDITIONS ... 17
9. INFORMATION ON GRANTING BY ZE PAK SA OR ENTITIES CONSOLIDATED UNDER THE GROUP OF SIGNIFICANT GUARANTEES, SURETIES, CREDITS OR LOANS ... 17
10. INFORMATION CONCERNING THE ISSUE, REDEMPTION, AND REPAYMENT OF NON-EQUITY AND CAPITAL SECURITIES ... 17
11. FACTORS WHICH, IN THE MANAGEMENT BOARD'S OPINION, WILL AFFECT THE COMPANY'S RESULTS IN THE PERSPECTIVE OF AT LEAST ONE QUARTER ... 17
   11.1. Macro-economic trends in the Polish economy and the demand for electricity ... 18
   11.2. Regulatory environment ... 19
   11.3. Electricity prices ... 20
   11.4. Prices and supply of certificates of origin ... 21
   11.5. Extraction and supply costs of coal and other fuels ... 22
   11.6. CO_2 emission allowances costs ... 23
   11.7. Compensation for the stranded costs related to the termination of the "Long-term Contract" ("LTC") ... 24
   11.8. Seasonality and meteorological conditions (including mainly wind conditions) ... 24
   11.9. Investment expenses ... 24
   11.10. EUR/PLN exchange rate, the level of interest rates ... 24

1. SELECTED FINANCIAL DATA

Selected consolidated financial data	*PLN thousand* *6 months of 2017 period from 01.01.2017 to 30.06.2017*	*PLN thousand* *6 months of 2016 period from 01.01.2016 to 30.06.2016*	*EUR thousand* *6 months of 2017 period from 01.01.2017 to 30.06.2017*	*EUR thousand* *6 months of 2016 period from 01.01.2016 to 30.06.2016*
Sales revenue	1 177 556	1 367 520	277 242	312 184
Operating profit/loss	147 303	218 980	34 681	49 990
Profit/Loss before tax	134 497	177 977	31 666	40 629
Net profit/loss for the period	104 376	139 885	24 574	31 934
Net profit attributable to equity holders of the parent	103 372	138 404	24 338	31 595
Total comprehensive income	106 685	140 936	25 118	32 173
Net cash flow from operating activities	124 263	198 633	29 256	45 345
Net cash flow from investing activities	(30 126)	(79 954)	(7 093)	(18 252)
Net cash flow from financing activities	(187 302)	(177 344)	(44 098)	(40 485)
Net increase / (decrease) in cash and cash equivalents	(93 165)	(58 665)	(21 935)	(13 392)
Net profit per share (in PLN/EUR per share)	2,03	2,72	0,48	0,62
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	as at 30.06.2017	*as at 31.12.2016*	*as at 30.06.2017*	*as at 31.12.2016*
Total assets	4 411 390	4 801 300	1 043 745	1 085 285
Non-current assets	3 502 787	3 702 058	828 768	836 812
Current assets	908 603	1 099 242	214 978	248 472
Total equity	2 184 753	2 143 658	516 918	484 552
Share capital	101 647	101 647	24 050	22 976
Share capital attributable to equity holders of the parent	2 184 753	2 143 658	516 918	484 552
Total liabilities	2 226 637	2 657 642	526 828	600 733
Non-current liabilities	1 274 981	1 389 715	301 664	314 131
Current liabilities	951 656	1 267 927	225 164	286 602
Book value per share (in PLN/EUR per share)	42,99	42,18	10,17	9,53
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

Selected financial data of ZE PAK SA	*PLN thousand* 6 months of 2017 period from 01.01.2017 to 30.06.2017	*PLN thousand* 6 months of 2016 period from 01.01.2016 to 30.06.2016	*EUR thousand* 6 months of 2017 period from 01.01.2017 to 30.06.2017	*EUR thousand* 6 months of 2016 period from 01.01.2016 to 30.06.2016
Sales revenue	698 558	816 008	164 467	186 282
Operating profit/loss	38 784	76 333	9 131	17 426
Profit/Loss before tax	39 620	147 166	9 328	33 596
Net profit/loss for the period	34 392	127 803	8 097	29 175
Net cash flow from operating activities	69 626	58 900	16 393	13 446
Net cash flow from investing activities	(9 590)	(16 678)	(2 258)	(3 807)
Net cash flow from financing activities	(82 746)	(47 316)	(19 482)	(10 802)
Total net cash flow	(22 710)	(5 094)	(5 347)	(1 163)
Net earnings per share (in PLN/EUR per share)	0,68	2,51	0,16	0,57
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	as at 30.06.2017	*as at 31.12.2016*	*as at 30.06.2017*	*as at 31.12.2016*
Total assets	2 316 249	2 598 206	548 030	587 298
Non-current assets	1 981 651	2 219 586	468 863	501 715
Current assets	334 598	378 620	79 167	85 583
Total equity	1 460 667	1 491 837	345 597	337 215
Share capital	101 647	101 647	24 050	22 976
Liabilities and provisions for liabilities	855 582	1 106 369	202 433	250 083
Non-current liabilities	272 473	344 005	64 468	77 759
Current liabilities	321 791	387 209	76 137	87 525
Book value per share (in PLN/EUR per share)	28,74	29,35	6,80	6,63
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

Above financial data were converted into EUR according to the following exchange rates:

- *particular items of statement of comprehensive income (Profit & loss account) and statement of cash flows (Cash flow) – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period starting from 1 January 2017 to 30 June 2017, which is 4.2474 EUR/PLN and starting from 1 January 2016 to 30 June 2016, which is 4.3805 EUR/PLN;*
- *particular items of the Statement of financial position (Balance sheet) according to average EUR/PLN exchange rate published by the National Bank of Poland as of 30 June 2017, which is 4.2265 EUR/PLN and as of 30 December 2016, which is 4.4240 EUR/PLN.*

2. DESCRIPTION OF THE COMPANY AND OF THE CAPITAL GROUP

2.1. Basic information

As of 30 June 2017 the ZE PAK Capital Group (hereinafter referred to as the "Group", "Capital Group" the "ZE PAK SA Group") is composed of a dominant entity Zespół Elektrowni Pątnów – Adamów – Konin SA (hereinafter referred to as "ZE PAK SA" or "Company") and twelve subsidiaries i.e. Elektrownia Pątnów II sp. z o.o., PAK – Volt SA, PAK Kopalnia Węgla Brunatnego Adamów SA (hereinafter referred to as the "PAK KWB Adamów SA"), PAK Kopalnia Węgla Brunatnego Konin SA (hereinafter referred to as the "PAK KWB Konin SA"), Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o. (hereinafter referred to as the "PAK SERWIS sp. z o.o."), EL PAK Serwis sp. z o.o., Aquakon sp. z o.o., Eko-Surowce sp. z o.o., Energoinwest SERWIS sp. z o.o., PAK Górnictwo sp. z o.o., PAK – HOLDCO sp. z o.o., PAK Infrastruktura sp. z o.o. Consolidation covers all the above-mentioned companies.

The companies which are of the biggest importance for the Group due to the scale of their operations are: ZE PAK SA and Elektrownia Pątnów II sp. z o.o., dealing with production of electricity and heat, and PAK KWB Adamów SA and PAK KWB Konin SA, dealing with lignite mining. Apart from the core business, the Group comprises also other companies which perform e.g. construction and erection works, maintenance works, provide services, deal with production and trade to meet demand from and offer complex services for industry.

The production facilities of the Group include four lignite-fired power plants located in the central part of Poland in the Wielkopolskie voivodship. These are: Pątnów II which is equipped with a supercritical power unit, Pątnów I, Adamów and Konin equipped additionally with power unit with biomass fired boiler. Total installed gross power output of the production facilities of the Group was 2506 MWe as of 30 June 2017.

The Group's main mining assets are concentrated in two companies: PAK KWB Konin SA, which currently operates on Jóźwin, Tomisławice and Drzewce open casts, PAK KWB Adamów SA, which operates on Adamów open casts.

Majority of the Group's sales revenue is derived from sale of electricity (both generated within the Group and purchased for resale). This is supplemented by revenues from sale of heat, construction and service contracts, certificates of Energy origin (green and red certificates). An additional sales revenue, which depends on the level of generation costs and electricity prices on the market as well as the volume of generated electricity, is revenue from termination of long-term contracts for sale of electricity (Power Purchase Agreements), generated by Elektrownia Pątnów II sp. z o.o. Group having in its structure lignite mines, provides with an access to continuous supplies of lignite for its own power plants located in the direct vicinity of open pits. The vertically integrated Group allows for optimization of lignite inventories and supplies while coordinating lignite extraction with its requirements for this fuel. The requirements for biomass are satisfied by the suppliers of this raw material.

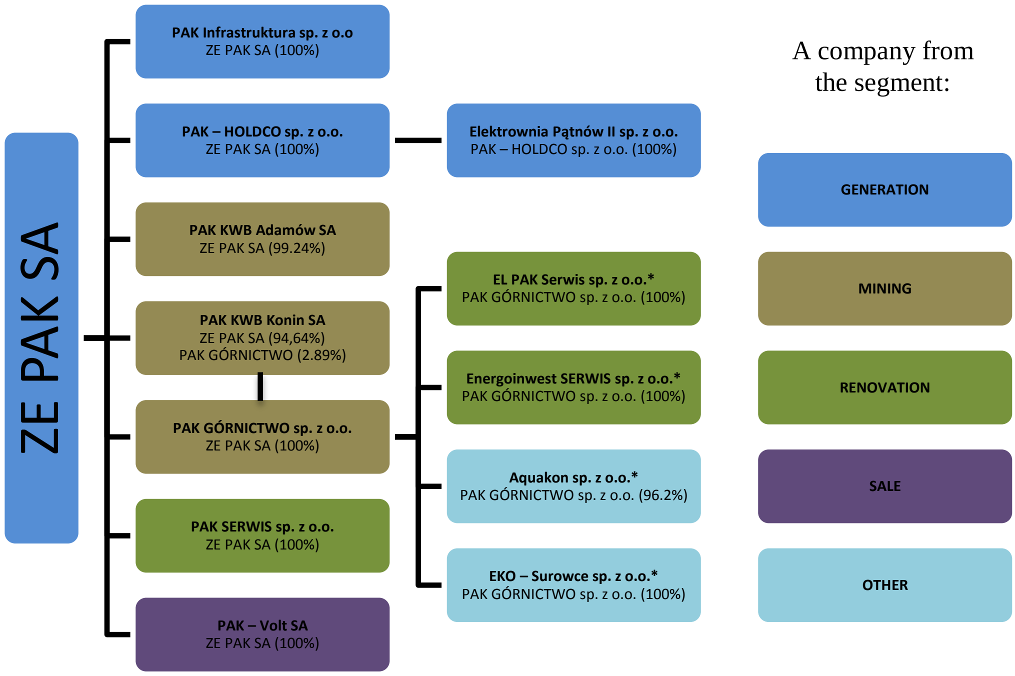
Structure of the ZE PAK Group as at 30 June 2017 presents Picture 1

The Company outside the Capital Group has shares in Zakłady Pomiarowo-Badawcze Energetyki Energopomiar Sp. z o.o. with registered office in Gliwice, providing measurement, research and consulting services related to the Energy market. ZE PAK SA has 1 share with a value of zloty 151 201.01 in the aforementioned company, comprising 2.81% of the total capital.

The main shareholder makes the Group affiliated with other entities, in which Zygmunt Solorz has substantial direct or indirect share.

2.2. Structure

Picture 1: Structure of the Group as of 30 June 2017



* *On August 1, 2017, the Extraordinary General Meeting of Shareholders of EL PAK Serwis sp. z o.o., Aquakon sp. z o.o., Eko-Surowce sp. z o.o., Energoinwest Serwis sp. z o.o. have resolved to dissolve the companies and to open their liquidation as of 1 August 2017.*

Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	*Registered office*	*Scope of operations*	*Group's share in the capital in percent*	
			30.06.2017	*31.12.2016*
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%	100,00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric energy production and distribution from the 464 MW power unit	100,00%*	100,00%*
„PAK – HOLDCO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activity	100,00%	100,00%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100,00%	100,00%
„PAK GÓRNICTWO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Exploration and recognition of lignite	100,00%	100,00%
Energoinwest Serwis sp. z o.o.**	62-510 Konin ul. Spółdzielców 3	Construction and repair services	100,00%*	100,00%*
PAK Kopalnia Węgla Brunatnego Konin SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	97,53%*	96,23%*
PAK Kopalnia Węgla Brunatnego Adamów SA	62-700 Turek ul. Uniejowska 9	Lignite extraction	99,24%	98,41%
„Aquakon" sp. z o.o.**	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.**	62-540 Kleczew ul. 600-lecia 9	Vulcanization services, sale of lignite	100,00%*	96,23%*

EL PAK Serwis sp. z o.o.**	62-510 Konin ul. Przemysłowa 158	Repair and maintenance of electric equipment, repair and maintenance of machines	100,00%*	100,00%*
PAK – Volt SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%

* *Entities with partial or total indirect share via other companies from ZE PAK Group.*

** *On August 1, 2017, the Extraordinary General Meeting of Shareholders of EL PAK Serwis sp. z o.o., Aquakon sp. z o.o., Eko-Surowce sp. z o.o., Energoinwest Serwis sp. z o.o. have resolved to dissolve the companies and to open their liquidation as of 1 August 2017.*

2.3. Composition of the Management Board

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

- Adam Kłapszta – President of the 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.

The current composition of the Management Board has changed in relation to the composition as of the 31 December 2016. On 3 March 2017, by the resolution of the Company's Supervisory Board, the function of the President of the Company's Management Board was entrusted to Mr. Adam Kłapszta. At the same time, during the same meeting of the Supervisory Board, MS Katarzyna Sobierajska and Mr. Tomasz Zadroga submitted resignations from the positions of the Vice-Presidents of the Company's Management Board as of 3 March 2017, the Company's Supervisory Board also appointed MS Elżbieta Niebisz to the position of the Vice-President of the Management Board.

2.4. Description of the changes in the Group's structure

As a result of the implementation of stock buyback process from eligible employees and after transferring stock bought-back from the State Treasury, the share of ZE PAK SA Capital Group companies in the PAK Kopalnia Węgla Brunatnego Konin SA ownership structure increased to a level of 97.53% and to a level of 99.24% in PAK Kopalnia Węgla Brunatnego Adamów SA.

On 9 May 2017, PAK Górnictwo sp. z o.o. concluded contracts with PAK KWB Konin SA, PAK Serwis sp. z o.o. and EL PAK sp. z o.o., resulting in PAK Górnictwo sp. z o.o. acquiring shares in the following companies: EL PAK Serwis sp. z o.o., Aquakon sp. z o.o., Eko-Surowce sp. z o.o., Energoinwest Serwis sp. z o.o. On 1 Aug 2017, an Extraordinary Meeting of Shareholders of four companies acquired by PAK Górnictwo sp. z o.o., adopted a resolution on the dissolution of the companies and commencing their liquidation as of 1 August 2017. The initiated liquidated processes are a consequence of the restructuring the ancillary activities to the main segment of the Capital Group. The activities previously conducted by the aforementioned companies will be executed by PAK Górnictwo sp. z o.o., which enters into the rights and obligations of the liquidated companies.

On 30 June 2017, a merger between EL PAK sp. z o.o. (acquired company) and PAK Serwis sp. z o.o. (acquiring company) took place pursuant to art. 492 § 1 item 1 of the CCC (Commercial Companies Code), through the transfer of all of the assets of EL PAK sp. z o.o. to PAK Serwis sp. z o.o. This change in the Group's structure is a consequence of the consolidation of the activities ancillary to the major segments of the Group.

3. SIGNIFICANT EVENTS AFFECTING THE GROUP'S ACTIVITY

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

Short description of the achieved financial results

In the first half of 2017, the total sales amounted to PLN 1 177 556 thousand, and compared to the first half of 2016, decreased by PLN 189 964 thousand, i.e., 13.89%.

The analysed first half of the year, compared to the analogous first half of the previous year, saw the sales of electricity in the Group decrease from 6.76 TWh to 5.65 TWh, i.e., by 16.42%. Simultaneously, the average achieved price of sold electricity, increased to PLN 175.96/MWh, i.e., by 0.55%. These both aforementioned factors mainly caused the electricity sales revenues to decrease by PLN 189 597 thousand, i.e., by 16.02%. Smaller electricity sales volume resulted from smaller sales of electricity from own generation, as well as the sales of marketed electricity. The electricity sales volume from own generation decreased from 4.91 TWh to 4.26 TWh (net generation volumes of individual power plants of the Group are shown in Chart 3), whereas, the volume of traded electricity decreased from 1.85 TWh to 1.39 TWh.

In the first half of 2017, the revenues from compensation for the termination of futures contracts for the Elektrownia Pątnów II sp. z o.o., were higher by PLN 404 thousand, i.e., 0.44%, compared to the compensation received in the first six months of 2016. The main reason was the level of the advance payment. The difference in the advance payment amount for covering the stranded costs resulting from termination the futures contact between both compared periods, exceeded the difference resulting from the smaller correction.

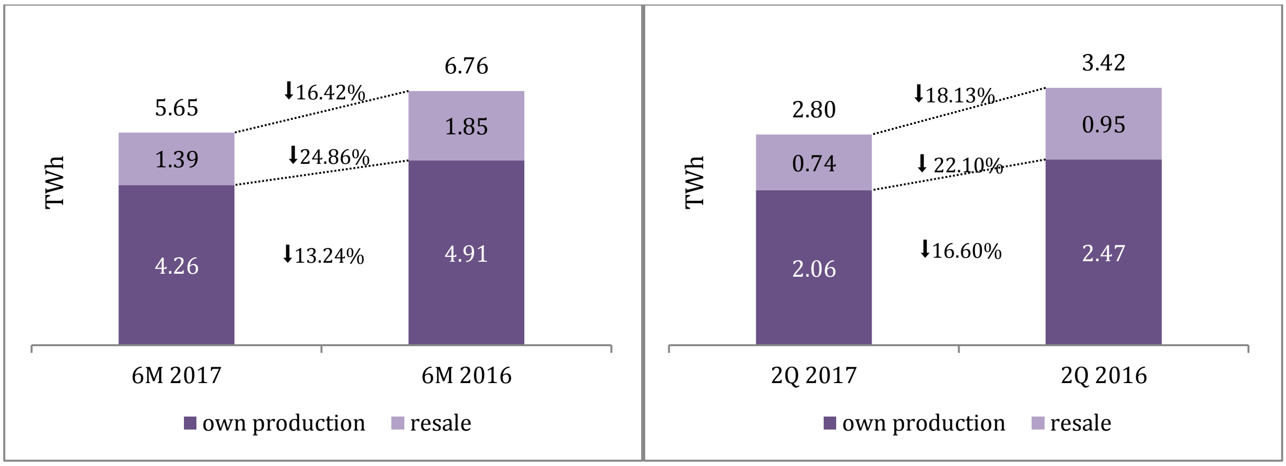
The first half of 2017 recorded a loss from the sales of green certificates. Although generation of the biomass unit in the first six-months of 2017 was halted, the green certificates produced in the previous periods were sold with their valuation higher than the achieved sales price. Negative revenue balance from the sales of certificate of origin property rights would have been even higher, but for the revenues generated by the sales of red certificates.

The construction contracts revenues in the first half of 2017, relative to the revenues achieved in the similar period of the previous year, increased by PLN 18 293 thousand, i.e., by 69.01%. The main reason was the increased contractual involvement of PAK Serwis with external recipients in the implementation of power sector investments.

Heat sales revenues in the first half of 2017 remained at a similar level, in relation to the revenues achieved in the first half of the previous year. A slight increase by PLN 12 thousand, i.e., 0.04%, resulted from the heat sales volume higher by 21 404 GJ.

The remaining sales revenues in the first half of 2017 increased by PLN 781 thousand in relation to the same period of the previous year. The increase mainly resulted from an extended scope of services provided for the system operator by one of the servicing segment companies.

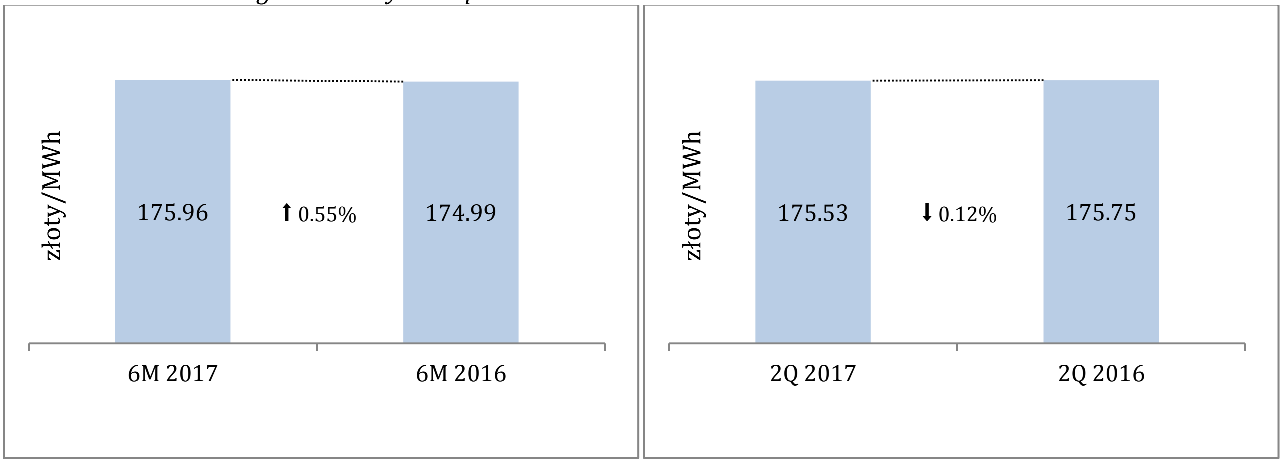
*Chart 1: Electricity sales**



* *Apart from the values presented in the chart, the electricity sales within 6 months of 2016 included 0.04 TWh within the generation of units 1 and 2 in the Pątnów Power Plant I in the investment period, including 0.00 TWh in the II quarter of 2016.*

Source: Internal data

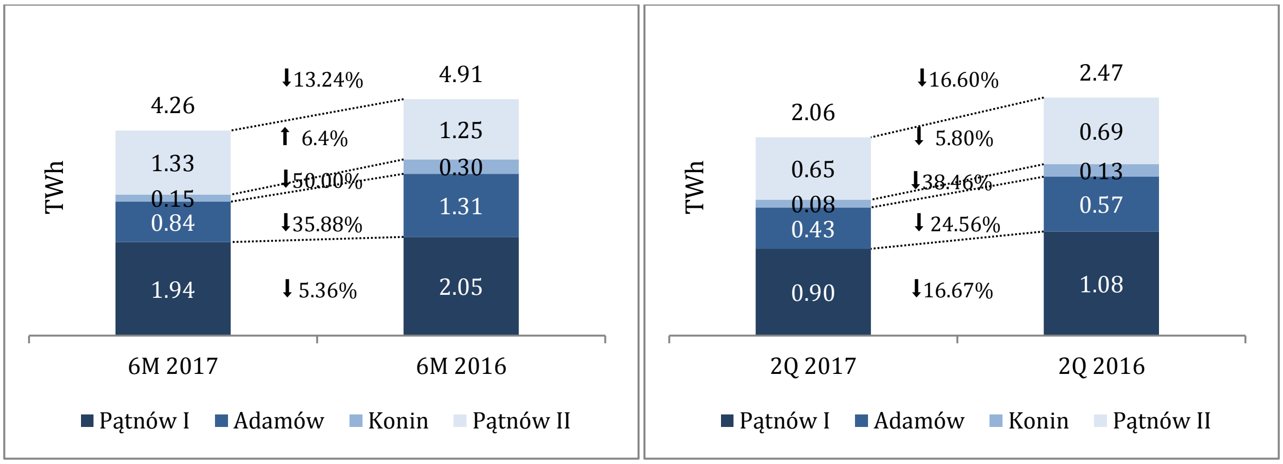
*Chart 2: Average electricity sales prices**



* *Average price, calculated as electricity sales revenues (own, along with system services and marketed) divided by the sales volume.*

Source: Internal data

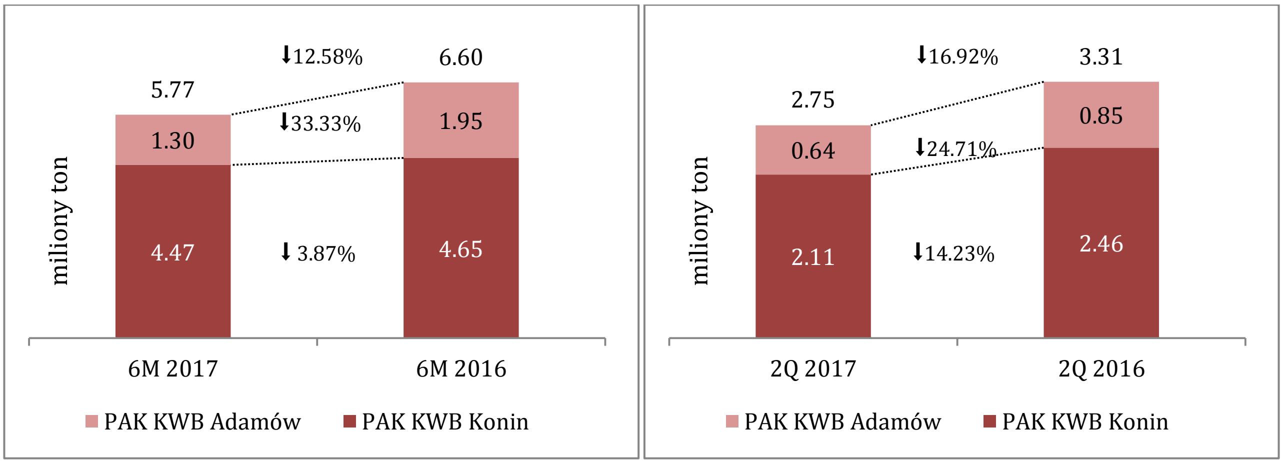
*Chart 1: Net electricity production**



* *Apart from the values presented in the chart, the electricity sales within 6 months of 2016 included 0.04 TWh within the generation of units 1 and 2 in the Pątnów Power Plant I in the investment period, including 0.00 TWh in the II quarter of 2016.*

Source: Internal data

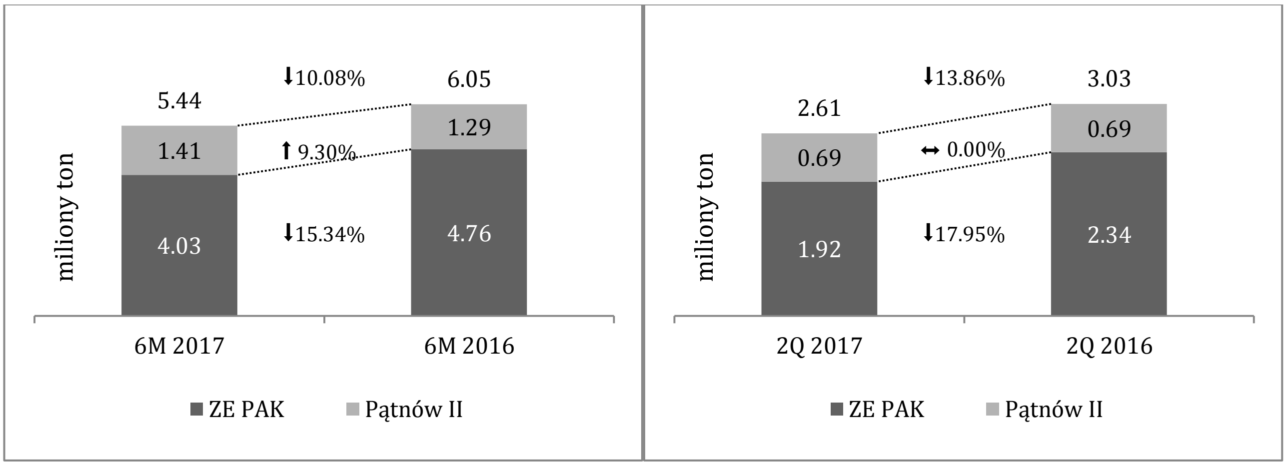
*Chart 2: Lignite consumption**



* *Apart from the values presented in the chart, an additional of 0.05 m tons of coal were consumed within 6 months of 2016 for the needs of units 1 and 2 at the Pątnów I Power Plant in the investment period, including 0.00 m tons in the II quarter of 2016.*

Source: Internal data

*Chart 3: CO_2 emissions**



* *Apart from the values presented in the chart, and additional 0.04 m tons of CO2 were emitted in the course of generation in units 1 and 2 at the Pątnów I Power Plant in the investment period, within 6 months of 2016, including 0.00 m tons in the II quarter of 2016.*

Source: Internal data

Table 1: A list of consolidated sales revenues

	zloty thousand 6 months period ended 30 June 2017	*zloty thousand* 6 months period ended 30 June 2016	*zloty thousand* change	*%* dynamics
Revenues from the sales of electricity (reduced by excise duty)	756 239	856 949	(100 710)	(11.75)
Revenues from sales of traded electricity	237 927	326 814	(88 887)	(27.20)
Property rights on energy certificates of origin	(35)	19 822	(19 857)	-
Revenues from contracts for construction services	44 802	26 509	18 293	69.01
Compensation for termination of long-term contracts	92 427	92 023	404	0.44
Revenues from sales of heat	32 382	32 370	12	0.04
Other sales revenues	13 814	13 033	781	5.99
Total sales revenues	**1 177 556**	**1 367 520**	**(189 964)**	**(13.89)**

Table 3: Selected items of the consolidated income statement

	zloty thousand 6 months period ended 30 June 2017	*zloty thousand* 6 months period ended 30 June 2016	*zloty thousand* change	*%* Dynamics
Sales revenues	**1 177 556**	**1 367 520**	**(189 964)**	**(13.89)**
Prime cost	(978 974)	(1 107 287)	(128 313)	(11.59)
Gross sales profit (loss)	198 582	260 233	(61 651)	(23.69)
Other operating revenues	9 452	10 974	(1 522)	(13.87)
Cost of sales	(2 202)	(2 139)	63	2.95
General management costs	(56 539)	(47 795)	8 744	18.29
Other operating costs	(1 990)	(2 293)	(303)	(13.21)
Profit (loss) from operating activities	**147 303**	**218 980**	**(71 677)**	**(32.73)**
Financial revenues	13 571	5 174	8 397	162.29
Financial costs	(26 377)	(46 177)	(19 800)	(42.88)
Gross profit (loss)	**134 497**	**177 977**	**(43 480)**	**(24.43)**
Income tax (tax load)	(30 121)	(38 092)	(7 971)	(20.93)
Net profit (loss)	**104 376**	**139 885**	**(35 509)**	**(25.38)**

Net other comprehensive income	2 309	1 051	1 258	119.70
Comprehensive income	**106 685**	**140 936**	**(34 251)**	**(24.30)**
EBITDA*	**251 009**	**328 803**	**(77 794)**	**(23.66)**

* *The Company defines and calculates EBITDA as the profit/(loss) on operating activities (calculated as the net profit/(loss) for the accounting year corrected by the (i) income tax (tax load), (ii) financial revenues, as well as (iii) financial costs) corrected by the depreciation (shown in the income statement), as well as impairment write-downs against tangible assets, intangible assets, and mining assets.*

Table 4: Consolidated costs by type

	zloty thousand	*zloty thousand*	*zloty thousand*	*%*
	6 months period ended 30 June 2017	*6 months period ended 30 June 2016*	*change*	*dynamics*
Depreciation	103 706	109 823	(6 117)	(5.57)
Impairment write-downs against inventory	776	21 841	(21 065)	(96.45)
Consumption of materials	126 221	153 925	(27 704)	(18.00)
Outsourcing	48 923	20 898	28 025	134.10
Taxes and fees excluding excise tax	85 554	80 015	5 539	6.92
Costs of CO_2 emissions	168 094	142 839	25 255	17.68
Costs of employee benefits	246 825	261 936	(15 111)	(5.77)
Other costs by type	21 598	10 763	10 835	100.67
Value of sold goods and materials and sold traded electricity	230 598	333 398	(102 800)	(30.83)
Total costs by type	**1 032 295**	**1 135 438**	**(103 143)**	**(9.08)**

* *CO_2 emission costs in the prime cost of sales, in the period of 6 months of 2016 amounted to PLN 163 140 thousand (difference of PLN 20 301 thousand in relation to the value presented in the costs by type, is a component of the change in stock position).*

The prime costs of sales in the I quarter of 2017 amounted to PLN 978 974 thousand and, in relation to the costs incurred in the first half of 2016, decreased by PLN 128 313 thousand, i.e., 11.59%. The following contributed the most to the decreased prime costs: lower value of energy purchased for trade, lower costs of consumable materials due to lower generation (especially biomass generation) and lower costs of employee benefits resulting from lower average employment in the period. The higher costs in the first half of 2016 were also influenced by the impairment write-down against the value of green certificate inventory, with the write-down in the first half of 2017 being significantly lesser due to the fact that the majority of green certificates had already been sold. In the first half of 2017 the depreciation was also lower due to the inactivation of one of the open pits and the completion, in March of last year, of the depreciation of the asset regarding the overburden stripping in one of the mines. On the other hand, the following contributed to the increased prime cost: more outsourced services as a result of higher involvement of one of the renovation companies in the performance of contracts for external consumers, higher servicing costs, taxes and fees resulting from an increased charge due to the exclusion of land from agricultural and forestry production, and CO_2 emission costs. Although the amount of purchased CO2 emission allowances was lower than in the first half of the previous year, but the higher purchase price resulted in higher costs.

The remaining operating revenues in the first six months of 2017 amounted to PLN 9 452 thousand and were lower by PLN 1 522 thousand than the revenue achieved in the similar period of the previous year, mainly due to lower revenue from compensation.

Sales costs in the first six months of 2017 amounted to PLN 2 202 thousand and were higher by PLN 63 thousand than in the same period of the previous year.

Administrative expenses in the first half of 2017 amounted to PLN 56 539 thousand and were higher than the costs incurred in the first six months of 2016 by PLN 8 744 thousand, i.e., 18.29%. An increase of administrative costs is a consequence of a lower base in the first half of 2016, due to the terminated at that time: provisions for bonuses in one of the companies, as well as the higher value of terminated provisions associated with mining activities.

The remaining operating costs for the reporting six months amounted to PLN 1 990 thousand and decreased in relation to the first half of 2016 by PLN 303 thousand. The reason was a lower recorded loss on the sales of tangible fixed assets, lower compensation and submitted donations. The mentioned items compensated for the increase of other operating costs with surplus, especially the cost of property tax from previous years.

The profit on operating activity of the ZE PAK Group in the first six months of 2017 amounted to PLN 147 303 thousand, and decreased relative to the first six months of the previous year by PLN 71 677 thousand, i.e., 32.73%.

In the first half of 2017, the achieved results were adversely impacted by the negative result of financial services, in the amount of PLN (12 806) thousand. The impact of financial services in the same period of the previous year decreased the result by much more, since it amounted to PLN (41 003) thousand. The difference in the financial services result between both compared periods is caused by higher financial revenues, as well as lower costs. The positive exchange rate differences, as an effect of a decline in the EUR/PLN exchange rate regarding the valuation of the foreign currency loan, had the highest impact on the increased financial revenues. The loads due to paid interest and commissions decreased on the financial costs side.

The gross profit for the first six months of 2017 was PLN 134 497 thousand, that is, a decrease of PLN 43 480 thousand, i.e., by 24.43%, relative to the gross profit for the first half of 2016.

The net profit for the first six months of 2017 was PLN 104 376 thousand, that is, a decrease of PLN 35 509 thousand, i.e., by 25.38%, relative to the net profit for the first half of 2016.

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

There were no unusual events substantially affecting the assets, liabilities, capital, net financial result or cash flows in the first half of 2017.

Execution of the investment programme

In the period from 1 January to 30 June 2017, the investment expenses in the Group along with the renovation components amounted to PLN 23 333 thousand. The investment tasks executed in this period mostly regarded the mining segment.

Generation Segment

Currently, the ZE PAK SA Group does not implement big investment projects. The investment activity in the generation segment is focused on fulfilling the necessary tasks to ensure the maintenance of the current efficiency and maintenance of the held generation assets.

The second quarter of 2017 saw the continuation of the implementation of the investment task involving the tightening of the wall between the boiler house and the turbine hall at the Pątnów power plant. The execution of the task is aimed at decreasing the dust amounts entering from the boiler house area towards the turbine hall, increasing structural and fire safety of the buildings, and improving the aspects associated occupational health and safety of the staff.

In June 2017, a contract for a "turn-key" adaptation of an existing TG-6 condensation turboset with auxiliary systems to cooperate with the district heating system at the Konin power plant was concluded. The implementation of the investment task will enable heating of district water sent to the city of Konin from the biomass unit, after the coal units are inactivated. The planned date of commissioning the upgraded TG-6 turbine together with new auxiliary systems was set at the beginning of 2018.

Mining Segment

In the mining segment, the investment expenses are incurred in order to maintain the production capacity of the currently exploited open pits. In the first half of 2017, the greatest expenses were incurred for the purchase of area and buildings and the extension of the Jóźwin open pit's power system.

As part of activities to ensure the raw material for the Group's generation assets, the designing works at the perspective brown coal deposits are continued. PAK KWB Konin SA undertakes activities to obtain all necessary decisions and documents allowing to grant the licence to extraction to the company. Currently, the activities are focused on the Ościsłowo open pit. The planned open pit is to ensure the coal necessary to generate the energy in the Pątnów II power plant and the modernised units in the Pątnów I power plant. Obtaining the licence for extraction must be preceded by obtaining a number of formal and legal consents and documents detailing the manner of conducting the extraction activities, its scope and impact on the environment of the planned investment. The environmental decision is the one of these documents. The authority competent to issue the environmental decision for the project named: "Extraction of brown coal and associated minerals from the Ościsłowo deposit" is the Regional Directors of Environmental Protection in Poznań (RDOŚ). On 16 September 2015, the proceedings on the issue of the environmental decision for the Ościsłowo open pit were initiated before this authority. Within the documentation necessary in the proceeding, among others, the report on the environmental impact for the Ościsłwo open pit and the expert's report concerning the impact of the projected Ościsłowo open pit on bodies of surface and underground waters as well as protected areas were prepared. PAK KWB Konin SA provides the data and supplements the documentation needed for the proper conduct of the proceedings with due diligence. The date of issuing the environmental decision was postponed several times. On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director of Environmental Protection in Poznań refusing to determine the environmental conditions for the project. The decision of RDOŚ in Poznań is not final and PAK KWB Konin SA appealed against it to the General Directorate for Environmental Protection in Warsaw, within legal deadline. In the appeal, the repeal of the settlement under appeal in whole and determination of the environmental conditions for the implementation of the a/m project were applied. In the opinion of the Management Board of the Company, there are realistic prerequisites to expect that the final decision will be positive in the case of applying the solutions proposed by PAK KWB Konin SA. On 23 June 2017, PAK KWB Konin SA received a notification from the General Director for Environmental Protection in Warsaw, stating that, due to the complicated nature of the case, a new settlement date was set for 22 September 2017.

Another essential condition of the project implementation is the change of the local spatial development plan on the area to be included in the planned open pit. The decisions in this area are made by the local governments of three communes, where the exploitation of the Ościsłowo deposit is planned. In December 2016, the Minister of Agriculture issued the approval for dedicating the agricultural lands of the Ślesin and Skulsk communes in the area of the construction of the Ościsłowo brown coal open pit for non-agricultural purposes. Also in December 2016, media reports on an archaeological discovery on the part of the land for the planned open pit were published. The Greater Poland Monument Conservator's Office will make the decision on protecting the area of the artefact after further site investigation. It is worth noting that in the past, on the other open pits exploited by the mines, archaeological and excavation works took place many times. PAK KWB Konin SA cooperated in the past and is going to cooperate in such cases with all relevant institutions.

3.2. Other significant events of the reporting period, events after the balance sheet date and other information which are relevant for the assessment of the human resources, property, financial situation and ability of the Company and the Group to fulfill its obligations

Discussions between the Management Board and the social party

On 18 January 2017, the trade unions operating in the Company filed another letter submitted under the Act of 23 May 1991 on resolution of collective disputes, containing requests regarding, among other, statutory bonus, return of the unpaid contributions to the EPF, and development of the support programme the Adamów power plant's employees. The Company's Management Board replied to the requests of the trade unions by presenting its position on individual requests along with invoking the relevant arguments in support of the taken position, by pointing to, among others, illegitimacy of the requests or the consequences of the regulation in the provisions of Article 4 of the Act on resolution of collective disputes concerning the inadmissibility of conducting a collective dispute. Currently, the talks between the Company's Management Board and the trade unions in relation to the requests applied by the letter of 18 January 2017 are in progress.

On 26 July, also the trade unions operating in the mines, initiated a collective dispute at PAK KWB Konin SA, as a reaction to the organizational and restructuring changes conducted in the Capital Group.

Also in July, the Management Board of the Company commenced the process of collective redundancies. The redundancies were to include 208 vacancies, as a result of operation completion of the Adamów power plant at the beginning of 2018. However, on 23 August 2017, the Board decided on suspending the collective redundancies process. The ZE PAK SA Board is currently developing an aid programme, aimed at supporting the employees, who could be in the group of persons subject to the procedure of collective redundancies.

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

In the first half of 2017, Zespół Elektrowni Pątnów – Adamów – Konin SA and the consolidated companies under the Group were not a party in any proceedings pending before a court, a body competent for arbitration proceedings or a public administration body, whose single or total value would exceed 10% of equity of ZE PAK SA, except the ones specified below.

Proceedings on refund of excise duty overpayment

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

As of 1 March 2009, the Act of 6 December 2008 on excise duty entered into force, according to which the sale of electricity to an entity which is not its final customer is not subject to excise duty.

Due to the above fact, pursuant to Article 75 § 1, in relation to Article 75 § 2 of the Act of 29 August 1997 – Tax Ordinance, ZE PAK SA submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008, as well as January and February 2009 for the total amount of zloty 626 000 thousand, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK SA are not subject to the excise tax. Particular applications were recognised at the following levels: the Customs Office in Kalisz, the Customs Chamber in Poznań, and, currently, the Provincial Administrative Court in Poznań („PAC"), as well as the Supreme Administrative Court. Due to the position of judicature presented in the course of court proceedings, the amount of overpayment, the repayment of which the Company submits, has been reduced to the amount of damages caused by economic analyzes, i.e. currently up to the amount of approximately PLN 108 000 thousand.

Moreover, in association with the rulings of the Administrative Courts regarding other power companies, in the subject of overpaid excise duty and the resolution I GPS 1/11 of the National Administrative Court ("NSA") of 22 June 2011 (where the NSA ruled that transferring the tax load in price, excludes the possibility to return the overpayment), notwithstanding the ongoing administrative proceedings, on 10 February 2012, the Company initiated a civil-law proceedings, filling an application to summon the State Treasury to a conciliation hearing regarding the amount of PLN 626 406 thousand, to the District Court Warszawa Śródmieście. A conciliatory settlement was not reached since during the hearing of 16 April 2012, the representatives of the Treasury did not agree to settle. Simultaneously, the Company, waiting for the results of the tax proceedings regarding the previously submitted application for overpayment, submitted in writing, on 14 September 2012, in the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic analysis, the purpose of which was to demonstrate whether the Company suffered loss related to the payment of excise tax to which it was not obliged. The Company's opinion is that the submitted document also applies to other overpayment applications from the entire period embraced by the proceedings, i.e. between January 2006 and February 2009. Ultimately, all applications were included in the cause lists of the Provincial Administrative Court (WSA) and the Supreme Administrative Court (NSA). As of the date of development of this statement, the status of the proceeding is as follows:

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

Notwithstanding the foregoing proceedings, ZE PAK SA lodged a complaint against the actions of the Polish authorities to the European Commission ("EC"), pursuant to art. 258 of the Treaty on the Functioning of the European Union. The opinion issued by the EC may oblige the Polish tax authorities to pass a ruling beneficial to ZE PAK SA. On 21 March 2017, ZE PAK SA received a "pre-closure letter" from the EC, which initially denied the relevance of ZE PAK SA's position, however, at the same time giving the right to a second comment on the subject, which ZE PAK SA exercised. On 9 June 2017, a letter summarising the reasoning of ZE PAK SA, in terms of the overpaid excise tax. Currently, ZE PAK SA is awaiting the EC to take the final position on the case in question.

In case of the Elektrownia Pątnów II sp. z o.o., the proceedings for all periods (one case) were included in the cause lists of the Provincial Administrative Court after a negative decision of the Head of Customs Chamber. The aforementioned company does not have access to comparative analyses of suffering the prejudice. On 4 November 2015, a hearing in the Provincial Administrative Court in Poznań took place. On 18 November 2015, a negative ruling was given. On 8 February 2016, the company filed a cassation appeal to the Supreme Administrative Court. Currently, the Elektrownia Pątnów II sp. z o.o. is awaiting the setting of a hearing before the Supreme Administrative Court

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

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

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

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

Proceedings on an environmental decision on lignite deposit in Ościsłowo

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017, refusing the establishment of the environmental conditions for the investment titled: "Extraction of lignite and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. PAK KWB Konin SA appealed accordingly to the General Directorate for Environmental Protection in Warsaw. The appeal included a request to revoke the appealed ruling in its entirety and determine the environmental conditions for the execution of the above-mentioned project. On 23 June 2017, PAK KWB Konin SA received a notification from the General Director for Environmental Protection in Warsaw stating that, due to the complicated nature of the case, a new settlement date was set for 22 September 2017. The proceedings for issuing the environmental decision were initiated on 16 September 2015.

5. INFORMATION REGARDING THE SHAREHOLDING STRUCTURE

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

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

*Table 2: List of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting as of the date of submission of this report **

Shareholder	*Number of shares and corresponding number of votes at the General Meeting**	*Share [%] in the total number of shares/votes*
Zygmunt Solorz (indirectly) through:	**26 200 867**	**51.55**
– *Elektrim SA*	*196 560*	*0.39*
– *Embud 2 sp. z o.o. S.K.A.*	*592 533*	*1.16*
– *Trigon XIX Fundusz Inwestycyjny Zamknięty*	*10 004 001*	*19.68*
– *Argumenol Investment Company Limited*	*15 407 773*	*30.32*
Nationale – Nederlanden OFE	**5 068 410**	**9.97**
TFI PZU SA	**3 081 567**	**6.06**
OFE PZU „Złota Jesień"	**2 664 378**	**5.24**

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

The list of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the date of this quarterly report does not differ from the analogous list as of the date of publication of the latest periodic report..

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

According to the information in possession of the Company, based on the delivered notifications regarding the acquisition/sales of the shares, as of the day this report was submitted, as well as the day the previous periodic report was submitted, none of the managing and governing persons held ZE PAK SA shares.

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

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

7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS

The Ordinary General Meeting of 28 June 2017 passed a resolution on the division of net profit for the financial year of 2016 in the amount of PLN 213 856 798.62, in the following manner:

a) the amount of PLN 65 562 375.63 was allocated for the payment of dividend for the Company's shareholders, which means that the dividend per one Company stock amounted to PLN 1.29;

b) the remaining part of the profit in the amount of PLN 163 983 609.81 was assigned to strengthen the supplementary capital of the Company.

All Company shares included a dividend.

The date of granting the right to the dividend was established for 4 August 2017, and the date of payment of the dividend – for 16 August 2017.

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

Zespół Elektrowni Pątnów – Adamów – Konin SA and companies consolidated under the Group have not concluded transactions with entities affiliated pursuant to conditions other than market conditions in the first half of 2017

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

Zespół Elektrowni Pątnów – Adamów – Konin SA and companies consolidated under the Group have not granted guarantees, sureties, credits or loans in the first half of 2017, the standalone or total value of which would comprise 10% of ZE PAK SA's equity

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

In the first half of 2017, PAK KWB Konin SA, a company subject to consolidation under the Group, issued four debentures of the total amount of PLN 55 000 thousand (fully included by the companies within the Group). PAK KWB Konin SA also redeemed the debentures of the amount of PLN 55 000 thousand (the whole from the entities within the Group).

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

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

The most important factors which constantly affect the Company's results include the following:

- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- fuel costs, coal extraction costs;
- CO_2 allowances costs;
- compensation for the stranded costs related to the termination of Elektrownia Pątnów II's LTC contract;
- seasonality and meteorological conditions;
- investment expenses, in particular those privileged to obtain CO_2 emission allowances free of charge;
- EUR/PLN exchange rate, interest rates level.

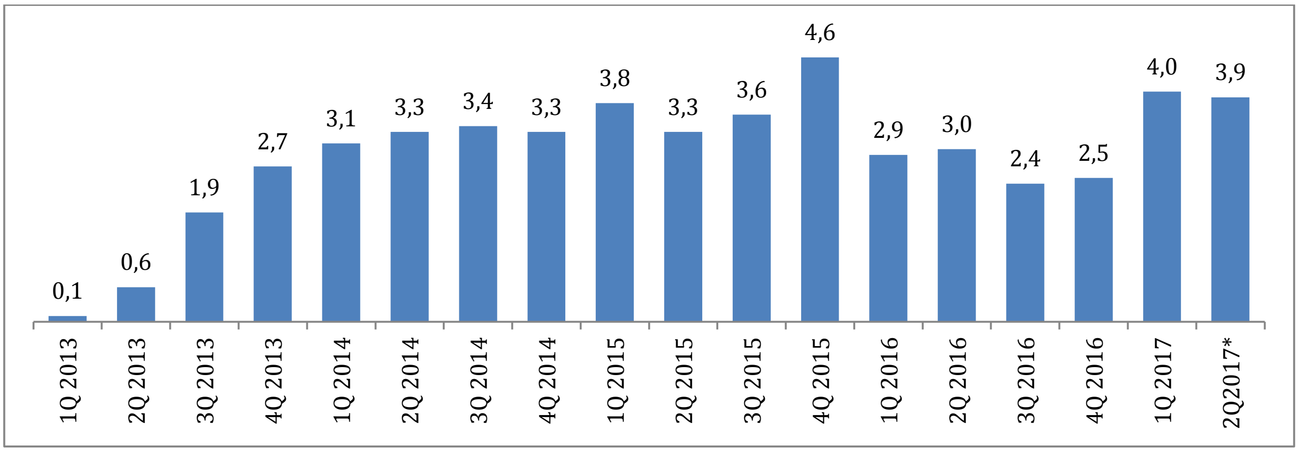
Furthermore, an important factor that could have a significant impact on the Company's financial results in the further quarters includes the value impairment test result. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last such a test was carried out on 30 June 2017, and its result justified the write-down for asset components. It should be noted that the valuation model of the Company's assets shows sensitivity to a range of parameters, among others, the ones described in this section. Therefore, in the face of deterioration of the operational perspectives, both the market ones and those having its origin in the legal conditions, the assumptions for the valuation model of the Company's assets can change, and consequently the value impairment test result may cause the necessity of verifying the value of the write-downs against the asset components in the future. Another analysis of the reasons justifying the potential necessity to conduct the value impairment test of the Company's asset components will be executed at the end of the next reporting period.

11.1. Macro-economic trends in the Polish economy and the demand for electricity

When conducting activities within the territory of Poland and obtaining most revenues from the sale of electricity, it is necessary to take into consideration the macro-economic trends in the Polish economy. A very significant factor is the increase in the real GDP and industrial production in Poland, the development of the service sector as well as the increase in individual consumption. All of the aforementioned factors significantly affect the demand for electricity and its consumption.

According to the corrected data from the Central Statistical Office, the gross domestic product ("GDP") calculated in fixed prices for the previous year increased in real terms in 2016 by 2.7%, against a 3.8% increase in 2015. Looking at the below chart, we can see that the increases in GDP dynamics in subsequent quarters of 2016 were lower than in the previous years. However, the dynamics leap recorded in the I and II quarters of 2017 is close to the best results, recorded in 2015.

Chart 4: GDP dynamics (%) in relation to the analogous quarter of the previous year *(yearly average fixed prices)*

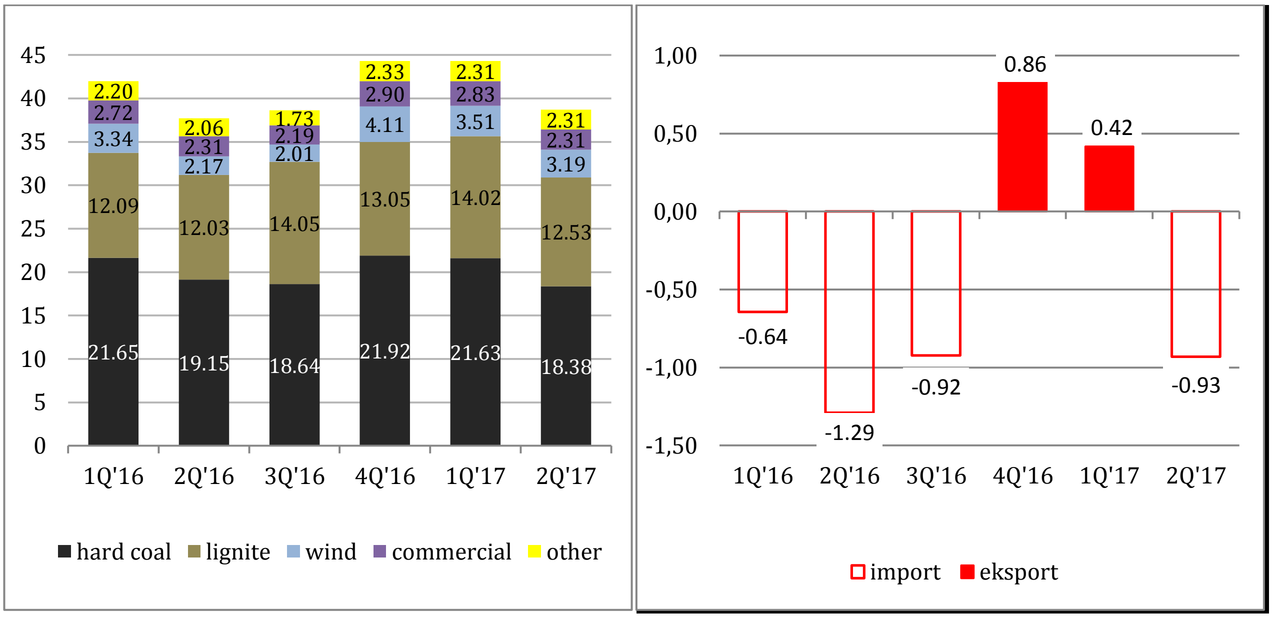


**-So-called "Quick estimate of the gross domestic product for the II quarter of 2017"*

Source: Own elaboration based on CSO data

So-called "quick-estimate" of the GDP for the second quarter of 2017, announced by CSO (Central Statistical Office) amounted to 3.9%. The published data are of preliminary nature, with the final data to appear on 31 August, which is when the data regarding GDP structure shall also be announced. However, based on the data disclosed up to date, it can be estimated that the share of the input of individual components will gradually change, with the input of investments becoming noticeable while consumption will still remain strong. Industrial production in subsequent months of the second quarter of 2017 recorded a decline by 0.6% in April, a 9.1% increase in March and 4.5% in June. The average dynamics of industrial production in the second quarter stood at a level of 4.3%, which meant a decline relative to the average for the first quarter by 7.1%. However, the readings for the next months are still noticeably higher than the ones recorded for the same period of the previous year, which allows us to expect that we are dealing with a continued growth momentum of industrial production, initiated in the first quarter of 2017. Industrial processing is mainly responsible for the improvement of the industry's results for the first six months of 2017, which can suggest increased demand for Polish goods among foreign recipients, hence, correlating with the revival of prosperity in Western Europe. The construction-assembly production dynamics upward trend is still continued, with the industry recognized as a barometer of investment sentiment. The average for the II quarter of 2017 stood at a level of 8.2%, compared to 4.6% in the first quarter of 2017, and it is worth noticing that the dynamics of construction-assembly production in the same periods of the previous year recorded double-digit declines. Retail sales have been playing a dominant role in the GDP increase structure for some time. Despite the fact that the retail sales dynamics was lower than recorded for the previous quarter, the 12.1% increase in April, 8.4% in May and 6.0% in June should be considered as relatively high levels, particularly in view of the fact that the effect of a higher base from the previous year started to take effect in the second quarter, which was associated with the beginning of the 500+ family income-supporting benefit programme. However, the driving force behind consumption is still a favourable situation on the labour market.

Chart 5: Structure of electricity generation and the balance of the electricity exchange with foreign countries (gross amounts) – TWh



Source: Own elaboration based on PSE data

The data concerning the functioning of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, show that the gross national electricity consumption in the first half of 2017 was 83.52 TWh, and increased by 2.32% in comparison to the first half of the previous year. The gross electricity generation in the first quarter of 2017 in Poland amounted to 83.01 TWh, which meant a 4.15% increase compared to the same period of the previous year. The share of coal-fired power plants in the generation structure amounted to 48%. Coal-fired generation recorded a 1.93% decline, relative to the first six months of the previous year. Lignite-fired generation, however, increased by 10.13% compared to the first half of the previous year. The increase of wind power plants amounted to 21.63%, while it was particularly the second quarter, which contributed to the higher generation from wind sources. In the first six months of 2017, Poland was a net importer of power, with the exchange balance of 0.51 TWh, which results in a 0.6% share in the gross domestic consumption. The import volume in the first half of 2017 decreased by 73.4%, in comparison to the import in the first half of 2016..

11.2. Regulatory environment

Entities operating on the power market are subject to strict regulations, such as, e.g., the Energy Law, the act on renewable energy sources ("RES"), regulations regarding the obligation of selling a part of generated power to the public, as well as supporting defined power generation technologies, and the regulations and directives of the European Commission and international conventions, on, i.e., environmental protection and climate change (including CO2 emissions). It is also necessary to take into consideration the regulations of the tax law as well as interpretations and recommendations issued by the Energy Regulatory Office.

On 28 April 2017, the representatives of EU Member States decided by vote on new standards, tightening the industrial emission standards (so-called BREF/BAT), which will significantly impact the future of conventional power plants. Poland and several other countries were against the so-called BAT conclusions. Adapting large industrial systems, including the ones generating power and heat, to the new, more restrictive SO2, NOx dust emissions standards and the permissible mercury levels introduced for the first time, and the permissible annual averages of hydrogen chloride, hydrogen fluoride and ammonia, in the event of the absences of derogation from BAT conclusions, will be associated with costly investments. Power generation systems will have to be adapted to the new emission requirements within 4 years from the date of publication of the decision, i.e., by the end of July 2021. Both, the costs, as well as the schedule of adaptation investments on systems covered by the stringency, will be a great challenge for the Polish power system in the coming years.

The Water Law Act was adopted by the Sejm (Lower House of the Parliament) on 18 July 2017 and concluded by the President on 3 August. The provisions of the Act govern the rules of using water resources and define fees associated with using these resources. The new burden arising from the act will apply to the largest agricultural farms and the power sector, as well as the industries using large amounts of waters. Water intake up to 5k liters per day is to be free of charge. Up till now, there have been no applicable pricing systems for water for cooling purposes in thermal power plants and generation hydro plants. Under the new regulations, in the case of the power sector, the fee for using water resources shall be PLN 0.70 per m^3 of the difference between the volume of underground waters consumed for these purposes and the volume of water from cooling systems of the power plants or CHPPs, introduced to the waters or the ground. Another rate applies to surface waters - it is PLN 0.35 per m3 of the difference between the volume of underground waters consumed for these purposes and the volume of water from cooling systems of the power plants. The rate for the so-called cooling waters, coming from cooling systems of the power plants, which are, e.g., later sent to rivers, shall be: PLN 0.68 if the water temperature is above 26 degrees Celsius and does not exceed 32 degrees; PLN 1.36 if it is higher than 32 degrees and does not exceed 35 degrees; PLN 4.24 if it exceeds 35 degrees. According to a declaration from the Ministry of Environment, passing the new law will enable meeting the prerequisites of the EU Water Framework Directive. The absences of an amendment by 31 July of this year would, according to the Ministry of Environment, mean the EU imposing penalties on Poland and loosing part of the European funds, i.a., for flood fighting investments. The provisions of the revised law shall enter into force at the beginning of 2018.

On 14 August 2017, the Polish President signed an amendment to the Act on renewable energy sources. A major change in the new regulations is the withdrawal from a fixed value of the so-called replacement fee, previously at PLN 300.03/MWh and binding it with market prices of energy certificates of origin - green certificates and blue certificates. The fee is supposed to be at 125% of the weighted average price of given certificates from the previous year, but not more than PLN 300.03/MWh.

11.3. Electricity prices

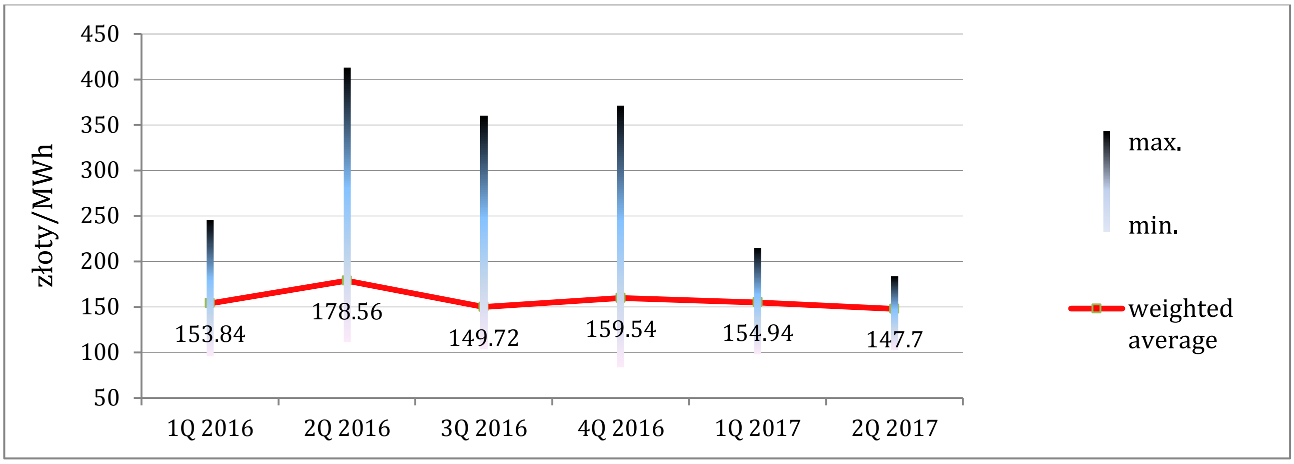
The Group generates most of its revenues from the production and sales of electricity, therefore the price for which it sells electricity is very important for the results of its activities. In addition, the Company purchases electricity

in the power market and resells it to its consumers.

According to an announcement by the Energy Regulatory Office, the average quarterly price of electricity sold under rules different than ones pursuant to art. 49A par. 1 and 2 of the Act - Energy law in the I quarter of 2017, amounted to PLN 164.78/MWh, compared to PLN 169.13/MWh in the first quarter of 2016, with the price being PLN 165.54/MWh in the second quarter of 2017, which meant a decrease in comparison to PLN 173.5/MWh in the same period of the previous year. However, according to the information from the President of the Energy Regulatory Office no. 39/2017, the average price of electricity sold in the competitive market in the first quarter of 2017, amounted to PLN 160.60/MWh (the values for the II quarter of 2017, have not yet been published, on the day of publishing this report).

On the day ahead market (DAM) of the Towarowa Giełda Energii SA (TGE - Polish Power Exchange), first quarter of 2017 was characterised by a similar range of price fluctuations, as was the case in the analogous period of the previous year. The weighted average price on the DAM in the first quarter of 2017 stood at a level of PLN 154.94/MWh, which was PLN 1.10, i.e., ca. 1% higher than in the first quarter of the previous year, and almost 3% lower than in the fourth quarter of 2016. The prices reached their peak of PLN 214.60/MWh in mid-January. January was a month of a very high energy demand and 11 January saw a record power demand in Poland, at a level of 26.2 GW. The reason for energy consumption demand in January by 4% were weather conditions but also a greater demand by the industrial sector. Over the next month, prices fluctuated between PLN 150 and 200/MWh. This period was also characterised by higher prices on foreign markets, Western European in particular, as a reaction to a combination of several factors, such as: a period of relatively low temperatures, adverse wind conditions in the high weather system and problems of French nuclear power plants. In the first quarter of 2017, Poland was a net exporter of power, and the Polish market did not experience such high fluctuations, as was the case in some foreign markets. The second quarter of 2017 was significantly weaker for energy price levels. The variation range decreased in relation to the first half of 2017, as well as the second quarter of 2016, when high temperatures in June combined with smaller power provisions resulted in very high energy price levels. The second quarter of 2017 was characterised by much better wind conditions, which also impacted energy prices on the spot market. The weighted average price on the DAM in the second quarter of 2017 stood at a level of PLN 147.70/MWh, which was PLN 30.86, i.e., 17%, lower than in the second quarter of the previous year and 4.6% lower, than in the first quarter of 2017.

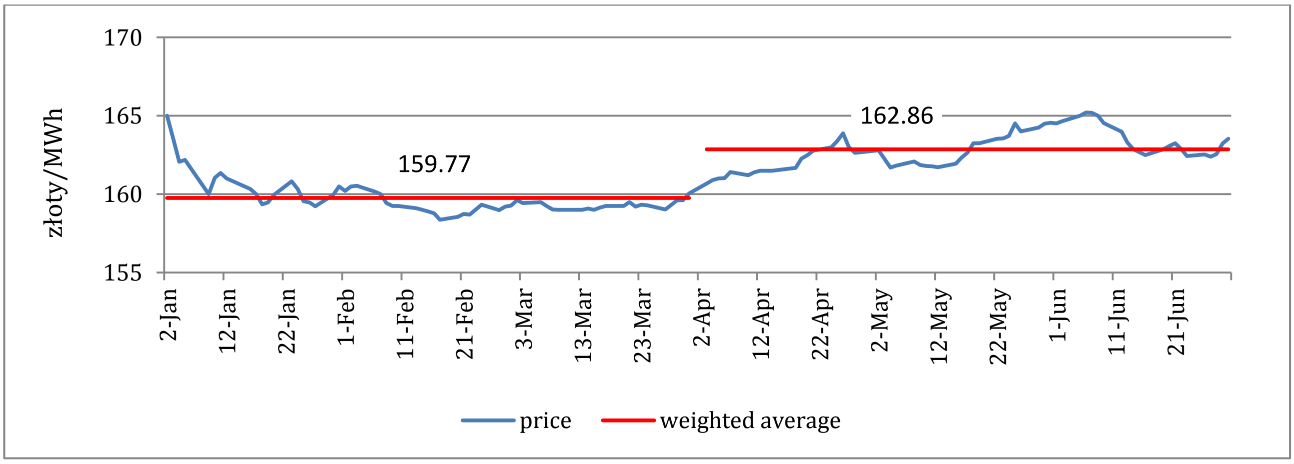
Chart 6: Energy prices (IRDN - Instruments of the Day Ahead Market)



Source: Own elaboration based on TGE data

A different price situation prevailed in the futures market of the Polish Power Exchange (Towarowa Giełda Energii-TGE). The first quarter of 2017 was characterised by lower prices, whereas higher levels where reached by prices in the second half of the six months. The annual BASE_Y-18 contract recorded its price minimum in February 2017, at a level of PLN 158.30/MWh. An upward trend dominated in the later period, and was supported by rising coal prices in the global markets, as well as expectations for this situation to impact next year' prices of coal for the power sector in Poland. The upward trend was broken not sooner than in June, after reaching a level of PLN 165.25/MWh, which was close to the level from the beginning of the year. The daily clearing rate arithmetic mean for the BASE_Y-18 contract in the first quarter of 2017 stood at a level of PLN 159.77/MWh, with the corresponding price for the BASE_Y-17 contract in the previous year at PLN 156.63/MWh. Whereas, the daily clearing rate arithmetic mean for the BASE_Y-18 contract in the second quarter of 2017 stood at PLN 162.86/MWh, and the corresponding mean for the BASE_U-17 contract in the previous year at PLN 160.39/MWh.

Chart 7: The price of the futures contract for the supply of electricity (band) for 2018



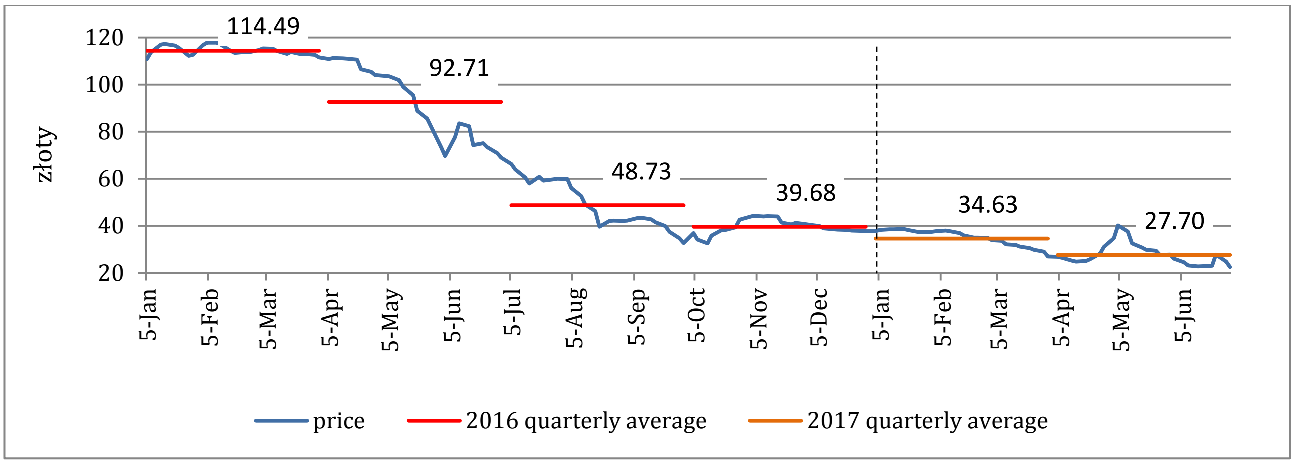
Source: Own elaboration on the basis of TGE data

11.4. Prices and supply of certificates of origin

Due to the fact that one of the power units at ZE PAK SA is dedicated to combusting biomass (forest and agricultural), and in addition, the Group utilizes high-efficiency co-generation in order to generate heat, a producer is entitled to green and red certificates, provided certain regulatory requirements are met. The number of obtained certificates of origin depends on the level of generation from a given sources and is usually higher than the number, which the Company is obliged to present for redemption, which in the case of a surplus allows to sell specific volumes to other market participants. However, biomass unit generation largely depends on the green certificates market price levels. During periods, when the total generated biomass energy and green certificate prices do not ensure reaching the assumed financial effect, the generation may be decreased or halted, which also automatically decreases the amount of generated green certificates. In the case of a shortage, the certificates must be purchased on the market.

The trend on the RES energy certificates of origin property rights market in the first six months of 2017 remained unchanged. Despite a short-term stability at the turn of 2016 and 2017, the prices in latter periods once again kept reaching ever lower levels, with only a short-term boost between April and May. The weighted average of green certificates in the first quarter of 2017 once again fell and amounted to PLN 34.63/MWh, which means a decline of almost 20%, in relation to the weighted average price from the first quarter of 2016, and almost 13%, relative to the fourth quarter of 2016. The green certificate weighted average in the second quarter stood at an even lower level of PLN 27.7/MWh, which meant a further 20% decline in relation to the I quarter of 2017. Currently, there are no grounds to expect green certificate of origin prices to rebuild their value to the levels recorded even a year ago. The existing oversupply in the market, combined with the current generation of green certificates, especially from wind power plants, makes it possible for the prices in the present situation to be able to persist at low levels all the time. The recent amendment to the act on renewable energy sources provides that as of next year, the replacement fee, which is an alternative to the redemption of green energy certificates of origin, will depend on market listings of green certificate, and its value is to be at 125% of the weighted average market price of certificates of origin for the previous year, however, not more than PLN 300.03/MWh.

Chart 8: Price of RES energy certificate of origin



Source: Own elaboration based on TGE data

11.5. Extraction and supply costs of coal and other fuels

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

Two brown coal mines, PAK KWB Konin SA and PAK KWB Adamów SA, which are the suppliers of brown coal to the ZE PAK SA Group's power plants, satisfy the demand of generation assets for this basic fuel. Therefore, the ZE PAK Group does not rely on external suppliers and eliminates the exposure to potential fluctuations of brown coal prices. Nevertheless, the Group is exposed to the fluctuations in prices of other fuels used (mainly biomass) and part of the costs related to the extraction of brown coal depends on the factors which remain outside the direct control of the Group.

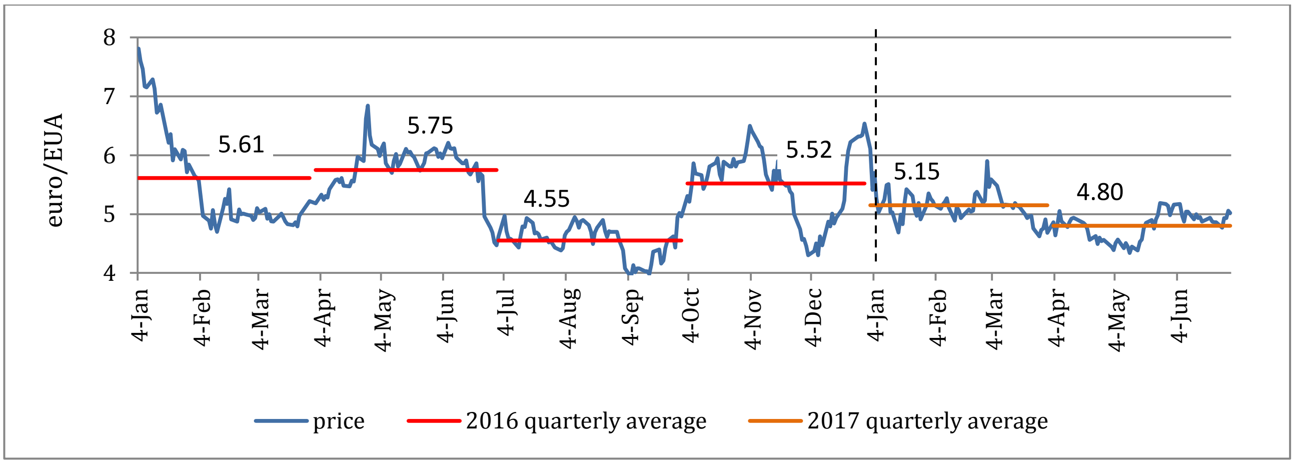
The deposits exploited by the Group's mines have specified richness. The opportunity to achieve the expected level of electricity production in the long term is partially dependent on the ability of extracting from the currently exploited deposits and launching the exploitation of new brown coal deposits, which would be economically viable. As part of activities to ensure the raw material for the Group's generation assets, PAK KWB Konin executed designing works at the perspective brown coal deposits. In order to develop the perspective deposits, it is necessary to obtain all necessary formal approvals and permits, culminated with obtaining a licence to extraction. The process of obtaining approvals and permits is a multi-step and stretched in time. In view of the above, there is a risk of delays and postponements in the schedule of developing subsequent deposits which, in turn, may entail risks of interruptions of coal supplies for the Group's generating assets. The opportunity to start the extraction from the prospective coal deposits in the future may be limited by many factors beyond the control of the Group. The main risk factors include: failure to obtain the necessary licenses, adverse settlements of the local government authorities in terms of shaping the special policy, lack of opportunity to obtain adequate financing.

11.6. CO_2 emission allowances costs

The activities in the scope of generating electricity and heat from conventional sources are associated with the need to incur the CO2 emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from lignite, the impact of emitted quantities of CO2 and the price of CO2 emission allowances (EUA) is of great importance to the activities' results. The results largely depend also on the amount of free-of-charge CO2 emission allowances granted in a given period. The number of allowances possible to be obtained for the power sector was specified in article 10c of the ETS directive, and the amounts that can be physically obtained by particular systems depend on the expenses incurred for investments, which are recorded in the National Investment Plan. The Group is obligated to purchase a part of the missing allowances on the free market. ZE PAK SA uses a small amount of free allowances from article 10a of the Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 (EUAs for the needs of heat generation). In 2017, the Group received a small amount of free CO2 emission allowances, i.e., 83 317 EUA, resulting from the allocation for heat generation. Therefore, practically the entire volume of emission allowances needed for the ZE PAK SA Group will have to be purchased on the primary (auctions) and secondary (ICE, EEX and bilateral contracts) markets.

In the first quarter of 2017, the variability of the prices on the CO2 emission allowances market decreased in comparison to the listings for the previous quarter. In light of the absence of significant stimuli impacting the CO2 emission allowances market, EUA prices had remained in relative balance, near the price of EUR 5.00, for the first two months of the first quarter of 2017. The stimulus for a price increase was the voting of the EU Council for the environment, on the potential activities, which could interfere with the market mechanism, in order to raise EUA prices. However, the voting, which was held at the end of February, turned out to be only a short-term boost, since the prices kept falling through the entire March, and at the end of the quarter, recorded a level of EUR 5.05, which was significantly lower than the listings from the beginning of the year. The second quarter of 2017 on the CO2 emission allowances market was also not characterised by rapid price changes, differently than in the previous years, especially April, which was the month of redeeming emission units from the previous year. The events in the world of politics, which had an actual or potential impact on shaping the emission allowance prices were the French presidential election won by a supporter of a higher CO2 emission cost, and on the other hand, a declaration of President Donald Trump regarding the withdrawal of the United States from the climate change agreement. In May, the European Commission published information on the current size of oversupply in the emission allowances market, with the estimated value of oversupply being 1.59 bn allowances. The EUA listing arithmetic mean for the first quarter of 2017 stood at EUR 5.15, which means a decline of 6.7% in relation to the fourth quarter of 2016, and 8%, in relation to the first quarter of 2016. The arithmetic mean for the second quarter turned out to be even lower, i.e., EUR 4.8, which meant a decrease by 6.8% relative to the first quarter of 2017, and 16.5%, relative to the II quarter of 2016.

Chart 9: Price of the futures contract for the supply of EUA



Source: Own elaboration based on ICE data

11.7. Compensation for the stranded costs related to the termination of the "Long-term Contract" ("LTC")

The long-term contract for the sale of power and electricity (PPA) was concluded between Elektrownia Pątnów II sp. z o.o. and Polskie Sieci Elektroenergetyczne SA. The contract was a long-term agreement in the scope of supply of electricity according to the established price formula.

Due to the early termination (on 1 April 2008) of Elektrownia Pątnów II sp. z o.o.'s PPA, pursuant to the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity, Elektrownia Pątnów II sp. z o.o. is entitled to receive sufficient compensation. The amount of compensation is estimated according to an applicable formula specified in the Act. Elektrownia Pątnów II sp. z o.o. is covered by the said act by the end of 2025.

11.8. Seasonality and meteorological conditions (including mainly wind conditions)

The demand for electricity and heat, especially among consumers, is subject to season fluctuation. So far, the practice showed that the consumption of electricity was higher in the winter (mainly due to low temperatures and shorter days) and lowered in the summer (due to the summer period, higher ambient temperatures, and a longer day). In the last couple of years, there is an increase in the demand for electricity in the summer, which is caused mostly by the rising number of used cooling devices and air conditioning.

Regardless of the factors described above, meteorological conditions become more and more important for the level of the Group's production. So far, the Group has not been significantly subject to seasonality of demand. Due to the low cost of the units' operation was executed continuously (at base) for almost entire year. Currently, given the increasing share of RES in the segment of energy producers, primarily wind sources, at estimating the volume of the Group's generation, weather conditions become more and more important, with a particular focus on wind conditions. Statistically, the first and fourth quarters are periods with the best wind conditions. It should be taken into account that on periods when wind conditions are very good and the wind turbines' generation is high, the demand for Group's production may be subject to periodic deductions.

11.9. Investment expenses

The activities in the coal extraction and energy production sector requires substantial investment expenses. The Group's generation assets require periodical renovations and on-going modernisation, both due to the increasing strictness of requirements in the scope of environmental protection as well as the need for improvement of electricity production effectiveness. The level of investment expenses had major impact, and according to expectations will still have major impact, on the results of the operating activities, level of debt and cash flows. Delays in execution, changes of the investment programme, and excess in the budget can have severe impact on the investment expenses incurred in the future, as well as on the results, financial position, and perspectives of development. Moreover, the part of the Group's planned investment projects reported to the National Investment Plan involves the allocation of free units allowing for CO2 emission. However, in the case of failure to implement these investments, the ability to use the free allocation is prevented as well.

11.10. EUR/PLN exchange rate, the level of interest rates

Despite the fact that the Group conducts its activities in Poland, where it incurs costs and gains revenues in zloty, there is a couple of significant factors which make the financial results dependent on the exchange rate of EUR/PLN and the level of WIBOR and EURIBOR interest rates. The most important factors include:

- a significant part of the debt (that is the corporate credit taken by Elektrownia Pątnów II sp. z o.o.) is denominated in EUR, which means that the depreciation of the value of zloty in relation to EUR has negative impact on financial results, because it increases the financing costs in zloty related to the foreign currency debt, whereas the depreciation of the value of EUR in relation to zloty has positive impact on financial results, because it decreases the financial costs in zloty related to the debt in foreign currency;
- transactions related to the purchase of EUAs settled in euros
- ZE PAK SA and Elektrownia Pątnów II sp. z o.o. use debt financing based on a variable interest rate;

In the first half of 2017, the Group's companies did not apply the instruments to mitigate risks arising from changes in exchange rates, with the exception of ZE PAK SA, which secured the EUR exchange rate for part of the flows related to the purchase of units allowing for CO2 emission. To secure the exchange rate, the forward transactions with settlement date in December 2017 and March 2018 were applied. Management Boards are constantly monitoring the financial position and market situation and can make the decision to use financial instruments limiting the exchange rate risk, if needed. According to the principles adopted in the ZE PAK SA Group, possible transactions will have a form of security and will be adapted to the secured item in terms of volume and maturity date. The decision on the choice of the security instrument will also include the following: price, market liquidity, product simplicity, easiness of quotation and accounting as well as flexibility.

Exposure of the Group to risk caused by the changes of interest rates mainly concerns long-term financial liabilities related to the financing of investments in ZE PAK SA and Elektrownia Pątnów II sp. z o.o. The Group uses financial liabilities, mostly variable rate credits and loans. To minimise interest rate risk, the Group concludes contract for interest rates change (interest rate swaps), within which it agreed to change, within specified time intervals, the difference between the amount of interests calculated according to the fixed and the variable rate of the agreed main amount. The transactions are to protect secure financial liabilities and concern the Elektrownia Pątnów II sp. z o.o's the corporate credit based on the variable EURIBOR interest rate. IRS instruments were used in security.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS:

Adam Kłapszta ....

Aneta Lato-Żuchowska ....

Zygmunt Artwik ....

Elżbieta Niebisz ....