ZESPÓŁ ELEKTROWNI PĄTNÓW–ADAMÓW–KONIN SA CAPITAL GROUP

INTERIM CONDENSED CONSOLIDATED QUARTERLY REPORT FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017

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

15 MAY 2017

(in thousands of zlotys/PLN)

INTERIM CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the 3 months period ended 31 March 2017

	Note	*period ended 31 March 2017 (unaudited)*	*period ended 31 March 2016 (unaudited)*
Continuing operations			
Sales revenue	*12.1*	**599 647**	**680 042**
Cost of goods sold	*12.6*	(498 953)	(543 594)
Gross profit / (loss)		**100 694**	**136 448**
Other operating revenues	*12.2*	4 633	7 264
Selling and distribution expenses	*12.6*	(1 297)	(1 144)
Administrative expenses	*12.6*	(30 821)	(27 322)
Other operating expenses	*12.3*	(879)	(860)
Gross profit / (loss) from operations		**72 330**	**114 386**
Finance income	*12.4*	12 401	3 900
Finance costs	*12.5*	(13 367)	(15 645)
Profit / (loss) before tax		**71 364**	**102 641**
Income tax expense (taxation)	*14.1*	(15 357)	(27 825)
Net profit / (loss) for the period from continuing operations		**56 007**	**74 816**
Discontinued operations			
Profit/ (loss) for the period from discontinued operations		-	-
Net profit / (loss) for the period		**56 007**	**74 816**
Net profit/ (loss) attributable to equity holders of the parent		55 314	73 951
Net profit/ (loss) attributable to non-controlling interests		693	865

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

Profit / loss per share (in zloty):	*Note*		
Basic, for profit for the period attributable to equity holders of the parent	15	1,09	1,46
Basic, for profit for the period from continuing operations attributable to equity holders of the parent	15	1,09	1,46
Diluted, for profit for the period attributable to equity holders of the parent	15	1,09	1,46
Diluted, for profit for the period from continuing operations attributable to equity holders of the parent	15	1,09	1,46

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(in thousands of zlotys/PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 3 months period ended 31 March 2017

	Nota	*period ended* *31 March 2017* *(unaudited)*	*period ended* *31 March 2016* *(unaudited)*
Net profit / (loss) for the period		**56 007**	**74 816**
Other comprehensive income			
Items to be reclassified to the profit / (loss) in subsequent reporting periods:			
Cash flow hedges	*13*	1 863	1 085
Exchange differences on translation of foreign entities	*14.1, 13*	(354)	(206)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		1 509	879
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:			
Profits / (losses) on provisions for post-employment	*13*	(13)	(692)
Income tax on other comprehensive income	*14.1, 13*	3	132
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		(10)	(560)
Net other comprehensive income		**1 499**	**319**
Comprehensive income for the period		**57 506**	**75 135**
Comprehensive income attributable to equity holders of the parent		56 813	74 270
Comprehensive income attributable to non-controlling interests		693	865

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(in thousands of zlotys/PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Note	*31 March 2017 (unaudited)*	*31 December 2016*
ASSETS			
Non-current assets			
Tangible fixed assets	*16*	3 353 975	3 391 246
Investment property		2 330	2 337
Intangible assets	*18*	127 699	119 282
Assets of removing overburden and other mining assets (long-term)	*19*	78 718	80 524
Other long-term financial assets	*20.1*	10 639	11 945
Other long-term non-financial assets	*20.2*	5 680	5 726
Deferred tax assets	*14.2*	88 766	90 998
Total non-current assets		**3 667 807**	**3 702 058**
Current assets			
Short-term intangible assets	*18*	313 105	273 036
Inventories	*21*	101 057	105 296
Trade and other receivables	*22*	291 188	246 025
Income tax receivables		2 705	10 227
Short-term financial derivatives (assets)	*28.4*	-	296
Other short-term financial assets	*20.1*	74 934	77 317
Other short-term non-financial assets	*20.2*	17 786	28 776
Amounts due from customers under long-term construction contracts	*12.7*	7 812	8 168
Cash and cash equivalents	*23*	203 955	350 101
Total current assets		**1 012 542**	**1 099 242**
TOTAL ASSETS		**4 680 349**	**4 801 300**

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	Note	*31 March 2017 (unaudited)*	*31 December 2016*
LIABILITIES AND EQUITY			
Equity			
Share capital		101 647	101 647
Supplementary capital		1 028 647	1 028 647
Revaluation reserve from valuation of hedging instruments		(5 575)	(7 084)
Other reserve capital		3 472	3 472
Retained earnings / Accumulated losses		1 017 696	769 302
Net profit / (loss)		55 314	247 674
Equity attributable to equity holders of the parent		**2 201 201**	**2 143 658**
Equity attributable to non-controlling interests		-	-
Total equity		**2 201 201**	**2 143 658**
Non-current liabilities			
Interest-bearing loans and borrowings	*25*	508 356	587 851
Long-term employee benefits		48 260	48 587
Trade and other long-term financial liabilities	*28.2*	4 578	5 069
Long-term financial derivatives (liabilities)	*28.4*	3 002	4 294
Long-term subsidies	*28.5*	42 925	43 302
Other long-term provisions and accruals	*26*	335 163	312 253
Deferred tax liability	*14.2*	399 438	388 359
Total non-current liabilities		**1 341 722**	**1 389 715**
Current liabilities			
Trade and other short-term financial liabilities	*28.1*	168 301	302 662
Current portion of interest-bearing loans and borrowings	*25*	388 851	421 958
Short-term financial derivatives (liabilities)	*28.4*	5 242	5 759
Other non-financial liabilities	*28.3*	50 743	116 431
Current income tax liability		1 278	166
Short-term employee benefits		6 368	6 503
Short-term subsidies	*28.6*	3 922	6 670
Amounts due to customers under long-term construction contracts	*12.7*	3 210	3 990
Other short-term provisions and accruals	*26*	509 511	403 788
Total current liabilities		**1 137 426**	**1 267 927**
Total liabilities		**2 479 148**	**2 657 642**
TOTAL LIABILITIES AND EQUITY		**4 680 349**	**4 801 300**

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(in thousands of zlotys/PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 3 months period ended 31 March 2017

	Nota	*period ended 31 March 2017 (unaudited)*	*period ended 31 March 2016 (unaudited)*
Cash flow from operating activities			
Profit /(loss) before tax		71 364	102 641
Adjustments for:			
Depreciation and amortization		49 265	57 734
Interests and shares in profits		9 735	10 698
(Profit) / loss on foreign exchange differences		(10 629)	1 579
(Profit) / loss on investing activities		(90)	(2 845)
(Increase) / decrease in receivables		(35 577)	7 714
(Increase) / decrease in inventories		4 239	(1 522)
Increase / (decrease) in payables except for loans and borrowings		(127 913)	(85 163)
Change in provisions, prepayments, accruals and employee benefits		128 080	115 866
Income tax paid		6 235	(8 908)
Allowances for emission of CO_2		(106 892)	(141 677)
Other		342	83
Net cash flow from operating activities		**(11 841)**	**56 200**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		885	451
Purchase of property, plant and equipment and intangible assets		(20 911)	(73 344)
Proceeds and expenses relating to other financial assets		-	5 329
Purchase of other financial assets		(2 081)	-
Interest received		1	2
Other		23	25
Net cash flow from investing activities		**(22 083)**	**(67 537)**

Accounting principles (policies) and additional explanatory notes to the consolidated financial statement are its integral part.

(in thousands of zlotys/PLN)

Cash flow from financing activities			
Payment of finance lease liabilities		(3 479)	(4 356)
Proceeds from loans and borrowings and debt securities		-	45
Repayment of loans and borrowings and debt securities		(96 101)	(72 732)
Interest paid		(9 906)	(12 631)
Other		(370)	(684)
Net cash flow from financing activities		**(109 856)**	**(90 358)**
Net increase / (decrease) in cash and cash equivalents		**(143 780)**	**(101 695)**
Cash and cash equivalents at the beginning of the period		**348 647**	**383 319**
Cash and cash equivalents at the end of the period	*23*	**204 867**	**281 624**

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(in thousands of zlotys/PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 3 months period ended 31 March 2017 (unaudited)

	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 2017	**101 647**	**1 028 647**	**(7 084)**	**3 472**	**1 016 976**	**2 143 658**	**-**	**2 143 658**
Net profit for the period	-	-	-	-	55 314	55 314	693	56 007
Total other comprehensive income	-	-	1 509	-	(10)	1 499	-	1 499
Total income for the period	**-**	**-**	**1 509**	**-**	**55 304**	**56 813**	**693**	**57 506**
Distribution of profits from previous years	-	-	-	-	-	-	-	-
The effect of the settlement of a put option on the shares of non-controlling interests	-	-	-	-	693	693	(693)	-
Other changes	-	-	-	-	37	37	-	37
as at 31 March 2017	**101 647**	**1 028 647**	**(5 575)**	**3 472**	**1 073 010**	**2 201 201**	**-**	**2 201 201**

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(in thousands of zlotys/PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 3 months period ended 31March 2016 (unaudited)

	Issued capital	*Reserve capital*	*Revaluation reserve of financial instruments*	*Other reserve capital*	*Retained earnings / Accumulated losses*	*Total*	*Non-controlling interest*	*Total Equity*
As at1 January 2016	**101 647**	**2 542 060**	**(11 941)**	**5 877**	**(752 820)**	**1 884 823**	**-**	**1 884 823**
Net profit for the period	-	-	-	-	73 951	73 951	865	74 816
Total other comprehensive income	-	-	879	-	(560)	319	-	319
Total income for the period	-	-	**879**	**-**	**73 391**	**74 270**	**865**	**75 135**
Distribution of profits from previous years	-	25	-	-	(25)	-	-	-
The effect of the settlement of a put option on the shares of non-controlling interests	-	-	-	-	865	865	(865)	-
Other changes	-	-	-	-	(9)	(9)	-	(9)
as of 31 March 2016	**101 647**	**2 542 085**	**(11 062)**	**5 877**	**(678 598)**	**1 959 949**	**-**	**1 959 949**

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THE RULES (POLICIES) OF ACCOUNTING AND ADDITIONAL EXPLANATORY NOTES

1. General information

The Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the Group", „Capital Group", „ZE PAK SA Group") consists of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the parent company", "the Company", "ZE PAK SA") and its subsidiaries (see Note 2). The Group's consolidated financial statement covers the 3 months period ended 31 March 2017 and includes comparative data for the 3 months period ended 31 March 2016 and as of the day 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) generation and sale of heat (steam and hot water),

3) lignite extraction.

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

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

As of 31 March 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.

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

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

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

As for 31 March 2017, the short-term liabilities of the Group exceeded the current assets by zloty 124 884 thousand. Given the drawn up long-term financial projections indicated the generation of positive cash flows, the consolidated financial statement was developed under the assumption of continuing the activity over a period of at least 12 months after the balance sheet date. On the day of approving this financial statement, it cannot be stated that there are circumstances indicating a threat to the continuation of the activities by the Group's companies, whereas, there are operations regarding the allocation of specified types of activity between the Group's companies. The indicated actions will not impact the limitations of the scope of the business activity conducted by the ZE PAK SA Capital Group.

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

- IFRS 9 Financial Instruments (issued on 24 July 2014) – applicable to annual periods beginning on 1 January 2018 or later,
- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – as per the decision of the European Committee, the approval process for the standard in the preliminary version will not be initiated prior to the standard being issued in the final version – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2016 or later,
- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014), covering the amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) – applicable to the annual periods beginning on 1 January 2018 or later,
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014) – works leading to the approval of these changes were delayed indefinitely by the EU - the effective date was delayed indefinitely by IASB,
- Amendments to IFRS 16 Leases (issued on 13 January 2016) – until the day of approval of this financial statement not approved by the EU - applicable to the annual periods beginning on 1 January 2019 or later,
- Amendments to IFRS 4 Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (issued on 12 September 2016) – until the day of approval of this financial statement not approved by the EU - applicable to the annual periods beginning on 1 January 2018 or later,
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2017 or later,

- Amendments to IAS 7 Disclosure Initiative (issued on 29 January 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2017 or later,
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,
- The amendments resulting from a review of IFRS 2014-2016 (issued on 8 December 2016) – until the day of approval of this financial statement not approved by the EU – Amendments to IFRS 12 are applicable to annual periods beginning on 1 January 2017 or later, while the Amendments to IFRS 1 and IAS 28 are applicable to the annual periods beginning of 1 January 2018 or later,
- Interpretation of IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,
- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,

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

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

6. Significant principles (policy) of accounting

Principles (policies) of accounting applied to development of the interim condensed consolidated financial statement are coherent with these applied to development of the annual consolidated financial statement of the Group for the year concluded on 31 December 2016, with the exception of the following presented below. The following amendments to the IFRS were applied in this financial statement according to their date of entry into force, however, they did not have a significant impact on the shown and disclosed financial information, did not apply to the transactions concluded by the Group or the Group decided not to use the new valuation options:

Amendments resulting from the review of IFRS 2010-2012, covering the amendments to IFRS 2 *Share-based Payment*, amendments to IFRS 3 *Business Combinations*, amendments to IFRS 8 *Operating Segments*, amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, amendments to IFRS 13 *Fair Value Measurement* and amendments to IAS 24 *Related Party Disclosures*, amendments do IFRS 7 *Financial Instruments: Disclosures* and amendments do IAS 19 *Employee Benefits*

Amendments resulting from reviewing IFRS 2012-2014, covering the amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, amendments to IAS 34 Interim Financial Reporting

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to IAS 1 Disclosure Initiative

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception and

Amendments resulting from reviewing IAS 2012-2014, covering the amendments to IAS 7 Financial Instruments: Disclosures and amendments to IAS 19 Employee Benefits

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

7. Essential values based on professional judgement and estimates

7.1. Professional judgement

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

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

Capitalisation of foreign exchange differences

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

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

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

- ***Classification of lease contracts***

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

- ***Identification of embedded derivatives***

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

7.2. Uncertainty of estimates

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

Loss in fixed assets

As a result of analyses conducted as of 31 March 2017, the Group identified the existence of circumstances, which would indicate possible loss in value of the asset components, in the form of the balance sheet net value of the Group's assets higher than the value of its market capitalisation. In relation to the above fact, the Group conducted value impairment tests of components of fixed assets. On the basis of the conducted tests, it was stated that there is a need to identify the Impairment write-downs against tangible fixed assets. Information about the conducted test is presented in note 16.1.

Evaluation of provisions for employee benefits

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

Estimate was developed on the basis of following main assumptions:

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

Component of deferred tax assets

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

Fair value of financial instruments

The fair value of financial instruments, for which there is no active market, is determined using relevant measurement techniques. When selecting relevant methods and assumptions, the Group is guided by professional judgement.

Capitalisation of overburden stripping costs in the production phase

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

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

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

Payment in shares

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

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

Note 29 presents the descriptions of essential contingent liabilities and essential law suits, including these concerning compensations for the termination of long-term contracts for the sale of power and electricity.

Revenue recognition

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

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

Depreciation rates

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

Uncertainty associated with tax settlements

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

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

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

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

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

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

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

Receivable impairment write-downs

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

Provision for the liquidation fixed tangible asset components

The group creates provisions for the liquidation of tangible assets in the event of such an obligation or undertaking such a liability by the Group's management. The provision is created in the amount resulting from the received offers concerning liquidation of components of tangible fixed assets. The Group updates the value of the provision on every balance sheet date. The value of the provision due to liquidation of components of tangible fixed assets is discounted on every balance sheet date. Provisions for the disassembly of the Adamów Power Plant assets is not created due to the lack of a legal obligation. The content of the integrated permit granted to the Adamów Power Plant for conducting the operations does not include a clause on the necessity to create provisions for liquidating the assets. The provision is described in note 26.3.2.

Provisions for the liquidation of ash storage yards

The Group creates the provision for liquidation of ash dumps due to a legal obligation resulting from the integrated approval entries. The basis of estimation are developments, technical and economic analyses developed by the Group, as well as received external offerings for planned directions of reclamation. At the end of each reporting period, the Group updates the value of the provision. The provision is described in note 26.3.2.

Reclamation provisions and other related to mining activity

The Group creates both, the provision for reclamation costs related to current extraction of coal on a given open pit, and the provision for costs of the final excavation. The provision is created on the basis of the estimates of future reclamation costs, as well as assumed start and finish dates of reclamation, on the basis of reports by independent experts estimating reclamation costs on the order of the Management Board, as well as internal estimates of the Group, and is discounted on every balance sheet date. The provisions are described in note 26.3.3.

Valuation of energy certificates

The Group recognises the energy certificates of origin (green certificates) due to the energy production from renewable energy, gas, and peak load co-generation sources according to the fair value at the end of the month, in which they were produced. On the balance sheet date, the Group appraises certificates of origin to the net value possible to achieve – for green certificates on 31 March 2017 to the price of 26.97 zloty /MWh. A write-down against the certificate value is created in case the sale price possible to achieve, diminished by the disposition costs, is lower than the historical production cost.

Provision for liabilities for the emission of greenhouse gases (EUA)

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

Emissions in the ZE PAK SA Group in 2016 amounted to 11 456 099 tonnes of CO_2.

In April 2017 the Group made a redemption of 2016 emission.

As for 31 March 2017, the Group created a provision for the allowances in relation to the actual emission size for the period from 1 January 2017 till 31 March 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 26.3.1.

Restructuring provision

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

8. Change of estimates

Within the 3-month-period concluded on 31 March 2017, except for these described in the financial statement, there was no significant changes in estimated sizes and the methodology of estimates that would affect the current period or future period.

9. Acquisitions of ventures

In the period between 1 January 2017 and 31 March 2017, there were no new acquisitions of ventures

10. Seasonality of the activities

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

11. Operating segments

For the purpose of management, the Group was divided into parts on the basis of manufactured products and 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 quarter 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 31 March 2017 and 31 March 2016 are presented below:

(in thousands of zlotys/PLN)

3 months period ended 31March 2017 (unaudited)

	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sales revenue to external customers	428 384	1 590	24 526	143 551	1 596	-	599 647
Sales revenue between segments	87 802	215 996	55 457	1	22 596	(381 852)	-
Sales revenue	**516 186**	**217 586**	**79 983**	**143 552**	**24 192**	**(381 852)**	**599 647**
Cost of goods sold	(452 422)	(186 732)	(77 143)	(141 583)	(24 479)	383 406	(498 953)
Gross profit / (loss)	**63 764**	**30 854**	**2 840**	**1 969**	**(287)**	**1 554**	**100 694**
Other operating income	782	3 694	146	22	56	(67)	4 633
Selling and distribution expenses	(816)	-	-	(160)	(321)	-	(1 297)
Administrative expenses	(10 036)	(12 996)	(5 508)	(1 014)	(1 267)	-	(30 821)
Other operating expenses	(378)	(604)	(122)	-	(9)	234	(879)
Finance income	12 992	141	19	30	5	(786)	12 401
Finance costs	(16 776)	(4 011)	(322)	(34)	(10)	7 786	(13 367)
Profit before tax	**49 532**	**17 078**	**(2 947)**	**813**	**(1 833)**	**8 721**	**71 364**
Income tax expense	(10 699)	(4 612)	459	(236)	58	(327)	(15 357)
Net profit/loss for the period from continuing operations	**38 833**	**12 466**	**(2 488)**	**577**	**(1 775)**	**8 394**	**56 007**
Profit / (loss) from operating activities, without financial operations and income tax	**53 316**	**20 948**	**(2 644)**	**817**	**(1 828)**	**1 721**	**72 330**
Depreciation / Amortization	31 467	20 162	1 604	17	430	(1 290)	52 390
Change in impairment	-	-	-	-	-	-	-
EBITDA	**84 783**	**41 110**	**(1 040)**	**834**	**(1 398)**	**431**	**124 720**

(in thousands of zlotys/PLN)

3 months period ended 31March 2016 (unaudited)

	Generation	**Mining**	**Renovation**	**Sale**	**Other**	**Consolidation adjustment**	**Total**
Sales revenue to external customers	447 044	2 718	9 661	219 049	1 570	-	680 042
Sales revenue between segments	106 813	229 585	55 051	1	23 345	(414 795)	-
Sales revenue	**553 857**	**232 303**	**64 712**	**219 050**	**24 915**	**(414 795)**	**680 042**
Cost of goods sold	(465 778)	(187 927)	(65 150)	(214 517)	(26 308)	416 086	(543 594)
Gross profit / (loss)	**88 079**	**44 376**	**(438)**	**4 533**	**(1 393)**	**1 291**	**136 448**
Other operating income	3 141	3 959	151	-	33	(20)	7 264
Selling and distribution expenses	(770)	-	-	(122)	(252)	-	(1 144)
Administrative expenses	(10 002)	(9 852)	(5 340)	(1 103)	(1 027)	2	(27 322)
Other operating expenses	(412)	(104)	(348)	-	(15)	19	(860)
Finance income	1 030	2 864	78	65	6	(143)	3 900
Finance costs	(11 203)	(4 527)	(42)	(9)	(7)	143	(15 645)
Profit before tax	**69 863**	**36 716**	**(5 939)**	**3 364**	**(2 655)**	**1 292**	**102 641**
Income tax expense	(20 353)	(7 211)	636	(645)	(7)	(245)	(27 825)
Net profit/loss for the period from continuing operations	**49 510**	**29 505**	**(5 303)**	**2 719**	**(2 662)**	**1 047**	**74 816**
Profit / (loss) from operating activities, without financial operations and income tax	**80 036**	**38 379**	**(5 975)**	**3 308**	**(2 654)**	**1 292**	**114 386**
Depreciation / Amortization	30 526	29 258	1 844	16	496	(1 211)	60 929
Change in impairment	-	-	-	-	-	-	-
EBITDA	**110 562**	**67 637**	**(4 131)**	**3 324**	**(2 158)**	**81**	**175 315**

(in thousands of zlotys/PLN)

12. Revenues and costs

12.1. Sales revenue

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Revenues by type		
Electricity	391 548	424 338
Electricity resold from the market	110 841	159 105
Energy certificates of origin	353	13 808
Construction contracts	22 531	8 949
Compensation related to PPAs termination	48 622	47 687
Heat	20 553	20 894
Other	6 199	5 845
Excise	(1 000)	(584)
Total	599 647	680 042

Revenues by territory	*3 months period ended 31 March 2017 (unaudited)*	*3 months period ended 31 March 2016 (unaudited)*
Poland	599 400	678 566
UE countries	17	1 307
Outside UE	230	169
Total	599 647	680 042

12.2. Other operating revenues

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Compensations received	384	2 770
Reversal of write-downs against receivables	62	10
Grants settlements	392	446
Grants received	3 316	2 862
Reversal of provisions for costs and losses and liabilities write-off	2	351
other	477	825
Total	4 633	7 264

(in thousands of zlotys/PLN)

12.3. Other operating expenses

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Loss on the sale of property, plant and equipment	26	3
Impairment write-down against receivables	-	7
Compensations paid	4	269
Electricity-related damages	70	-
Donations given	33	6
Cost of trade unions	16	19
Cost of shortages and damages	30	73
Other	700	483
Total	879	860

12.4. Finance income

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Interest income	769	1 098
Foreign exchange gains	11 300	2
Other	332	2 800
Total	12 401	3 900

The main component of the "Other" item in first quarter 2017 is gain on currency forward transaction in ZE PAK SA in amount of 317 thousand zloty.

12.5. Finance costs

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Interest expenses	8 297	8 804
Valuation and realization of financial derivatives	2 000	1 996
Foreign exchange losses	-	1 934
Power units utilisation provision discount	109	107
Reclamation provision discount	2 464	1 401
Other	497	1 403
Total	13 367	15 645

The main component of the "Other" item in first quarter 2017 is a reversal of the discount of actuarial provisions in the amount of 166 thousand zloty in PAK KWB Konin.

(in thousands of zlotys/PLN)

12.6. Costs by type

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Depreciation / Amortisation	52 390	60 929
Impairment write-downs against inventories	1 470	(618)
Materials	63 015	72 267
External services	26 749	13 881
Taxes and charges, excluding excise duty	45 527	41 928
Costs of allowances for emission of CO2	97 748	86 185
Employee benefits	121 773	125 911
Other costs by type	10 375	8 308
Cost of goods for resale and raw materials sold and resale of electricity from the market	110 737	155 785
Total cost by type	529 784	564 576
Items included in cost of goods sold	498 953	543 594
Items included in selling and distribution expenses	1 297	1 144
Items included in administrative expenses	30 821	27 322
Change in the stocks of finished goods	(1 457)	(7 517)
Cost of goods and services for internal needs	170	33

12.7. Construction agreements

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Revenues from contracts for construction services recognised in the period	22 531	8 949
Revenues invoiced in the period	22 107	7 691
Balance sheet valuation	424	1 258
Costs applied in the period	20 661	6 717
Expected losses due to the contracts recognised in the period	118	2
Results due to performance of the contracts included in the period	1 752	2 230

(in thousands of zlotys/PLN)

	3 months period ended *31 March 2017* *(unaudited)*	*3 months period ended* *31 March 2016* *(unaudited)*
Gross amount payable by contracting parties due to works resulting from the contract	7 812	2 065
Gross amount paid to contracting parties due to works resulting from the contract	3 210	7 539

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

13. Components of other comprehensive income

Components of other total revenues present as follows:

	3 months period ended *31 March 2017* *(unaudited)*	*3 months period ended* *31 March 2016* *(unaudited)*
Cash flow securities		
Profits (losses) for the period	1 456	(1 996)
Adjustment resulting from reclassification of profits (loses) included in the profit or the loss	407	3 081
Gross cash flow securities for the period	**1 863**	**1 085**
Income tax concerning cash flow securities	(354)	(206)
Net cash flow securities for the period	**1 509**	**879**
Actuarial gross profits (losses) concerning provisions for post-employment employee benefits	**(13)**	**(692)**
Income tax concerning actuarial profits (losses)	3	132
Actuarial net profits (losses) concerning provisions for post-employment employee benefits	**(10)**	**(560)**
Gross exchange rate differences from foreign currency conversion	**-**	**-**
Income tax concerning exchange rate differences from foreign currency conversion	-	-
Net exchange rate differences from foreign currency conversion	**-**	**-**
Other gross comprehensive income	**1 850**	**393**
Income tax concerning other comprehensive income	(351)	(74)
Other net comprehensive income	**1 499**	**319**

(in thousands of zlotys/PLN)

14. Income tax

14.1. Tax load

The main components of tax load for the 3 months of 2017 and 3 months 2016 are as follows:

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Included in the profit or the loss		
Current income tax		
Current income tax load	2 536	4 764
Deferred income tax load		
Related to creation and reversal of temporary differences	13 608	23 015
Other changes	(787)	46
Tax load in the consolidated profit or loss	**15 357**	**27 825**
Included in the consolidated statement of the comprehensive income		
Net profit (loss) tax due to revaluation of cash flow securities	(354)	(206)
Actuarial allowance concerning actuarial profits/losses	3	132
Tax advantage/(tax load) included in comprehensive income	**(351)**	**(74)**

(in thousands of zlotys/PLN)

14.2. Deferred income tax

Deferred income tax results from following items:

	31 March 2017 (unaudited)	*31 December 2016*
Deferred tax asset		
Balance sheet provisions	143 310	127 581
Overburden and other mining assets	8 758	7 571
Interest and exchange rate differences	7 056	11 377
Hedging instruments	1 519	1 910
Valuation of non-terminated agreements for building services	1 560	1 726
Tax loss from previous years	27 380	35 964
Impairment write-down against inventories	1 860	1 936
Impairment write-down against receivables	610	714
Impairment write-downs against fixed assets	3 714	-
Difference between the carrying amount and tax value of fixed assets	148	3 537
Settlements with employees	5 297	5 139
Other	39 463	39 487
Total	240 675	236 942
Provision under deferred income tax		
Difference between the balance sheet value and the tax value of fixed assets	438 874	436 426
Receivables under PPAs	26 025	16 787
Energy certificates	769	2 615
Interest and exchange rate differences	848	2 531
Valuation of non-terminated construction agreements	1 925	2 247
Purchased CO2 allowances	82 903	73 632
Other	3	65
Total	551 347	534 303
After offsetting the balances at the level of the Group companies, the deferred tax is presented as:		
Asset	**88 766**	**90 998**
Provision	**399 438**	**388 359**

In the other deferred tax asset item, the main items as of 31 March 2017 consist of PLN 8 765 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 8 283 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 16 841 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 31 March 2017, taking into account the deferred tax was presented.

As of 31 March 2017, Elektrownia Pątnów II sp. z o.o showed the tax loss in the amount of PLN 42 121 thousand. The cumulated value of tax losses as of 31 March 2017 amounted to PLN 51 433 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 31 March 2017 amounts to PLN 9 772 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, the company acknowledges that the tax asset settled for 2014-2016 may be subject to a tax risk. Because of the elimination of this risk, the company appeals against the received individual interpretation. The purpose of the company's Management Board is to determine the correctness of tax settlements in light of applicable tax provisions. The review of the administrative courts' line of interpretation allows us to believe that the company applies a correct approach to the settlement of stranded costs. Therefore, currently, the company does not acknowledge the tax authority's position as the definitively correct.

As of 31 March 2017, PAK KWB Konin SA settled all tax losses for 2012-2015 in the amount of PLN 22 327 thousand. As of 31 March 2017, the deferred income tax asset is PLN 49 039 thousand.

As of 31 March 2017, PAK KWB Adamów SA shows a tax loss in the amount of PLN 7 302 thousand. The deferred income tax asset is PLN 28 381 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.

15. 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.

(in thousands of zlotys/PLN)

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

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Net profit / (loss) on continued activities of the parent company's shareholders	55 314	73 951
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	55 314	73 951
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547

The below table shows the profit / (loss) per one share for the 3 months period ended 31 March 2017 and 31 March 2016, presented in the profit and loss account.

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Basic and diluted profit / (loss) per share for the financial year attributable to equity holders of the parent	1,09	1,46
Basic and diluted profit / (loss) per share from continuing operations attributable to equity holders of the parent	1,09	1,46

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 zlotys/PLN)

16. Tangible fixed assets

3 months period ended 31 March 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
Direct purchase	-	-	1 562	1	84	11 795	13 442
Repairs	-	-	-	-	-	-	-
Transfer from fixed assets under construction	9 004	4 413	103 552	7	175	(117 151)	-
Sale and liquidation	(456)	(922)	(432)	(365)	(45)	-	(2 220)
Gross value as at 31 March 2017	243 757	2 017 853	4 966 925	69 258	29 296	138 595	7 465 684
Depreciation and impairment write-downs as at 1 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	723	11 657	35 299	1 892	479	-	50 050
Impairment write-down	-	-	-	-	-	-	-
Sale and liquidation	-	(790)	(426)	(295)	(46)	-	(1 557)
Depreciation and impairment write-downs as at 31 March 2017	8 655	1 138 970	2 798 196	40 518	21 199	104 171	4 111 709
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 31 March 2017	235 102	878 883	2 168 729	28 740	8 097	34 424	3 353 975

(in thousands of zlotys/PLN)

3 months period ended 31 March 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	1 927 606	3 968 357	70 298	28 563	1 119 880	7 339 549
Direct purchase	-	31	403	248	120	11 611	12 413
Repairs	-	-	-	-	-	845	845
Transfer from fixed assets under construction	4 746	80 181	874 735	-	-	(959 662)	-
Sale and liquidation	(13)	(359)	(801)	(119)	(52)	-	(1 344)
Gross value as at 31 March 2016	229 578	2 007 459	4 842 694	70 427	28 631	172 674	7 351 463
Depreciation and impairment write-downs as at 1 January 2016	5 431	1 024 186	1 994 014	30 556	19 012	791 121	3 864 320
Depreciation write-down for the period	564	13 675	36 187	2 335	611	-	53 372
Impairment write-down	-	51 530	631 517	-	-	(683 047)	-
Sale and liquidation	-	(210)	(607)	(92)	(51)	-	(960)
Depreciation and impairment write-downs as at 31 March 2016	5 995	1 089 181	2 661 111	32 799	19 572	108 074	3 916 732
Net value as at 1 January 2016	219 414	903 420	1 974 343	39 742	9 551	328 759	3 475 229
Net value as at 31 March 2016	223 583	918 278	2 181 583	37 628	9 059	64 600	3 434 731

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

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

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

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

The above 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.

Conducting the value impairment test of fixed assets, the Group based on the financial model for 2016-2047 reflecting strategic priorities of the parent company – ZE PAK SA

The tests were conducted on 31 March 2017, evaluating cash generating units' use value.

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

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

(in thousands of zlotys/PLN)

- the weighted average cost of capital after taxation (WACC) in the projection period at the level of 7.4 was adopted.
- 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 the CGU ZE PAK SA, the CGU PAK KWB Adamów SA, and for the CGU PAK KWB Konin SA. On the basis of the carried-out analysis and test results, an increase in the estimated service potential of fixed assets for CGU ZE PAK SA was not determined, therefore, the reversal of impairment write-downs in the amount of PLN 1 880 000 thousands recognised as of 31 December 2015 was not conducted. In the case of Elektrownia Pątnów II sp. z o.o., due to the participation of this unit in the programme of coverage of stranded costs (PPA), there were no indications of value impairment of tangible fixed assets requiring testing for this CGU.

17. Lease

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

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

As of 31 March 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 31March 2017 (unaudited)		*as at 31 December 2016*	
	minimum payments	*present value of payments*	*minimum payments*	*present value of payments*
Up to 1 year	4 120	3 971	7 572	7 189
1 to 5 years	4 070	3 655	4 249	3 962
Over 5 years	-	-	-	-
Total minimal lease payments	8 190	7 626	11 821	11 151
Minus finance expenses	(564)	-	(670)	-
Present value of minimal lease payments, including:	7 626	7 626	11 151	11 151
Short-term	3 937	3 971	7 171	7 189
Long-term	3 689	3 655	3 980	3 962

(in thousands of zlotys/PLN)

18. Intangible assets

Long-term intangible assets – 3 months period ended 31March 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
Increases	-	-	(43)	-	(43)
Decreases	8 722	-	2	-	8 724
Gross value as at 31 March 2017	123 225	21 540	1 957	431	147 153
Depreciation and impairment write-downs as at 1 January 2017	-	16 943	1 903	344	19 190
Depreciation write-down for the period	-	273	29	5	307
Impairment write-down	-	-	-	-	-
Decreases	-	-	(43)	-	(43)
Depreciation and impairment write-downs as at 31 March 2017	-	17 216	1 889	349	19 454
Net value as at 1 January 2017	114 503	4 597	95	87	119 282
Net value as at 31 March 2017	123 225	4 324	68	82	127 699

(in thousands of zlotys/PLN)

Long-term intangible assets – 3 months period ended 31March 2016 (unaudited)

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as at 1 January 2016	12 054	19 558	1 949	395	33 956
Increases	-	-	(3)	-	(3)
Decreases	141 676	11	39	-	141 726
Gross value as at 31 March 2016	153 730	19 569	1 985	395	175 679
Depreciation and impairment write-downs as at 1 January 2016	-	14 525	1 719	323	16 567
Depreciation write-down for the period	-	259	48	3	310
Impairment write-down	-	-	-	-	-
Decreases	-	-	(3)	-	(3)
Depreciation and impairment write-downs as at 31 March 2016	-	14 784	1 764	326	16 874
Net value as at 1 January 2016	12 054	5 033	230	72	17 389
Net value as at 31 March 2016	153 730	4 785	221	69	158 805

(in thousands of zlotys/PLN)

Short-term intangible assets

	31 March 2017 (unaudited)	*31 March 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	40 069	-
Redemption of EUA	-	-
Gross value as at 31 March	313 105	354 389
Redemption and impairment as of 1 January	-	-
Impairment write-down of a period	-	-
Redemption and impairment as of 31 March	-	-
Net value as of 1 January	273 036	354 389
Net value as of 31 March	313 105	354 389

19. Assets for overburden removal and other mining assets

As of 31 March 2017, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets in PAK KWB Konin in the amount of zloty 78 568.

	31 March 2017 (unaudited)	*31 December 2016*
as at 1 January	80 524	94 057
Increases	227	1 306
Decreases	-	(455)
Depreciation for the period	(2 033)	(14 384)
as at the end of the period	78 718	80 524
long-term	78 718	80 524
short-term	-	-

20. Other assets

20.1. Other financial assets

(in thousands of zlotys/PLN)

	31 March 2017 (unaudited)	*31 December 2016*
Deposits for debt service security	72 988	76 484
Investments and deposits	3 929	2 540
Investments and FLZG and FRZG deposits	6 364	7 810
Shares	206	167
Other	2 086	2 261
Total other financial assets:	85 573	89 262
– short-term	74 934	77 317
– long-term	10 639	11 945

The main component of the “Other” item as of 31 March 2017 are the shares of Wielkopolskie Centrum (Wielkopolska Logistics Centre) in PAK Serwis sp. z o.o. in the amount of zloty 418 thousand and loans granted to employees in PAK KWB Konin SA in the amount of zloty 444 thousand.

20.2. Other non-financial assets

	31 March 2017 (unaudited)	*31 December 2016*
VAT receivables	7 824	22 184
Insurance	1 307	1 561
Other receivables from the state budget	1 240	-
Other accruals	63	98
Delivery prepayments	5 088	3 359
Prepayments for intangible assets	490	905
Prepayments for assets under construction	187	187
Prepayments for tangible assets – land	5 894	5 880
Other	1 373	328
Total other non-financial assets:	23 466	34 502
– short-term	17 786	28 776
– long-term	5 680	5 726

The greatest components of the other prepayments item as of 31 March 2017 are settlements related to license fees in the amount of PLN 904 thousand in ZE PAK SA, settlements related to costs of sale of real estate in the amount of PLN 909 thousand in PAK KWB Konin, and settlements related to the Company Social Insurance Fund in the amount of PLN 2 445 thousand.

21. Inventories

	31 March 2017 (unaudited)	*31 December 2016*

Production fuel	10 093	9 161
Spare parts and other materials	77 180	74 608
Certificates of origin of energy	13 534	21 406
Goods	250	121
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	101 057	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 31 March 2017, the Group possessed in total, according to entries in the records, 125 599.457 MWh of property rights of green certificates and the produced green energy, which is not yet verified by ERO, of which 57 210.638 MWh are the already obtained property rights, while 68 388.819 MWh are the green power production in November and December 2016 awaiting for confirmation in the ERO.

In the first quarter of 2017, the Group received outstanding certificates for 2016 in number of 151 076.792 MWh for generation in July-October 2016, which were successively sold. During the current reporting period, the Group did not carry out generation in renewable sources because of too low allowance prices on the market.

The impairment write-down against the property rights inventory value as of 31 March 2017 in the amount of PLN 1 500 thousand concerns revaluation of rights in possession of the Company on 31 March 2017 to the unit price in the amount of 26.97 PLN/MWh.

22. Trade receivables and other receivables

	31 March 2017 (unaudited)	*31 December 2016*
Trade receivables	128 401	126 793
Receivables due to compensation related to the termination of the PPAs	136 972	88 350
Receivables due to security of purchase of electricity in the balancing market	7 674	8 674
Other receivables	18 141	22 208
Net receivables	291 188	246 025
Write-down of receivables impairment	41 679	41 947
Gross receivables	332 867	287 972

In the other receivables line, as of 31 March 2017, the Group presents mainly receivables due to the security deposit in the amount of PLN 9 987 thousand and the tendering security in the amount of PLN 3 707 thousand.

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

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

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

(in thousands of zlotys/PLN)

23. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 31 March 2017 amounts to zloty 203 955 thousand (as of 31 December 2016: zloty 350 101 thousand).

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

Cush structure

	31 March 2017 (unaudited)	*31 March 2016 (unaudited)*
Cash in hand and at bank:	144 331	153 213
Short-term deposits	59 624	127 449
Total cash and cash equivalents in the balance sheet	203 955	280 662
Foreign exchange differences	912	962
Total cash and cash equivalents in cash flow statement	204 867	281 624

24. Dividend paid and proposed to pay

In 2016 ZE PAK SA net result was 131.4 million zloty (according to Polish accounting standards), The Management Board of the Company has not yet submitted recommendations regarding the distribution of profit achieved in 2016.

25. Interest-bearing loans and borrowings

Short term	*Maturity*	*31 March 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	136 689	142 567
Overdraft facility at BZ WBK in the amount of zloty 65 000 thousand; interest rate at WIBOR 1M + bank margin	30.06.2017	25 060	28 670
Bank BPH SA – loan agreement in the amount of zloty 67 000 thousand	31.05.2017	48 132	63 061
Overdraft facility at Millennium Bank in the amount of zloty 76 500 thousand; interest rate at WIBOR 3M + bank margin	31.12.2017	21 574	28 765
Syndicated investment loan in amount of zloty 577 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.03.2020	145 112	146 260
Syndicated overdraft facility in amount of zloty 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.03.2020	12 284	12 369
Overdraft facility in amount up to 1 000 thousand zloty 30.05.2017	31.05.2017	-	266
TOTAL		**388 851**	**421 958**

Long term	*Maturity*	*31 March 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	200 680	244 556
Syndicated investment loan in amount of zloty 577 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.03.2020	249 970	283 045
Syndicated overdraft facility in amount of zloty 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.03.2020	57 706	60 250
TOTAL		**508 356**	**587 851**

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

(in thousands of zlotys/PLN)

26. Provisions and accruals

26.1. Accruals

	31 March 2017 (unaudited)	*31 December 2016*
Bonus and holiday leave provision	36 156	29 371
Insurance company compensations	299	16
Audit of the financial statement	518	570
Others	11 736	1 886
Total	48 709	31 843
short-term	48 709	31 843
long-term	-	-

(in thousands of zlotys/PLN)

26.2. 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	97 747	110	235	116	2 485	-	17 293	117 986
decrease	-	-	-	-	(737)	(3 571)	(1 911)	(6 219)
as at 31 March 2017 ***(unaudited)***	410 852	16 958	1 240	129	9 586	304 266	52 934	795 965
Long-term	25 719	16 958	990	-	-	285 076	6 420	335 163
Short-term	385 133	-	250	129	9 586	19 190	46 514	460 802
as at 1 January 2016	354 389	16 419	1 698	148	9 449	330 561	53 487	766 151
increase	313 105	429	-	86	7 838	1 676	1 500	324 634
decrease	(354 389)	-	(693)	(221)	(9 449)	(24 400)	(17 435)	(406 587)
as at 31 December 2016	313 105	16 848	1 005	13	7 838	307 837	37 552	684 198
Long-term	-	16 848	755	-	-	287 966	6 684	312 253
Short-term	313 105	-	250	13	7 838	19 871	30 868	371 945

26.3. Description of significant titles of provisions

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

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

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

In 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.

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

The Group creates the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the "Integrated Permits." The basis of estimation of the provision size are specialised studies and technical and economical expert reports developed by domestic services or external experts. The value of the provision is estimated and verified on every balance sheet date on the basis of current cost estimates and a discount. As of 31 March 2017, the created provision amounted to zloty 1 240 thousand.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group creates the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 31 March 2017, the provision due to this amounted to zloty 16 958 thousand.

26.3.3. Reclamation provisions and other provisions related to mining activities

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

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

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

The provision for the liquidation of facilities and reclamation of mining areas, and due to preparation of exploration areas in PAK KWB Konin and PAK KWB Adamów according to the status as of 31 March 2017 amounted to zloty 304 266 thousand and decreased in comparison with the year concluded on 31 December 2016 by zloty 3 571 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%.

26.3.4. Provision for redemption of energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation. As of 31 March 2017, the provision due to this amounted to zloty 9 586 thousand.

26.3.5. Other provisions

The main items of other provisions as of 31 March 2017 are, in PAK KWB Konin: provisions for mining damage in the amount of PLN 11 511 thousand, provisions for pending legal proceedings in the amount of PLN 425 thousand, provision for taking out lands of agricultural and forestry production in the amount of PLN 7 612 thousand, provision for mining fee in the amount of PLN 4 550 thousand, provision for remuneration for mining usufruct in the amount of PLN 1 365 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 provision for taking out lands of agricultural and forestry production in the amount of PLN 1 770 thousand, provision for mining fee in the amount of PLN 1 070 thousand, provision related to the settlement of purchase of fixed assets from the mine liquidation fund in the amount of PLN 1 406 thousand. In addition, in El PAK, the provisions for warranty repairs in the amount of PLN 2 494 thousand.

27. 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 the Elektrownia Pątnów II sp. z o.o.'s system, a specified number of CO_2 emission allowances was allocated. However, for this system, any investment task that would cover receivables for CO_2 emission allowances were not reported to the National Investment Plan (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.

(in thousands of zlotys/PLN)

As of 1 January 2017, the Group held physically EUAs on its accounts in the Union Registry in the number of 13,820,841. Then, in February 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. 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. 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.

The EUAs remaining after the redemption process in the number of 3 793 059 will be used for redemption needs of 2017.

In tables below, carbon dioxide emission allowances granted in the scope of the National Allocation Plan for Allowances, purchased on the secondary market with division into the part used for their own purposes and the one sold in periods concluded on 31 March 2017 and 31 March 2016 were presented.

CO2 emission allowances in the 3 months period ended 31 March 2017 (unaudited)

(in tonnes)		*Zespół Elektrowni Pątnów-Adamów-Konin SA*	*„Elektrownia Pątnów II" sp. z o.o.*
	CO_2 Emission*	2 100 392	722 084
EUA	Balance at the beginning of the period	12 900 660	920 181
	Purchased	-	1 345 000
	Free of charge	83 317	-
	Redemption*	-	-
	Sale	-	-
	Exchange	-	-
	Balance at the end of the period	12 983 977	2 265 181

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

CO2 emission allowances in the 3 months period ended 31 March 2016 (unaudited)

(in tonnes)		*Zespół Elektrowni Pątnów-Adamów-Konin SA*	*„Elektrownia Pątnów II" sp. z o.o.*
	CO_2 Emission*	2 469 768	596 287
EUA	Balance at the beginning of the period	9 689 990	2 567 596
	Purchased	5 315 500	300 000
	Free of charge	101 259	-
	Redemption*	-	-
	Sale	-	-
	Exchange	-	-
	Balance at the end of the period	15 106 749	2 867 596

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

(in thousands of zlotys/PLN)

28. Trade liabilities, other liabilities and accruals

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

	31 March 2017 (unaudited)	*31 December 2016*
Trade liabilities	83 479	186 493
Liabilities due to the put option	3 983	6 061
Investment liabilities	5 647	12 814
Liabilities to employees due to salaries	18 141	15 325
other	57 051	81 969
total	168 301	302 662

In the other liabilities item as of 31 March 2017, the Group presents mainly liabilities due to financial lease in the amount of PLN 3 971 thousand (PLN 7 189 thousand in 2016), liabilities due to financial lease in the other liabilities item amounted to PLN 18 033 thousand, liabilities related to settlement of adjustment of PPA for 2008, on the basis of the judgement of the Court of Appeal in Warsaw of 4 November 2014 and an agreement of 2 October 2014 concluded between the Pątnów Power Plant II and Zarządca Rozliczeń in the amount of PLN 46 344 thousand (PLN 66 5734 thousand in 2016). The remaining amount in the other liabilities item as of 31 March 2017 concerns mostly settlements with employees and deductions from the pay roll amounting to PLN 1 716 thousand (PLN 5 315 in 2016), liabilities for the Company Social Insurance Fund in the amount of PLN 2 260 thousand, and settlements due to security amounting to PLN 779 thousand (PLN 1 579 thousand in 2016).

Liabilities due to the put option concern obligation of ZE PAK to redeem the employee shares pursuant to the PAK KWB Konin and PAK KWB Adamów's shares sale agreement, in case when employees request for re-sale. The agreement's provisions determine the price and 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 31 March 2017, the remaining liability amount is PLN 3 983 thousand.

Principles and terms of payment of above financial liabilities:

Terms of transactions with affiliates are presented in the note 32 of additional information and explanations.

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

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

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

	31 March 2017 (unaudited)	*31 December 2016*
Liability due to financial lease	3 655	3 962
Short-term liabilities to other entities – over 12 months	444	483
Other	479	624
Total	4 578	5 069

(in thousands of zlotys/PLN)

28.3. Other non-financial liabilities

	31 March 2017 (unaudited)	*31 December 2016*
VAT tax liabilities	16 813	13 637
Liabilities due to environmental charges	-	48 650
Liabilities due to the excise tax	972	543
Liabilities due to social insurance	21 785	24 373
Personal income tax	5 547	6 200
Other budget liabilities	191	7 405
Advanced payments for deliveries	3 058	4 299
Service charge	-	10 771
Other	2 377	553
Total	50 743	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.

28.4. Derivative financial instruments

	31 March 2017 (unaudited)	*31 December 2016*
Instruments securing floating interest rates (SWAP)	7 996	10 053
Other currency options	248	-
Total	8 244	10 053
short-term	5 242	5 759
long-term	3 002	4 294

28.5. Grants and deferred income (long-term)

	31 March 2017 (unaudited)	*31 December 2016*
Long-term grants	42 631	43 006
Other	294	296
Total	42 925	43 302

(in thousands of zlotys/PLN)

28.6. Grants and deferred income (short-term)

	31 March 2017 (unaudited)	*31 December 2016*
Short-term preferential loans	2 417	5 163
Short-term settlement of sale-and-lease-back	1 501	1 502
Short-term grants	4	5
Other	3 922	6 670

29. 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

29.1. Court proceedings

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

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

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

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 is legally binding. Due to the above, on 17 October 2012, Elektrownia Pątnów II sp. z o.o. summoned Zarządca Rozliczeń SA to pay a judged amount of the adjustment for 2008, and to return the amount of zloty 26,493 thousand paid by Elektrownia Pątnów II Sp. z o.o. due to partial execution of the decision of the ERO President pursuant to the Court for Protection of Competition and Consumers decision of 23 September 2009. The request for payment was issued for the total amount of zloty 55,576 thousand. On 22 October 2012, Zarządca Rozliczeń SA paid the above-mentioned amount to the Company's account.

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

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

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

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

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

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

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

Proceedings due to 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.

The proceedings are in progress.

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

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

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

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

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

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 in case of the excise tax excess payment

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

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

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

- Twenty-two cases for the period of January 2006 – November 2007 (excluding November 2006) were conducted again from the start by the Head of the Customs Office, after the cases returned from the Supreme Administrative Court. The Company included monthly economic analyses of suffering the prejudice. After the negative decisions of the Head of the Customs Office and then of the Head of Customs Chamber, complaints were submitted to the Provincial Administrative Court in Poznań, Hearings before the Provincial Administrative Court in Poznań took place on 4 and 18 November 2015. In all cases, negative judgements for the Company were issued. In February 2016, the Company submitted cassation appeals to the Supreme Administrative Court.

- 14 proceedings for the period of December 2007 – February 2009 (excluding July 2008) on 26 January 2017, hearings took place before the Provincial Administrative Court in Poznań. In all the cases, the Company's appeals against the Customs Chamber in Poznań were dismissed. The Company submitted applications for a written justification of the judgement, which were obtained on 7 March 2017, to the Provincial Administrative Court. Currently, the Company analyses justifications and prepares the applications of cassation appeals to the Supreme Administrative Court.
- the proceeding for November 2006 was concluded with a negative judgement of the Supreme Administrative Court of 8 December 2011.
- the proceeding for July 2008 reached the recognition of our cassation appeal by the Supreme Administrative Court. On the hearing on 29 April 2015, the Supreme Administrative Court dismissed the Company's cassation appeal and pointed out that it fully agrees with the Provincial Administrative Court in Poznań in the judgement, against which the cassation appeal was submitted

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

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

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

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

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

The proceedings are completed.

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

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

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

On 28 April 2017 ERO President Issued a decision to discontinue the aforementioned. proceedings

The proceedings are successfully completed for the company.

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

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

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

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

29.2. Tax settlements

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

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

30. Liability repayment securities

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

As of 31 March 2017 and 31 December 2016, the Group had liabilities protected with its assets and other protections of payment of liabilities:

(in thousands of zlotys/PLN)

Liabilities secured with the entity's assets

	31 March 2017 (unaudited)		*31 December 2016*	
Kind of liabilities, guarantees, and sureties	*Security amount*	*Currency*	*Security amount*	*Currency*
EL PAK SERWIS sp. z o.o.				
1. Payment-bid security				
1.1. Agreement with PAK KWB KONIN SA electrical services	3	zloty	3	zloty
"Elektrownia Pątnów II" sp. z o.o.				
1. Registered and financial pledges				
1.1. Registered and financial pledges on rights of bank account agreements of Elektrownia Pątnów II sp. z o.o. in PEKAO and mBank banks	400 000	EUR	400 000	EUR
1.2. Registered and financial pledges on rights of bank account agreements of Elektrownia Pątnów II sp. z o.o. in PEKAO and mBank banks	339 750	zloty	339 750	zloty
2. Mortgage				
2.1. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 for mBank SA	400 000	EUR	400 000	EUR
2.2. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 for mBank SA	339 750	zloty	339 750	zloty
3. Registered pledge				
3.1. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	400 000	EUR	400 000	EUR
3.2. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	339 750	zloty	339 750	zloty
"PAK – HOLDCO" sp. z o.o.				
1. Registered and financial pledges on shares in affiliates				
1.1. Registered and financial pledges on shares held by PAK Holdco in Elektrownia Pątnów II sp. z o.o. for mBank SA	400 000	EUR	400 000	EUR
1.2. Registered and financial pledges on shares held by PAK Holdco in Elektrownia Pątnów II sp. z o.o. for mBank SA	339 750	zloty	339 750	zloty
2. Registered pledge				
2.1. Registered pledge on a group of items and rights of PAK Holdco sp. z o.o.	400 000	EUR	400 000	EUR
2.2. Registered pledge on a group of items and rights of PAK Holdco sp. z o.o.	339 750	zloty	339 750	zloty
"PAK Infrastruktura" sp. z o.o.				
1. Registered pledge				
1.1. Registered pledge on a group of items and rights of PAK Infrastruktura sp. z o.o.	400 000	EUR	400 000	EUR
1.2. Registered pledge on a group of items and rights of PAK Infrastruktura sp. z o.o.	339 750	zloty	339 750	zloty
PAK Kopalnia Węgla Brunatnego Konin SA				
1. Registered and financial pledges				
1.1. Registered pledge on machines and devices, including assignment of insurance policy	100 500	zloty	100 500	zloty
1.2. Registered pledge on receivables of agreements of lignite sales to Elektrownia Pątnów II Sp. z o.o. (Millennium Bank)	122 400	zloty	122 400	zloty

(in thousands of zlotys/PLN)

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

Other securities of liabilities

	31 March 2017 (unaudited)		*31 December 2016*	
Kind of liabilities, guarantees, and sureties	*Security amount*	*Currency*	*Security amount*	*Currency*
Elektrownia Pątnów II sp. z o.o.				
1. Assignment				
1.1. Assignment from the Framework Electricity Sales Agreement no. TPE/HOU/2009/0082 concluded on 30.04.2009 between EPII and TAURON Polska Energia SA including Transaction Agreements for 2017	-	PLN	121 381	PLN
1.2. Assignment from the Framework Electricity Sales Agreement no. SPOT/127/EPII/Inter	-	PLN	62 024	PLN

(in thousands of zlotys/PLN)

Energia/2009 concluded on 9.12.2009 between EPII and Inter Energia SA including Transaction Agreement for 2017				
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
1.7. Assignment from the insurance policy no. 908200170155/908200174154	659 763	EUR	659 763	EUR
Energoinwest Serwis sp. z o.o.				
1. Guarantees				
1.1. Performance and Retention Bonds of PZU SA	389	PLN	389	PLN
PAK Kopalnia Węgla Brunatnego Konin SA				
1. Guarantees				
1.1. Guarantee of Bank Przemysłowo Handlowy SA	4 000	PLN	4 000	PLN
2. Sureties				
2.1 Surety of the credit amounting to zloty 1 million for AQUAKON sp. z o .o.	1 000	PLN	1 000	PLN
2.2 Surety of the credit amounting to zloty 1 million for Eko-Surowce sp. z o .o.	1 000	PLN	1 000	PLN
3. Assignment				
3.3. Assignment of receivables of 120 million annually of the value of monthly ordered lignite supplies to ZE PAK (BPH bank)	120 000	PLN	120 000	PLN
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Guarantees				
1.1. Performance Bond	6 597	PLN	6 590	PLN
1.2. Retention Bond	279	EUR	279	EUR
1.3. Retention Bond	4 264	PLN	4 264	PLN
1.4. Payment Guarantee	13	PLN	11	PLN
1.5. Performance Bond	-	EUR	195	EUR
1.6. Advance Payment Guarantee	4 285	PLN	5 658	PLN
2. Bills of exchange				
2.1. Blank bill of exchange for PAK KWB KONIN SA	148	PLN	148	PLN
4. Assignment				
4.1. Debt assignment agreement for repair and maintenance services from ZE PAK SA	259 194	PLN	273 602	PLN
4.2. Debt assignment agreement on UM140076 agreement from ZE PAK SA	2 685	PLN	3 209	PLN
4.3. Debt assignment agreement on UM160041 and UM160043 with ZE PAK SA	-	PLN	630	PLN
4.4. Debt assignment agreement on UM160010,	-	PLN	2 089	PLN

(in thousands of zlotys/PLN)

UM160012 and UM160036 with Elektrowni Pątnów II sp. z o.o.				
4.5. Debt assignment agreement on 4101223823/0 with GE POWER Sp. z o.o.	2 357	PLN	-	PLN
4.6. Debt assignment agreement on 1394/ZU/0057/11/16 with SBB ENERGY S.A.	4 400	PLN	-	PLN
3.7. Debt assignment agreement on UM160079 with ZE PAK	1 390	PLN	-	PLN
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Guarantees				
1.1. Insurance Performance Bonds	3 407	PLN	3 407	PLN
1.2. Insurance Bid Security Payment Guarantee	120	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 zloty 56,700 thousand	65 000	PLN	65 000	PLN
1.2. Surety of ZE PAK for PAK KWB Konin due to the working capital facility in the Millennium bank in the amount of zloty 76,500 thousand	76 500	PLN	76 500	PLN
2. Assignment				
2.1. Assignment from the insurance agreement of property of the Pątnów Power Plant and assignment from insurance of the investment entitled "Modernisation of Units 1-4 in the Pątnów Power Plant" due to the credit of zloty 667 million of 13.03.2014 for the mBANK bank	1 200 000	PLN	1 200 000	PLN
2.2. due to the credit of ENEA Trading, ENERGA Obrót, PAK-Volt, GET En Tra, RWE Polska and PSE Operator due to the credit of zloty 667 million of 13.03.2014 for the mBANK bank	1 200 000	PLN	1 200 000	PLN
3. Other				
3.1. Power of attorney to bank accounts of ZE PAK SA in mBANK, PEKAO SA, BGK, PKO BP and Millennium banks due to the credit of zloty 667 million of 13.03.2014	1 200 000	PLN	1 200 000	PLN
3.2. Statement on submission to enforcement in the PEKAO SA bank due to the overdraft facility in the amount of zloty 40.0 million of 20.12.2005	60 000	PLN	60 000	PLN
3.3. Power of attorney to the bank account of ZE PAK SA in the PEKAO SA bank due to the overdraft facility in the amount of zloty 40.0 million of 20.12.2005	40 000	PLN	40 000	PLN
3.4. Statement on submission to enforcement due to the credit of zloty 667 million of 13.03.2014	2 040 000	PLN	2 040 000	PLN
3.5. Statement on submission to enforcement in the PKO BP bank due to the overdraft facility in the amount of zloty 90.0 million of 25.08.2006	135 000	PLN	135 000	PLN

31. Obtained guarantees and sureties

	31 March 2017	*31 March 2017*	*31 December*	*31 December*

Kind of liabilities, guarantees, and sureties	*(unaudited)* *PLN*	*(unaudited)* *EUR*	*2016u* *PLN*	*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	-
"PAK Infrastruktura" sp. z o.o.				
1. Guarantees				
1.1. Performance bonds	-	34	-	34
AQUAKON sp. z o.o.				
1. Sureties				
1.1 Overdraft facility in Bank BPH SA secured by PAK KWB Konin SA in the amount of zloty 1 million	1 000	-	1 000	-
EKO Surowce sp. z o.o.				
1. Sureties				
1.1 Overdraft facility in Bank BPH SA secured by PAK KWB Konin SA in the amount of zloty 1 million	1 000	-	1 000	-
PAK - Volt SA				
1. Guarantees				
1.1. Alpiq Energy - bank guarantee securing the payment valid until 26.01.2017	19 482	-	19 482	-
1.2. Polenergia - bank guarantee securing the payment valid until 25.01.2017	9 321	-	9 321	-
Energoinwest Serwis sp. z o.o.				
1. Guarantees				
1.1. Performance and Retention Bonds of PZU SA	389	-	389	-
PAK Kopalnia Węgla Brunatnego Konin SA				
1. Sureties				
1.1. Surety of ZE PAK SA	76 500	-	76 500	-
1.2. Surety of ZE PAK SA	65 000	-	65 000	-
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Bills of exchange				
1.1. Blank bill of exchange from Fabryka Wentylatorów FAWENT SA	338	-	338	-
2. Guarantees				
2.1. Retention Bonds	2 959	-	2 889	-
2.2. Performance Bonds	1 974		1 736	
2.3. Advanced Payment Refund Guarantee	738	-	738	-
Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektr. EL PAK sp. z o.o.				
1. Guarantees				
1.1. Performance and retention bonds (cash payment)	188	-	181	-
1.2. Insurance and bank performance bonds	1 448	-	1 017	-
Zespół Elektrowni Pątnów-Adamów-Konin SA				
1. Bills of exchange				
1.1. Bills of exchange	2 525	363	2 525	363
2. Guarantees				
2.1. Payment guarantees	17 577	-	8 551	-
2.2. Performance bonds	33 748	-	36 958	-
2.3. Advanced Payment Refund	-	-	5 929	-

(in thousands of zlotys/PLN)

Guarantees

32. Information about related entities

The following table presents total amounts of transactions concluded with affiliates for the 3 months period ended 31 March 2017 and 31 March 2016:

(unaudited)

Related entity		*Sales to related entities*	*Purchase from related entities*	*Receivables from related entities*	*Liabilities towards related entities*
Elektrim SA	2017	-	30	-	-
	2016	-	31	-	1
Megadex Serwis Sp. z o.o.	2017	-	-	-	-
	2016	1	15 812	835	5 768
Polkomtel sp. z o.o.	2017	31 271	1 118	15 950	1 103
	2016	30 809	650	15 429	1 088
Laris Investments sp. z o.o.	2017	103	206	215	1
	2016	113	244	216	24
Total	**2017**	**31 374**	**1 354**	**16 165**	**1 104**
	2016	**30 923**	**16 737**	**16 480**	**6 881**

32.1. Loan granted to a member of the Management Board

Both in the 3-month period ended 31 March 2017, and in the one ended 31 March 2016, the Parent Company did not grant any loans and similar benefits to members of members of management and supervisory staff.

32.2. Other transactions involving members of the Management Board

Both in the 3-month period ended 31 March 2017, and in the one ended 31 March 2016, there were no transactions with members of members of management and supervisory staff.

(in thousands of zlotys/PLN)

32.3. Remuneration of chief executive staff of the Group

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

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Management Board of the parent company		
Short-term employee benefits	1 231	657
Supervisory Board of the parent company		
Short-term employee benefits	249	341
Management Boards of subsidiaries		
Short-term employee benefits	1 419	1 157
Supervisory Board of subsidiaries		
Short-term employee benefits	111	91
Total	3 010	2 246

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

	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
Short-term employee benefits	4 206	3 323
Jubilee awards	-	24
Benefits for termination of the contract of employment	-	77
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	4 206	3 424

33. 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.

33.1. Interest rate risk

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

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

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

Interest rate risk – the sensitivity gap

In the interest rate sensitivity gap analysis, the Group uses yield curve shift by potential possible change of benchmark interest rates during the coming year. For the needs of the interest rate sensitivity gap analysis, average levels of benchmark interest rates in a given year were used. The scale of potential interest rate sensitivity gap was estimated on the basis of volatilities implied of ATMF options for 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 zlotys/PLN)

Classes of financial instruments	**31 March 2017 (unaudited)**		**Interest rate risk sensitivity study as of 31 March 2017**							
			WIBOR				***EURIBOR***			
			WIBOR + 55 pb		***WIBOR - 55 pb***		***EURIBOR + 15,79 pb***		***EURIBOR - 15,79 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	85 573	83 896	64	-	(64)	-	114	-	(114)	-
Trade and other receivables	291 188	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	203 955	203 955	921	-	(921)	-	58	-	(58)	-
Interest-bearing loans and borrowings	(897 207)	(897 207)	(3 079)	-	3 079	-	(533)	-	533	-
Trade payables and other financial liabilities	(172 879)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(8 244)	(7 996)	-	-	-	-	-	389	-	(389)
Total	**(497 614)**	**(617 352)**	**(2 094)**	**-**	**2 094**	**-**	**(361)**	**389**	**361**	**(389)**

pb – basic points

(in thousands of zlotys/PLN)

Classes of financial instruments	**31 March 2016 (unaudited)**		**Interest rate risk sensitivity study as of 31 March 2016**							
			WIBOR				***EURIBOR***			
			WIBOR + 72 pb		***WIBOR – 72 pb***		***EURIBOR + 19,51 pb***		***EURIBOR - 19,51 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	88 627	84 136	73	-	(73)	-	144	-	(144)	-
Trade and other receivables	259 106	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	280 662	280 662	1 602	-	(1 602)	-	113	-	(113)	-
Interest-bearing loans and borrowings	(1 244 199)	(1 244 199)	(5 595)	-	5 595	-	(911)	-	911	-
Trade payables and other financial liabilities	(225 153)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(15 135)	(15 135)	-	-	-	-	-	927	-	(927)
Total	**(856 092)**	**(894 536)**	**(3 920)**	**-**	**3 920**	**-**	**(654)**	**927**	**654**	**(927)**

pb – basic points

33.2. Currency risk

The Group is exposed to the currency risk due to concluded transactions. Such risk also concerns credit and loan liabilities and purchase of CO2. In 2016, the Group's companies did not apply the instruments to mitigate the risk arising from changes in exchange rates, except for ZE PAK SA, which secured the EUR exchange rate for part of the flows related to the purchase of CO2 emission allowances. In order to secure the exchange rate, the forward transactions with the settlement date in December 2017 were applied.

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

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

(in thousands of zlotys/PLN)

Classes of financial instruments	31 March 2017 (unaudited)		Analysis of sensitivity to interest rate risk as of 31 March 2017			
			EUR/PLN			
			EUR/PLN + 7,25%		EUR/PLN - 7,25%	
			4,5257		3,9139	
	Carrying amount	**Value at risk**	**Profit / loss**	**Other comprehensive income**	**Profit / loss**	**Other comprehensive income**
Other financial assets	85 573	72 316	5 243	-	(5 243)	-
Trade and other receivables	291 188	159	12	-	(12)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	203 955	36 563	2 651	-	(2 651)	-
Interest-bearing loans and borrowings	(897 207)	(337 370)	(24 459)	-	24 459	-
Trade payables and other financial liabilities	(172 879)	(265)	(19)	-	19	-
Derivative financial instruments	(8 244)	(248)	-	-	-	-
Total	**(497 614)**	**(228 845)**	**(16 572)**	**-**	**16 572**	**-**

(in thousands of zlotys/PLN)

Classes of financial instruments	**31 March 2016** *(unaudited)*		**Analysis of sensitivity to interest rate risk as of 31 March 2016** EUR/PLN			
			EUR/PLN + 8,525% **4,6323**		**EUR/PLN - 8,525%** **3,9045**	
	Carrying amount	**Value at risk**	**Profit / loss**	**Other comprehensive income**	**Profit / loss**	**Other comprehensive income**
Other financial assets	88 627	73 934	6 303	-	(6 303)	-
Trade and other receivables	259 106	997	85	-	(85)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	280 662	58 170	4 959	-	(4 959)	-
Interest-bearing loans and borrowings	(1 244 199)	(467 119)	(39 822)	-	39 822	-
Trade payables and other financial liabilities	(225 153)	(1 290)	(110)	-	110	-
Derivative financial instruments	(15 135)	-	-	-	-	-
Total	**(856 092)**	**(335 308)**	**(28 585)**	**-**	**28 585**	**-**

33.3. 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 the Towarowa Giełda Energii SA company, which minimises the credit risk.

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

33.4. Liquidity risk

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

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

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

(in thousands of zlotys/PLN)

31 March 2017 (unaudited)	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	75 367	320 711	546 674	-	942 752
Trade payables and other financial liabilities	133 680	34 621	4 578	-	172 879
Derivative financial instruments	1 293	42 069	2 828	-	46 190
	210 340	**397 401**	**554 080**	**-**	**1 161 821**

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

(in thousands of zlotys/PLN)

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:

31March 2017(unaudited)	*On demand*	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Inflows	-	(139)	(212)	(162)	-	(513)
Outflows	-	1 293	3 214	2 828	-	7 335
Net amount	-	(1 432)	(3 426)	(2 990)	-	(7 848)
Discounted using appropriate interbank rates	**-**	**(1 680)**	**(3 562)**	**(3 002)**	**-**	**(8 244)**

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

(in thousands of zlotys/PLN)

34. Financial instruments

34.1. 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.

		Balance sheet value		*Fair value*		
financial assets	Category according to IAS 39	*31 March 2017 (unaudited)*	*31 December 2016*	*31 March 2017 (unaudited)*	*31 December 2016*	*Level of the fair value hierarchy for needs of disclosures*
Other financial assets	PiN	85 573	89 262	85 573	89 262	2
Trade receivables and other receivables	PiN	291 188	246 025	291 188	246 025	2
Derivative financial instruments	WwWGpWF	-	296	-	296	2
Cash and cash equivalents	UdtW	203 955	350 101	203 955	350 101	1
Financial liabilities						
Interest-bearing bank credits and loans, including:		897 207	1 009 809	897 207	1 009 809	3
long term	PZFwgZK	508 356	587 851	508 356	587 851	
short term	PZFwgZK	388 851	421 958	388 851	421 958	
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	172 879	307 731	172 879	307 731	2
Derivative financial instruments	WwWGpWF	8 244	10 053	8 244	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,
PiN – Loans and receivables
DDS – Financial assets available for sale,
PZFwgZK – Other financial liabilities evaluated according to the depreciated cost.

(in thousands of zlotys/PLN)

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

	31 March 2017 (unaudited)	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	8 244	-

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

In the 3 months period ended 31 March 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 zlotys/PLN)

34.2. Interest rate risk

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

	Type of interest rate	*Carrying amount as of 31 March 2017 (unaudited)*	*Carrying amount as of 31 December 2016*
Financial assets at interest rate risk – zloty	Fixed	-	-
	Variable	178 972	236 701
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	109 326	200 708
Financial liabilities at interest rate risk – zloty	Fixed	-	-
	Variable	559 838	622 686
Financial liabilities at interest rate risk – Other currencies	Fixed	168 842	193 703
	Variable		
	Fixed	168 527	193 420
Net exposure – zloty	Fixed	-	-
	Variable	(380 866)	(385 985)
Net exposure – Other currencies	Fixed	(168 842)	(193 703)
	Variable	(59 201)	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.

34.2.1. Hedging

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

In the tables shown below, basic parameters of derivative transaction indicates as security instruments, including periods, when cash flows due to cash flow securities and when they will influence the financial result, as well as their fair value in zloty as of 31 March 2017 and 31 December 2016 are presented.

(in thousands of zlotys/PLN)

Instrument type	*Nominal value in the transaction currency [euro]* 31 March 2017 (unaudited)*	*Fair value in zloty 31 March 2017 (unaudited)*	*Expected duration of hedged item's realisation 31 March 2017 (unaudited)*
IRS transaction	40 012	(7 996)	in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019

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

Instrument type	*Nominal value in the transaction currency [euro]* 31 December 2016*	*Fair value in zloty 31 December 2016*	*Expected duration of hedged item's realisation 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:

	3 months period ended 31 March 2017 (unaudited)	*Year ended 31 December 2016*
Opening balance	(6 883)	(14 742)
Effective part of profits / losses on a security instrument	(1 454)	(1 278)
Amounts charged to the income statement, including:	(1 454)	(7 274)
– adjustment of costs of interest	(1 454)	(7 274)
– adjustment under ineffective hedging	-	-
Closing balance	(6 883)	(8 746)
Deferred tax assets – recognized in the revaluation reserve	1 308	1 662
Closing balance including deferred tax	(5 575)	(7 084)

In first quarter 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 were applied. The below table presents a summary of the active forward transactions as of the balance sheet date for the purchase of EUR currency.

Type of concluded transactions	*Currency cross*	*Transaction amount (nominal value in euro thousand) 31 March 2017*	*Net market value (fair value in zloty thousand) 31 March 2017*	*Maturity*
Purchase of EUR transaction (forward)	(euro/zloty)	9 000	(248)	December 2017

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

(in thousands of zlotys/PLN)

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions*	*Currency of transactions*	*Maturity*
Forward transaction	2 879 000	16 945	EUR	Up to 1 year

35. Capital management

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

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. In the 3 months period ended 31 December 2017 and in year ended 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.

	31 March 2017 (unaudited)	*31 December 2016*
Interest-bearing credits and loans	897 207	1 009 809
Derivative financial instruments (liabilities)	8 244	10 053
Trade liabilities and other financial liabilities	172 879	307 731
Minus cash and its equivalents	203 955	350 101
Net debt	874 375	977 492
Equity	2 201 201	2 143 658
Capitals from revaluation of security instruments	(5 575)	(7 084)
Total capital	2 206 776	2 150 742
Net capital and debt	**3 081 151**	**3 128 234**
Leverage ratio	28,38%	31,25%

36. Material 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 3 months ended 31 March 2017, there were no material events other than described in the additional explanatory notes.

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/President of the Management Board	/Vice President of the Management Board	/ Vice President of the Management Board	/ Vice President of the Management Board	/ Chief Accountant

ZESPÓŁ ELEKTROWNI PĄTNÓW-ADAMÓW-KONIN SA

QUARTERLY CONDENSED FINANCIAL STATEMENT
FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017

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

15 MAY 2017

TABLE OF CONTENT

(in zloty/PLN thousand)

BALANCE SHEET

Assets

		31 March 2017 (unaudited)	31 December 2016	31 March 2016 (unaudited)
A.	**Non-current assets**	**2 211 056**	**2 219 586**	**2 316 164**
I.	**Intangible assets**	**367 915**	**368 132**	**424 632**
1.	Development expenses	-	-	-
2.	Goodwill	-	-	-
3.	Other intangible assets	367 915	368 132	424 632
4.	Prepayments for intangible assets	-	-	-
II.	**Property, plant and equipment**	**654 595**	**662 844**	**681 716**
1.	Tangible fixed assets	608 549	617 868	643 206
	a) land (including perpetual usufruct)	1 289	1 290	1 247
	b) buildings, premises and constructions	184 761	187 386	195 957
	c) plant and machinery	420 516	426 981	443 282
	d) motor vehicles	712	854	1 242
	e) other	1 271	1 357	1 478
2.	Construction in progress	42 137	41 067	34 391
3.	Prepayments for construction in progress	3 909	3 909	4 119
III.	**Long-term receivables**	-	-	-
IV.	**Long-term investments**	**1 187 851**	**1 187 862**	**1 205 434**
1.	Property	-	-	-
2.	Intangible assets	-	-	-
3.	Long-term financial assets	1 187 851	1 187 862	1 205 434
	a) in affiliates	1 187 700	1 187 711	1 205 283
	shares	1 141 825	1 139 747	1 143 453
	other securities	-	-	-
	loans granted	45 875	47 964	61 830
	other long-term financial assets	-	-	-
	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**	**695**	**748**	**4 382**
1.	Deferred tax assets	-	-	-
2.	Other prepayments and deferred costs	695	748	4 382

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(in zloty/PLN thousand)

/

			31 March 2017 (unaudited)	*31 December 2016*	*31 March 2016 (unaudited)*
B.	**Current assets**		**282 508**	**378 620**	**388 291**
I.	**Inventories**		**47 044**	**53 915**	**105 546**
1.	Raw materials		42 805	39 602	42 974
2.	Semi-finished goods and work-in-progress		-	-	-
3.	Finished goods		-	-	-
4.	Property rights		4 239	13 959	59 850
5.	Prepayments for deliveries and services		0	354	2 722
II.	**Short-term receivables**		**139 256**	**137 373**	**123 328**
1.	Receivables from affiliates		63 376	64 297	44 431
	a)	trade receivables, due in:	59 718	60 639	44 431
		up to 12 months	59 718	60 639	44 431
		over 12 months	-	-	-
	b)	other	3 658	3 658	-
2.	Receivables from other entities of which entity has capital engagement		-	-	-
3.	Receivables from other entities		75 880	73 076	78 897
	a)	trade receivables, due in	55 822	53 785	62 029
		up to 12 months	55 822	53 785	62 029
		over 12 months	-	-	-
	b)	taxation, subsidy, customs duty, social security, health insurance and other debtors	7 038	7 428	6 696
	c)	other	13 020	11 863	10 172
	d)	submitted to court	-	-	-
III.	**Short-term investments**		**93 332**	**186 022**	**156 461**
1.	Short-term financial assets		93 332	186 022	156 461
	a)	in affiliates	15 578	16 125	23 422
		shares	-	-	-
		other securities	-	-	7 522
		loans granted	15 578	16 125	15 900
		other short-term financial assets	-	-	-
	b)	in other entities	-	296	-
		shares	-	-	-
		other securities	-	-	-
		loans granted	-	-	-
		other long-term financial assets	-	296	-
	c)	cash and other monetary assets	77 754	169 601	133 039
		cash on hand and cash at bank	77 754	169 601	133 039
		other cash and cash equivalents	-	-	-
		other monetary assets	-	-	-
2.	Other short-term investments		-	-	-
IV.	**Short-term prepayments and deferred costs**		**2 876**	**1 310**	**2 956**
C.	**Unpaid share capital (basic)**		-	-	-
D.	**Own shares**		-	-	-
Total Assets			**2 493 564**	**2 598 206**	**2 704 455**

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(in zloty/PLN thousand)

Liabilities and equity

		31 March 2017 (unaudited)	*31 December 2016*	*31 March 2016 (unaudited)*
A.	**Equity**	**1 491 459**	**1 491 837**	**1 429 522**
I.	**Share capital**	**101 647**	**101 647**	**101 647**
II.	**Reserve capital**	**1 028 647**	**1 028 647**	**2 542 085**
III.	**Revaluation reserve**	**227 498**	**227 498**	**227 507**
IV.	**Other reserves**	**3 472**	**3 472**	**5 877**
V.	**Accumulated profits (losses) from previous years**	**130 573**	**(834)**	**(1 516 685)**
VI.	**Net profit (loss) for the period**	**(378)**	**131 407**	**69 091**
VII.	**Deductions from net profit during the period (negative value)**	-	-	-
B.	**Liabilities and provisions for liabilities**	**1 002 105**	**1 106 369**	**1 274 933**
I.	**Provisions for liabilities**	**420 804**	**347 396**	**464 105**
1.	Deferred tax liability	70 436	68 806	79 166
2.	Provision for retirement benefits and similar obligations	9 861	9 922	11 667
	long-term	8 920	8 835	11 162
	short-term	941	1 087	505
3.	Other provisions	340 507	268 668	373 272
	long-term	17 948	17 603	17 531
	short-term	322 559	251 065	355 741
II.	**Long-term liabilities**	**308 097**	**344 005**	**510 456**
1.	To affiliates	-	254	254
2.	To other entities of which entity has capital engagement	-	-	-
3.	To other entities	308 097	343 751	510 202
	a) Loans and credits	307 675	343 295	509 311
	b) Debt securities issued	-	-	-
	c) Other financial liabilities	422	456	558
	d) Bills of exchange	-	-	-
	e) other	-	-	333
III.	**Short-term liabilities**	**237 215**	**387 209**	**255 128**
1.	To affiliates	22 746	32 405	99 890
	a) trade creditors, payable in:	21 707	31 922	96 651
	up to 12 months	21 707	31 922	96 651
	over 12 months	-	-	-
	b) other	1 039	483	3 239
2.	To other entities of which entity has capital engagement	-	-	-
3.	To other entities	208 242	350 650	149 592
	a) loans	157 397	158 629	87 036
	b) debt securities issued	-	-	-
	c) other financial liabilities	385	139	131
	d) trade liabilities payable in:	15 027	53 247	19 403
	up to 12 months	15 027	53 247	19 403
	over 12 months	-	-	-

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			31 March 2017 (unaudited)	***31 December 2016***	***31 March 2016 (unaudited)***
	e)	advance payments received	128	50	17
	f)	bills of exchange payable	-	-	-
	g)	taxation, customs duty and social security creditors	27 911	68 521	29 888
	h)	payroll	4 187	4 314	3 924
	i)	other	3 207	65 750	9 193
4.	Special funds		6 227	4 154	5 646
IV.	**Accruals and deferred income**		**35 989**	**27 759**	**45 244**
1.	Negative goodwill		-	-	-
2.	Other accruals and deferred income		35 989	27 759	45 244
	long-term		14 085	14 097	15 152
	short-term		21 904	13 662	30 092
Total Liabilities and equity			**2 493 564**	**2 598 206**	**2 704 455**

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(in zloty/PLN thousand)

PROFIT & LOSS ACCOUNT (calculation type)

	3 months period ended 31 March 2017 (unaudited)	***3 months period ended 31 March 2016 (unaudited)***
A. Net sales of finished goods, goods for resale and raw materials, of which:	**355 960**	**416 335**
– from affiliates	109 799	140 665
I. Net sales of finished goods	326 466	399 928
II. Net sales of goods for resale and raw materials	29 494	16 407
B. Cost of finished goods, goods for resale and raw materials sold, of which:	**329 895**	**363 436**
– to affiliates	104 074	123 000
I. Cost of finished goods sold	305 632	348 225
II. Cost of goods for resale and raw materials sold	24 263	15 211
C. Gross profit (loss) on sales	**26 065**	**52 899**
D. Selling expenses	**956**	**872**
E. Administrative expenses	**8 391**	**8 203**
F. Profit (loss) on sales	**16 718**	**43 824**
G. Other operating income	**419**	**2 778**
I. Gains on the sale of non-financial non-current assets	10	-
II. Grants	12	82
III. Revaluation of non-financial assets	-	-
IV. Other operating income	397	2 696
H. Other operating expenses	**1 832**	**-75**
I. Loss on the sale of non-financial non-current assets	-	-
II. Impairment of non-financial assets	1 223	-764
III. Other	609	689
I. Operating profit (loss)	**15 305**	**46 677**
J. Finance income	**970**	**42 986**
I. Dividends and shares in profits, of which:	0	41 994
a) from affiliates:	-	41 994
b) other, including:	-	-
- entities of which entity has capital engagement	-	-
II. Interest, including:	594	866
- affiliates	156	285
III. Profit on the disposal of financial assets, including:	-	-
- affiliates	-	-
IV Revaluation of investments	-	114
V. Other	376	12
K. Finance costs	**15 148**	**4 326**
I. Interest, of which:	4 617	3 811
– to affiliates	-	-
II. Loss on the disposal of financial assets, including:	-	-
- affiliates	-	-
III. Impairment of investments	3 336	-
IV. Other	7 195	515
L. Gross profit (loss) on ordinary activities	**1 127**	**85 337**
M. Corporate profits tax	**1 505**	**16 246**
N. Other tax charges	-	-
O. Net profit (loss)	**(378)**	**69 091**

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(in zloty/PLN thousand)

STATEMENT OF CASH FLOW

	3 months period ended 31 March 2017 (unaudited)	***3 months period ended 31 March 2016 (unaudited)***
A. Cash flow from operating activities		
I. Net profit (loss)	**(378)**	**69 091**
II. Adjustments, total	**(38 423)**	**(67 369)**
1. Depreciation	9 505	8 112
2. Foreign exchange gains (losses)	2 878	(102)
3. Interest and shares in profits (dividends)	4 452	(38 470)
4. Profit (loss) on investing activities	7 533	-
5. Change in provisions	73 407	89 336
6. Change in inventories	6 871	(1 390)
7. Change in receivables	(1 827)	28 906
8. Change in short-term liabilities, except for loans and borrowings	(88 009)	(28 024)
9. Change in prepayments, accruals and deferred income	6 718	9 230
10. Other adjustments	(59 951)	(134 967)
III. Net cash flow from operating activities	**(38 801)**	**1 722**
B. Cash flow from investing activities	-	-
I. Inflows	-	**43 644**
1. Sale of intangible assets and tangible fixed assets	-	1 594
2. Sale of investments in property and intangible assets	-	-
3. From financial assets, of which:	-	42 050
a) in affiliates	-	42 050
b) in other entities	-	-
4. Other investing inflows	-	-
II. Outflows	**11 453**	**71 813**
1. Purchase of intangible assets and tangible fixed assets	2 375	71 813
2. Investments in property and intangible assets	-	-
3. For financial assets, of which:	9 078	-
a) in affiliates	9 078	-
b) in other entities	-	-
– purchase of financial assets	-	-
– long-term loans granted	-	-
4. Other investing outflows	-	-
III. Net cash flow from investing activities	**(1 453)**	**(28 169)**
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	-	-

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	3 months period ended 31 March 2017 (unaudited)	*3 months period ended 31 March 2016 (unaudited)*
II. Outflows	**41 508**	**23 491**
1. Re-acquisition of own shares	-	-
2. Dividends and other payments to shareholders	-	-
3. Outflows due to appropriation of profit other than payments to shareholders	-	-
4. Repayment of loans and borrowings	37 136	18 802
5. Redemption of debt securities	-	-
6. Relating to other financial liabilities	-	-
7. Finance lease payments	33	32
8. Interest paid	4 339	4 602
9. Other financing outflows		55
III. Net cash flow from financing activities	(41 508)	(23 491)
D. Total net cash flow	**(91 762)**	**(49 938)**
E. Balance sheet change in cash and cash equivalents, of which:	**(91 847)**	**(49 938)**
– change in cash and cash equivalents due to foreign exchange gains/losses	(85)	(12)
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, of which:	**77 754**	**133 051**
– of restricted use	2 922	4 132

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(in zloty/PLN thousand)

STATEMENT OF CHANGES IN EQUITY

	3 months period ended 31 March 2017 (unaudited)	*12 months period ended 31 December 2016*	*3 months period ended 31 March 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. Reserve capital at the end of the period	**101 647**	**101 647**	**101 647**
2. Unpaid share capital at the beginning of the period	**1 028 647**	**2 542 060**	**2 542 060**
2.1. Changes to unpaid share capital	-	(1 513 413)	25
a) increase (due to)	-	33	25
- Issue of shares above the par value	-	-	-
- profit distribution (statutorily)	-	-	-
- Profit sharing (above the statutory minimum value)	-	-	-
- Disposal of fixed assets	-	33	25
b) decrease (due to)	-	1 513 446	-
- cover of the loss	-	1 513 446	-
2.2. Reserve capital at the end of the period	**1 028 647**	**1 028 647**	**2 542 085**
3. Capital from revaluation at the beginning of the period	**227 498**	**227 531**	**227 531**
3.1. Changes of revaluation capital	-	(33)	(25)
a) increase	-	-	-
b) decrease (due to)	-	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 of other reserves	-	(2 405)	-
a) increase	-	-	-
b) decrease (due to)	-	2 405	-
- cover of the loss	-	2 405	-
4.2. Other reserves at the end of the period	**3 472**	**3 472**	**5 877**

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

	3 months period ended 31March 2017 (unaudited)	***12 months period ended 31 December 2016***	***3 months period ended 31March 2016 (unaudited)***
5. Profit/(loss) from previous years at the beginning of the period	**130 573**	**(1 516 684)**	**(1 516 684)**
5.1. Profit from previous years at the beginning of the period	131 407	-	-
- changes in accountancy rules	-	-	-
- failure adjustments	-	-	-
5.2. Profit from previous years at the beginning of the period after adjustments	131 407	-	-
a) increase (due to)	-	-	-
b) decrease (due to)	-	-	-
- profit distribution for reserve capital	-	-	-
- for dividend	-	-	-
5.3. Profit from previous years at the end of the period	131 407	-	-
5.4. Loss from previous periods at the beginning of the period	(834)	(1 516 684)	(1 516 684)
- change in accountancy rules	-	-	-
- failure adjustments	-	-	-
5.5. Loss from previous years at the beginning of the period after adjustments	(834)	(1 516 684)	(1 516 684)
a) increase (due to)	-	-	-
- transfer of losses from previous years to coverage	-	-	-
b) decrease (due to)	-	1 515 850	-
- cover of loss from supplementary and reserve capital	-	1 515 850	-
5.6. Loss from previous years at the end of the period	(834)	(834)	(1 516 684)
5.7. Profit/(loss) from previous years at the end of the period	**130 573**	**(834)**	**(1 516 684)**
6. Net result	**(378)**	**131 407**	**69 091**
a) net profit	-	131 407	69 091
b) net loss	378	-	-
c) profit impairments	-	-	-
II. Equity (fund) at the end of the period	**1 491 459**	**1 491 837**	**1 429 522**
III. Equity (fund) after proposed profit distribution (loss cover)	1 491 459	1 491 837	1 429 522

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

(in zloty/PLN thousand)

ADDITIONAL INFORMATION TO THE QUARTERLY CONDENSED FINANCIAL STATEMENT

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

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

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

The duration of the Company is indefinite.

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

	volume	*in zlotys*	*%*	*volume*	*%*
Shareholder	*Number of shares*	*The nominal value of one share*	*Share in the total number of shares*	*Number of votes*	*Share in the total number of votes*
Zygmunt Solorz (indirectly) through: Elektrim SA, Embud Sp. z o.o., Trigon XIX FIZ, Argumenol Investment Company Limited	26 200 867	2,00	51,55	26 200 867	51,55
Nationale-Nederlanden OFE	5 068 410	2,00	9,97	5 068 410	9,97
Towarzystwo Funduszy Inwestycyjnych PZU SA	3 081 567	2,00	6,06	3 081 567	6,06
OFE PZU „Złota Jesień"	2 664 378	2,00	5,24	2 664 378	5,24
Other	13 808 325	2,00	27,18	13 808 325	27,18
Total	**50 823 547**	**2,00**	**100,00**	**50 823 547**	**100,00**

* According to the knowledge of the Company, based on the notifications submitted by the shareholders

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

The main subject of the Company's activities is:

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

1. Continuation of activity

The financial statement of the Company was developed with the assumption of continuing business activity by the Company in the foreseeable future, at least 12 months after the balance sheet date that is after 31 March 2017.

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

2. Merger of commercial companies

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

(in zloty/PLN thousand)

3. Accepted principles (policy) of accounting

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

1) The Act on accounting of 29 September 1994 (consolidated text Journal of Laws no. 2013, item 330, as amended – hereinafter "UoR", "the Act"),
2) The Corporate Income Tax Law of 15 February 1992 (Journal of Laws of 2000, no. 54, item 654) as amended,
3) The Regulation of the Minister of Finance of 19 February 2009 on the current and periodical information submitted by issuers of stocks as well as conditions for the recognition as equally important of information required by the regulations of the law of a country not comprising a Member State (Journal of Laws of 2009, no. 33, item 259) as amended,
4) The Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (consolidated text Journal of Laws of 2009 no. 185, item 1439 as amended).

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

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

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

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

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

ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA CAPITAL GROUP

ADDITIONAL INFORMATION FOR EXTENDED CONSOLIDATED REPORT FOR 1st QUARTER 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.

15 MAY 2017

TABLE OF CONTENT

1. SELECTED FINANCIAL DATA

	zloty thousand	*zloty thousand*	*euro thousand*	*euro thousand*
Particular financial consolidated data	*3 months of 2017 period from 01.01.2017 to 31.03.2017*	*3 months of 2016 period from 01.01.2016 to 31.03.2016*	*3 months of 2017 period from 01.01.2017 to 31.03.2017*	*3 months of 2016 period from 01.01.2016 to 31.03.2016*
Sales revenue	599 647	680 042	139 807	156 120
Operating profit/loss	72 330	114 386	16 864	26 260
Profit/Loss before tax	71 364	102 641	16 638	23 564
Net profit/loss for the period	56 007	74 816	13 058	17 176
Net profit attributable to equity holders of the parent	55 314	73 951	12 896	16 977
Total comprehensive income	57 506	75 135	13 407	17 249
Net cash flow from operating activities	(11 841)	56 200	(2 761)	12 902
Net cash flow from investing activities	(22 083)	(67 537)	(5 149)	(15 505)
Net cash flow from financing activities	(109 856)	(90 358)	(25 613)	(20 744)
Net increase / (decrease) in cash and cash equivalents	(143 780)	(101 695)	(33 522)	(23 346)
Net profit per share (in zloty/euro per share)	1,09	1,46	0,25	0,34
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	As at 31.03.2017	*As at 31.12.2016*	*As at 31.03.2017*	*As at 31.12.2016*
Total assets	4 680 349	4 801 300	1 109 140	1 085 285
Non-current assets	3 667 807	3 702 058	869 190	836 812
Current assets	1 012 542	1 099 242	239 950	248 472
Total equity	2 201 201	2 143 658	521 636	484 552
Share capital	101 647	101 647	24 088	22 976
Share capital attributable to equity holders of the parent	2 201 201	2 143 658	521 636	484 552
Total liabilities	2 479 148	2 657 642	587 504	600 733
Non-current liabilities	1 341 722	1 389 715	317 959	314 131
Current liabilities	1 137 426	1 267 927	269 545	286 602
Book value per share (in zloty/euro per share)	43,31	42,18	10,26	9,53
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

Particular financial ZE PAK SA data	*zloty thousand* *3 months of 2017 period from 01.01.2017 to 31.03.2017*	*zloty thousand* *3 months of 2016 period from 01.01.2016 to 31.03.2016*	*euro thousand* *3 months of 2017 period from 01.01.2017 to 31.03.2017*	*euro thousand* *3 months of 2016 period from 01.01.2016 to 31.03.2016*
Sales revenue of products, goods and materials	355 960	416 335	82 992	95 580
Operating profit/loss	15 305	46 677	3 568	10 716
Profit/Loss before tax	1 127	85 337	263	19 591
Net profit/loss for the period	(378)	69 091	(88)	15 861
Net cash flow from operating activities	(38 801)	1 722	(9 046)	395
Net cash flow from investing activities	(11 453)	(28 169)	(2 670)	(6 467)
Net cash flow from financing activities	(41 508)	(23 491)	(9 678)	(5 393)
Net cash flow	(91 762)	(49 938)	(21 394)	(11 464)
Net profit per share (in PLN/EUR per share)	(0,01)	1,36	(0,00)	0,31
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	As of 31.03.2017	*As of 31.12.2016*	*As of 31.03.2017*	*As of 31.12.2016*
Total assets	2 493 564	2 598 206	590 920	587 298
Fixed assets	2 211 056	2 219 586	523 972	501 715
Current assets	282 508	378 620	66 948	85 583
Equity	1 491 459	1 491 837	353 443	337 215
Share capital	101 647	101 647	24 088	22 976
Liabilities and provisions for liabilities	1 002 105	1 106 369	237 477	250 083
Long term liabilities	308 097	344 005	73 012	77 759
Short term liabilities	237 215	387 209	56 215	87 525
Book value per share (in PLN/EUR per share)	29,35	29,35	6,96	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 last working day of every month of the reporting period starting from 1 January 2017 to 31 March 2017, which is 4.2891 euro/zloty and starting from 1 January 2016 to 31 March 2016, which is 4.3559 euro/zloty;
- particular items of the Statement of financial position (Balance sheet) according to average euro/zloty exchange rate published by the National Bank of Poland as of 31 March 2017, which is 4.2198 euro/zloty and as of 30 December 2016, which is 4.4240 euro/zloty.

2. DESCRIPTION OF THE COMPANY AND OF THE CAPITAL GROUP

2.1. Basic information

As of 31March 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 thirteen subsidiaries i.e. Elektrownia Pątnów II sp. z o.o., PAK – Volt SA, PAK Kopalnia Węgla Brunatnego Adamów SA (hereinafter referred to as the "PAK KWB Adamów SA"), PAK Kopalnia Węgla Brunatnego Konin SA (hereinafter referred to as the "PAK KWB Konin SA"), Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o. (hereinafter referred to as the "PAK SERWIS sp. z o.o."), Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK sp. z o.o. (hereinafter referred to as the "EL PAK sp. z o.o."), EL PAK Serwis sp. z o.o., Aquakon sp. z o.o., Eko-Surowce sp. z o.o., Energoinwest SERWIS sp. z o.o., PAK Górnictwo sp. z o.o., PAK – HOLDCO sp. z o.o., PAK Infrastruktura sp. z o.o. Consolidation covers all the above-mentioned companies.

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

The production facilities of the Group include four lignite-fired power plants located in the central part of Poland in the Wielkopolskie voivodship. These are: Pątnów II which is equipped with a supercritical power unit, Pątnów I, Adamów and Konin equipped additionally with power unit with biomass fired boiler. Total installed gross power output of the production facilities of the Group was 2506 MWe as of 31 March 2017.

The Group's mining assets are concentrated in three companies: PAK KWB Konin SA, which currently operates on Jóźwin, Tomisławice and Drzewce open casts, PAK KWB Adamów SA, which operates on Adamów open casts as well as PAK Górnictwo sp. z o.o. which executes works related to identification of lignite deposits in the areas of Poniec-Krobia and Oczkowice in the southern Wielkopolskie Province.

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

Structure of the ZE PAK Group as at 31 March 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 31 March 2017

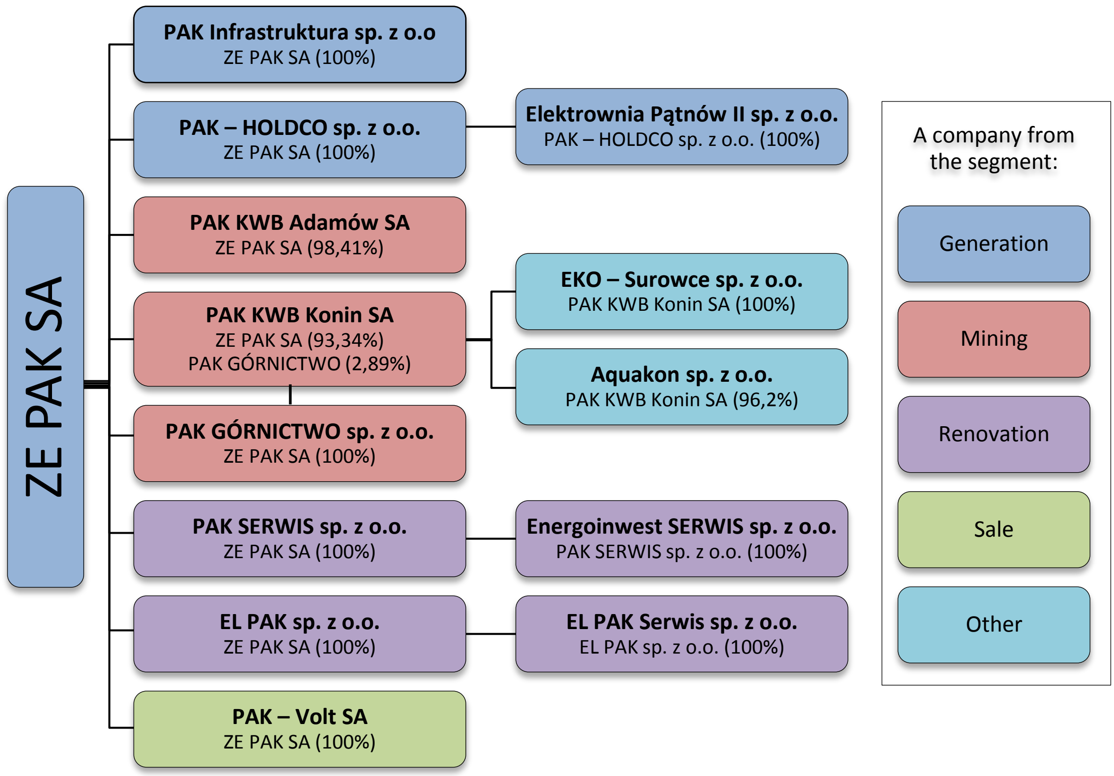


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	*Registered office*	*Scope of operations*	*Group's share in the capital in percent*	
			31.03.2017	*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%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń „EL PAK" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services related to industrial automatics and electric appliances maintenance	100,00%	100,00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric energy production and distribution from the 464 MW power unit	100,00%*	100,00%*
„PAK – HOLDCO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activity	100,00%	100,00%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100,00%	100,00%
„PAK GÓRNICTWO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Exploration and recognition of lignite	100,00%	100,00%
Energoinwest Serwis sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Construction and repair services	100,00%*	100,00%*
PAK Kopalnia Węgla Brunatnego Konin SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	96,23%*	96,23%*
PAK Kopalnia Węgla Brunatnego Adamów SA	62-700 Turek ul. Uniejowska 9	Lignite extraction	98,41%	98,41%
„Aquakon" sp. z o.o.	62-610 Sompolno Police	Mechanical services, repairs, reclamation of land, production and trade of mineral water	92,57%*	92,57%*
Eko-Surowce sp. z o.o.	62-540 Kleczew	Vulcanization services, sale of lignite	96,23%*	96,23%*

	ul. 600-lecia 9			
PAK – Volt SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
EL PAK Serwis sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and maintenance of electric equipment, repair and maintenance of machines.	100,00%*	100,00%*

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

2.3. Composition of the Management Board

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

- Adam Kłapszta – 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 changes within the Group's structure during the period covered by the report

In the first quarter of 2017 there have been no significant changes in the structure of the ZE PAK Capital Group.

3. SIGNIFICANT EVENTS AFFECTING THE GROUP'S ACTIVITY

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

Short description of the achieved financial results

In the first quarter of 2017, total sales revenues amounted to PLN 599,647 thousand and they decreased by PLN 80,395 thousand, i.e. by 11.82%, in comparison with the first quarter of 2016.

In the analysed quarter, in comparison with the same quarter last year, electricity sales decreased from 3.35 TWh to 2.84 TWh, i.e. by 15.22%, in the Group. Simultaneously, the average achieved price of electricity sales increased to 176.39 PLN/MWh, i.e. by 1.26%. The cumulative effect of both above-mentioned factors caused that the revenues from the electricity sales decreased by PLN 81,470 thousand, i.e. by 13.98%. The lower volume of electricity sales was due to lower sales of electricity from both own generation and from the market. The volume of electricity sales from own generation decreased from 2.45 TWh to 2.20 TWh, and the volume of electricity resale from the market decreased from 0.90 TWh to 0.64 TWh (Chart 1 shows the volumes of net generation of particular power plants of the Group).

In the first quarter of 2017, in comparison to the first quarter of 2016, revenues from sales of energy certificates of origin's ownership units decreased by PLN 13,455 thousand, i.e. by 97.45%. The decrease in the revenues is the result of the lack of green energy generation in the first quarter of 2017 and the decrease in the market value of green certificates.

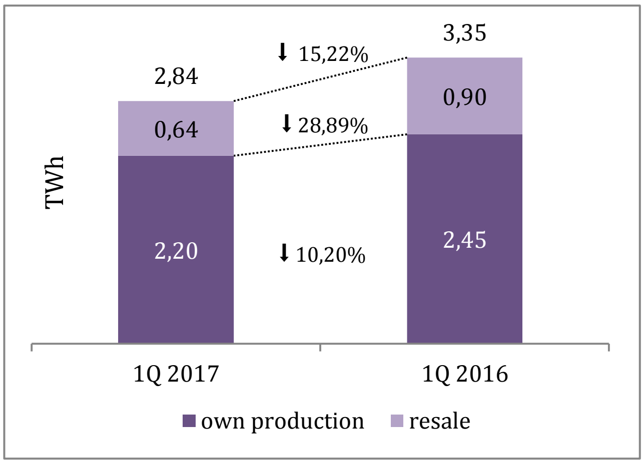
In the first quarter of 2017, only the inventory of green certificates was sold slightly below the valuation from the end of the year, which generated losses on this. The positive balance of the revenues from energy certificates of origin is the result of the revenues generated under red certificates.

In the first quarter of 2017, the revenues from compensation related to LCT termination for Elektrownia Pątnów II sp. z o.o. were higher by PLN 935 thousand, i.e. by 1.96% in comparison with the compensation obtained in the first quarter of 2016. The main reason was the increase in generation and consequently higher costs related to this, such as the coal consumption or CO2 emissions.

The construction contracts revenues in the first quarter of 2017 in comparison with the revenues earned in the analogous quarter of the previous year, decreased by PLN 13,582 thousand, i.e. by 151.77%. The main reason was increase in the contract engagement of PAK Serwis for the external recipients at implementation of the one on big investments in the power engineering sector.

The revenues from heat sales in the first quarter of 2017 was lower by PLN 341 thousand, i.e. by 1.63%, than the ones obtained in the first quarter of 2016 at a slightly lower volume of heat sales by 1,296 GJ.

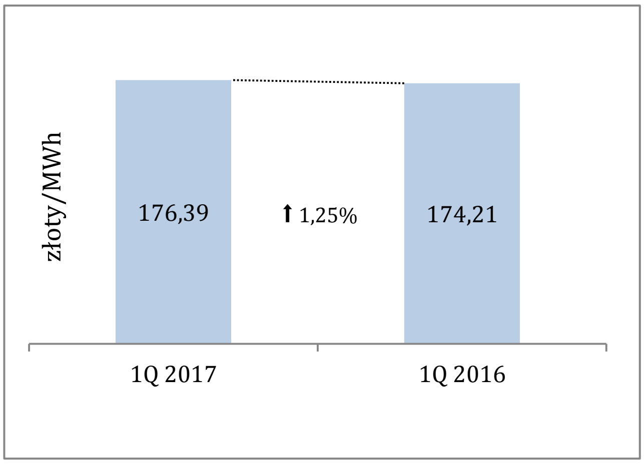
*Chart 1: Electricity sale**



* *Electricity sale in I quarter of 2016 excluding 0,04 TWh of investment sale of units 1 and 2 in Pątnów power plant. Revenues from investment sale decreased capex.*

Source: own data

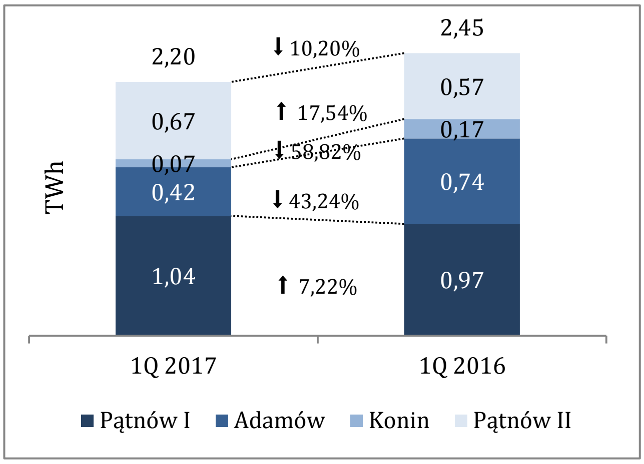
*Chart 2: Average electricity sale prices **



* *Average electricity sale price calculated as sales revenues divided by sale volume.*

Source: own data

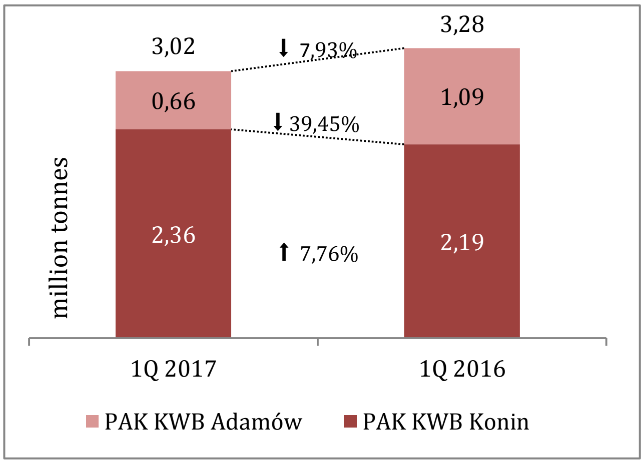
*Chart 3: Electricity net generation**



* *Electricity net production in I quarter 2016 excluding 0,03 TWh of investment generation from units 1 and 2 in Pątnów I power plant.*

Source: own data

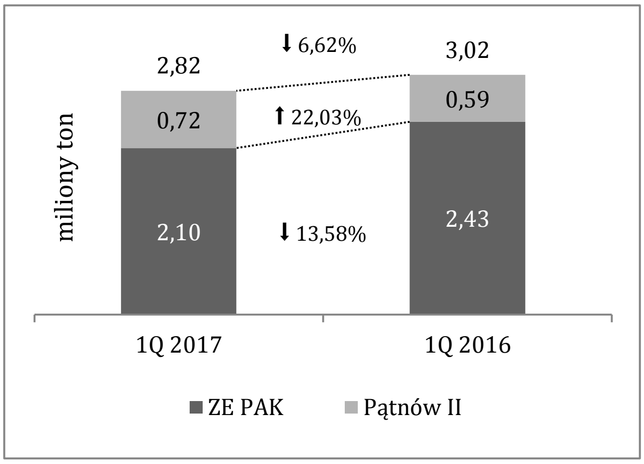
*Chart 4: Lignite consumption**



* *Lignite consumption in Iquarter of 2016 excluding 0,05 m tonnes of lignite used for investment generation of units 1 and 2 in Pątnów I power plant. Cost of lignite used for investment generation increased capex.*

Source: own data

*Chart 5: Emission of CO_2**



* *Emission of CO_2 in I quarter of 2016 excluding 0,04 m tonnes of CO_2 as an investment emission from units 1 and 2 in Pątnów I power plant. Cost of investment emission increased capex.*

Source: own data

Table 2: Specification of consolidated sales revenue

	zloty thousand	*zloty thousand*	*zloty thousand*	*%*
	3 months period ended 31 March 2017	*3 months period ended 31 March 2016*	*change*	*dynamics*
Electricity (decreased by excise tax)	390 548	423 754	(33 206)	7.84
Electricity resold from the market	110 841	159 105	(48 264)	(30.33)
Energy certificates of origin	353	13 808	(13 455)	(97.45)
Construction contracts	22 531	8 949	13 582	151.77
Compensation related to LTC termination	48 622	47 687	935	1.96
Heat	20 553	20 894	(341)	(1.63)
Other	6 199	5 845	354	6.06
Total sales revenues	**599 647**	**680 042**	**(80 395)**	**(11.82)**

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

	zloty thousand	*zloty thousand*	*zloty thousand*	*%*
	3 months period ended 31 March 2017	*3 months period ended 31 March 2016*	*change*	*dynamics*
Sales revenues	**599 647**	**680 042**	**(80 395)**	**(11.82)**
Cost of goods sold	(498 953)	(543 594)	(44 641)	(8.21)
Gross profit (loss) on sales	100 694	136 448	(35 754)	(26.20)
Other operating income	4 633	7 264	(2 631)	(36.22)
Selling and distribution expenses	(1 297)	(1 144)	153	13.37
Administrative expenses	(30 821)	(27 322)	3 499	12.81
Other operating expenses	(879)	(860)	19	2.21
Profit (loss) on operating activities*	**72 330**	**114 386**	**(42 056)**	**(36.77)**
Finance income	12 401	3 900	8 501	217.98
Finance costs	(13 367)	(15 645)	(2 278)	(14.56)
Gross profit (loss)	**71 364**	**102 641**	**(31 277)**	**(30.47)**
Income tax (taxation)	(15 357)	(27 825)	(12 468)	(44.81)
Net profit (loss)	**56 007**	**74 816**	**(18 809)**	**(25.14)**
Net other comprehensive income	1 499	319	1 180	369.90
Comprehensive income for the period	**57 506**	**75 135**	**(17 629)**	**(23.46)**
EBITDA*	**124 720**	**175 315**	**(50 595)**	**(28.86)**

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

The cost of goods sold in the first quarter of 2017 amounted to PLN 498,953 thousand and in comparison with the one incurred in the first quarter of 2016, it decreased by PLN 44,641 thousand, i.e. by 8.21%. The cost of goods sold reduction was the result of the following to the largest extent: lower values of purchased energy from the market for sales, lower materials consumption, and lower employee costs resulting from lower average employment. Depreciation and amortisation was also lower as a result of inactivating one of the open pit and completing depreciation and amortisation of the asset related to stripping the overburden in one of the mines. On the other hand, the higher cost of goods sold was influenced by higher external services as a result of greater involvement of one of the repair companies in the execution of contracts for external recipients, taxes and fees, as well as of costs of CO2 emission. Although the amount of purchased CO2 emission allowances was lower than it was in the first quarter of the last year, the higher costs were influenced by the higher purchase price. Impairment of inventory refers primarily to a decrease in the value of the held green certificates inventory as a result of decrease in their price; the certificates held at the end of the period certificates were valued at PLN 26.97 in relation to PLN 37.76 at the end of 2016.

Table 4: Consolidated cost by type

	zloty thousand	*zloty thousand*	*zloty thousand*	*%*
	3 months period ended 31 March 2017	*3 months period ended 31 March 2016*	*change*	*dynamics*
Depreciation and amortization	52 390	60 929	(8 539)	(14,01)
Impairment of inventory	1 470	(618)	2 088	337,86
Materials	63 016	72 267	(9 251)	(12,80)
External services	26 749	13 881	12 868	92,70
Taxes and fees excluding excise tax	45 527	41 928	3 599	8,58
Costs of CO_2 emission*	97 748	86 185	11 563	13,42
Employee benefits	121 773	125 911	(4 138)	(3,29)
Other costs by type	10 375	8 308	2 067	24,88
Cost of goods for resale and raw materials sold and resale of electricity purchased from the market	110 737	155 785	(45 048)	(28,92)
Total costs by type	**529 785**	**564 576**	**(34 791)**	**(6,16)**

* *cost of CO2 emission in the cost of goods sold in the first quarter of 2016 amounted to PLN 89,012 thousand (the difference in the amount of PLN 2,827 thousand in comparison with the value presented in the costs by type category). In the first quarter of 2017, the costs of CO2 emission in the cost of goods sold are equal to PLN 97,748 thousand that is exactly as many as in the costs by type.*

In the first quarter of 2017, other operating income amounted to PLN 4,633 thousand and was lower by PLN 2,631 thousand than in the corresponding period of the previous year, mainly as a result of the revenues from the obtained compensations that was lower by PLN 2,385 thousand.

Selling and distribution expenses amounted to PLN 1,297 thousand in the first quarter of 2017 and were higher by PLN 153 thousand than the ones achieved in the corresponding period of the previous year.

Administrative expenses in the first quarter of 2017 amounted to PLN 30,821 thousand and were higher than these incurred in the corresponding quarter of the last year by PLN 3,499 thousand, i.e. by 12.81%. The increase in the administrative expenses was mainly attributable to the companies in the mining segment and referred to the transfer of some cost items that occurred in the subsequent quarters in the previous year (e.g. allowance in kind for pensioners) between the quarters.

Other operating expenses in the reporting quarter amounted to PLN 879 thousand and in comparison with the first quarter of the previous year, they increased by PLN 19 thousand.

The ZE PAK Group, in the first quarter of 2017, achieved the profit on operating activities in the amount of PLN 72,330 thousand, which decreased by PLN 42,05 thousand, i.e. 36.77%, in comparison with the first quarter of the last year.

In the first quarter of 2017, the achieved results were affected negatively by the negative financial activity result in the amount of PLN (966) thousand. The impact of financial activity in the analogical period of the last year reduced the result much more because it amounted to PLN (11,745) thousand. The difference in financial result in both compared periods is largely caused by the difference in financial revenues, which increased by PLN 8,501 thousand as compared to the revenues of the corresponding period of the previous year in the first quarter of 2017. The positive foreign exchange differences as the effect of decrease in the EUR/PLN exchange rate concerning the valuation of the foreign-currency credit facility in EUR.

The gross profit in the first quarter of 2017 amounted to PLN 71,364 thousand, i.e. in relation to the gross profit for the first quarter of 2016, it decreased by PLN 31,277 thousand, i.e. by 30.47%.

The net profit in the first quarter of 2017 amounted to PLN 56,007 thousand, i.e. in relation to the net profit for the first quarter of 2016, it decreased by PLN 18,809 thousand, i.e. by 25.14%.

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 quarter of 2017.

Execution of the investment programme

In the period from 1 January to 31 March 2017, the investment expenses in the Group along with the renovation components amounted to PLN 13 448 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 main purpose of disbursement of the investment expenses in the first quarter of 2017 was to finance the continuation of modernisation of the coal handling system in the Pątnów I Power Plant, which is to guarantee a process system with a large handling capacity for feeding the basic fuel to the boilers at full capacity of each system. Until the end of the first quarter of 2016, the decided majority of the task material scope was implemented. The implementation of the investment project involving caulking the wall between the boiler house and the turbine hall in the Pątnów Power Plant was also started. The task implementation is to reduce the dust entering from the engine house to the turbine hall, increasing the structural and fire safety of the facilities, improving the team's safety and health aspects, and increasing the aesthetic aspects of the modernised units 1-2.

Within preparation for the conversion of the heat source in the Konin power plant in the first quarter of 2017, the process of selecting the contractor for modernising the TG-6 turbine in order to adjust it to heat the district heating water fed to the city of Konin. The intention of the Company is to adapt the biomass unit to the possibility of ensuring heat supplies to the city of Konin after cutting off of the coal source in the mid 2020 unless the Company manages to negotiate satisfactory conditions for such a solution.

Mining Segment

In the mining segment, the investment expenses are incurred in order to maintain the production capacity of the currently exploited open pits: Drzewce, Jóźwin, Tomisławice, and Adamów. In the first quarter 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 well as drilling draining wells on the Tomisławice open pit.

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

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.

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 quarter 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.

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

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

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

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

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

Proceedings on 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.

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 of Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017 refusing to determine the environmental conditions for the project titled: "Extraction of brown coal and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. PAK KWB Konin SA appealed against the issued decision in an appropriate manner. 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. The proceedings on the issue of the environmental decision was initiated on 16 September 2015.

Other legal proceedings have been described in the Interim consolidated condensed financial statement for the 3-month period ended on 31 March 2017, in point 29.1.

5. INFORMATION REGARDING THE SHAREHOLDING STRUCTURE

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

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

*Table 4: 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 sp. z o.o.*	*592 533*	*1.16*
– *Trigon XIX Fundusz Inwestycyjny Zamknięty*	*10 004 001*	*19.68*
– *Argumenol Investment Company Limited*	*15 407 773*	*30.32*
Nationale – Nederlanden OFE	**5 068 410**	**9.97**
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

As at the date of this report, as well as on the date of submission of the last periodic report, none of the managing and supervising persons holds any shares in ZE PAK SA[1].

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

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

7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS

In 2016, ZE PAK SA recorded the net profit in the amount of PLN 131.4 million (acc. to the Polish Accounting Standards). The Management Board has not presented the recommendation regarding the distribution of the profit achieved in 2016 yet.

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 quarter 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 third quarter of 2016, the standalone or total value of which would comprise 10% of ZE PAK SA's equity

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

In the first quarter of 2017, PAK KWB Konin SA, a company subject to consolidation under the Group, issued three debentures of the total amount of PLN 45,000 thousand (fully included by the companies within the Group). PAK KWB Konin SA also redeemed the debentures of the amount of PLN 45,000 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

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

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.

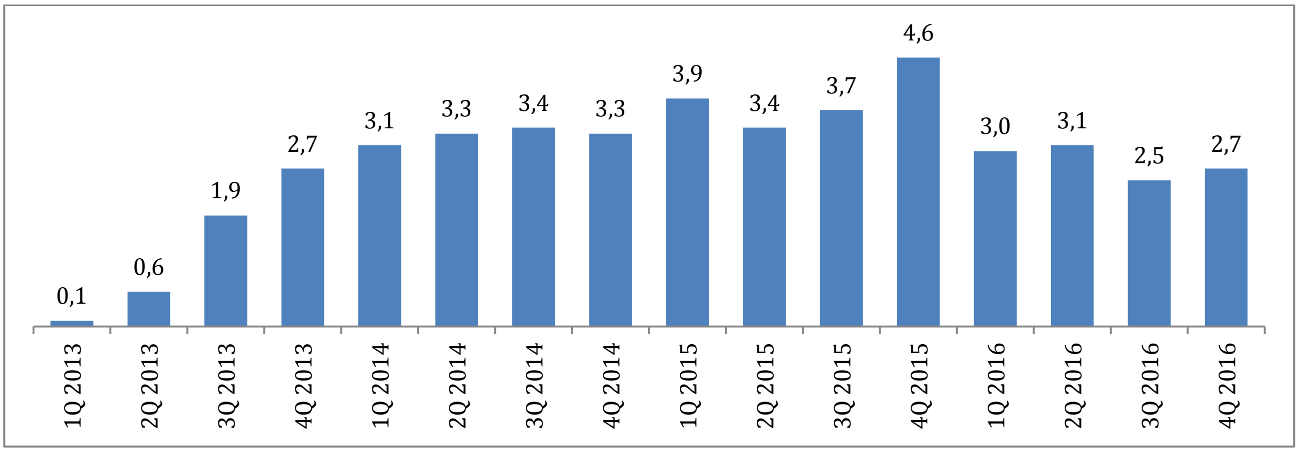
Furthermore, an important factor that could have a significant impact on the Company's financial results in the further quarters includes the value impairment test result. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last such a test was carried out on 31 March 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 rough estimate, the gross domestic product ("GDP") calculated in fixed prices from the previous year increased in real in 2016 by 2.8% in relation to the increase by 3.9% in 2015. As the below chart shows, the increases in the gross domestic product dynamics in the following quarters of 2016 were lower than in the previous years.

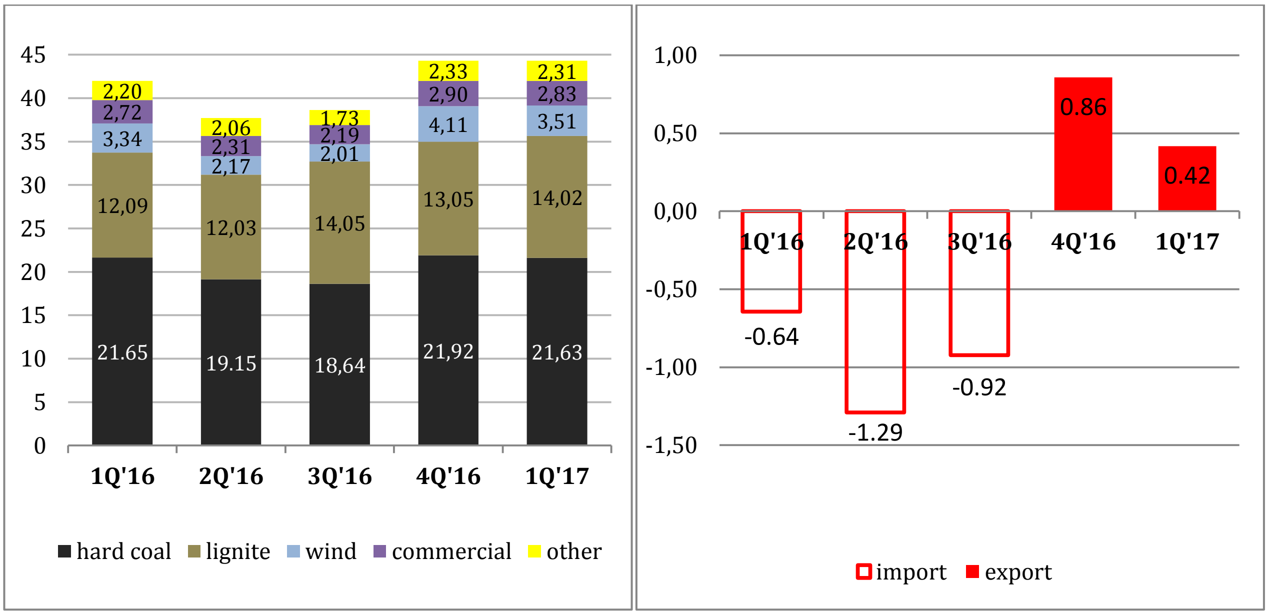
Chart 6: GDP dynamics [%] in relation to the corresponding quarter of the previous year (average annual fixed prices)



Source: Own development based on the Central Statistical Office data

The so called "quick estimate" of the gross domestic product for the first quarter of 2017 will be published by the Central Statistical Office on 16 May, however, on the basis of the already disclosed data, it is possible to estimate that the growth dynamics will be definitely higher than the quarter readings of 2016. The industrial production in subsequent months in the first quarter of 2017 recorded the increase by 9.0% in January, 1.2% in February and 11.1% in March. The March data are definitely much better than the forecasts, taking into account even the calendar effect of a number of working days Y-to-Y higher by one day. According to the Central Statistical Office estimates, after clarifying of seasonal fluctuations, the production increase in the industry was 8.1% Y-to-Y in March, that is the highest level in a few years. The industrial processing is mainly responsible for the improvement of industrial results that may suggest an increase in the demand for Polish goods by foreign customers, which would correlate from the economic recovery within Western Europe. The construction and assembly output, which recorded poor results last year, positively stood out in the first quarter of 2017. The real retail was increased Y-to-Y in subsequent month of the first quarter of 2017 respectively by: 9.6% in January, 5.2% in February and 7.9% in March. The reported dynamics shows the maintenance of positive trends of the consumption contribution in GDP, which could be observed in the past periods. It can be expected that the positive trends in terms of consumption will be supported by a favourable situation in the labour market in the subsequent periods, however, it should be taken into account that as time goes by, a high base effect of the second half of 2016 will be encountered.

Chart 7: Structure of electricity generation and the balance of the electricity exchange with foreign countries (gross amounts) – TWh



Source: Own development based on the PSE data.

The data concerning the functioning of the Public Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne S.A., show that the national electricity gross consumption in the first quarter of 2017 was 43.88 TWh, and in comparison to the first quarter of the previous year, it increased by 2.73%. The electricity gross generation in the first quarter of 2017 in Poland was 44.29 TWh, which means an increase by 5.3% in relation to the corresponding period of the previous year. Almost 49% of share in the generation structure was occupied by power plants producing on the basis of hard coal. The hard coal-based production recorded a slight decrease by 0.45% in relation to the first quarter of the previous year. However, the brown coal generation increased by 16% in relation to the corresponding quarter of the previous year. The increase in generation from wind power plants was 5.15%. As in the fourth quarter of 2016, Poland was a net exporter of energy in the first quarter of 2017, and the exchange balance was 0.42 TWh for export.

11.2. Regulatory environment

The entities conducting activities in the electricity market are subject to strict regulation, such as the Energy Law, law on renewable energy sources ("res"), resolutions as well as the directives of the European Commission and international conventions, regarding, among others, the environmental protection and climactic changes (including CO2 emissions), obligation of public sales of a part of the produced energy as well as the support of specific energy production processes. It is also necessary to take into consideration the regulations of the tax law as well as interpretations and recommendations issued by the Energy Regulatory Office.

There were no significant changes in the regulatory environment during the first quarter of 2017.

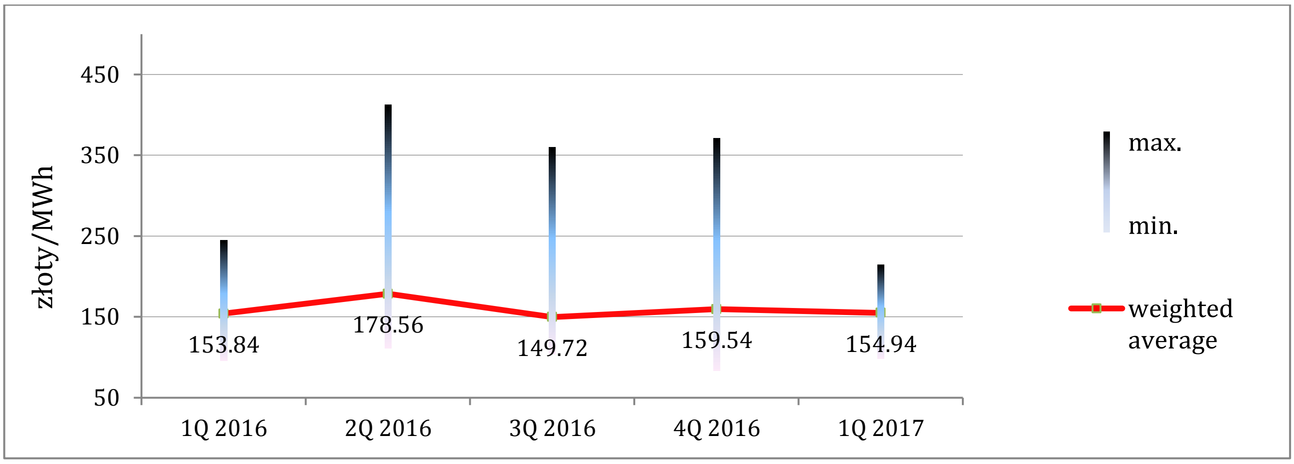
11.3. Electricity prices

The Group generates most of its revenues from the production and sales of electricity, therefore, the price at which it sells electricity is very important for the results of its activity. In addition, the purchase of energy in the electricity market and re-sale to its recipients are practised.

By analysing the price situation in the OTC market, a slight decrease in the price can be observed when comparing the first quarter of 2016 with the corresponding quarter of the previous year. According to the notification of the Energy Regulatory Office, the average electricity sale price in the competitive market in the first quarter of 2017 amounted to PLN/MWh 164.78 in comparison to PLN/MWh 169.13 in the first quarter of 2016 (average price of electricity sold pursuant to principles other than those resulting from Article 49a paragraph 1 and 2 of the Act – Energy Law).

In the day ahead market of Towarowa Giełda Energii S.A., the first quarter of 2017 was characterised by a similar range of price fluctuations like in the corresponding period of the previous year. The weighted average price in the day ahead market in the first quarter of 2017 was at the level of PLN/MWh 154.94, that is PLN 1.1, i.e. about 1% higher than in the first quarter of the previous year and by about 3% lower than in the fourth quarter of 2016. The prices reached their maximum level of PLN/MWh 214.6 in mid January. January was a month of very high demand for energy, and on 11 January, a record demand for power in Poland at 26.2 GW was recorded. The reason for the increase in energy consumption by more than 4% included weather conditions, but also a higher demand of the industrial sector. Over the next month, the prices fluctuated within a range between about PLN/MWh 150 and 200. This period was also characterised by higher prices in the external markets, especially in Western Europe, in response to a combination of several factors, such as: a period of relatively low temperatures, unfavourable wind conditions in high-pressure weather system, problems of French nuclear power plants. Poland was a net exporter of electricity in the first quarter of 2017, and the Polish market did not experience such high price fluctuations as it occurred in some external markets. In the second half of the quarter, the energy prices in the day ahead market decreased to the lower levels and consolidated in the range between about PLN/MWh 105 and 160.

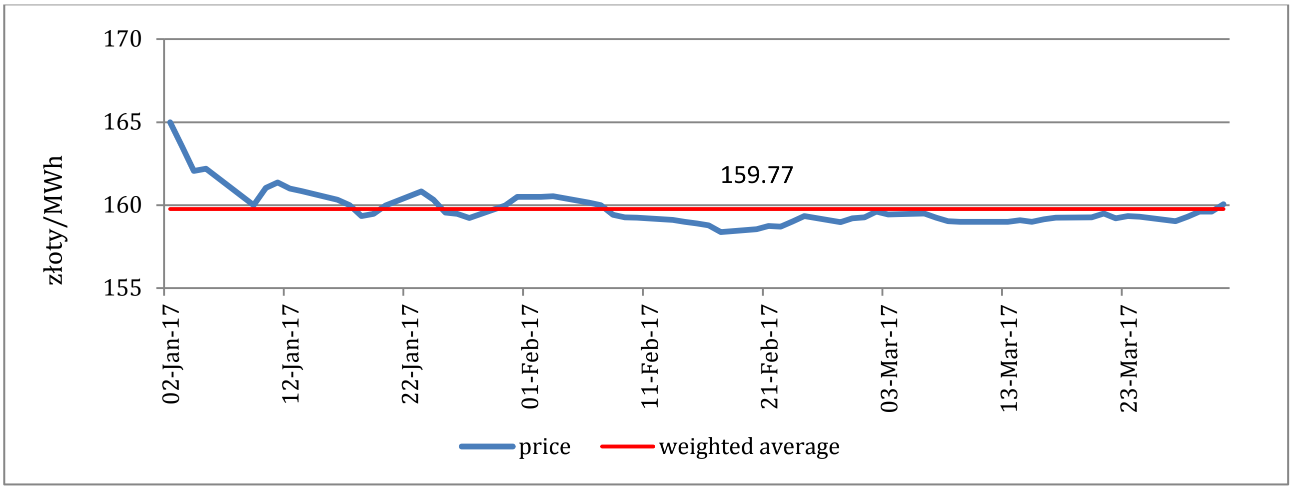
Chart 8: Electricity prices (IRDN)



Source: Own development based on the Polish Power Exchange data

The highest prices in the futures market of the electricity of the Polish Power Exchange, in the first quarter of 2017, was recorded in January. The BASE_Y-18 annual contract recorded its price maximum at the level close to PLN/MWh 165 in the first quarter. In the later period, most of the time in the first quarter of 2017, the price of the futures contract for the band supply in 2018 was within PLN/MWh 160. The arithmetic mean of the daily settlement price for the BASE_Y-18 contract in the first quarter of 2017 shaped at PLN/MWh 159.77. The corresponding average for the BASE_Y-17 contract in the previous year amounted to PLN/MWh 156.63.

Chart 9: Price of the futures contract for the supply of electricity (band) for 2018



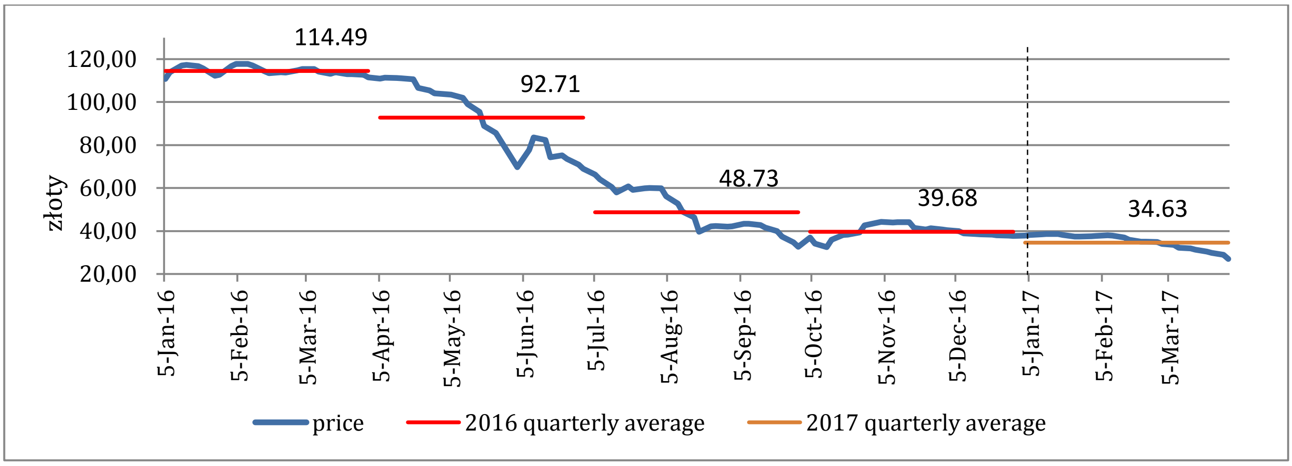
Source: Own development based on the Polish Power Exchange data

11.4. Prices and supply of certificates of origin

Due to the fact that a part of the electricity generated in ZE PAK SA derives from the co-combustion of biomass (forest and agricultural) and the production of heat includes high-efficiency co-generation, a producer is entitled to green and red certificates, provided that it fulfils specific regulatory requirements. The number of obtained certificates of origin is significantly higher than the number of certificates that the Company is obligated to present for redemption, thus it is possible to dispose of their excess to other market participants.

The trend in the market of property rights resulting from the certificates of origin of renewable energy in the first quarter of 2017 did not change. Despite the short-term stabilisation at the turn of 2016 and 2017, the prices again reached ever lower levels in the subsequent periods. The weighted average price of green certificates in the first quarter of 2017 again decreased and amounted to PLN 34.63, which means the decrease by about 70% in relation to the average weighted price from the first quarter of 2016 and almost 13% decrease in relation to the fourth quarter of 2016. Currently, there are no grounds to consider that the prices of green certificates would significantly rebuild its value. The existing significant oversupply in the market in connection with the current generation of green certificates, especially from wind power plants, will result in the fact that at present, the prices may maintain at the low levels all the time. The intervention in the market is rather not planned, and according to the statements of the representatives of the Ministry of Energy, it results that a new auction support system and the producers' migration to it can affect the increase in their prices..

Chart 10: Average price of certificate of origin for RES produced energy



Source: own development based on the 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.

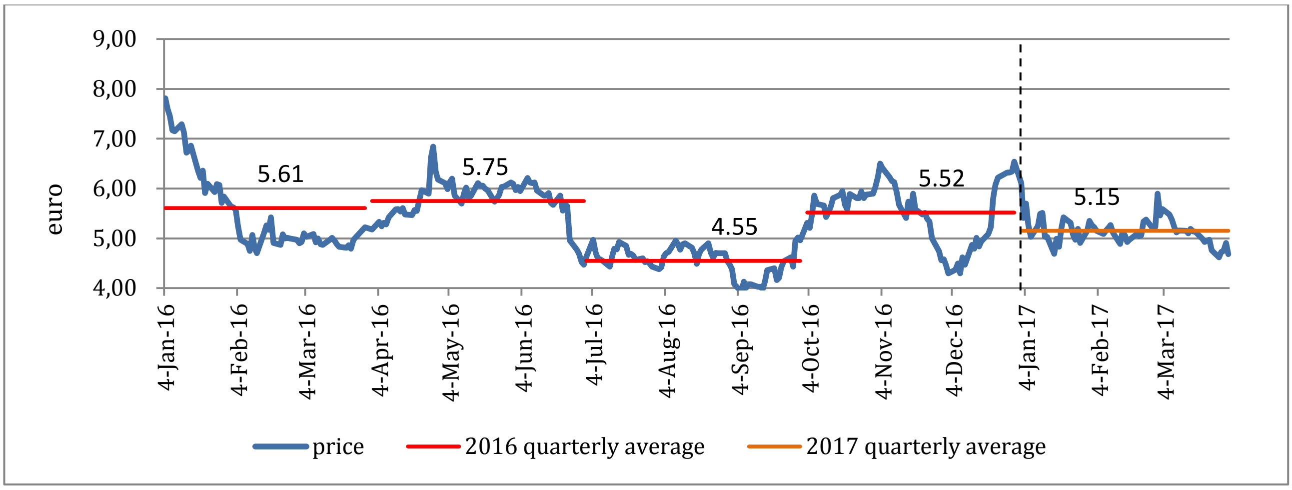
The deposits exploited by the Group's mines have specified richness. The opportunity to achieve the expected level of electricity production in the long term is partially dependent on the ability of extracting from the currently exploited deposits and launching the exploitation of new brown coal deposits, 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 activity in the scope of generation of electricity and heat conventional sources is associated with the need to incur the CO_2 emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from brown coal, the impact of emitted quantities of CO_2 and the price of CO_2 emission allowances (EUA) is of great importance to the activity results. The results also largely depend on the amount of free CO_2 emission allowances granted in a given period. The number of allowances possible to be obtained for power engineering were specified in Article 10c of the ETS directive and the amounts that can be physically obtained by particular systems depend on the expenses incurred for investments which are recorded in the National Investment Plan. The Group is obliged to purchase the other part of the missing allowances in the free market. ZE PAK S.A. also uses a small amount of free allowances from Article 10a of Directive 2003/87/EC of the European Parliament and the Council of 13 October 2003 (EUAs for the needs of heat generation). In 2017, the Group obtained a small amount of free CO_2 emission allowances, that is 83,317 EUAs, resulting from the allocation for heat generation. Therefore, practically the entire amount of emission allowances needed by the ZE PAK Group must be purchased in the primary (auctions) and secondary markets (ICE exchange, EEX and bilateral contracts).

In the first quarter of 2017, the volatility of prices in the market of CO_2 emission allowances decreased in comparison with the quotations in the previous quarter. In the absence of significant impulses affecting the market of CO_2 emission allowances, the prices of EUAs remained in a relative balance with the price of about EUR 5.00 for almost first two months of the first quarter of 2017. The impulse for the increase of prices occurred to be the voting of the EU Environment Council in terms of potential activities, which would have an impact on the market mechanism, in order to increase the prices of EUAs. However, the voting that took place at the end of February occurred to be only a short impulse because throughout March, the prices were decreasing again, and at the end of the quarter, they recorded the level of EUR 5.05, which was definitely lower than the quotations from the beginning of the year. The arithmetic mean of the quotations of EUAs in the first quarter of 2017 was EUR 5.15, which means the decrease by 6.7% in relation to the fourth quarter of 2016 and by about 8% in relation to the first quarter of 2016.

Chart 11: Price of the futures contract for the supply of EUAs



Source: Own development based on the 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;
- ZE PAK SA and Elektrownia Pątnów II sp. z o.o. use debt financing based on a variable interest rate;
- transactions related to the purchase of EUAs are settled in EUR.

In the first quarter 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 were applied. Management Boards are constantly monitoring the financial position and market situation and can make the decision to use financial instruments limiting the exchange rate risk, if needed. According to the Risk Management Principles adopted in the ZE PAK SA Group, possible transactions will have a form of security and will be adapted to the secured item in terms of volume and maturity date. The decision on the choice of the security instrument will also include the following: price, market liquidity, product simplicity, easiness of quotation and accounting as well as flexibility.

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

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS:

Adam Kłapszta ....

Aneta Lato-Żuchowska ....

Zygmunt Artwik ....

Elżbieta Niebisz ....