Ladies and Gentlemen, Dear Shareholders

For the first time, as a President of the Management Board, I have a pleasure to present you summary report of yearly financial results of ZE PAK Capital Group.

2015 year has a chance to be remembered as a year of rapid changes on commodity markets, but also in connected energy branch. During last year we witnessed deep decrease of prices on world markets of almost all energy commodities. Of course this situation influenced polish market and branch of conventional electricity producers, which ZE PAK is a part of. Decrease The downward trend did not avoid the price of electricity in Poland. On the cost side we had to deal with rising prices of allowances for CO_2 emission. This factor becomes especially relevant because in 2015 we had to buy all needed allowances for CO_2 emission, what is reflected in the growing importance of this factor in our costs structure. In result of lower and lower amounts of free emission allowances for conventional producers, this problem will increasingly affect in future all producers industry.

Unfavorable trends in above-mentioned external factors forced us to conduct tests for impairment of our assets. In result of conducted analysis we decreased balance value of our generation and mining assets, what unfortunately is reflected in 2015 financial results. Those operations have accountant character and did not affect the liquidity of the Group and the Company.

In 2015 power plants of the group produced 9,8 TWh of electricity. Due to electricity market activity our sale was higher than production and in previous year was 14,9 TWh. Operation loss of the Group was PLN 1.796 million. At the net level loss was PLN 1.880 million. Negative value of achieved results is the result of mentioned above impairment of assets. At EBITDA level the results was positive and amounted at PLN 494 million.

In previous year we finished the modernisation of two units in Patnow Power Plant. Currently, we conduct the tests to confirm the ability of the proof guarantee performance of modernized units. Our investment plan projected also start of modernisation of next two units Patnow Power Plant. Unfortunately, due to regressive condition of external factors we were forced to hold on continuation of modernisation process. Our intention is to agree with banks maintain funding options to complete the process of modernization of four blocks in Patnow Power Plant. We make responsible decisions and that is why we conditioned restart of modernisation process only when there are system solutions granting financial efficiency for modernised units.

At this point I would like to mention August of previous year when limitation in electricity supply introduced in Poland for the first time in 25 years showed us all how important is to maintain the appropriate amount of the capacity reserve in the energy system. New or modernised conventional units can ensure stable reserve of capacity, but to make it we need final shape of current plans and intentions in the field of regulatory and legal solutions. We observe this process with hope that we will see the final solutions soon.

I encourage you to go deeper into content of the annual report. I hope that you will find there a lot of useful information needed to evaluate the situation of the company and the industry in which it operates.

President of the Management Board of ZE PAK S.A.

Aleksander Grad

INDEPENDENT AUDITORS' OPINION

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

1. We have audited the attached consolidated financial statements of Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group ('the Group'), for which the holding company is Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') located in Konin at Kazimierska 45 street, for the year ended 31 December 2015 containing the consolidated statement on financial position as at 31 December 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2015 to 31 December 2015 and the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').
2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act;
   - National Auditing Standards issued by the National Council of Statutory Auditors;

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne i jasne*'

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2015 to 31 December 2015, as well as its financial position[3] as at 31 December 2015;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
5. We have read the 'Directors' Report for the period from 1 January 2015 to 31 December 2015 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments).

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

Key certified auditor

Robert Klimacki
Certified auditor no. 90055

Warsaw, 21 March 2016

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

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

LONG-FORM AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

I. GENERAL NOTES

1. Background

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

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

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

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

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

The principal activities of the holding company are as follows:

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

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

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

As at 31 December 2015, the Company's issued share capital amounted to 101,647 thousand zlotys. Equity as at that date amounted to 1,884,823 thousand zlotys.

(in thousand zlotys)

In accordance with information in note 28 of summary of significant accounting policies and other explanatory notes ('the additional notes and explanations') of the attached consolidated financial statements, the ownership structure of the Company's issued share capital as at 31 December 2015 was as follows:

	Number of shares	Number of votes	Par value of shares (in PLN)	% of issued share capital
Zygmunt Solorz-Żak (indirectly) through: Elektrim S.A, Argumenol Investment Company Limited, Embud sp. z o.o., IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, Trigon XIX Fundusz Inwestycyjny Zamknięty	26,200,867	26,200,867	52,401,734	51,55%
ING Otwarty Fundusz Emerytalny	5,068,410	5,068,410	10,136,820	9,97%
Other	19,554,270	19,554,270	39,108,540	38,48%
Total	50,823,547	50,823,547	101,647,094	100%

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

- on 2 June 2015 Argumenol Investment Company Limited transferred 4,500,000 ordinary bearer shares series A of the Company, to IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The shares were treated as a payment for investment certificates series B of Fund I,
- on 3 June 2015 Argumenol Investment Company Limited transferred 4,992,270 ordinary bearer shares series A of the Company, to Trigon XIX Fundusz Inwestycyjny Zamknięty. The shares were treated as a payment for investment certificates series B of Fund II,
- on 14 August 2015 Argumenol Investment Company Limited transferred 5,011,731 ordinary bearer shares series A of the Company, to Trigon XIX Fundusz Inwestycyjny Zamknięty. The shares were treated as a payment for investment certificates.
- On 18 September 2015 Argumenol Investment Company Limited transferred 4,500,000 ordinary bearer shares series A of the Company, to IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The shares were treated as a payment for investment certificates series C.
- On 14 March 2016 IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych has sold 5,000,000 ordinary bearer shares series A to Argumenol Investment Company Limited.

(in thousand zlotys)

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

As at 21 March 2016, the holding company's Management Board was composed of:

Aleksander Grad	- President
Aneta Lato – Żuchowska	- Vice President
Adrian Tomasz Kaźmierczak	- Vice President
Tomasz Jan Zadroga	- Vice President
Zygmunt Artwik	- Vice President

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

On 2 October 2015 Supervisory Board has dismissed from their positions: President of the Management Board Mrs Katarzyna Muszkat, Vice President of the Management Board Mrs Anna Striżyk, Vice President of the Management Board Mr Piotr Jarosz. Also on 2 October 2015 Mr Sławomir Sykucki has resigned from his position of Vice President of Management Board.

On 2 October 2015 Supervisory Board has appointed: Mr Janusz Kaliszyk as President of the Management Board, Mrs Aneta Lato – Żuchowska as Vice President of the Management Board, Mr Adrian Kaźmierczak as Vice President of the Management Board, Mr Tomasz Zadroga as Vice President of the Management Board.

On 30 of October 2015 the Supervisory Board has appointed Mr Zygmunt Artwik as Vice President of the Management Board.

On 16 November 2015 Mr Janusz Kaliszyk has resigned from his position as President of The Management Board.

On 17 November 2015 the Supervisory Board in accordance with art. 383 § 1 Code of Commercial Companies has delegated, for period no longer than 3 months, Mr Wojciech Piskorz a member of the Supervisory Board, to temporarily perform the duties of President of Management Board.

On 11 February 2016 the Supervisory Board has appointed Mr Aleksander Grad as President of the Management Board starting from 18 February 2016.

2. Group Structure

As at 31 December 2015, the Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion to the financial statements prepared for the year ended 31 December 2015 in accordance with Polish Accounting Act/IFRS	Name of authorised entity that audited financial statements
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
„Elektrownia Pątnów II" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
PAK Kopalnia Węgla Brunatnego „Konin" S.A.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
PAK Kopalnia Węgla Brunatnego „Adamów" S.A.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
„PAK Infrastruktura" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
PAK-Volt S.A.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
„PAK – HOLDCO" sp. z o.o.	full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
„PAK Centrum Usług Informatycznych" sp. z o.o. w likwidacji	full consolidation	no requirement to audit financial statements	-
„PAK Centrum Badań Jakości" sp. z o.o. w likwidacji	full consolidation	no requirement to audit financial statements	-
„PAK GÓRNICTWO" sp. z o.o.	full consolidation	no requirement to audit financial statements	-

Energoinwest Serwis sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Ochrona Osób i Mienia „ASEKURACJA" sp. z o.o.	full consolidation	no requirement to audit financial statements	-
„Aquakon" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Eko-Surowce sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
KWE sp. z o.o.	full consolidation	no requirement to audit financial statements	-
Centrum Zdrowia i Relaksu „Verano" sp. z o.o.	equity method	unqualified	Biuro Biegłego rewidenta Rachmistrz Alicja Saładonis
EL PAK Serwis sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k

There were no changes to the list of consolidated companies when compared to the prior year.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

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

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by Supervisory Board of the holding company on 5 May 2015 to audit the Group's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 24 July 2015 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2015.

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

Based on our audit, we issued an auditors' unqualified opinion dated 21 March 2016, stating the following:

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

1. We have audited the attached consolidated financial statements of Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group ('the Group'), for which the holding company is Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') located in Konin at Kazimierska 45 street, for the year ended 31 December 2015 containing the consolidated statement on financial position as at 31 December 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2015 to 31 December 2015 and the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').

2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with

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

the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.

3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act;
   - National Auditing Standards issued by the National Council of Statutory Auditors;

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2015 to 31 December 2015, as well as its financial position[3] as at 31 December 2015;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

5. We have read the 'Directors' Report for the period from 1 January 2015 to 31 December 2015 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments).'

We conducted the audit of the consolidated financial statements during the period from 27 July 2015 to 21 March 2016. We were present at the holding company's head office from 27 July 2015 to 28 August 2015 and from 15 February 2016 to 16 March 2016.

[2] Translation of the following expression in Polish: '*rzetelne i jasne*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness[4] of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 21 March 2016, from the Management Board of the holding company confirming that:

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

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

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

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2014 were audited by Sebastian Łyczba, key certified auditor no. 9946, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2014. The consolidated financial statements for the year ended 31 December 2014 were approved by the General Shareholders' Meeting on 29 June 2015.

The consolidated financial statements of the Group for the financial year ended 31 December 2014, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 15 July 2015 with the National Court Register.

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

(in thousand zlotys)

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Group for the years 2013 – 2015. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2015 and 31 December 2014.

	2015	2014	2013
Total assets	4.974.381	6,867,688	6,470,936
Shareholders' equity	1.884.823	3,819,717	3,782,616
Net profit/ loss	-1.879.808	78,484	231,506
Return on assets (%)	-37.79%	1.14%	3.58%
Net profit x 100% / Total assets			
Return on equity (%)	-99.73%	2.05%	6.12%
Net profit x 100% / Shareholders' equity at the beginning of the period			
Profit margin (%)	-63.77%	2.93%	8.38%
Net profit x 100% / Sales of finished goods, goods for resale and raw materials			
Liquidity I	1.00	0.98	1.06
Current assets / Short-term creditors			
Liquidity III	0.30	0.30	0.40
Cash and cash equivalents / Short-term creditors			
Debtors days	22 days	21 days	17 days
Trade debtors x 365 / Sales of finished goods, goods for resale and raw materials			
Creditors days	9 days	24 days	19 days
Trade creditors x 365 / Costs of finished goods, goods for resale and raw materials sold			

(in thousand zlotys)

	2015	2014	2013
Inventory days	12 days	35 days	34 days
Inventory x 365 / Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	74.67%	82.44%	83.43%
(Equity + long-term provisions and liabilities) x 100% / Total liabilities, provisions and equity			
Debt ratio (%)	62.11%	44.38%	41.54%
(Total liabilities and provisions) x 100% / Total assets			
Rate of inflation:			
Yearly average	-0.90%	0.00%	0.90%
December to December	-0.50%	-1.00%	0.70%

4.2 Comments

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

- Return on assets decreased to -37.79% in 2015 in comparison with 1.14% in 2014 and with 3.58% in 2013.
- Return on equity decreased to -99.73% in 2015 in comparison with 2.05% in 2014 and with 6.12% in 2013.
- Profit margin decreased to -63.77% in 2015 in comparison with 2.93% in 2014 and with 8.38% in 2013.
- Liquidity I amounted 1.00 as at 31 December 2015 and was higher in comparison with 0.98 as at 31 December 2014 and was lower in comparison with 1.06 as at 31 December 2013.
- Liquidity III amounted to 0.30 as at 31 December 2015 and as at 31 December 2014 and was lower in comparison with 0.40 as at 31 December 2013.
- Debtor days ratio amounted to 22 days in 2015 and increased in comparison with 21 days in 2014 and with 17 days in 2013.
- Creditor days ratio amounted to 9 days in 2015 and was lower in comparison with 24 days in 2014 and 19 days in 2013.
- Inventory days ratio amounted to 12 days in 2015 and was lower in comparison with 35 days in 2014 and with 34 days in 2013.
- Stability of financing ratio amounted to 74.67% as at 31 December 2015 and was lower in comparison with 82.44% as at 31 December 2014 and with 83.43% as at 31 December 2013.
- Debt ratio amounted to 62.11% as at 31 December 2015 and was higher in comparison with 44.38% as at 31 December 2014 and with 41.54% as at 31 December 2013.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2015 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 6 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2015, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2015 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

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

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 10 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2015.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2015.

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

3.1 Goodwill on consolidation and amortisation

In the audited consolidated financial statements for the year ended 31 December 2015 there was no goodwill.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 0 thousand zlotys as at 31 December 2015. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 28, 29 and 30 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2015 and include the financial data for the period from 1 January 2015 to 31 December 2015.

4. Consolidation adjustments

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

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

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

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

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

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

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

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2015.

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

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

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2015 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the 'Directors' Report for the period from 1 January 2015 to 31 December 2015 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments).

10. Conformity with Law and Regulations

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

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

Key certified auditor

Robert Klimacki
Certified auditor no. 90055

Warsaw, 21 March 2016

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

CONSOLIDATED FINANCIAL STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
ALONG WITH THE OPINION OF THE INDEPENDENT STATUTORY AUDITOR

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

21 March 2016

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(in thousands of zlotys)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2015

	Note	*Year ended 31 December 2015*	*Year ended 31 December 2014*
Continuing operations			
Sales revenue	**13.1**	**2 947 816**	**2 680 111**
Cost of goods sold	13.6	(4 651 152)	(2 452 160)
including impairment loss of fixed assets and mining assets	*19.1*	*(1 896 189)*	-
Gross profit / (loss)		**(1 703 336)**	**227 951**
Other operating revenues	13.2	29 966	88 060
Selling and distribution expenses	13.6	(4 920)	(3 973)
Administrative expenses	13.6	(111 323)	(148 639)
Other operating expenses	13.3	(6 209)	(15 969)
Gross profit / (loss) from operations		**(1 795 822)**	**147 430**
Finance income	13.4	6 496	21 344
Finance costs	13.5	(43 909)	(70 789)
Profit / (loss) before tax		**(1 833 235)**	**97 985**
Income tax expense (taxation)	15.1	(46 573)	(19 501)
Net profit / (loss) for the period from continuing operations		**(1 879 808)**	**78 484**
Discontinued operations			
Profit/ (loss) for the period from discontinued operations		**-**	**-**
Net profit / (loss) for the period		**(1 879 808)**	**78 484**
Net profit/ (loss) attributable to equity holders of the parent		(1 881 086)	81 977
Net profit/ (loss) attributable to non-controlling interests		1 278	(3 493)
Profit per share (in PLN)			
Basic, for profit for the period attributable to equity holders of the parent	17	(37,01)	1,61
Basic, for profit for the period from continuing operations attributable to equity holders of the parent	17	(37,01)	1,61
Diluted, for profit for the period attributable to equity holders of the parent	17	(37,01)	1,61
Diluted, for profit for the period from continuing operations attributable to equity holders of the parent	17	(37,01)	1,61

(in thousands of zlotys)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	*Year ended 31 December 2015*	*Year ended 31 December 2014*
Net profit / (loss) for the period		**(1 879 808)**	**78 484**
Other comprehensive income		**-**	**-**
Items to be reclassified to the profit / (loss) in subsequent reporting periods:		-	-
Cash flow hedges	14	7 160	1 346
Exchange differences on translation of foreign entities	14	-	77
Other		103	-
Income tax on other comprehensive income	14, 15.1	(1 360)	(256)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		5 903	1 167
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:		-	-
Profits / (losses) on provisions for post-employment	14	246	(9 502)
Income tax on other comprehensive income	14, 15.1	(47)	1 805
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		199	(7 697)
Net other comprehensive income		**6 102**	**(6 530)**
Comprehensive income for the period		**(1 873 706)**	**71 954**
Comprehensive income attributable to equity holders of the parent		(1 874 984)	75 447
Comprehensive income attributable to non-controlling interests		1 278	(3 493)

(in thousands of zlotys)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2015

	Note	*31 December 2015*	*31 December 2014*
ASSETS			
Non-current assets			
Tangible fixed assets	19	3 475 229	5 299 618
Investment property		2 363	2 799
Intangible assets	21	17 389	82 263
Loans and receivables		-	-
Assets of removing overburden and other mining assets (long-term)	22	92 748	149 901
Other long-term financial assets	23.1	13 752	12 591
Other long-term non-financial assets	23.2	10 027	25 949
Amounts due from customers under long-term construction contracts		-	-
Deferred tax assets	15.3	102 615	112 870
Total non-current assets		**3 714 123**	**5 685 991**
Current assets			
Short-term intangible assets	21	354 389	176 957
Inventories	25	157 515	237 116
Trade and other receivables	26	268 123	253 977
Income tax receivables		2 743	12 742
Short-term financial derivatives (assets)		-	-
Other short-term financial assets	23.1	76 979	94 748
Other short-term non-financial assets	23.2	12 497	39 434
Assets of removing overburden and other mining assets (short-term)	22	1 309	556
Amounts due from customers under long-term construction contracts	13.8	3 349	10 047
Cash and cash equivalents	27	383 354	356 120
Total current assets		**1 260 258**	**1 181 697**
Assets classified as held for sale		-	-
TOTAL ASSETS		**4 974 381**	**6 867 688**

(in thousands of zlotys)

	Note	*31 December 2015*	*31 December 2014*
LIABILITIES AND EQUITY			
Equity			
Share capital	28	101 647	101 647
Supplementary capital	30	2 542 060	2 398 399
Revaluation reserve from valuation of hedging instruments		(11 941)	(17 741)
Other reserve capital	30.1	5 877	5 877
Retained earnings / Accumulated losses		1 128 266	1 249 448
Net profit / (loss)		(1 881 086)	81 977
Exchange differences on translation of foreign entities		-	110
Equity attributable to equity holders of the parent		**1 884 823**	**3 819 717**
Equity attributable to non-controlling interests	30.3	-	-
Total equity		**1 884 823**	**3 819 717**
Non-current liabilities			
Interest-bearing loans and borrowings	31	924 519	867 221
Long-term employee benefits	24.1	77 674	108 554
Trade and other long-term financial liabilities	34.2	80 751	103 742
Long-term financial derivatives (liabilities)	34.4	8 943	15 059
Long-term subsidies	34.5	51 068	63 832
Other long-term provisions and accruals	32	334 879	361 142
Amounts due to customers under long-term construction contracts		-	-
Deferred tax liability	15.3	351 862	322 319
Total non-current liabilities		**1 829 696**	**1 841 869**
Current liabilities			
Trade and other short-term financial liabilities	34.1	237 505	355 202
Current portion of interest-bearing loans and borrowings	31	386 543	348 553
Short-term financial derivatives (liabilities)	34.4	7 349	8 684
Other non-financial liabilities	34.3	122 553	134 015
Current income tax liability		5 228	1 970
Short-term employee benefits	24.1	8 783	38 553
Short-term subsidies	34.6	12 774	12 779
Amounts due to customers under long-term construction contracts	13.8	10 080	20 245
Other short-term provisions and accruals	32	469 047	286 101
Total current liabilities		**1 259 862**	**1 206 102**
Liabilities directly associated with assets classified as held for sale			-
Total liabilities		**3 089 558**	**3 047 971**
TOTAL LIABILITIES AND EQUITY		**4 974 381**	**6 867 688**

(in thousands of zlotys)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	*Year ended 31 December 2015*	*Year ended 31 December 2014*
Cash flow from operating activities			
Profit /(loss) before tax		(1 833 235)	97 985
Adjustments for:			
Depreciation and amortization	27	380 935	352 949
Interests and shares in profits		25 012	30 492
(Profit) / loss on foreign exchange differences		2 784	14 298
(Profit) / loss on investing activities		1 079	(14 986)
(Increase) / decrease in receivables	27	16 102	(82 536)
(Increase) / decrease in inventories	27	79 601	(24 647)
Increase / (decrease) in payables except for loans and borrowings	27	(88 567)	128 479
Change in provisions, prepayments, accruals and employee benefits	27	268 209	149 878
Income tax paid		5 033	(9 896)
Allowances for emission of CO_2		(287 229)	(228 337)
Impairment loss of fixed assets and mining assets		1 896 189	-
Other		1 223	(7)
Net cash flow from operating activities		**467 136**	**413 672**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		559	40 357
Purchase of property, plant and equipment and intangible assets		(409 858)	(616 608)
Proceeds and expenses relating to other financial assets	27	19 122	20 918
Purchase of other financial assets	27	(24 909)	-
Acquisition of subsidiary, after deducting cash acquired		-	-
Dividends received		49	5 522
Interest received		6	83
Other		60	(57)
Net cash flow from investing activities		**(414 971)**	**(549 785)**
Cash flow from financing activities			
Proceeds from issuance of shares		-	-
Purchase of treasury shares		-	-
Payment of finance lease liabilities		(13 029)	(17 413)
Proceeds from loans and borrowings and debt securities		336 925	412 912
Repayment of loans and borrowings and debt securities		(232 422)	(278 962)
Dividends paid		(60 988)	(34 560)
Interest paid		(53 383)	(53 871)
Other		(1 218)	31 958
Net cash flow from financing activities		**(24 115)**	**60 064**
Net increase / (decrease) in cash and cash equivalents		**28 050**	**(76 049)**
Cash and cash equivalents at the beginning of the period	27	**355 268**	**431 317**
Cash and cash equivalents at the end of the period		**383 318**	**355 268**

(in thousands of zlotys)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Note	*Issued capital*	*Reserve capital*	*Revaluation reserve of financial instruments*	*Other reserve capital*	*Retained earnings / Accumulated losses*	*Exchange differences on translation of foreign entities*	*Other components of other comprehensive income*	*Total*	*Non-controlling interest*	*Total Equity*
As of 1 January 2015		**101 647**	**2 398 399**	**(17 741)**	**5 877**	**1 331 425**	**110**	**-**	**3 819 717**	**-**	**3 819 717**
Net profit for the period		-	-	-	-	(1 881 086)	-	-	(1 881 086)	1 278	(1 879 808)
Total other comprehensive income		-	-	5 800	-	199	-	103	6 102	-	6 102
Total income for the period		**-**	**-**	**5 800**	**-**	**(1 880 887)**	**-**	**103**	**(1 874 984)**	**1 278**	**(1 873 706)**
Distribution of profits from previous years		-	143 661	-	-	(143 661)	-	-	-	-	-
Dividend		-	-	-	-	(60 988)	-	-	(60 988)	-	(60 988)
The effect of the settlement of a put option on the shares of non-controlling interests	*30.3*	-	-	-	-	1 278	-	-	1 278	(1 278)	-
Other changes		-	-	-	-	13	(110)	(103)	(200)	-	(200)
As of 31 December 2015		**101 647**	**2 542 060**	**(11 941)**	**5 877**	**(752 820)**	**-**	**-**	**1 884 823**	**-**	**1 884 823**

(in thousands of zlotys)

For the year ended 31 December 2014

	Note	*Issued capital*	*Reserve capital*	*Revaluation reserve of financial instruments*	*Other reserve capital*	*Retained earnings / Accumulated losses*	*Exchange differences on translation of foreign entities*	*Total*	*Non-controlling interest*	*Total Equity*
As of 1 January 2014		**101 647**	**2 200 508**	**(18 831)**	**5 877**	**1 493 382**	**33**	**3 782 616**	**-**	**3 782 616**
Net profit for the period		-	-	-	-	81 977	-	81 977	(3 493)	78 484
Total other comprehensive income		-	-	1 090	-	(7 697)	77	(6 530)	-	(6 530)
Total income for the period		**-**	**-**	**1 090**	**-**	**74 280**	**77**	**75 447**	**(3 493)**	**71 954**
Distribution of profits from previous years		-	197 891	-	-	(197 891)	-	-	-	-
Dividend		-	-	-	-	(34 560)	-	(34 560)	-	(34 560)
The effect of the settlement of a put option on the shares of non-controlling interests	30.3	-	-	-	-	(3 493)	-	(3 493)	3 493	-
Other changes		-	-	-	-	(293)	-	(293)	-	(293)
As of 31 December 2014		**101 647**	**2 398 399**	**(17 741)**	**5 877**	**1 331 425**	**110**	**3 819 717**	**-**	**3 819 717**

(in thousands of zlotys)

THE RULES (POLICIES) OF ACCOUNTING AND ADDITIONAL EXPLANATORY NOTES

1. General information

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

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

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

The main activities of the Group are:

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

2. Composition of the Group

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

Entity	*Seat*	*Scope of activities*	*Percentage share of the Group in capital as of*	
			31 December 2015	*31 December 2014*
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 Centrum Usług Informatycznych" sp. z o.o. w likwidacji	62-510 Konin ul. Kazimierska 45	IT services	0,00%******	100,00%
"PAK Centrum Badań Jakości" sp. z o.o. w likwidacji	62-510 Konin ul. Przemysłowa 158	Chemical tests and analyses	0,00%******	100,00%
"PAK GÓRNICTWO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Coal mining	100%	100%
Energoinwest Serwis sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Repair and construction services	100%***	100%***
PAK Kopalnia Węgla Brunatnego Konin S.A.	62-540 Kleczew ul. 600-lecia 9	Lignite mining	96,23%	85,00%
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Lignite mining	98,41%	85,00%
Ochrona Osób i Mienia "ASEKURACJA" sp. z o.o. w likwidacji	62-540 Kleczew ul. 600-lecia 9	Protection of people and property	0,00%****	85,00%****

(in thousands of zlotys)

"Aquakon" sp. z o.o.	62-610 Sompolno Police	Production and sale of mineral waters	92,57%****	81,80%****
Eko-Surowce sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Railway transport of lignite, sale of lignite	96,23%****	85,00%****
KWE sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Wind farms, production of electricity	0,00%****	42,50%****
PAK – Volt S.A.	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%*****

* *Affiliate – Przedsiębiorstwo Remontowe "PAK SERWIS" Sp. z o.o. with a foreign branch in Germany, which was closed down on 30 March 2015.*
** *indirect share by "PAK – HOLDCO" sp. z o.o.*
*** *indirect share by Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o.*
**** *indirect share by PAK KWB Konin (the indirect share of PAK KWB Konin in "Aquakon" sp. z o.o. amounts to 96.2%, in KWE sp. z o.o. in liquidation is 50%, and in other companies – 100%). On 29 January 2015, the PAK KWB Konin disposed all of its shares in KWE. On 19 November 2015, the Asekuracja company was deleted from the KRS.*
***** *indirect share by "EL PAK" sp. z o.o.*
****** *in the first quarter of 2015, the liquidation process of PAK CUI sp. z o.o. and PAK CBJ sp. z o.o. was completed.*

As of 31 December 2015, the share in the general number of votes held by the Group in subsidiaries is equal to the Group's share in capitals of these subsidiaries.

3. Composition of the Management Board of the parent company

The Company's Board composition was as follows at the beginning of the accounting year of 2015:

- Katarzyna Muszkat President of the Board,
- Anna Striżyk Vice-President of the Board,
- Piotr Jarosz Vice-President of the Board,
- Sławomir Sykucki Vice-President of the Board.

On 2 October 2015, the Supervisory Board of the ZE PAK S.A. adopted resolutions on dismissal of the following persons from the Company's Management Board:

- Katarzyna Muszkat holding the position of the President of the Board,
- Anna Striżyk holding the position of the Vice-President of the Board,
- Piotr Jarosz holding the position of the Vice-President of the Board.

On 2 October 2015, Sławomir Sykucki resigned from the position of Vice-President of the Company's Board.

At the same time, the Supervisory Board of the Company, at its meeting on 2 October 2015, appointed the following persons to the Company's Board:

- Janusz Kaliszyk to the position of the President of the Board
- Aneta Lato-Żuchowska to the position of the Vice-President of the Board
- Adrian Kaźmierczak to the position of the Vice-President of the Board
- Tomasz Zadroga to the position of the Vice-President of the Board.

On 30 October 2015, the Supervisory Board of ZE PAK S.A. adopted a resolution on appointing Zygmunt Artwik to the Management Board of the Company and for the role of the Vice-President of the Board. The Resolution became effective upon its adoption.

On 16 November 2015, Janusz Kaliszyk resigned from the position of the President of the Board. Accordingly, on 17 November 2015, the Supervisory Board of the Company, in accordance with art. 383 § 1 of the Code of Commercial Companies, delegated Mr. Wojciech Piskorz the Member of the Supervisory Board, to temporarily act as the President of the Company's Board for a period not longer than 3 months.

On 11 February 2016, the Supervisory Board of ZE PAK S.A. adopted a resolution on the appointment of Mr. Aleksander Grad to the composition of the Management Board of the Company on 18 February 2016 and entrusted to him the function of the President of the Board.

4. Approval of the financial statement

This consolidated financial statement was approved for issuing by the Management Board on 21 March 2016.

5. Essential values based on professional judgement and estimates

5.1. Professional judgement

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

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

Capitalisation of foreign exchange differences

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

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

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

Classification of lease contracts

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

Identification of embedded derivatives

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

5.2. Uncertainty of estimates

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

Loss in fixed assets

As a result of analyses conducted on 31 December 2015, the Group identified the existence of circumstances, which would indicate possible loss in value of a component of assets, in the form of balance sheet value of net assets of the Group, higher than the value of its market capitalisation. In relation to the above fact, the Group conducted value impairment tests of components of fixed assets. On the basis of conducted tests, it was stated that there is necessity of recognition of impairment write-downs against property. Information about the conducted test was presented in note 19.

Provisions' evaluation due to employee benefits

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

(in thousands of zlotys)

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

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

Changes in financial indexes, which are a basis of the estimation would change the balance of provisions with the amounts presented in the table below.

	(+) increase by 1.0 percentage points	*(-) decrease by 1.0 percentage points*
discount rate	(6 249 539)	7 227 938
remuneration growth rate	7 169 366	(5 902 792)

A component of deferred tax assets

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

Fair value of financial instruments

The fair value of financial instruments, for which there is no active market, is estimated using appropriate evaluation techniques. While choosing the appropriate methods and assumptions, the Group is driven by professional judgement. The way of estimation of the fair value of particular financial instruments was presented in note 10.10.

Capitalisation of stripping costs in the production phase

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

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

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

Share based payments

In order to settle the employee shares, it was accepted that the date of start vesting for shares is the date of the Company's commercialisation, and the date of granting entitlements to shares is the date of final hanging lists with number of shares granted to PAK Kopalnia Węgla Brunatnego Konin S.A. and PAK Kopalnia Węgla Brunatnego Adamów S.A.'s employees. The fair value of the programme on the day of the acquisition of control was specified on the basis of the fair value of the PAK Kopalnia Węgla Brunatnego Konin S.A. and PAK Kopalnia Węgla Brunatnego Adamów S.A. companies. The process of acquisition of shares by entitled employees begun in February 2013 and lasted until 20 October 2014. The price of shares redemption was specified in PAK KWB Konin 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 the earlier purchased shares of mines index-linked by the consumption products and service prices rate.

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

In note 35, the descriptions of essential contingent liabilities and essential legal proceedings, including these concerning compensations for the termination of long-term contracts for sale of power and electricity, were presented.

Revenue recognition

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

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

Depreciation rates

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

Receivables impairment write-downs

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

The provision for liquidation of components of tangible fixed assets

The Group creates the provision for liquidation of components of tangible fixed assets in case of such obligation, or acceptance of such a liability by the Group's management. The provision is created in the amount resulting from the received offers concerning liquidation of components of tangible fixed assets. The Group revaluates the value of the provision on every balance sheet date. The value of the provision due to liquidation of components of tangible fixed assets is discounted on every balance sheet date. The provision described in note 32.3.2.

The provision for liquidation of ash dumps

The Group creates the provision for liquidation of ash dumps due to a legal obligation resulting from the integrated approval entries. The basis of estimation are developments, technical and economic analyses developed by the Group, as well as received external offerings for planned directions of reclamation. At the end of every reporting period, the Group revaluates values of the provision. The provision described in note 32.3.2.

Reclamation provisions and other related to mining activity

The Group creates both the provision for reclamation costs related to current extraction of coal on a given open pit, and the provision for costs of the final excavation. The provision is created on the basis of estimates of future reclamation costs, as well as assumed dates of start and finish of reclamation, on the basis of reports by independent experts estimating reclamation costs on the order of the Management Board, and internal estimates of the Group, and is discounted on every balance sheet date. The provision described in note 32.3.3.

Evaluation of energy certificates

The Group recognises the energy certificates of origin (green and red certificates) due to the energy generation from renewable energy sources, gas, and peak load co-generation according to fair value at the end of the month, when they were produced. As of the balance sheet date, the Group evaluates certificates of origin to a net value possible to achieve – for the green certificates as of 31 December 2015 to the price amounting to 108.60 PLN/MWh. An impairment write-down is established in case when the sale price possible to achieve diminished by disposition costs is lower than the historical cost of generation.

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

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

In 2015, the emission in the PAK Group amounted to 12 257 921 tonnes of CO_2. After redemption of emissions for 2014 in the number of 12 574 175 EUAs in April 2015, there were 2 936 403 EUAs left in the Group. In April 2015, ZE PAK S.A. obtained free emission allowances under Art. 10a resulting from heat generation for 2015 in the number of 121 398 EUAs, which will be used in April 2016 in redemption of emissions for 2015. Bearing in mind that the ZE PAK Group, after redemption of the emission for 2014 in April 2015, has a remaining excess of EUAs in the number of 2 936 403 EUAs, received free EUAs for heat for 2015 in the number of 121 398 EUAs, and plans to obtain, under Article 10c, 418,724 EUAs for 2015. The Group purchased 8 870 703 EUAs in order to fulfil the obligation to redeem CO_2 emission for 2015. Whereas the total purchases of the Group in 2015 amounted to 9 199 785 EUAs.

On 30 September 2015, the ZE PAK Group submitted the material and financial statement on the executed investment expenses within the National Investment Plant to the Ministry of the Environment concerning the free EUAs of the Article. 10 c for 2015, applying for granting 329 417 EUAs, which means that the Group applied for the number of EUAs less by 89 307 than expected in the Group's statement for three quarters of 2015.

As of 31 December 2015, the Group created the provision for allowances in relation to the actual size of emissions for the period between 1 January 2015 and 31 December 2015.

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

This consolidated financial statement was developed under the historical cost convention, except for financial derivative instruments and other financial instruments.

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

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

This consolidated financial statement was developed with the assumption of continuing the Group's companies business activity in the foreseeable future. At the date of authorisation of this financial statement, there are no reported circumstances indicating any risk to the continuation of the Group's companies' activity.

6.1. Statement of compliance

This consolidated financial statement was developed in accordance with the International Financial Reporting Standards (“IFRS”), adopted by the EU (“EU IFRS”). At the date of approval of this report for issuing, taking into account the EU's ongoing process of implementation of the IFRS standards and the Group's activities in the field of applied by the Group accounting policies, the IFRS policies differ from the EU IFRS ones. The company used the opportunity, present in case of the use of International Financial Reporting Standards, adopted by the EU, the application of IFRIC 21 only from annual periods beginning on 1 January 2015. At the same time the amendments to IFRS 2 and amendments to IFRS 3, being part of Amendments resulting from the review of IFRS 2010-2012 from annual periods beginning on 1 January 2016. EU IFRS, comprises standards and interpretations adopted by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”).

The Group's companies keep their books of account in accordance with the policy (rules) specified in the Act of 29 September 1994 on accounting (“the Act”), as amended, and the regulations issued thereunder (“Polish accounting standards”). The consolidated financial statement includes adjustments, which are not included in the books of account of the Group's entities, were performed in order to reconcile their financial statements to comply with IFRS.

6.2. Functional currency and financial statements currency

The functional currency of the parent company and other companies included in this consolidated financial statement and the reporting currency of this consolidated financial statement is Polish zloty, except for the German branch of Przedsiębiorstwo Remontowe “PAK SERWIS” Sp. z o.o., for which euro was the functional currency. This branch was liquidated on 30 March 2015.

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

The rules (policies) of accounting applied to development of this consolidated financial statement are coherent with these applied to development of the consolidated financial statement of the Group for the year concluded on 31 December 2014, except for application of the following amended standards and new interpretations applicable for annual periods beginning on 1 January 2015:

- Amendments resulting from the review of IFRS 2011-2013 including:
  - Amendments to IFRS 3 *Business Combinations*

    The amendments clarify that not only joint ventures, but also joint arrangements are not included in IFRS 3. This exception applies only to the preparation of a financial statement of a joint arrangement. The amendment is applied prospectively.

    Application of these amendments affected neither the financial position, nor activities' results of the Group.

- Amendments to IFRS 13 *Fair Value Measurement*

  The amendments clarify that the exception concerning an investment portfolio applies not only to financial assets and financial liabilities, but also to other agreements included in IAS 39. The amendments are applied prospectively.

  Application of these amendments affected neither the financial position, nor activities' results of the Group.

- Amendments to IAS 40 *Investment Property*

  The description of services described in IAS 40 distinguishes an investment property from an owner-occupied property (that is, from tangible fixed assets). The amendment is applied prospectively and explains that it is IFRS 3, not the definition of additional services included in IAS 40, is used to determine whether the transaction is a purchase of an asset or an arrangement.

  Application of these amendments affected neither the financial position, nor activities' results of the Group.

- IFRIC 21 *Levies*

  The interpretation explains that an entity includes a liability for a levy when an obligating event – an action causing the necessity to pay the levy pursuant to regulations – occurs. In the case of the levies due after exceeding the minimum threshold, the entity does not recognise the liability until reaching this threshold. IFRIC 21 is applied retrospectively.

  Application of these amendments affected neither the financial position, nor activities' results of the Group.

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

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

- IFRS 9 *Financial instruments* (issued on 24 July 2014) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2018 or later,
- Amendments to IAS 19 *Defined benefit programmes: Employee contributions* (issued on 21 November 2013) – applicable for annual periods beginning on 1 July 2014 or later, in the EU, it is applicable at the latest annual periods beginning on 1 February 2015 or later,
- *Amendments resulting from the IFRS review 2010-2012* (issued on 12 December 2013) – some amendments are applicable for annual periods beginning on 1 July 2014 or later, and some of them prospectively for the transactions occurring on 1 July 2014 or later, in the EU, it is applicable at the latest annual periods beginning on 1 February 2015 or later,
- IFRS 14 *Regulatory Deferral Accounts* (issued on 30 January 2014) – according to the decision of the European Commission, the approval process of the standard in the preliminary version will not be initiated before the release of the standard in the final version – until the day of authorisation of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2016 or later,
- The amendments to IFRS 11 *Account for the acquisition of share in the common business activity* (issued on 6 May 2014) – applicable for annual periods beginning on 1 January 2016 or later,
- The amendments to IAS 16 and IAS 38 *Explanation of allowable depreciation methods* (issued on 12 May 2014) – applicable for annual periods beginning on 1 January 2016 or later,
- IFRS 15 *Revenue from Contracts with Customers* (issued on 28 May 2014), including the amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) – until the day of authorisation of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2018 or later,
- The amendments to IAS 16 and IAS 41 *Agriculture: crop plants* (issued on 30 June 2014) – applicable for annual periods beginning on 1 January 2016 or later,
- The amendments to IAS 27 *Equity method in the separate financial statement* (issued on 12 August 2014) – applicable for annual periods beginning on 1 January 2016 or later,
- The amendments to IFRS 10 and IAS 28 *Sales or transfers of assets between the investor and the associate or joint venture* (issued on 11 September 2014) – no decision as to the date on which EFRAG will conduct the various

stages of the work leading to the approval of these amendments – until the date of approval of this financial statement, unapproved by the EU – the effective date was postponed by RMSR for an indefinite period,

- *Amendments resulting from the IFRS review 2012-2014* (issued on 25 September 2014) – applicable for annual periods beginning on 1 January 2016 or later – until the date of approval of this financial statement, unapproved by the EU,
- The amendments to IFRS 10, IFRS 12 and IAS 28 *Investment entities: Application of the exception related to the consolidation* (issued on 18 December 2014) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2016 or later,
- The amendments to IAS 1 *Disclosures* (issued on 18 December 2014) - applicable for annual periods beginning on 1 January 2016 or later,
- IFRS 16 *Leases* (issued on 13 January 2016) – no decision as to the date on which EFRAG will conduct the various stages of the work leading to the approval of these amendments, until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2019 or later,
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (issued on 19 January 2016) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2017 or later,
- Amendments to IAS 7 *Disclosure Initiative* (issued on 29 January 2016) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2017 or later.

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

9. Change of estimates

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

- estimates in the assumptions for the valuation of actuarial provisions,
- estimates in the assumptions for the valuation of derivatives,
- estimates in the assumptions regarding the calculation of the revenue for compensation,
- estimates in the assumptions regarding the periods of economic usability of the capital work,
- estimates related to realisation of the deferred tax assets,
- estimates in the assumptions for the valuation of the provision for reclamation of the ash storage yard,
- estimates in the assumptions for the valuation of the provision due to liquidation of components of tangible fixed assets,
- estimates regarding the valuation of long-term contracts,
- estimates in the assumptions for the valuation of the provision for reclamation related to the mining activity,
- estimates of the loss of value of tangible fixed assets.

The impact of changes in estimates on the amount of impairment write-downs against the value of tangible fixed assets is presented in note 19.1.

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

In case of the valuation of derivatives (IRS, options), the change in estimates is due to the market changes of risk factors on the interbank market, i.e. the exchange rate and market interest rates. Description of the hedge was presented in note 41.3.1.

In the calculation of the revenue due to compensation, the change of estimates relates primarily to changes in the sale prices and purchase of energy on the Commodity Power Exchange and balancing market, the volume of energy production and purchase of energy in order to meet sale plans as well as the interest rate of the 5-year government bonds and the Polish National Bank deposit rate affecting the discount rate. The value of the annual adjustment due to the compensation for 2015 is plus (+) PLN 57.3 million. Principles of recognizing revenue from compensation for stranded costs were described in note 10.28.4.

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

With respect to the deferred tax asset, at each balance sheet date, impairment write-downs were made, as further described in note 15.3.

The description of the main titles of the recognised provisions and changes in provision items in current and previous financial years were described in note 32.

Note 13.8 showed the values of revenues from contracts for construction services, taking into account the balance sheet valuation and forecast losses on these contracts.

10. Significant accounting rules

10.1. Consolidation rules

This consolidated financial statement includes the financial statements of Zespół Elektrowni Pątnów – Adamów – Konin S.A. as well as financial statements of its subsidiaries prepared each time for the year concluded on 31 December 2015. The financial statements of the entities controlled by it (subsidiaries), after the adjustments to ensure compliance with IFRS, are prepared for the same reporting period as the parent company's statement, using consistent accounting rules, based on uniform accounting policies for transactions and economic events of similar characteristics. In order to eliminate any differences in the applied accounting methods, adjustments are implemented.

All significant balances and transactions between the Group's entities, including unrealised profits arising from transactions within the Group, were entirely eliminated. Unrealised losses are eliminated, unless they prove the impairment. Subsidiaries are subject to consolidation from the date on which they are controlled by the Group and ceased to be consolidated from the date on which such control ends. The control of the parent company over an entity takes place when:

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

The company verifies the fact of having control over other entities, if the situation, which indicates a change of one or more of the aforementioned control conditions, occurred.

If the company has less than a majority of the voting rights of the entity, but the held voting rights are sufficient to unilaterally manage the relevant activities of the entity, it means that it holds power over the entity. At the time of the assessment if the voting rights of a given entity are sufficient to provide power, the Company analyses all relevant circumstances, including:

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

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

10.2. Investments in associates and joint ventures

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

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

(in thousands of zlotys)

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

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

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

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

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

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

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

10.3. Calculation of items denominated in a foreign currency

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

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

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

	31 December 2015	*31 December 2014*
EUR	4,2615	4,2623
GBP	5,7862	5,4648

(in thousands of zlotys)

USD	3,9011	3,5072

Affiliate – Przedsiębiorstwo Remontowe “PAK SERWIS” Sp. z o.o. had a branch in Germany in 2015, whose reporting currency was EUR. In connection with the termination of the contracts performed in Germany, the plant was closed on 30 March 2015. Assets and liabilities of the branch were calculated into the Group’s presentation currency at the exchange rate applicable on the balance sheet date and their statements of comprehensive income are calculated at the weighted average exchange rate for a given period. The foreign exchange differences arising from this calculation were recognised in other comprehensive income and are accumulated in a separate item of the equity. The weighted average exchange rates for the respective periods were as follows:

	31 December 2015	*31 December 2014*
EUR	4,1848	4,1893

10.4. Tangible fixed assets

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

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

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

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

The residual value, useful life and redemption method of the assets' components are annually reviewed, and if necessary – adjusted with effect since the beginning of the just ended financial year. Any changes resulting from the conducted review are recognised as a change in estimates.

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

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

10.4.1. Fixed assets intended for sale

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

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

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

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

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

10.5. Investment properties

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

Investment properties are removed from the balance sheet upon their sale or permanent withdrawal of a given investment property from use when no future benefits of its sale are expected. Any profits or losses arising from removal of the investment property from the balance sheet are recognised in the profit and loss account of the period in which this removal took place.

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

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

10.6. Assets concerning stripping and other mining assets

Assets concerning stripping and other mining assets include activated costs incurred in the preproduction phase of the mine, in particular:

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

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

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

10.7. Expenses related to exploration and evaluation of mineral resources

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

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

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

- topographical, geological, geochemical and geophysical analyses,
- drilling,

- open-pit mining works,
- sampling,
- acquisition of rights to explore.

10.8. Intangible assets

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

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

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

Useful lives are annually reviewed and, if necessary, adjusted to the effect since the beginning of the just ended financial year. Any changes resulting from the conducted review are recognised as a change in estimates.

Research and development costs

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

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

	Concessions, patents and licenses	*Computer software*	*Other*
Periods of use	5 years	2 years	5 years
Applied depreciation method	Straight-line method	Straight-line method	Straight-line method
Internally produced or acquired	Acquired	Acquired	Acquired
The value impairment test	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.

Profits or losses resulting from removal of intangible assets from the balance sheet are evaluated according to the difference between the income from the net sale and the balance sheet value of a given component of assets are recognised in the profit or loss, at the moment in which such removal was made.

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

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

10.9. Leasing

The Group as a lessee.

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

Fixed assets used under financial lease agreements are depreciated over the shorter of the two periods: the estimated useful life of the fixed asset or the lease term.

The lease agreements, under which the lessor substantially retains all the risks and benefits of ownership of the leased asset, are classified as operating lease agreements. Lease payments under the operating lease agreement and subsequent lease instalments are recognised as operating costs in profit or loss on a straight-line basis over the lease term.

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

10.10. Fair value measurement

The Group values financial instruments such as instruments available for sale, derivative instruments and non-financial assets such as investment properties at the fair value, at each balance sheet date. In addition, the fair value of financial instruments valued in accordance with the depreciated cost was included in note 41.

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

- on the main market for a given component of assets or liability,
- in the absence of the main market, on the most advantageous market for a component of assets or liability.

Both the main and the most advantageous market must be available for the Group.

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

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

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

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

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

At each balance sheet date, in case of assets and liabilities existing at each balance sheet date in the financial statement, the Group evaluates whether there were transfers between levels of the hierarchy by means of a revaluation of the classification into different levels, following materiality of input data from the lowest level, which is essential for the valuation to the fair value treated as a whole).

Summary of essential procedures for fair value measurement

The Management Board of the Group determines the rules and procedures for both systematic valuation of the fair value, e.g. unquoted investment properties and unquoted financial assets as well as the one-time valuation, e.g. in case of assets intended for sale within the abandoned activity.

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

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

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

10.11. Loss in value of non-financial fixed assets

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

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

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

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

10.12. Borrowing costs

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

10.13. Financial assets

Financial assets are classified into the following categories:

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

Assets maintained to the maturity date

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

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

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

Financial assets evaluated in the fair value by the financial result

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

a) it is classified as held for trading. The components of financial assets are classified as held for trading, if they are:

- principally acquired for the purpose of selling in a short period of time,
- part of the portfolio of identified financial instruments that are managed together and for which there is a probability to generate profit in a short period of time,
- derivatives, except for the derivatives that are part of security accounting and financial guarantee contracts,

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

The financial assets evaluated in the fair value by the financial result are valued in the fair value taking into account their market value at the balance sheet date without the sale transaction costs. Changes in the value of these financial instruments are recognised in the profit and loss account as financial revenues or costs. If the contract contains one or more embedded derivatives, the whole contract can be classified as financial assets evaluated in the fair value by the financial result. It does not apply to cases where the embedded derivative does not significantly influence the cash flows of the contract or it is clear without conducting or after a superficial analysis that if a similar hybrid instrument was firstly considered then separating the embedded derivative would be prohibited. Financial assets at the initial recognition can be classified to the category evaluated in the fair value by the financial result if the following criteria are met: (i) this classification eliminates or significantly reduces inconsistency in terms of recognition or valuation (accounting mismatch); or (ii) assets are part of the group of financial assets, which are managed and evaluated on the basis of the fair value, in accordance with a documented risk management strategy; or (iii) financial assets contain embedded derivatives that should be recognised separately. As of 31 December 2014 and 31 December 2013, no financial assets were classified to the categories evaluated in the fair value by the financial result.

Loans and receivables

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

Available-for-sale assets

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

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

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

In the situation, in which the Group:

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

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

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

10.14. Loss in value of financial assets

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

10.14.1. Assets recognised in accordance with the depreciated cost

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

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

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

10.14.2. Financial assets stated at cost

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

10.14.3. Available-for-sale financial assets

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

10.15. Other non-financial assets

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

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

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

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

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

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

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

10.16. Embedded derivatives

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

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

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

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

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

10.17. Financial derivative instruments and securities

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

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

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

Within the security accounting, securities are classified as:

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

Hedging the currency risk of the substantiated future liability is settled as the cash flow security.

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

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

Moreover, the Group hedges cash flows associated with the purchase of CO_2 allowances within the forward futures contracts.

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

10.17.1. Fair value security

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

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

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

10.17.2. Cash flow security

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

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

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

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

The Group discontinues to use the security accounting principles when the hedging instrument expires, or was sold, its use expired or it was executed, or the security no longer meets the conditions, which allow to apply special security accounting principles to it. In such a case, total profit or loss on the hedging instrument, which were recognised in other comprehensive income and accumulated in the equity, are still stated in the equity until the forecasted transaction occurs.

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

10.18. Inventories

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

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

- Production fuel – using the weighted average method;
- Spare parts and other materials – using the weighted average method.

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

Certificates of origin of energy

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

10.19. Trade receivables and other receivables

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

When the impact of the time value of money is significant, the value of receivables is determined by discounting the forecasted future cash flows to the current value, using the discount rate reflecting the current market estimates of the time value of money. If a method of discounting was applied, then the increase in receivables due to the passage of time is recognised as financial revenues.

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

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

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

10.20. Cash and cash equivalents

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

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

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

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

After the initial recognition, interest-bearing bank loans, borrowings and debt securities are evaluated in accordance with the depreciated cost.

While determining the depreciated cost, the costs associated with obtaining a bank loan or borrowing as well as discounts or premiums received in connection with the commitment are taken into account.

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

10.22. Trade liabilities and other financial liabilities

Short-term trade liabilities are stated in the payable amount.

Financial liabilities, which are evaluated in the fair value by the financial result, include financial liabilities intended for trading as well as financial liabilities initially classified to the categories valuated to the fair value by the financial result. Financial liabilities are classified as intended for trading if they were acquired for the purpose of selling in the near future. Derivatives, including separated embedded instruments, are also classified as designed for trading unless they are considered effective hedging instruments. At the initial recognition, financial liabilities can be classified to the categories evaluated in the fair value by the financial result if the following criteria are met: (i) this classification eliminates or significantly reduces inconsistency of treatment when both the valuation and principles of recognising losses or profits are subject to other regulations; or (ii) liabilities are part of the group of financial liabilities, which are managed and evaluated on the basis of the fair value, in accordance with a documented risk management strategy; or (iii) financial liabilities contain embedded derivatives that should be recognised separately. As of 31 December 2015 and 31 December 2014, no financial liabilities were classified to the categories evaluated in the fair value by the financial result.

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

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

The Group derecognises a financial liability when the liability expired – i.e. when the contractual liability was fulfilled, redeemed or expired. Replacing the existing debt instrument with the instrument of essentially different conditions made between the same entities is recognised by the Group as expiration of the original financial liability and recognition of a new financial liability. Similarly, significant modifications of the contractual provisions concerning an existing financial liability are recognised by the Group as expiration of the original one and recognition of a new financial liability. The differences resulting from such changes in balance sheet values are recognised in profit or loss.

10.23. Other non-financial liabilities

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

10.24. Sharing profits for employee purposes and special funds

In accordance with the Polish economic practice, shareholders of entities can share profits to employee purposes in a form of making a transfer to the social fund or other special funds. In the financial statement, in accordance with

IFRS, the part of the profit share is recognised as operating costs of the period, in which the profit share was approved by the Shareholders Meeting, considering the fact that the Group's Companies are not burdened with legal or customary obligation to this type of the profit share.

10.25. Share-based payments

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

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

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

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

10.26. Provisions

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

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

In particular, the Group creates the following provisions:

- **provisions for employee benefits after the employment period as well as anniversary premiums**

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

- anniversary premiums paid to employees after working a specified number of years,
- retirement or disability benefits, payable at the time of retirement,
- survival benefits for families of deceased employees,
- free coal for employees of PAK KWB Konin and PAK KWB Adamów.

As a result of changes in the Company Collective Bargaining Agreements, the pay-outs of jubilee awards in the companies: ZE PAK S.A., EL PAK Sp. z o.o. and PAK SERWIS Sp. z o.o. as well as energy benefits in ZE PAK S.A. were abolished. Therefore, on 31 December 2014, the provisions for these benefits were dissolved and were not created as of 31 December 2015.

As of 31 December 2014, these companies recognised the short-term employee benefits related to anniversary premiums due to employees who would buy the right to pay of the anniversary premiums within 5 years from the date of the introduction of changes to the Company Collective Labour Agreement. These benefits were paid in 2015.

The amount of benefits depends on the number of years of employment and the average salary of an employee. The Group creates provisions for these future liabilities for the purpose of allocating the costs to the periods that they concern. The current value of these liabilities at each balance sheet date is calculated by an independent actuary.

The accumulated liabilities are equal to the discounted payments, which will be made in the future, taking into account the rotation of employment and they relate to the balance sheet date. Demographic information and information about the rotation of employment are based on historical data. Profits and losses of actuarial calculations are recognised in profit or loss.

o **provision for liquidation of components of fixed assets**

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

o **provisions for liquidation of ash dumps**

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

o **provision for submission to the redemption of certificates of origin of energy**

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

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

o **provisions for liabilities due to the emission of greenhouse gases and provisions for the redemption of certified emission reductions (CERs / EUAs)**

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

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

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

The Group creates the provision for the redemption of certified emission reductions CERs, at the time of the exchange transaction of CO_2 emission allowances to CERs in the value at which CERs will be redeemed for a given year.

Firstly, the Group redeems the certified emission reductions – CERs acquired through the exchange of CO_2 emission allowances (EUA), then the allowances acquired free of charge under the National Allocation Plan of CO_2 Allowances, and finally purchased allowances.

At each balance sheet date, the Group's management board decides in which part the owned certified emission reductions CERs to fulfil the obligation of redemption for a given year will be allocated.

o **reclamation provisions and other related to mining activity**

- provision for liquidation of facilities and mining areas

On the basis of the Geological and Mining Law act, the companies executing extraction activities are obliged to reclaim the areas of extraction works. 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 reporting date.

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

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

- provision for costs related to the preparation of exploitation areas

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

10.27. CO_2 emission allowances

The obtained free CO_2 emission allowances are presented in the financial statement at the nominal value as the allowances intended for own needs at the zero value within the intangible assets item. The emission allowances and their equivalents purchased by the Group for its own needs are stated as intangible assets. These allowances are valued at the acquisition cost. The provision for liabilities due to the emission of greenhouse gases included in the system of emission allowances is created only when the actual production shows a shortage of emission allowances in respect of the allowances granted for the reporting period.

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

The provision is created in the amount of:

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

The Group creates the provision for the redemption of certified emission reductions CERs, at the time of the exchange transaction of CO_2 emission allowances to CERs in the value, at which CERs will be redeemed for a given year.

Firstly, the Group redeems the certified emission reductions – CERs acquired through the exchange of CO_2 emission allowances (EUA), then the allowances acquired free of charge, and finally purchased allowances.

At each balance sheet date, the Group's management board decides in which part the owned certified emission reductions CERs to fulfil the obligation of redemption for a given year will be allocated.

The Group presents information on the number and market value of the held emission allowances in the additional notes and explanations to the financial statement.

In case of the exchange of allowances to certified emission reductions – CERs (the attributable exchange rate is 1% of the obligation to redeem allowances for a given reporting period), the Group presents the effect of the exchange in the profit and loss account within the operating activity as revenues from sales.

The result on sale of surplus of the allowances acquired free of charge is presented in the income statement, in other operating income.

The exchange transactions of EUA to CERs are presented in the cash flow statement, in the cash flows of the operating activity.

10.28. Revenues

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

10.28.1. Sale of goods and products

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

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

10.28.2. Provision of Services

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

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

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

10.28.3. Contracts for construction services

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

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

The level of progress of the contract performance is specified on the basis of determination of the share of the contract costs incurred for the executed works to the valuation date, within the estimated total cost of the contract.

When the outcome of contract cannot be reliably estimated:

a) revenues are recognised only to the extent of the incurred contract costs, for which there is a likelihood of their recovery; and
b) contract costs are recognised as a cost in the period in which they were incurred.

In the event, when it is probable that total contract costs will exceed total contract revenues, the expected loss should be recognised immediately as a cost.

The gross amount due from customers for contract works is recognised in the financial statement as assets and the gross amount due to customers for contract works – as liabilities.

10.28.4. Revenues from compensation for stranded costs

The Group receives compensation for the coverage of the stranded costs pursuant to the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity. The revenue due to compensations is successively included in the obtained rights to compensations at the end of each financial year, to the end of the period of their application.

At every moment of the revenue recognition, the Group determines the estimated rate of stranded costs to the total amount of the received, returned, expected and discounted annual advance payments (including the received annual advance payments). The amount of revenue for a given financial year is the product of the indicator and amounts of the received advance payments, which were revised by the annual adjustments and reduced by the recognised in previous years' income for compensations.

The difference between the total amount of the included income and the total amount of the received advance payments to the total amount of stranded costs is recognised by the Group as:

- receivables, in the event of a negative difference between the total amount of the received advance payments and included compensation income,
- liabilities, in the event of a positive difference between the total amount of the received advance payments and included compensation income.

10.28.5. Government subsidies

If there is justified certainty that the subsidy will be obtained and all the related conditions will be fulfilled, then government subsidies are recognised according to their fair value.

When the subsidy relates to the cost item, then it is recognised as income proportionally to the costs, which the subsidy is to compensate. If the subsidy relates to a component of assets, then its fair value is recognised on the account of future periods' revenues, and then gradually, by equal annual write-offs, is recognised in profit or loss during the estimated useful life of the associated component of assets.

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

10.29. Costs

Cost of goods sold

The cost of goods sold includes:

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

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

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

10.30. Other operating income and costs

Other operating income and costs include items mainly related to:

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

10.31. Revenues and financial costs

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

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

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

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

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

10.32. Taxes

10.32.1. Current tax

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

10.32.2. Deferred tax

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

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

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

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

- except for the situation, in which the assets for the deferred tax related to negative temporary differences which arise from the initial recognition of the assets' component or liability on a transaction other than a combination of the entities, and at the time of its conclusion, have no influence on the gross financial result, as well as on the taxable income or tax loss, and
- in the case of negative temporary differences resulted from the investment in subsidiaries or associates and shares in joint ventures, the assets' component for the deferred tax is recognised in the balance sheet only to the extent that it is probable that, in the predictable future, the above mentioned temporary differences will be reversed and the taxable income, which enables the negative temporary differences to be deducted, will be achieved.

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

Not included deferred tax asset is reassessed on each balance sheet date, and is recognised at the amount reflecting the likelihood of achieving the future taxable income allowing recovering this asset.

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

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

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

10.32.3. Value added tax and excise tax

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

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

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

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

10.33. Net profit per one share

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

10.34. Acquisition under joint control

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

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

10.35. Obligation to purchase non-controlling interests

The Company's obligation to redeem the employee shares is recognised at the date of taking control, and refers to situations in which employees have the option of selling shares. According to the selected policy, the non-controlling interests get the allocation of the result and other total revenue in the following reporting periods. At the end of every reporting period, the adjustment of non-controlling shares took place, as if their acquisition, while recognising the liability due to the option to redemption of shares, occurred. The difference between the value of the non-controlling shares derecognised at the reporting date and the recognized financial liability is included in the position of retained profits.

11. Acquisitions of ventures

In the period between 1 January 2015 and 31 December 2015, there were no new acquisitions of ventures.

12. Operating segments

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

Therefore, there are following operating segments:

- The Generation Segment covering production of electricity both from conventional sources (including cogeneration) and by combustion and co-combustion of biomass. Basic fuels used by the Generation Segment are lignite and biomass. The Generation Segment covers following entities:
  - Zespół Elektrowni “Pątnów – Adamów – Konin” S.A.
  - “Elektrownia Pątnów II” Sp. z o.o.
  - “PAK – HOLDCO” Sp. z o.o.

  - “PAK Infrastruktura” Sp. z o.o.

- The Generation Segment covering the extraction of lignite. In the Generation Segment, within the Capital Group ZE PAK S.A.:
  - “PAK GÓRNICTWO” Sp. z o.o.
  - “PAK Kopalnia Węgla Brunatnego Konin” S.A.
  - “PAK Kopalnia Węgla Brunatnego Adamów” S.A.

- The Renovation Segment performing services in the scope of construction and renovation services. The Segment covers activities of:
  - Przedsiębiorstwo Remontowe “PAK SERWIS” Sp. z o.o.
  - Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych “EL PAK” Sp. z o.o.
  - “Energoinwest Serwis” Sp. z o.o.
  - “EL PAK Serwis” Sp. z o.o.

- The Sales Segment performing services of the sale of electricity. The Sales Segment also includes the “PAK – Volt” S.A. company.

The Group ZE PAK S.A. also performs other kinds of activities included in the “Other” column. In 2015, there is the EKO – Surowce sp. z o.o. and AQUAKON sp. z o.o. companies’ activity. In the comparison data for 2014, in this column, the activities of PAK Centrum Badań Jakości sp. z o.o. and PAK Centrum Usług Informatycznych sp. z o.o. companies liquidated at the beginning of 2015 are presented as well.

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

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

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

Segments' results for periods concluded on 31 December 2015 and 31 December 2014 are presented below:

(in thousands of zlotys)

For the year ended 31 December 2015

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

(in thousands of zlotys)

For the year ended 31 December 2014

	Generation	*Mining*	*Renovation*	*Sale*	*Other*	*Consolidation adjustment*	*Total*
Sales revenue to external customers	1 729 658	8 453	165 922	767 999	8 079	-	2 680 111
Sales revenue between segments	430 992	870 157	240 059	5	68 836	(1 610 049)	-
Sales revenue	**2 160 650**	**878 610**	**405 981**	**768 004**	**76 915**	**(1 610 049)**	**2 680 111**
Cost of goods sold	(2 055 391)	(845 788)	(341 128)	(749 877)	(71 364)	1 611 388	(2 452 160)
Gross profit / (loss)	**105 259**	**32 822**	**64 853**	**18 127**	**5 551**	**1 339**	**227 951**
Other operating income	63 063	31 119	924	183	1 937	(9 166)	88 060
Selling and distribution expenses	(2 929)	(30)	-	(656)	(358)	-	(3 973)
Administrative expenses	(49 678)	(70 903)	(20 502)	(4 659)	(2 896)	(1)	(148 639)
Other operating expenses	(4 608)	(10 672)	(460)	(104)	(263)	138	(15 969)
Finance income	5 164	14 056	695	976	453	-	21 344
Finance costs	(41 742)	(29 762)	(98)	(1)	(1 825)	2 639	(70 789)
Profit before tax	**74 529**	**(33 370)**	**45 412**	**13 866**	**2 599**	**(5 051)**	**97 985**
Income tax expense	(14 989)	6 857	(9 211)	(2 986)	(679)	1 507	(19 501)
Net profit/loss for the period from continuing operations	**59 540**	**(26 513)**	**36 201**	**10 880**	**1 920**	**(3 544)**	**78 484**
Profit / (loss) from operating activities, without financial operations and income tax	**111 107**	**(17 664)**	**44 815**	**12 891**	**3 971**	**(7 690)**	**147 430**
Depreciation / Amortization	267 197	88 355	8 381	155	1 634	(5 167)	360 555
Change in impairment	(142)	(395)	-	-	-	-	(537)
EBITDA	**378 162**	**70 296**	**53 196**	**13 046**	**5 605**	**(12 857)**	**507 448**

(in thousands of zlotys)

13. Revenues and costs

13.1. Sales revenue

Revenues by type	*Year ended 31 December 2015*	*Year ended 31 December 2014*
Electricity	1 604 406	1 690 565
Electricity resold from the market	906 021	575 730
Energy certificates of origin	33 901	63 327
Construction contracts	141 398	147 735
Compensation related to PPAs termination	173 435	99 223
Heat	60 874	58 276
Other	30 091	46 161
Excise	(2 310)	(906)
Total revenues by type	2 947 816	2 680 111

Revenues by territory	*Year ended 31 December 2015*	*Year ended 31 December 2014*
Poland	2 945 322	2 669 990
UE countries	1 613	2 870
Outside UE	881	7 251
Total revenues by territory	2 947 816	2 680 111

13.2. Other operating revenues

	Year ended 31 December 2015	*Year ended 31 December 2014*
Compensations received	997	8 220
Reversal of write-downs against receivables	7	16
Grants received	11 878	7 971
Gain on the sale of non-financial fixed assets	-	8 972
Reimbursement of costs previously recognized as not deductible	-	805
Reversal of provisions for costs and losses and liabilities write-off	8 002	51 141
Other	9 082	10 935
Total other operating income	29 966	88 060

13.3. Other operating expenses

	Year ended 31 December 2015	*Year ended 31 December 2014*
Loss on the sale of property, plant and equipment	519	184
Creation of provisions	998	7 187
Impairment write-down against receivables	148	992
Compensations paid	84	-
Loss on liquidation of fixed assets	9	10
Electricity equivalents paid for pensioners and former employees	-	3 069
Electricity-related damages	217	603
Cost of social assets maintenance	-	109
Donations given	259	424
Cost of trade unions	188	186
Cost of shortages and damages	663	201
Other	3 124	3 004
Total other operating expenses	6 209	15 969

(in thousands of zlotys)

The main components of the other item are compensatory benefits in the amount of PLN 1 258 thousand and court and enforcement costs in the amount of PLN 876 thousand.

13.4. Finance income

	Year ended 31 December 2015	*Year ended 31 December 2014*
Interest income	3 522	7 192
Dividends	49	5 522
Foreign exchange gains	1 649	703
Other	1 276	7 927
Total Finance income	6 496	21 344

13.5. Finance costs

	Year ended 31 December 2015	*Year ended 31 December 2014*
Interest expenses	16 838	29 319
Valuation and realization of financial derivatives	8 426	9 432
Foreign exchange losses	5 893	14 621
Power units utilisation provision discount	416	1 045
Revaluation of investments	-	3 950
Reclamation provision discount	8 019	10 464
Other	4 317	1 958
Total finance costs	43 909	70 789

In the “Other” item, the reversal of discount of actuarial provisions in PAK KWB Adamów and PAK KWB Konin in the amount of PLN 2 431 thousand is mainly presented as well as the reversal of discount of the provisions for mining damage in PAK KWB Konin in the amount of PLN 531 thousand.

13.6. Costs by type

	Year ended 31 December 2015	*Year ended 31 December 2014*
Depreciation / Amortisation	393 705	360 555
Impairment write-downs against property, plant and equipment	1 896 189	(537)
Impairment write-downs against inventories	12 930	22 412
Materials	435 014	448 448
External services	100 786	178 732
Taxes and charges, excluding excise duty	211 623	231 378
Costs of allowances for emission of CO_2	320 216	176 957
Employee benefits	538 579	556 640
Other costs by type	16 597	33 870
Cost of goods for resale and raw materials sold and resale of electricity from the market	879 147	589 212
Total cost by type	4 804 786	2 597 667
Items included in cost of goods sold	4 651 152	2 452 160
Items included in selling and distribution expenses	4 920	3 973
Items included in administrative expenses	111 323	148 639
Change in the stocks of finished goods	35 557	(26 260)
Cost of goods and services for internal needs	1 834	19 155

(in thousands of zlotys)

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

	Year ended 31 December 2015	*Year ended 31 December 2014*
Items included in the cost of manufacture of sold products:		
Fixed assets depreciation	328 408	338 048
Depreciation of mining asset	42 187	13 184
Intangible assets depreciation	1 009	932
Depreciation of land exploited as open pit	-	1 391
Impairment of inventory	12 839	19 481
Impairment of tangible fixed assets and mining assets	1 896 189	(537)
	2 280 632	372 499
Items included in selling and distribution costs:		
Fixed assets depreciation	8	8
Intangible assets depreciation	-	-
Impairment of tangible fixed assets	-	-
	8	8
Items included in administrative costs		
Fixed assets depreciation	21 412	6 307
Intangible assets depreciation	681	685
Impairment of tangible fixed assets	-	-
	22 093	6 992

13.8. Construction agreements

	Year ended 31 December 2015	*Year ended 31 December 2014*
Revenues from contracts for construction services recognised in the period	141 398	147 735
Revenues invoiced in the period	137 931	163 205
Balance sheet valuation	3 467	(15 470)
Costs applied in the period	140 189	134 987
Expected losses due to the contracts recognised in the period	15	(37)
Results due to performance of the contracts included in the period	1 194	12 785

	Year ended 31 December 2015	*Year ended 31 December 2014*
Gross amount payable by contracting parties due to works resulting from the contract	3 349	10 047
Gross amount paid to contracting parties due to works resulting from the contract	10 080	20 245

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

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

Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych "EL PAK" sp. z o.o. provides services in the scope of industrial automation and electrical devices.

The main contracts executed by the company in the periods covered by this statement are as follows:

– The modernisation of TG6 in Elektrownia Konin – contract's value: PLN 4 530 thousand,

(in thousands of zlotys)

- Changes in the master and auxiliary circuits of 3 6 kV P1 and P2 switchgear bays related to the power supply to the NO_X emission reducing system – the contract's value: PLN 565 thousand,
- REMAK – Decoupling, disassembly and review of 6 kV MV motor of the Boiler no. 1 and no. 2 boiler in Elektrownia Pątnów – the contract's value: PLN 535 thousand,
- The execution of the I&C IOS discipline in units 5 and 6 in the PGE ZE Dolna Odra – the contract's value: PLN 3 788 thousand,
- The execution and commissioning of the control system of the firefighting network in the Main Centre Lubiatów – the contract's value: PLN 898 thousand,
- The rebuilding of the HV/LV station Mirosławiec – the contract's value: PLN 4 760 thousand,
- The construction of the 110/20 kV Ustronie electric power substation with the reconstruction of the 110 kV line – the contract's value: PLN 13 074 thousand,
- The execution of electrical and construction works within the framework of the "Delivery of the interior, hooded, three-system and three-section 110 kV switchgear for the needs of the Copper Smelter – the contract's value: PLN 8 955 thousand,
- PGE – GPZ DĘBLIN's own needs – the contract's value: PLN 440 thousand,
- The implementation of the project together with the modernisation of the 110 kV bay in the SE KUŹNIA RACIBORSKA for the needs of the GAMÓW wind farm connection – the contract's value: PLN 2 634 thousand.

Przedsiębiorstwo Remontowe "PAK Serwis" sp. z o.o.

The main contracts executed by the Company in the periods covered by this statement are as follows:

- The modernisation of K-1 and K-2 boilers in Pątnów power plant – SBB ENERGY – PLN 168 553 thousand,
- The modernisation of the HP and MP parts of TG-1 and TG-2 in Pątnów power plant – ETHOSENERGY – PLN 46 271 thousand,
- The replacement of high pressure/high temperature pipelines connecting the boiler with the turbine of the 1 and 2 units in Pątnów power plant – CHEMAR RUROCIĄGI – PLN 14 840 thousand,
- The prefabrication, assembly of the absorber, the silos, and the smoke duct for the waste incineration system in Konin – INTEGRAL ENGINNEERUNG – PLN 1 255 thousand,
- The repair and modernisation of K-1 and K-2 boilers' slag scraper in Elektrownia Pątnów – SBB ENERGY – PLN 662 thousand,
- The workshop and assembly works of parts of supporting and auxiliary structures of K1 and K2 boilers in Pątnów power plant – SBB ENERGY – PLN 4 084 thousand,
- The assembly works of boilers 9 and 10 in the Bełchatów Power Plant – BABCOCK BORSIG STEINMULLER – PLN 14 863 thousand,
- The assembly works on the LUVO heaters in the Janschwalde Power Plant – BABCOCK BORSIG STEINMULLER – PLN 847 thousand,
- The execution of the assembly works within the major overhauls of the unit 6 in the Turów Power Plant – ELTUR-SERWIS – PLN 235 thousand,
- The execution of the replacement of tubes in the evaporator at levels from 8 m to 32 in the Połaniec Power Plant – ELPOREM – PLN 232 thousand.

14. Components of other comprehensive income

Components of other total revenues present as follows:

	Year ended 31 December 2015	*Year ended 31 December 2014*
Cash flow securities		
Profits (losses) for the period	(8 426)	(8 059)

(in thousands of zlotys)

Adjustment resulting from reclassification of profits (loses) included in the profit or the loss	15 586	9 405
Gross cash flow securities for the period	**7 160**	**1 346**
Income tax concerning cash flow securities	(1 360)	(256)
Net cash flow securities for the period	**5 800**	**1 090**
Actuarial gross profits (losses) concerning provisions for post-employment employee benefits	**246**	**(9 502)**
Income tax concerning actuarial profits (losses)	(47)	1 805
Actuarial net profits (losses) concerning provisions for post-employment employee benefits	**199**	**(7 697)**
Gross exchange rate differences from foreign currency conversion	**-**	**77**
Income tax concerning exchange rate differences from foreign currency conversion	-	-
Net exchange rate differences from foreign currency conversion	**-**	**77**
Other	**103**	**-**
Other gross comprehensive income	**7 509**	**(8 079)**
Income tax concerning other comprehensive income	**(1 407)**	**1 549**
Other net comprehensive income	**6 102**	**(6 530)**

15. Income tax

15.1. Tax load

The main components of tax load for the year ended 31 December 2015 and 31 December 2014 are as follows:

	Year ended 31 December 2015	*Year ended 31 December 2014*
Included in the profit or the loss		
Current income tax		
Current income tax load	7 960	14 617
Deferred income tax load		
Related to creation and reversal of temporary differences	38 390	(179)
Other changes	223	5 063
Tax load in the consolidated profit or loss	**46 573**	**19 501**
Included in the consolidated statement of the comprehensive income		
Net profit (loss) tax due to revaluation of cash flow securities	(1 360)	(256)
Actuarial allowance concerning actuarial profits/losses	(47)	1 805
Tax advantage/(tax load) included in comprehensive income	**(1 407)**	**1 549**

15.2. Fixing of an effective tax rate

Reconciliation of income tax on profit before tax at the statutory tax rate with income tax calculated at the effective tax rate of the Group for the year ended 31 December 2015 and 31 December 2014 is as follows:

	Year ended 31 December 2015	*Year ended 31 December 2014*
Gross profit before taxation from continuing operations	**(1 833 236)**	**97 985**
Tax at the statutory tax rate applicable in Poland, amounting to 19%	**(348 315)**	**18 617**
Adjustment concerning the current income tax from previous years	(268)	(104)
Not included tax losses	29 459	210
Usage of the tax losses not recognised earlier	-	(174)
Permanent differences and temporary differences on which were not recognized the asset and the reserve for deferred tax	363 139	4 279
Revenues permanently not constituting the tax base	(689)	(748)
Change related to the different tax rate in Germany (30%)	(66)	(71)

(in thousands of zlotys)

Others	3 313	(2 508)
The tax after including of permanent differences, temporary differences, which were not recognized with deferred tax and other adjustments	**46 573**	**19 501**
Income tax in profit and loss account	**46 573**	**19 501**

Temporary differences, for which deferred tax assets were not recognised as of 31 December 2015, include mainly recognised impairment write-downs against tangible and mining assets in the amount of PLN 1 896 189 thousand described in note 13.7.

15.3. Deferred income tax

Deferred income tax results from following items:

			Consolidated profit and loss account for the year ended	
	31 December 2015	*31 December 2014*	*31 December 2015*	*31 December 2014*
Deferred tax asset				
Balance sheet provisions	142 348	140 858	1 536	(1 386)
Overburden and other mining assets	7 129	(20)	7 149	(4 496)
Interest and exchange rate differences	10 838	13 422	(2 584)	2 179
Hedging instruments	3 096	4 511	(55)	(29)
Valuation of non-terminated agreements for building services	3 996	5 727	(1 732)	2 042
Tax loss from previous years	12 342	53 582	(41 240)	5 768
Impairment write-down against inventories	1 781	1 585	196	(195)
Impairment write-down against receivables	1 465	6 195	(4 731)	(434)
Impairment write-downs against fixed assets	81	126	(45)	126
Difference between the carrying amount and tax value of fixed assets	1	27	(26)	27
Settlements with employees	5 991	6 913	(922)	611
Other	43 135	35 104	8 031	29 377
Total	232 203	268 030	(34 423)	33 590
Provision under deferred income tax				
Difference between the balance sheet value and the tax value of fixed assets	383 797	383 381	415	10 880
Receivables under PPAs	10 888	12 736	(1 847)	4 521
Energy certificates	12 315	25 787	(13 472)	1 941
Interest and exchange rate differences	1 538	1 897	(359)	876
Valuation of non-terminated construction agreements	2 209	3 502	(1 293)	167
Accrued receivables under contractual penalty fees	824	824	-	(45)
Mining asset	251	848	(597)	848
Purchased CO_2 allowances	69 624	48 164	21 460	14 760
Other	4	340	(339)	(537)
Total	481 450	477 479	3 968	33 411

The above statement reflects the titles, on which an asset and a liability for the deferred tax are recognised.
After compensation of the balances at the level of the Group’s companies, the deferred tax is presented as:

Asset	**102 615**	**112 870**
Provision	**351 862**	**322 319**

(in thousands of zlotys)

The load of deferred income tax:		
in the consolidated profit and loss account	(38 390)	179
The total load of deferred tax:	(39 797)	1 728
– in correspondence with the total income	(1 407)	1 549
– in correspondence with the financial result	(38 390)	179

The item “other” of the deferred tax asset consists of PLN 13 539 thousand of the provision for the liability to the Zarządca Rozliczeń company in the EPII (as of 31 December 2014 the amount was PLN 14 583 thousand), PLN 8 629 thousand is an evaluation of preferential loans in the EPII (as of 31 December 2014 the amount was PLN 8 905 thousand), PLN 13 728 thousand is the provision for redemption of CO_2 allowances in the EP II, PLN 3 068 thousand is an excess of the sale-and-lease-back transaction settled in time in PAK KWB Konin (as of 31 December 2014 the amount was PLN 5 186 thousand).

The following is the status of the tax settlements of the Group’s companies for tax losses as of 31 December 2015, taking into account the deferred tax.

Tax losses, according to the Polish tax regulations, may be deducted from future taxable income generated by the Company in succession following five tax years, provided that the amount of the reduction in any of these years did not exceed 50% of the amount of the loss.

As of 31 December 2015, Elektrownia Pątnów II Sp. z o.o. shows unsettled tax losses:

- for the tax year of 2011, the amount of PLN 89 517 thousand (50% of the loss to be settled).

In 2015, “Elektrownia Pątnów II” sp. z o.o. showed a tax profit of PLN 19 487 thousand, and in 2014, it showed a profit tax in the amount of PLN 24 103 thousand, settling part of the tax losses from previous years. As of 31 December 2015, the company analysed opportunities of settlement of tax loses on the basis of the budgeted tax result. In relation with the inability to deduct part of the tax loss for 2011, the company made an impairment write-down of the deferred tax asset amount amounting to PLN 16 818 thousand; the net value of the asset amounted to 0.

As of 31 December 2015, the PAK Kopalnia Węgla Brunatnego Konin S.A. company shows the following unsettled tax losses:

- for the tax year of 2012, the amount of PLN 41 448 thousand,
- for the tax year of 2013, the amount of PLN 17 458 thousand,

In the current period, the Company recognised the tax loss in the amount of PLN 1 838 thousand. The Company recognised the deferred tax asset from unsettled losses amounting to PLN 11 541 thousand. On the basis of the prepared financial projections taking into account future tax settlements, no need for an impairment write-down against the deferred tax asset was stated.

As of 31 December 2015, the PAK Kopalnia Węgla Brunatnego Adamów S.A. company shows the following unsettled tax losses:

- for the tax year of 2012, the amount of PLN 2 341 thousand,
- for the tax year of 2014, the amount of PLN 95 thousand,

In the current period, the Company recognised the part of the tax loss for 2012 in the amount of PLN 21 050 thousand. As of 31 December 2015, the Company recognised the deferred tax asset from unsettled losses amounting to PLN 463 thousand.

As of 31 December 2015, ZE PAK S.A. shows the following unsettled tax losses:

- for the tax year of 2013, the amount of PLN 354 thousand,
- for the tax year of 2014, the amount of PLN 24 059 thousand,

The achieved positive tax result for 2015 allowed to settle half of the losses for the above-mentioned years in the amount of PLN 24 414 thousand, on which the deferred tax asset was created on 31 December 2014. On the basis of the prepared financial projections, an impairment write-down of the deferred tax asset amount amounting to PLN 4 639 thousand from unsettled losses; the net value of the asset amounted to 0.

(in thousands of zlotys)

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

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

The subsidiaries of PAK KWB Konin and Adamów KWB PAK are not members of the Social Insurance Fund.

The Group compensated the assets of the Fund with their obligations to the Fund because these assets do not constitute separate assets of the Group. According to the above fact, the net balance as of 31 December 2015 is PLN 6 581 thousand (as of 31 December 2014 – PLN 8 213 thousand respectively).

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

	Year ended 31 December 2015	*Year ended 31 December 2014*
Loans granted to the employees	6 339	9 770
Cash	9 961	8 179
Liabilities due to the Fund	(9 719)	(9 736)
Balance after compensation	6 581	8 213

	Year ended 31 December 2015	*Year ended 31 December 2014*
Write-offs for the Fund in the financial period	9 217	9 450

17. Profit / (loss) per one share

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

Diluted profit / (loss) per one share are 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 corrected by weighted average of ordinary shares, which would be issued by converting all diluting potential equity instruments into ordinary shares.

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

	Year ended 31 December 2015	*Year ended 31 December 2014*
Net profit / (loss) on continued activities of the parent company’s shareholders	(1 881 086)	81 977
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	(1 881 086)	81 977
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547

The below table shows the profit / (loss) per one share in Polish zlotys for the year ended 31 December 2015 and 31 December 2014 presented in the profit and loss account.

	Year ended 31 December 2015	*Year ended 31 December 2014*
Basic and diluted profit / (loss) per share for the financial year attributable to equity holders of the parent	(37,01)	1,61

(in thousands of zlotys)

Basic and diluted profit / (loss) per share from continuing operations attributable to equity holders of the parent	(37,01)	1,61

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

18. Paid and proposed for payment dividends

On 29 June 2015, the Ordinary General Meeting of ZE PAK S.A. adopted the Resolution No. 5 on the distribution of the net profit for the financial year of 2014 in the amount of PLN 204 642 447.41 as follows:

a) the amount of PLN 60 988 256.40 was assigned to the payment of the dividend, which means that one share accounts for PLN 1.20,
b) the amount of PLN 143 654 191.01 was allocated for the Company’s supplementary capital.

The date of determination the right to the dividend (the dividend day) was established as 28 September 2015 and the date of disbursement of the dividend – as 14 October 2015.

(in thousands of zlotys)

19. Tangible fixed assets

Year ended 31 December 2015

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

(in thousands of zlotys)

Year ended 31 December 2014

	Land and perpetual usufruct	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2014	188 660	1 858 901	3 844 966	70 972	30 023	328 162	6 321 684
Direct purchase	907	2 426	65 125	2 997	2 740	608 042	682 237
Repairs	-	4 004	18 356	-	-	(10 655)	11 705
Transfer from fixed assets under construction	27 035	33 246	45 894	1 022	1 322	(108 519)	-
Sale and liquidation	(2 418)	(8 916)	(44 949)	(5 814)	(7 100)	(1 249)	(70 446)
Gross value as at 31 December 2014	214 184	1 889 661	3 929 392	69 177	26 985	815 781	6 945 180
Depreciation and impairment write-downs as at 1 January 2014	2 339	360 623	900 928	19 465	18 302	29 815	1 331 472
Depreciation write-down for the period	1 733	86 723	244 358	9 469	3 471	-	345 754
Impairment write-down	-	(409)	(111)	(63)	(16)	(474)	(1 073)
Sale and liquidation	(263)	(4 907)	(16 624)	(3 168)	(5 629)	-	(30 591)
Depreciation and impairment write-downs as at 31 December 2014	3 809	442 030	1 128 551	25 703	16 128	29 341	1 645 562
Net value as at 1 January 2014	186 321	1 498 278	2 944 038	51 507	11 721	298 347	4 990 212
Net value as at 31 December 2014	210 375	1 447 631	2 800 841	43 474	10 857	786 440	5 299 618

As of 31 December 2015 the carrying amount of fixed assets, under financial lease agreements, is PLN 74 530 thousand (as of 31 December 2014 – PLN 76 428 thousand).

Lands and buildings of the carrying amount of PLN 365 536 thousand (as of 31 December 2014 – PLN 486 182 thousand) are covered by a mortgage established to secure bank credits of the Group (note 36).

The value of capitalised external financing cost for the year ended 31 December 2015 was PLN 11 766 thousand (in the year ended 31 December 2014, it was PLN 14 345 thousand).

Moreover, the Group sold post-mining land of the net value of PLN 1 207 thousand.

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

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

As mentioned in note 5.2, the main premise to analyse the value impairment of the components identified by the Management Board is the steady lower market value of the Group’s net assets than their carrying amount.

Additional premises, which the Board took into account when assessing the need for the test, were the premises resulting from market conditions in the environment, in which the companies in the Group run activities, out of which the most important are:

- decreasing electricity prices (due to, among others, a growing wind generation);
- 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 prices of CO_2 allowances (caused by the aggravating climate policy of the European Union).

The above-mentioned premises were analysed in relation to all centres generating independent cash flows:

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

In distinguishing CGU within the companies of the Group, the main duty was the analysis of the independence of generating cash flows in terms of the functioning of the individual Company within the Group.

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

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

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

Lignite mines PAK KWB “Konin” and PAK KWB “Adamów” conduct the business at several open pits.

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

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

- ZE PAK S.A.
- El. Pątnów II Sp. z o.o.

- PAK KWB “Konin” S.A.
- PAK KWB “Adamów” S.A.

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

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

The tests were conducted as of 31 December 2015, evaluating cash generating units’ use value.

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

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

- Elektrownia Pątnów I – operation time until 31 December 2030,
- Elektrownia Adamów – operation time until 31 December 2017,
- Elektrownia Konin – kolektor – operation time until 30 June 2020,
- Elektrownia Konin – biomass unit – operation time until 31 December 2047.

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

- the forecast of the electricity price with division into BASE, PEAK and OFFPEAK and the forecast of the CO_2 allowances prices were adopted on the basis of the Report on the energy market in Poland prepared for ZE PAK S.A. by an independent external consultant,
- production assumptions result from the adopted investment and renovation programme of ZE PAK S.A. Reduction of electricity generation from lignite and maintenance of generation for biomass-fired boiler are assumed.
- In the structure of total revenue in 2016-2017, on average, 85% are revenues from own and purchased electricity. Since 2018, due to the exclusion of production in Elektrownia Adamów, total revenue will decrease by 40% in relation to 2017. In 2021, another decrease will take place when the units 5 and 6 as well as the boiler part in Elektrownia Konin do not work.
- The Company assumed the use of the free CO_2 allowances in the amount resulting from Article 10a of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003.
- The costs of lignite purchased for generation were specified on the basis of the delivery schedule and the prices agreed with the appropriate schedules in financial projections of subsidiaries and on the basis of the agreement of 16 March 2016 signed between ZE PAK S.A. and PAK KWB “Konin” S.A. “On the financial support for the construction of the Ościsłowo open cast.”
- The effects of restructuring costs for the withdrawal of the old powers in Konin power plant and Adamów power plant were taken into account.
- The new mechanisms of model changes of the Polish market including the introduction of the capacity market (electricity and power) and/or mechanisms guaranteeing a return on investments (contracts of differences) were not taken into account.
- the weighted average cost of capital after taxation (WACC) in the projection period at the level of 7.22% (in 2014, also 7.22%) was adopted.

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

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

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

The financial projections for PAK KWB “Konin” S.A. and PAK KWB “Adamów” S.A. were built taking into account the following parameters:

- the volume of production (extraction of coal) and revenue were determined on the basis of forecasts of the main recipient of coal that is ZE PAK S.A. and EP II sp. z o.o. and its projected price curve for coal on the basis of the agreements signed between ZE PAK S.A. and PAK KWB "Konin" S.A. "On the financial support for the construction of the Ościsłowo open cast",

(in thousands of zlotys)

- stripping and extraction of coal were developed according to the schedule of utilisation of current and predicted open casts,
- the level of investment expenses enabling to build new open casts ensuring supplying the power plants and maintaining specified production capacities during their operation was accepted,
- the effects of employment restructuring processes were taken into account,
- costs of following events were included:
  - costs of reclamation of open pits
  - pension provisions
  - costs of compensations due to the group dismissals
  - revenues from sale of the asset after the end of life of the open pit.
- weighted average cost of capital after taxation (WACC) in the projection period for PAK KWB Adamów at 7.51% (in 2014, 8.00%) and for PAK KWB "Konin" S.A. at the level of 7.92% (in 2014, 8.00%) was adopted; the higher discount rate reflects the higher risk associated with the operation of PAK KWB "Konin" S.A. in the long term (longer perspective of the forecast), in particular in relation to investment activities related to the development of new lignite deposits.

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 PAK KWB Adamów S.A. and for the CGU PAK KWB Konin S.A., whereas there was a need for a write-down in the amount of PLN 1 880 000 thousand for the CGU ZE PAK S.A.

Below, there are the results of the conducted tests for the CGUs, for which the value impairment was identified:

As of 31 December 2015	*the tested value*	*stated the impairment of the asset*	*the value after the excerpt*
ZE PAK S.A.	3 187 931	1 880 000	1 307 931
Total	3 187 931	1 880 000	1 307 931

Additionally, in the current financial year, the Group recognised value impairment of mining assets in the company PAK Górnictwo sp. z o.o. in the amount of PLN 16 189 thousand.

Sensitivity analysis

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

Zespół Elektrowni Pątnów – Adamów – Konin S.A.	*(+) increase by 1.0 percentage points*	*(-) decrease by 1.0 percentage points*
weighted average cost of capital	(PLN 44 million)	PLN 52 million
	(+) increase by 1%	*(-) decrease by 1%*
change in sales revenues (electricity price)	PLN 80 million	(PLN 80 million)
	(+) increase by 5%	*(-) decrease by 5%*
change in cost of sales (price of 1 EUA)	(PLN 86 million)	PLN 86 million

PAK KWB Konin S.A.	*(+) increase by 1.0 percentage points*	*(-) decrease by 1.0 percentage points*
weighted average cost of capital	(PLN 65 million)	PLN 75 million
	(+) increase by 1%	*(-) decrease by 1%*
change in sales revenues	PLN 48 million	(PLN 48 million)

In the case of a decrease in revenues from sales by 0.9% in a perspective of the forecast as the other parameters of the recoverable value evaluation remain unchanged, and in case of increase of the weighted average cost of capital by 0.6 percentage points, while the other model parameters are unchanged, the recoverable value of the CGU would be equal to the balance sheet value.

PAK KWB Adamów S.A.	*(+) increase by 1.0 percentage points*	*(-) decrease by 1.0 percentage points*
weighted average cost of capital	PLN 4 million	(PLN 5 million)
	(+) increase by 1%	*(-) decrease by 1%*

(in thousands of zlotys)

change in sales revenues	PLN 5 million	(PLN 5 million)

In the case of a decrease in revenues from sales by 8% in a perspective of the forecast as the other parameters of the recoverable value evaluation remain unchanged and in case of decrease of the weighted average cost of capital by 6 percentage points, while the other model parameters are unchanged, the recoverable value of the CGU would be equal to the balance sheet value.

20. Lease

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

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

As of 31 December 2015 and 31 December 2014, future minimal lease payments due to financial lease agreements and lease agreements with purchase option, as well as current value of minimal net lease payments are as follows:

	As at 31 December 2015		*As at 31 December 2014*	
	minimum payments	*present value of payments*	*minimum payments*	*present value of payments*
Up to 1 year	15 065	14 246	14 423	13 108
1 to 5 years	11 155	11 250	20 168	19 151
Over 5 years	-	-	-	-
Total minimal lease payments	26 220	25 496	34 591	32 259
Minus finance expenses	(724)	-	(2 062)	-
Present value of minimal lease payments, including:	26 151	25 496	34 558	32 259
Short-term	15 031	14 246	14 404	13 108
Long-term	11 120	11 250	20 154	19 151

(in thousands of zlotys)

21. Intangible assets

Long-term intangible assets – year ended 31 December 2015

	Development costs	*Patents and licences*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2015	-	18 549	1 847	76 922	97 318
Transfer EUA	-	-	-	(76 538)	(76 538)
Increases	-	(1)	(200)	-	(201)
Decreases	-	1 010	302	12 065	13 377
Gross value as of 31 December 2015	-	19 558	1 949	12 449	33 956
Depreciation and impairment write-downs as at 1 January 2015	-	13 286	1 475	294	15 055
Depreciation write-down for the period	-	1 239	422	29	1 690
Impairment write-down	-	-	-	-	-
Decreases	-	-	(178)	-	(178)
Depreciation and impairment write-downs as at 31 December 2015	-	14 525	1 719	323	16 567
Net value as at 1 January 2015	-	5 263	372	76 628	82 263
Net value as at 31 December 2015	-	5 033	230	12 126	17 389

In the other intangible assets item, the Group presents mainly purchased CO_2 emission allowances over the redemption obligation related to the emission for the year ended 31 December 2015. In the EUA Transfer, the Group presents transfer of CO_2 allowances between long-term and short-term intangible assets.

Long-term intangible assets – year ended 31 December 2014

	Development costs	*Patents and licences*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2014	-	33 231	1 822	25 528	60 581
Increases	-	(17 041)	(12)	(25 156)	(42 209)
Decreases	-	2 359	37	76 550	78 946
Gross value as of 31 December 2014	-	18 549	1 847	76 922	97 318

(in thousands of zlotys)

Depreciation and impairment write-downs as at 1 January 2014	-	27 702	1 155	269	29 126
Depreciation write-down for the period	-	1 259	333	25	1 617
Impairment write-down	-	-	-	-	-
Decreases	-	(15 675)	(13)	-	(15 688)
Depreciation and impairment write-downs as at 31 December 2014	-	13 286	1 475	294	15 055
Net value as at 1 January 2014	-	5 529	667	25 259	31 455
Net value as at 31 December 2014	-	5 263	372	76 628	82 263

(in thousands of zlotys)

Short-term intangible assets

	31 December 2015	*31 December 2014*
	Certified emission reduction units (CERs/ERUs/EUAs)	*Certified emission reduction units (CERs/ERUs/EUAs)*
Gross value as of 1 January	176 957	151 262
Purchase of EUA	275 175	176 347
Redemption of EUA	(174 281)	(150 652)
Transfer of EUA	76 538	-
Gross value as of 31 December	354 389	176 957
Redemption and impairment as of 1 January	-	-
Impairment write-down of a period	-	-
Depreciation and impairment write-down as of 30 June	-	-
Net value as of 1 January	176 957	151 262
Net value as of 31 December	354 389	176 957

22. Assets for overburden removal and other mining assets

As of 31 December 2015, the item of assets for overburden and other mining assets includes amongst other: assets for overburden and other mining assets of PAK KWB Konin in the amount of PLN 92 748 thousand and assets of PAK KWB Adamów in the amount of PLN 1 309 thousand.

	31 December 2015	*31 December 2014*
Status as of 1 January	150 457	139 268
Increases	1 976	24 373
Decreases	-	-
Depreciation for the period	(42 187)	(13 184)
Impairment (change)	(16 189)	-
Status as of end of period:	94 057	150 457
– long-term	92 748	149 901
– short-term	1 309	556

23. Other assets

23.1. Other financial assets

	31 December 2015	*31 December 2014*
Deposits for debt service security	74 789	90 561
Investments and deposits	2 709	2 499
Investments and MLF and MRF deposits	7 637	5 876
Shares	2 451	4 521
Other	3 145	3 882
Total other financial assets:	90 731	107 339
– short-term	76 979	94 748
– long-term	13 752	12 591

23.2. Other non-financial assets

	31 December 2015	*31 December 2014*
VAT receivables	4 031	28 922
Insurance	1 519	1 713

(in thousands of zlotys)

Other receivables from the state budget	1 783	1 017
Other accruals	6 235	6 128
Delivery prepayments	813	2 298
Prepayments for intangible assets	1 834	242
Prepayments for assets under construction	5 848	24 643
Prepayments for tangible assets – land	-	-
Other	461	420
Total other non-financial assets:	22 524	65 383
– short-term	12 497	39 434
– long-term	10 027	25 949

The largest components of the other accruals item are settlements concerning the financing costs in the amount of PLN 2 960 thousand, licensing fees in the amount of PLN 970 thousand in ZE PAK.

24. Employee benefits

24.1. Pension benefits and other post-employment benefits

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

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

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

	Provision for pension, retirement, and survival benefits	*Anniversary premiums*	*Subsidies to electricity/coal benefits*	*Total*
Status as of 1 January 2014	**55 807**	**116 656**	**74 414**	**246 877**
Current service cost	4 777	7 698	2 149	14 624
Interest costs	2 263	4 742	2 977	9 982
Actuarial profits and losses	3 955	(605)	5 597	8 947
Paid benefits	(6 443)	(12 056)	(6 231)	(24 730)
Past service cost	(10 274)	(19 656)	556	(29 377)
Other	(112)	(31 474)	(47 630)	(79 216)
Status as of 31 December 2014	**49 973**	**65 302**	**31 832**	**147 107**
Long-term provisions	46 600	33 573	28 381	108 554
Short-term provisions	3 373	31 729	3 451	38 553

(in thousands of zlotys)

In the year ended 31 December 2014, redemption of provisions for subsidies to electricity in ZE PAK S.A. was based on withdrawal from the Collective Labour Agreement for Energy Sector Employees. The main factor of the decrease in the value of provisions for anniversary premiums was an agreement with the trade unions in the Group in terms of liquidation of anniversary premiums in the Collective Labour Agreement.

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

	Year ended 31 December 2015	*Year ended 31 December 2014*
discount rate	2.6%	2.6%
expected inflation rate	2.5%	2.5%
expected remuneration growth rate	depending on the company for 2016 year is in the range of 0 to 3%, for the following years is 3%	3.0%
expected energy price growth rate	-	3.0%

25. Inventories

	31 December 2015	*31 December 2014*
Production fuel	14 745	21 367
Spare parts and other materials	67 019	71 523
Certificates of origin of energy	75 532	143 822
Goods	219	404
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	157 515	237 116

In the year ended 31 December 2015, the Group made an impairment write-down against inventories in the amount of PLN 12 839 thousand (in 2014, PLN 19 481 thousand). In 2015, the impairment write-down mainly concerned the impairment write-down against the value of green certificates in the amount of PLN 11 858 thousand. In the year ended 31 December 2015, the impairment write-down against the value of green certificates in the amount of PLN 25 340 thousand was used.

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

As of 31 December 2015, according to entries in the book of accounts, the Group possessed 591 558.764 MWh of ownership units from green certificates and produced yet unverified by the ERO, green energy, of which 476 257.575 MWh is already obtained property rights, while 76 744.933 MWh is the production of green energy in October and November 2015 waiting to be confirmed by ERO and 38 556.256 MWh is the production month of December 2015 pending submission of the application by the Company. An application for the grant of property rights has been made by the Company in January 2016. In the four quarters of 2015, the Group received outstanding certificates for year 2013 in the amount of 106 522.800 MWh, certificates outstanding for the fourth quarter of 2014 in the amount of 83 791.577 MWh and certificates for the period from January to September 2015 in the amount of 353 057.956 MWh. During the current reporting period the Group realized production from renewable sources and presented in the balance sheet of green certificates at prices current at the end of each month. Impairment of inventories at 31 December 2015 amounting to PLN 13 218.1 thousand relates to the revaluation of the rights which are out of stock of the Company on 31 December 2015 at the unit price of 108.60 PLN/MWh.

26. Trade receivables and other receivables

	31 December 2015	*31 December 2014*
Trade receivables	179 735	156 072
Receivables due to compensation related to the termination of the PPAs	57 307	67 030
Receivables due to security of purchase of electricity in the balancing market	7 826	4 500
Other receivables	23 255	26 375
Net receivables	268 123	253 977
Write-down of receivables impairment	41 840	41 995
Gross receivables	309 963	295 972

(in thousands of zlotys)

In the others line, receivables as of 31 December 2015, the Group presents mainly receivables due to the security deposit in the amount of PLN 18 727 thousand.

Terms of transactions with affiliates are presented in the note 38.

Trade receivables are not subject to interest and the date of payment is usually within the 14-day period.

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

As of 31 December 2015, trade receivables and other receivables in the amount of PLN 41 840 thousand (as of 31 December 2014: PLN 41 995 thousand) were included in the write-off. Changes in the receivables impairment write-downs were as follows:

	31 December 2015	*31 December 2014*
Impairment write-down as of 1 January	41 995	43 374
Increase	857	1 080
Use	(5)	(77)
Redemption	(1 007)	(2 382)
Impairment write-down as of 31 December	41 840	41 995

The following is an analysis of receivables due to supplies and services and other receivables, which, as of 31 December 2015 and 31 December 2014 were expired, but were not considered to be non-collectible and are not included in the write-off.

			Expired, but collectible				
	Total without write-down	*Not expired*	*<30 days*	*30-60 days*	*60-90 days*	*90-120 days*	*>120 days*
31 December 2015	268 123	238 152	18 515	7 964	1 067	211	2 214
31 December 2014	253 977	224 282	22 406	1 282	5 656	139	212

27. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 31 December 2015 amounts to PLN 383 354 thousand (as of 31 December 2014: PLN 356 120 thousand).

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

Structure of cash

	31 December 2015	*31 December 2014*
Cash in hand and at bank:	238 019	199 026
Short-term deposits	145 335	157 094
Total cash and cash equivalents in the balance sheet	383 354	356 120
Foreign exchange differences	(36)	(852)
Total cash and cash equivalents in cash flow statement	383 318	355 268

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

	31 December 2015	*31 December 2014*
Depreciation:		
Depreciation shown in the income statement	393 705	360 555
Settlement of subsidies	(12 770)	(7 609)
Depreciation shown in the cash flow statement	380 935	352 946

(in thousands of zlotys)

The main component of the subsidies settlement item is the settlement of an excess due to sale of assets components and lease them back in PAK KWB Konin. The amount of PLN 10 984 thousand adjusts depreciation (in 2014: amount of PLN 5 820 thousand).

	31 December 2015	*31 December 2014*
Receivables:		
Balance sheet change in trade receivables and other receivables	(14 146)	(56 129)
Balance sheet change in other long and short-term non-financial assets	42 859	(8 956)
Balance sheet change in amounts due from clients under PPAs	6 698	3 182
Change in advances for fixed assets under construction	(17 203)	(23 833)
Other changes	(2 106)	3 200
Change in receivables shown in the cash flow statement	16 102	(82 536)

	31 December 2015	*31 December 2014*
Liabilities:		
Balance sheet change in trade liabilities and other financial liabilities, long and short-term	(140 688)	157 316
Balance sheet change in other non-financial liabilities	(11 461)	(9 916)
Balance sheet change in amounts paid to clients under PPAs	(10 165)	12 175
Change in liabilities under investment settlements	47 704	(42 962)
Purchase of debt securities	-	4 000
New lease agreements and payment of lease liabilities	6 157	8 401
Other changes	19 886	(535)
Change in liabilities shown in the cash flow statement	(88 567)	128 479

The main components of the other liabilities changes item are reducing liabilities due to redemption of employee shares in ZE PAK in the amount of PLN 24 909 thousand and increasing liabilities for the bonds in PAK KWB Konin in the amount of PLN 5 030 thousand.

	31 December 2015	*31 December 2014*
Change in provisions, prepayments and accruals and employee benefits:		
Change in provisions and prepayments	156 683	108 422
Change in long and short-term employee benefits	(60 651)	(99 710)
Change in provision under CERs redemption	174 281	150 652
Change in actuarial provisions indicated in other comprehensive income	246	(9 502)
Other changes	(2 350)	16
Change in provisions, prepayments and accruals and employee benefits	268 209	149 878

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

In the item of other financial assets were presented outflows of the cash earmarked for acquisition of the employee shares of PAK KWB Adamów and PAK KWB Konin by ZE PAK.

28. Share capital and others capitals

28.1. Share capital

	31 December 2015	*31 December 2014*
50 823 547 shares with a nominal values of PLN 2 each	101 647	101 647
	101 647	101 647

28.1.1. Shares nominal value

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

(in thousands of zlotys)

28.1.2. Shareholders rights

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

28.1.3. Shareholders with significant share

	31 December 2015	*31 December 2014*
Elektrim S.A.		
share in capital	0.39%	0.39%
share in voting right	0.39%	0.39%
EMBUD sp. z o.o.		
share in capital	1.16%	1.16%
share in voting right	1.16%	1.16%
Trigon XIX Fundusz Inwestycyjny Zamknięty		
share in capital	19.68%	-
share in voting right	19.68%	-
ING OFE		
share in capital	9.97%	9.97%
share in voting right	9.97%	9.97%
IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych		
share in capital	17.71%	17.71%
share in voting right	17.71%	17.71%
Argumenol Investment		
share in capital	12.61%	50.00%
share in voting right	12.61%	50.00%
Others		
share in capital	38.48%	38.48%
share in voting right	38.48%	38.48%
	100.00%	100.00%

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

29. Treasury shares

On 29 April 2013, the Company received the decision of the District Court of Poznań – Nowe Miasto and Wilda in Poznań, IX Commercial Department of the National Court Register of 23 April 2013 including the certificate on the entry of 24 April 2013 into the Company's Register of Entrepreneurs regarding the registration of the Company's share capital decrease made pursuant to the resolution no. 6 of the Company's Extraordinary General Meeting of 21 February 2013 on the decrease of the Company's share capital in relation to the redemption of the Company's treasury shares.

Pursuant to Article 360 § 4 of the Code of Commercial Companies, the registration of the decrease of the Company's share capital was related to the redemption of 1,202,453 of the Company's shares representing 1 202 453 votes at the Company's General Meeting.

After the registration by the District Court of the decrease of the Company's share capital, the Company's share capital amounts to PLN 101 647 094 and is divided into 50 823 547 bearer shares class A with a nominal value of PLN 2 each, which represent 50 823 547 votes at the Company's General Meeting, comprising 100% of the total votes at the Company's General Meeting.

30. Supplementary capital

As of 31 December 2015, the structure of the supplementary capital origin in the amount of PLN 2 542 060 thousand is as follows:

- from the sale of shares above their nominal value 380 030,
- created in accordance with the articles of association above the statutory (minimum) value 2 035 350,
- other 126 680.

(in thousands of zlotys)

30.1. Other reserve capitals

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

The value of the reserve fund consists of the Privatisation Fund in the amount of PLN 3 472 thousand, which was created from the profit of 1994, on the basis of a resolution of the Extraordinary General Meeting of the newly established Company, and the value associated with the redemption of treasury shares in the amount of PLN 2 405 thousand. The total value of other reserve capitals, as of 31 December 2015, is PLN 5 877 thousand.

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

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

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

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

In the Group, as of 31 December 2015, the full amount of non-divided profit (including the equivalent of reserve and supplementary capital created within the division of profits in the previous years) is subject to the restriction on payment of dividend. The following conditions are the basis of such an assumption:

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

As of 31 December 2015, there are no other restrictions on the payment of the dividend.

30.3. Non-controlling interest

	Year ended 31 December 2015	*Year ended 31 December 2014*
At the beginning of the period	-	-
Acquisition - defining non-controlling interest at the acquisition date	30 971	30 971
Employee share program - correction of the original settlement	(955)	(955)
The result of subsidiaries in a given year - attribution to non-controlling interests	1 278	(3 493)
Settlement PUT options - the recognition of the commitment to purchase employee shares	(30 971)	(30 971)
Settlement PUT option - recognition of the difference between the value of non-controlling interest and obligation at end of period	(323)	4 448
Total	-	-

(in thousands of zlotys)

Allocation of the result to the non-controlling interests

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

Recognition of the ZE PAK's liability of redemption of employee shares

ZE PAK is obliged to redeem employee shares pursuant to the PAK KWB Konin and the PAK KWB Adamów's shares sale agreement, in case when employees request for resale. The agreement's provisions determine the price and the term of redemption.

In accordance with the IFRS, ZE PAK recognised the obligation to redeem shares owned by non-controlling interests on the day of the acquisition of control. On the basis of chosen policy of accounting, ZE PAK presented financial liability in the amount of PLN 11 880 thousand, in case of PAK KWB Adamów, and in the amount of PLN 19 091 thousand, in case of PAK KWB Konin, in the consolidated financial statement. The difference between the value of non-controlling interests derecognised on the balance sheet date and the recognised financial liability is recognised in the retained profits. In 2015, most of employee shares were redeemed for the total amount of PLN 24 909 thousand. As of 31 December 2015, the remaining amount of the liability for the employee shares redemption was PLN 6 061 thousand.

31. Interest-bearing loans and borrowings

Short-term	*Maturity*	*31 December 2015*	*31 December 2014*
Loan from NFOŚiGW in the amount of PLN 226 000 thousand; interest rate at 0.5 of bills of exchange rediscount rate	23.06.2015	-	14 643
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	136 548	135 427
Overdraft facility at BRE Bank in the amount of PLN 9 700 thousand; interest rate at WIBOR 1M + bank margin	21.04.2016	9 580	9 654
Overdraft facility at BZ WBK in the amount of PLN 65 000 thousand; interest rate at WIBOR 1M + bank margin	30.06.2016	64 385	64 105
Investment loan from BZ WBK S.A. in the amount of PLN 46 463 thousand; interest rate at WIBOR 1M + bank margin	31.12.2016	12 438	12 438
Credit services agreement in mBank S.A. to amount of PLN 61 590 thousand – discounting of bills of exchange, interest rate at WIBOR 1M + bank margin	30.06.2016	3 851	7 918
Bank BPH S.A. – loan agreement in the amount of PLN 67 000 thousand	31.05.2016	50 884	50 627
Overdraft facility at Millennium Bank in the amount of PLN 76 500 thousand; interest rate at WIBOR 3M + bank margin	31.12.2017	28 765	15 975
Overdraft facility at Millennium Bank in the amount of PLN 10 000 thousand	26.01.2015	-	9 840
Syndicated investment loan in amount of PLN 1 110 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.12.2023	67 642	17 644
Syndicated overdraft facility in amount of PLN 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.12.2023	12 300	10 276
Overdraft facility in Bank BPH, interest rate at WIBOR 3M + bank margin		-	6
Overdraft facility in Bank BPH to the amount of PLN 1 000 thousand, interest rate at WIBOR 3M + bank margin	05.06.2016	150	-
Total		**386 543**	**348 553**

Long-term	*Maturity*	*31 December 2015*	*31 December 2014*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	360 627	481 269

(in thousands of zlotys)

Overdraft facility at Millennium Bank in the amount of PLN 76 500 thousand; interest rate at WIBOR 3M + bank margin	31.12.2017	28 765	43 950
Investment loan from BZ WBK S.A. in the amount of PLN 46 463 thousand; interest rate at WIBOR 1M + bank margin	31.12.2016	-	12 438
Credit services agreement in mBank S.A. to amount of PLN 61 590 thousand – discounting of bills of exchange, interest rate at WIBOR 1M + bank margin	30.06.2016	-	3 851
Syndicated investment loan in amount of PLN 1 110 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.12.2023	465 400	246 351
Syndicated overdraft facility in amount of PLN 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.12.2023	69727	79 362
Total		**924 519**	**867 221**

In the 12 months ended 31 December 2015, the Group repaid credits including interests in the amount of PLN 256 312 thousand, including:

- repayment of the corporate credit capital by EP II in the amount of PLN 134 655 thousand, including the interest,
- repayment of the investment credit A capital for the modernisation of units 1-4 in Elektrownia Pątnów by ZE PAK in the amount of PLN 52 517 thousand, including the interest,
- repayment of the investment credit B capital for refinancing the IOS credit by ZE PAK in the amount of PLN 10 264 thousand, including the interest,
- repayment of the investment credit capital by PAK KWB Konin in the BZ WBK S.A. bank in the amount of PLN 13 718 thousand, including the interest,
- repayment of the bill credit capital by PAK KWB Konin in the mBank S.A. in the amount of PLN 8 173 thousand, including the interest,
- repayment of the working capital facility capital by PAK KWB Konin in the Millennium Bank S.A. in the amount of PLN 23 553 thousand, including the interest,
- repayment of the overdraft facility capital by PAK KWB Konin in the Millennium Bank S.A. in the amount of PLN 9 918 thousand, including the interest,
- repayment of the overdraft facility capital by PAK KWB Konin in the mBank S.A. in the amount of PLN 341 thousand, including the interest,
- repayment of the overdraft facility interests by PAK KWB Konin in the BZ WBK S.A. bank in the amount of PLN 1 669 thousand,
- repayment of the interests of the multi-purpose credit line in the BPH S.A. bank by PAK KWB Konin in the amount of PLN 1 504 thousand,

On 13 March 2014, ZE PAK concluded the Corporate Credit Agreement with mBank, BGK, Millennium, PEKAO S.A. and PKO BP banks in the amount of PLN 1 200 000 thousand. The Credit was divided into two parts, The A Credit in the amount of PLN 1 110 000 thousand for modernisation of units 1-4 in Elektrownia Pątnów I, the B Credit in the amount of PLN 90 000 for the purpose of refinancing the IOS credit repaid on 2 January 2014. Interest of A and B Credits amounts to WIBOR 3M plus the bank's profit margin. The credit repayment started on 20 June 2015 and will last till 20 December 2023. On 27 May 2014, ZE PAK commenced the disbursement of the first credit advance in the amount of PLN 191 000 (the A Credit – PLN 101 000 thousand, the B Credit – PLN 90 000 thousand). The second credit advance in the amount of PLN 164 000 thousand (the A Credit) was commenced on 16 September 2014, while the third one in the amount of PLN 121 000 thousand (the A Credit) – on 19 February 2015. The fourth credit advance was commenced on 22 June 2015 in the amount of PLN 88 000 thousand (the A Credit). The disbursement of the fifth credit advance in the amount of PLN 103 000 thousand was commenced on 6 November 2015.

On 18 March 2015, PAK KWB Konin signed the Annex to the Working capital credit agreement concluded with Bank Millennium S.A., the balance of which was PLN 57 262 thousand on the date of signing. This annex renewed the credit limit to the amount of PLN 76 500 thousand (the credit in the amount of PLN 19 237 was incurred).

On 21 October 2015, PAK KWB Konin signed the Annex to the Working capital credit agreement concluded with mBank S.A. to the amount of PLN 9 700 thousand prolonging the credit repayment date until 21 April 2016. On 30 June 2015, PAK KWB Konin signed the Annex to the Working capital credit agreement concluded with BZ WBK S.A. to the amount of PLN 65 000 thousand prolonging this credit repayment until 30 June 2016.

(in thousands of zlotys)

32. Provisions and accruals

32.1. Accruals

	31 December 2015	*31 December 2014*
Bonus and holiday leave provision	35 624	34 591
Insurance company compensations	41	102
Audit of the financial statement	393	307
Others	1 717	251
Total	37 775	35 251
short-term	37 775	35 251
long-term	-	-

The main component of “Other” item is the provision for termination of an employment relationship costs in PAK Serwis sp. z o.o. in the amount of PLN 1 200 thousand.

(in thousands of zlotys)

32.2. Change in provisions

	Land and perpetual usufruct	*Provision for the fixed assets liquidation costs*	*Provision for the reclamation of ash storage yards*	*Provision for the long-term contract loss*	*Provision for the certificates of origin of energy redemption*	*Reclamation provisions and other provisions related to mining activities*	*Other*	*Total*
As of 1 January 2015	176 957	14 671	4 025	98	6 056	343 828	66 357	611 992
Increases	351 713	1 748	-	64	9 449	10 718	4 509	378 201
Decreases	(174 281)	-	(2 327)	(14)	(6 056)	(23 985)	(17 379)	(224 042)
As of 31 December 2015	354 389	16 419	1 698	148	9 449	330 561	53 487	766 151
Long-term	-	16 419	1 005	-	-	307 111	10 344	334 879
Short-term	354 389	-	693	148	9 449	23 450	43 143	431 272
As of 1 January 2014	150 652	17 779	4 384	133	1 801	297 705	30 698	503 152
Increases	176 957	705	-	43	5 391	66 034	64 174	313 304
Decreases	(150 652)	(3 813)	(359)	(78)	(1 136)	(19 911)	(28 515)	(204 464)
As of 31 December 2014	176 957	14 671	4 025	98	6 056	343 828	66 357	611 992
Long-term	-	14 671	2 470	-	-	321 261	22 740	361 142
Short-term	176 957	-	1 555	98	6 056	22 567	43 617	250 850

32.3. Description of significant titles of provisions

32.3.1. 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 allowances and certified emission reductions (EUA).

Since 1 January 2013, the next reporting period of 2013 – 2020 concerning allowances has been applicable. This period's assumption is granting the Group the free EUA allowances resulting from the production of heat. Although, power engineering was additionally covered by opportunity of derogation. Derogation resulting from Article 10c of the ETS Directive is based on granting additional free allowances, provided that declared investment expenses for investments reported to the National Investment Plan are paid. ZE PAK S.A. 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 3 April 2014, the Resolution of the Council of Ministers of 31 March 2014 on the list of systems other than producing electricity included in the system of greenhouse gases allowances trade in the reporting period commencing since 1 January 2013, and the number of allowances granted to them resulting from Art. 10a for heat production, which was amended by the resolution of the Council of Ministers of 10 April 2015, was issued.

Then, on 10 April 2014, the Council of Ministers issued the Resolution of 8 April 2014 on the list of systems producing electricity included in the system of greenhouse gases allowances trade in the reporting period commencing since 1 January 2013 and the granted number of CO_2 emission allowances of Art. 10c – derogation for power engineering – on condition of incurring declared investment expenses on the investments reported in the National Investment Plan. Then, this resolution was amended by the resolution of the Council of Ministers of 13 April 2015.

The emission in the PAK Group in 2015 amounted to 12 689 534 tonnes of CO_2. In April 2015, the redemption of emissions for 2014 in the number of 12 574 175 EUAs was made. After the redemption, there were 2 936 403 EUAs in the Group, which have been transferred to redeem emissions for 2015.

Moreover, in April 2015, ZE PAK S.A. obtained free emission allowances under Art. 10a resulting from heat production for 2015 in the number of 121,398 EUAs, which will be used in April 2016 in redemption for emissions for 2015.

On 30 September 2015, the ZE PAK Group submitted the material and financial statement on the executed investment expenses within the National Investment Plant to the Ministry of the Environment concerning the free EUA of the Article. 10c for 2015, applying for granting 329 417 EUAs.

Within the framework of the Group's allowance balance, the EP II Sp. z o.o. subsidiary, at CO_2 emissions for 2015 at the level of 2 350 415 tonnes of CO_2, after taking into consideration of the excess of 2014, had to purchase additional 2 267 819 tonnes of the CO_2 emission allowances.

In four quarters of 2015, the PAK Group purchased 8 870 703 EUAs for the needs of 2015, whereas the total purchases in the Group in 2015 year were 9 199 785 EUAs.

The provision for the burden of core operating activities for purchased CO_2 allowances, which the Group wants to present for the redemption for 2015, is being created. As the actual redemption of allowances happens, the provision created earlier will be terminated.

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

The Group is creating the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the “Integrated Approval Entries.” The basis of estimation of the provision size are specialised studies and technical and economical expert opinions developed by domestic services, or external experts. Values of the provision is estimated and verified on every balance sheet date on the basis of current cost estimates and a discount. As of 31 December 2015, the created provision amounted to PLN 1 698 thousand.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group is creating the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 31 December 2015, the provision due to this amounted to PLN 16 419 thousand.

32.3.3. 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 is creating the provision both for costs of area reclamation related to current coal extraction on a given open pit and for costs of the final excavation reclamation in the state of advancement of coal extraction in particular open pits on every balance sheet day.

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

PAK KWB Konin 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 is creating the provision for projected costs, to pay which it is obliged on the basis of concluded agreements. Estimates concerning projected costs related to the mine operations are updated on every reporting date.

The provision for the liquidation of facilities and reclamation of mining areas, and due to preparation of exploration areas in PAK KWB Konin and PAK KWB Adamów according to the status as of 31 December 2015 amounted to PLN 330 561 thousand and decreased in comparison with the year ended 31 December 2014 by PLN 13 268 thousand. Calculating the provisions, the Group accepted following assumption: the discount rate at the level of 2.6%, the level of inflation at the level of 2.5%. Changes in provisions also result from changes in estimated costs of reclamation and liquidation on the basis of data of the independent experts' report and the percentage coal extraction, as well as the report of the environmental protection division.

32.3.4. Provision for redemption of energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load cogeneration. As of 31 December 2015, the provision due to this amounted to PLN 9 449 thousand.

32.3.5. Other provisions

The main items of other reserves as of 31 December 2015 are in PAK KWB Konin: provisions for mining damage in the amount of PLN 25 203 thousand, the provision for property tax in the amount of PLN 2 082 thousand, provisions for pending legal proceedings in the amount of PLN 966 thousand. In PAK KWB Adamów: provisions for permanent taking out of production for the final reservoir of the Adamów cast in the amount of PLN 15 828 thousand, the provision for mining damage in the amount of PLN 3 881 thousand, provisions for legal proceedings in the amount of PLN 1 188 thousand. In addition, in EL PAK and PAK SERWIS, provisions for warranty repairs in the amount of PLN 1 987 thousand.

33. CO_2 emission allowances

Since 1 January 2013, the next reporting period of 2013-2020 concerning CO_2 allowances has been applicable. This period's assumption is granting the Group the free EUA allowances resulting from the production of heat, although, power engineering was additionally covered by opportunity of derogation. Derogation resulting from Article 10c of the ETS Directive is based on granting additional free allowances, provided that declared investment expenses for investments reported to the National Investment Plan are paid.

In December 2013, the Ministry of Environment issued a sample of a material and financial statement, which is sent annually by the ZE PAK Capital Group to the Ministry in the scope of incurred investment expenses for investment tasks reported to the National Investment Plan in order to use derogation for power engineering within Article 10c of the ETS Directive. For the incurred investment expenses from 1 July 2013 to 30 June 2014, the ZE PAK Capital Group submitted the material and financial statement and, at the same time, applied for 2,241,959 free EUAs that the Group received in April 2015 and were used for redemption of the emission for 2014.

On 3 April 2014, the resolution of the Council of Ministers of 31 March 2014 (amended on 10 April 2015) on the list of systems other than producing electricity included in the system of greenhouse gases allowances trade in the reporting period commencing on 1 January 2013 and the number of allowances granted to them resulting from Art. 10a for heat production was issued.

Then, on 10 April 2014, the resolution of the Council of Ministers of 8 April 2014 (amended on 13 April 2015) on the list of systems producing electricity included in the system of greenhouse gases allowances trade in the reporting period commencing on 1 January 2013 and the number of allowances granted to them under Art. 10c (derogations for power engineering) was issued.

(in thousands of zlotys)

For the Elektrownia Pątnów II sp. z o.o. system, a certain number of CO_2 allowances was allocated. However, for this system, any investment tasks that would cover receivables for CO_2 allowances are not reported to the National Investment Plan (KPI), so allocation of free EUAs for this system depends on expenses for tasks conducted for systems of ZE PAK S.A.

It should also be noted that buying in 2014, under the current accounting period, ERUs, which then Group used to redeem the issue for year 2014, the Group thereby in 2014, used the existing opportunity to purchase for the purpose of exchange of 11% of EUAs for cheaper CERs or ERUs (10% from the period 2008-2012 and 1% from the period 2013-2020) and thereby completed the exchange of EUAs for CERs or ERUs in the period 2013-2020.

As of 01 January 2015, the Group possessed the purchased EUAs in the number of 13 268 619 tonnes. In April 2015, the Group received free EUAs resulting from Art. 10c for 2014 in the number of 2 241 959 EUAs, so that, in April 2015, the Group had 15 510 578 EUAs in total for the needs of redemption of the emission for 2014. Then, at the end of April 2015, the redemption of emissions for 2014 in number of 12 574 175 EUAs was made. After the redemption, 2 936 403 EUAs of the old inventories that were transferred to the redemption of the emissions for 2015 and 3 140 000 EUAs purchased during the first quarter of 2015 for the needs of the redemption of emissions for 2015 remained in the Group. Moreover, in April 2015, ZE PAK S.A. obtained free emission allowances under Art. 10a resulting from heat generation for 2015 in number of 121 398 EUAs, which will be used in April 2016.

In the fourth quarter of 2015, the Group purchased 1 128 285 EUAs, thus the total purchase of EUAs in the Group in 2015 was 9 199 785 EUAs, and the stock of EUAs in the Group after all the above described operations as of 31 December 2015 was 12 257 586 EUAs.

On 30 September 2015, the Group submitted the material and financial statement to the Ministry of the Environment concerning the free EUAs of the Article. 10 c for the executed investment expenses in the period from 1 July 2014 to 30 June 2015, applying for granting for free EUAs in the number of 329 417 units.

In tables below, carbon dioxide allowances granted in the scope of the National Allocation, purchased on the secondary market including with division into the part used for their own purposes, and the one sold in years ended 31 December 2015, and 31 December 2014 were presented.

CO_2 emission allowances in the year ended 31 December 2015

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

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

(in thousands of zlotys)

CO_2 emission allowances in the year ended 31 December 2014

(in tonnes)		*Zespół Elektrowni Pątnów – Adamów – Konin S.A.*	*"Elektrownia Pątnów II" sp. z o.o.*
	Emission of CO_2	10 085 564	2 488 611
EUA	Balance at the beginning of the period	11 558 393	2 832 473
	Purchased	7 156 233	2 132 871
	Free of charge	1 995 268	-
	Redemption*	(10 596 759)	(2 532 137)
	Sale	-	-
	Exchange	584 277	138 000
	Balance at the end of the period	10 697 412	2 571 207
CER	Balance at the beginning of the period	146 070	34 500
	Purchased	-	-
	Redemption*	-	-
	Sale	-	-
	Exchange	(146 070)	(34 500)
	Balance at the end of the period	-	-
ERU	Balance at the beginning of the period	146 070	34 500
	Purchased	292 137	69 000
	Redemption*	-	-
	Sale	-	-
	Exchange	(438 207)	(103 500)
	Balance at the end of the period	-	-

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

34. Trade liabilities, other liabilities and accruals

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

	31 December 2015	*31 December 2014*
Trade liabilities	111 622	163 837
Financial liabilities	-	-
Other liabilities:		
Liabilities due to the put option	6 061	30 971
Investment liabilities	68 882	108 169
Liabilities to employees due to salaries	18 234	20 921
Other liabilities	32 706	31 304
Total	237 505	355 202

In the other liabilities line as of 31 December 2015, the Group presents mostly liabilities due to financial lease in the amount of PLN 14 435 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 Elektrownia Pątnów II and Zarządca Rozliczeń in the amount of PLN 4 964 thousand. The remaining amount in the other liabilities item as of 31 December 2015 concerns mostly credit notes for biomass purchase in the amount of PLN 2 649 thousand, settlements with employees and deductions from the pay roll amounting to PLN 3 023 thousand, settlements due to security amounting to PLN 435 thousand, and liabilities due to the bonds in the KWB Konin in the amount of PLN 5 030 thousand.

Liabilities due to the put option concerns obligation of ZE PAK to redemption of employee shares pursuant to the PAK KWB Konin and the PAK KWB Adamów's shares sale agreement, in case when employees request for resale. The agreement's provisions determine the price and the term of redemption. In accordance with the IFRS, ZE PAK recognised the obligation to redeem shares owned by non-controlling interests on the day of the acquisition of control. On the basis of chosen policy of accounting, ZE PAK presented financial liability in the amount of PLN 11 880 thousand, in case of PAK KWB Adamów, and in the amount of PLN 19 091 thousand, in case of PAK KWB Konin, in the consolidated financial statement for 2014 year. In relation with the ongoing process of the employee shares redemption, as of 31 December 2015, the remaining liability amount is PLN 6 061 thousand.

(in thousands of zlotys)

Principles and terms of payment of the above financial liabilities:

- Terms of transactions with affiliates are presented in the note 38 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.

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

	31 December 2015	*31 December 2014*
Liability due to financial lease	11 909	19 251
Short-term liabilities to other entities – over 12 months	1 375	719
Other financial liabilities	-	-
Other	67 467	83 772
Total	80 751	103 742

In the other item, as of 31 December 2015, the Group presents primarily liabilities related to settlement of adjustment of PPA for 2008, on the basis of the judgement of the Court of Appeal in Warsaw of 4 November 2014 and an agreement on 2 October 2014 concluded between Elektrownia Pątnów II and Zarządca Rozliczeń in the amount of PLN 66 573 thousand, investment liabilities in ZE PAK in the amount of PLN 241 thousand, and liabilities for securities in EL PAK and PAK Serwis in the amount of PLN 653 thousand.

34.3. Other non-financial liabilities

	31 December 2015	*31 December 2014*
VAT tax liabilities	20 551	13 758
Liabilities due to environmental charges	53 893	62 822
Liabilities due to the excise tax	701	216
Liabilities due to social insurance	26 964	31 712
Personal income tax	6 797	8 881
Other budget liabilities	89	2 425
Advanced payments for deliveries	265	1 293
Mining fee	12 768	11 969
Other	525	939
Total	122 553	134 015

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

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

34.4. Derivative financial instruments

	31 December 2015	*31 December 2014*
Instruments securing floating interest rates (SWAP)	16 292	23 743
Other currency options	-	-
Total	16 292	23 743
short-term	7 349	8 684
long-term	8 943	15 059

34.5. Grants and deferred income (long-term)

	31 December 2015	*31 December 2014*
Long-term preferential loans	-	-

Long-term settlement of sale-and-lease-back	5 163	16 147
Long-term grants	45 600	47 383
Other	305	302
Total	51 068	63 832

34.6. Grants and deferred income (short-term)

	31 December 2015	*31 December 2014*
Short-term preferential loans	-	-
Short-term settlement of sale-and-lease-back	10 984	10 984
Short-term grants	1 786	1 795
Other	4	-
Total	12 774	12 779

35. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in the note below, as of 31 December 2015, the Group did not possess other contingent liabilities, granted guarantees, and sureties.

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

The "Elektrownia Pątnów II" sp. z o.o. company, in accordance with accepted policy of accounting, on the basis of the built financial model, in 2014 and 2015, recognised revenues due to compensations in respective amounts of PLN 99 223 thousand and PLN 179 347 thousand. On the basis of the decision of the President of the Energy Regulatory Office S.A. ("the URE President") issued on 31 July 2009, the company was obliged to return to the compensation scheme administrator, Zarządca Rozliczeń S.A., the amount of PLN 52 493 thousand due to the adjustment of stranded costs for 2008. The company's Board did not agree with the URE President's decision and appealed to the Regional Court of Warsaw – the Court for Protection of Competition and Consumers ("SOKiK"). On 23 September 2009, the Court decided about supersede of the execution of the part of the decision, and ordered to pay the amount of PLN 26 493 thousand.

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

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

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

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

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

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

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

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

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

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

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

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

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

On 30 January 2014, the SOKiK decided about a dismissal of the company's appeal against the URE 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 SOKiK of 30 January 2014, the result of which is to uphold the URE President's decision. On 11 December 2015, the Company filed with the Supreme Court a cassation complaint against the judgment of the Court of Appeal in Warsaw on 13 May 2015.

The proceeding is not completed.

Proceedings in case of the excise tax excess payment

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

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

In relation to the decisions of the Administrative Courts in the cases of other energy companies regarding the overpaid excise tax, ZE PAK S.A., in cooperation with a tax advisor, analysed the resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011 where the Supreme Administrative Court recognised that the pass-through of tax to the price excludes the possibility of refunding the excess payment. The justification of the resolution allows for the assumption of the risk that tax authorities will dismiss any claims regarding the refunding of overpayments indicating that the tax proceeding is not appropriate for such type of claims. In such case, it is possible to seek them under civil law, as a result of which expiration (on the grounds of civil law, this term is 3 years) becomes a significant issue. In relation to the above fact, on 10 February 2012, ZE PAK S.A. submitted to the District Court of Warszawa Śródmieście a summon for the State Treasury for a conciliatory hearing for the amount of approx. PLN 626 460 thousand and thus stopped the statute of limitation. The conciliatory settlement was not reached since during the hearing of 16 April 2012, case ref. No. VI Co 311/12, the representatives of the Treasury did not agree to settle. Simultaneously, on 14 September 2012, while waiting for the results of the tax proceedings regarding the previously submitted applications for excess payment, the Company submitted in writing, to the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic study, the purpose of which was to demonstrate whether the Company suffered a loss related to the payment of the excise tax to which it was not obligated. The Company is of the opinion that the submitted document also applies to other overpayment applications from the entire period embraced by the proceedings, i.e. between January 2006 and February 2009. Ultimately, all applications were included in the cause lists of the Provincial Administrative Court (WSA) and the Supreme Administrative Court (NSA). As of the date of development of this statement, the status of the proceeding is as follows:

- twenty-two cases for the period of January 2006 – November 2007 (excluding November 2006) were conducted from the start by the Head of the Customs Office, after the cases returned from the Supreme Administrative Court. The Company included monthly economic analyses of punitive damage in them. After the negative decisions of the Head of the Customs Office and then of the Head of Customs Chamber, complaints were submitted to the Provincial Administrative Court in Poznań, Hearings before the Provincial Administrative Court in Poznań took place on 4 and 18 November 2015. In all cases, negative judgements for the Company were given. The Company decided to file a cassation to the Supreme Administrative Court.
- 14 proceedings for the period December 2007 – February 2009 (excluding July 2008) are suspended in the Provincial Administrative Court pursuant to the amicable application of both parties because of the resolution ref. II FPS 5/13 passed by the Supreme Administrative Court on 27 January 2014. So far, none of the parties has applied for resumption of the proceedings. These proceedings also included annual economic analysis. These proceedings should be undertaken at the latest by November 2016,
- 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 the Company's cassation appeal by the Supreme Administrative Court. On the hearing on 29 April 2015, the Supreme Administrative Court dismissed the Company's cassation appeal and pointed out that it fully agrees with the Provincial Administrative Court in Poznań in the judgement, against which the cassation appeal was submitted.

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

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

On 1 March 2009, the Act of 6 December 2008 on excise tax came into effect and pursuant to which the sale of electric energy to an entity which is not its final recipient is not subject to excise tax.

The proceeding due to the Company's failure to perform obligation of sales of electricity on commodity exchanges

The proceedings on imposing a pecuniary penalty on the ZE PAK S.A. Company due to failure to disclose irregularities based on failure to perform obligations specified in Article 49a paragraph 1 of the Act – Energy Law that is the obligation to sell the electricity produced in the period between 1 January 2011 and 31 December 2011 on commodity exchanges.

On 30 June 2014, the President of the Energy Regulatory Office ("the URE President") issued a decision, in which he concluded that the Company failed to perform obligation specified in Article 49a paragraph 1 of the Act – Energy Law that is obligation to sell the electricity produced in the period between 1 January 2011 and 31 December 2011 on commodity exchanges and imposed the pecuniary penalty on the Company in the amount of PLN 204 thousand.

On 21 July 2014, the Company appealed against the URE President before the Regional Court in Warsaw – the Court for Protection of Competition and Consumers.

On 31 December 2014, the URE President, after consideration of the Company's appeal, issued a decision, in which he changed the appealed decision reducing the pecuniary penalty to PLN 10 thousand.

On 23 January 2015, the Company paid the pecuniary penalty in the reduced amount and did not appeal against the decision.

The legal proceeding is completed.

The proceeding due to determining the amount of the annual adjustment of the stranded costs for 2012

On 20 March 2013, the President of the Energy Regulatory Office ("the URE President") initiated ex officio the administrative proceedings in case of determining the amount of the annual adjustment of the stranded costs for 2012 for “Elektrownia Pątnów II” sp. z o.o. On 31 July 2013, the URE President issued the decision, in which he determined the amount of the annual adjustment of the stranded costs for 2012 for “Elektrownia Pątnów II” sp. z o.o., which Zarządca Rozliczeń S.A. is obliged to pay “Elektrownia Pątnów II” sp. z o.o. in the amount of (+) PLN 20 689 thousand. According to “Elektrownia Pątnów II” sp. z o.o. the adjustment should amount to (+) PLN 22 341 thousand.

On 14 August 2013, “Elektrownia Pątnów II” sp. z o.o. appealed against the URE President's decision before the Regional Court in Warsaw – the Court for Protection of Competition and Consumers.

On 12 February 2015, the Regional Court in Warsaw issued a judgement, in which it changed the decision of the URE President of 31 July 2013 to the effect that it determined the amount of the annual adjustment of the stranded costs for “Elektrownia Pątnów II” sp. z o.o., which Zarządca Rozliczeń S.A. is obliged to pay to “Elektrownia Pątnów II” sp. z o.o., in the amount of (+) PLN 22 300 thousand.

The parties did not appeal against the judgement.

The judgement is legally binding.

Zarządca Rozliczeń S.A. paid to “Elektrownia Pątnów II” sp. z o.o. the amount of (+) PLN 1 611 thousand resulting from the decision.

The proceeding due to determining the amount of the annual adjustment of the stranded costs for 2014

On 27 March 2015, the President of the Energy Regulatory Office ("the URE President") initiated administrative proceedings ex officio in order to determine the amount of the annual adjustment of the stranded costs for 2014 for “Elektrownia Pątnów II” sp. z o.o.

On 30 July 2015, the URE President issued a decision, in which he determined the amount of the adjustment of the stranded costs for “Elektrownia Pątnów II” sp. z o.o. for 2014, which amounts to (+) PLN 64 311 thousand.

The decision is consistent with the “Elektrownia Pątnów II” sp. z o.o. calculations. Therefore, “Elektrownia Pątnów II” sp. z o.o. did not appeal against the decision.

The legal proceeding is completed.

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

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

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

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

On demand of the Mine of 29 July 2010, the Guarantor, HDI-Gerling Polska Towarzystwo Ubezpieczeń S.A., on the basis of paragraph 5 of the Proper Performance of the Contract Guarantee No 3018763/8402 of 23 November 2009, paid to the Mine the amount of PLN 762 thousand due to failure to perform within the term by obliged FUGO S.A. – the Leader of the Consortium in the composition of: FUGO S.A. and SKW Biuro Projektowo-Techniczne Sapkowski, Kanczewski, Wocka spółka jawna, the Agreement of 26 June 2008, included in the guarantee in the scope of the first excavator.

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

Then, the Mine, on the basis of the charge memo of 26 May 2011 in the amount of PLN 2 762 thousand, burdened FUGO S.A. with remaining damages of the Agreement of 26 June 2008. Due to lack of payment of the above mentioned receivable, the Mine deducted from remunerations entitled to FUGO S.A. due to execution of the agreement.

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

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

- the amount of PLN 5 872 thousand due to the unjust enrichment,
- the amount of PLN 7 024 thousand due to remuneration for performance of the extended scope of works related to the above mentioned agreement.

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

On the day of development of this statement, the Company cannot exclude that FUGO S.A. may submit to the common court of law with the claim for payment of indicated amounts. Currently, there is no formal court dispute. FUGO S.A. only attempted to conclude the Conciliation Settlement costlessly before the court, which enabled to stop the statute of limitation of reported claims, and further steps depend on the evaluation by the above mentioned company the possibility to bear witness in the trial.

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

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

PAK KWB Konin S.A. is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in 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 S.A. 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 S.A. On 7 January 2013, PAK KWBK Konin S.A. submitted a cassation appeal from the described decision.

After the review on the hearing on 7 October 2014, the Supreme Administrative Court dismissed the PAK Kopalnia Węgla Brunatnego Konin S.A.'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.

(in thousands of zlotys)

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin S.A. 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 of the Head of the Wierzbinek Commune of 7 August 2007 still remains in the legal transactions, and it causes legal consequences until issuing the final settlement by the Local Government Court.

35.2. Tax settlements

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

Tax settlements may be subject to inspection for a period of five years, starting from the end of the year of the payment of the tax. As a result of the conducted inspections, the current tax settlements of the Group may be increased by the additional tax liabilities. In the Group's opinion, as of 31 December 2015 and 31 December 2014, appropriate provisions for recognised and calculable tax risks were created.

36. Liability repayment securities

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

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

Liabilities protected with the entity's assets

	31 December 2015		*31 December 2014*	
Kind of liabilities, guarantees, and sureties	*Amount of security*	*Currency*	*Amount of security*	*Currency*
“EL PAK SERWIS” sp. z o.o.				
1. Payment of security deposit				
1.1. The agreement with PAK KWB KONIN S.A. electrical services	3	PLN	-	
“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	PLN	339 750	PLN
2. Mortgage				
2.1. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 in favour of mBank S.A.	400 000	EUR	400 000	EUR
2.2. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura	339 750	PLN	339 750	PLN

(in thousands of zlotys)

sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 in favour of mBank S.A.				
3. Registered pledge				
3.1. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	400 000	EUR	400 000	EUR
3.2. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	339 750	PLN	339 750	PLN
"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. in favour of mBank S.A.	400 000	EUR	400 000	EUR
1.2. Registered and financial pledges on shares held by PAK Holdco in Elektrownia Pątnów II sp. z o.o. in favour of mBank S.A.	339 750	PLN	339 750	PLN
2. Registered pledge				
2.1. Registered pledge on a group of items and rights of PAK Holdco sp. z o.o.	400 000	EUR	400 000	EUR
2.2. Registered pledge on a group of items and rights of PAK Holdco sp. z o.o.	339 750	PLN	339 750	PLN
"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	PLN	339 750	PLN
PAK Kopalnia Węgla Brunatnego Konin S.A.				
1. Registered and financial pledges				
1.1. Registered pledge on machines and devices, including assignment of insurance policy	100 500	PLN	100 500	PLN
1.2. Registered pledge on receivables of agreements of lignite sales to Elektrowni Pątnów II Sp. z o.o. (Millennium Bank)	-		76 500	PLN
1.3. Registered pledge on receivables of agreements of lignite sales to ZE PAK S.A.	-		15 000	PLN
1.4. Registered pledge on receivables of agreements of lignite sales to Elektrowni Pątnów II Sp. z o.o. (Millennium Bank)	122 400	PLN	-	
1.5. Transfer of title to one excavator including assignment of insurance	46 942	PLN	46 942	PLN
2. Mortgage				
2.1. Mortgage on right of perpetual usufruct	100 500	PLN	100 500	PLN
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Bank deposit				
1.1. Bank deposit above the guaranteed amount - bank performance bond	1 013	PLN	1 013	PLN
2. Payment of security				
2.1. Cash - transfer	8	PLN	-	
Zespół Elektrowni Pątnów – Adamów – Konin S.A.				
1. Registered and financial pledges				
1.1. Financial pledge on cash on bank accounts of ZE PAK S.A. in banks: mBank, BGK, PEKAO S.A., PKO BP, Millennium due to credit of PLN 1.2 billion of 13 March 2014	2 040 000	PLN	2 040 000	PLN

(in thousands of zlotys)

2. Registered and financial pledges on shares in affiliates				
2.1. Registered and financial pledges on shares held by ZE PAK S.A. in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO Sp. z o.o. in favour of mBank S.A. (ZE PAK as a guarantor of the "Pątnów II" project)	339 750	PLN	339 750	PLN
2.2. Registered and financial pledges on shares held by ZE PAK S.A. in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO Sp. z o.o. in favour of mBank S.A. (ZE PAK as a guarantor of the "Pątnów II" project)	400 000	EUR	400 000	EUR
3. Mortgage				
3.1. Contractual joint ceiling mortgage established on real estate in Konin consisting of plots of lands with nosh 89/20, 89/53, 89/57, 89/55, 89/56, and 89/21 and on real estate in the Municipality of Kazimierz Biskupi consisting of plots of lands nos. 148/26, 148,28, and 148/34, for which the District Court in Konin keeps land and mortgage registers with nos. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272,	2 040 000	PLN	2 040 000	PLN
4. Registered pledge				
4.1. Registered pledge on a group of items of ZE PAK (units Nos. 1-4 in Elektrownia Pątnów) for the mBank bank in relation to the credit of PLN 1.2 billion of 13 March 2014	2 040 000	PLN	2 040 000	PLN
4.2. Registered pledge on cash on bank accounts of ZE PAK S.A. established for the mBank bank in relation to the credit of PLN 1.2 billion of 13 March 2014	2 040 000	PLN	2 040 000	PLN

Other repayment securities of liabilities

Kind of liabilities, guarantees, and sureties	*31 December 2015* *Amount of security*	*Currency*	*31 December 2014* *Amount of security*	*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 April 2009 between EPII and TAURON Polska Energia S.A. including Transaction Agreements for 2015 concluded in 2014	236 716	PLN	142 910	PLN
1.2. Assignment from the Framework Electricity Sales Agreement no. SPOT/127/EPII/Inter Energia/2009 concluded on 9 December 2009 between EPII and Inter Energia S.A. including Transaction Agreements for 2014 concluded in 2013	66 251	PLN	44 752	PLN
1.3. Assignment from the Framework Electricity Sales Agreement no. 41/SPOT/EPII/ ENEA/2008 concluded on 20 August 2008 between EPII and ENEA S.A. including the concluded Transaction Agreements for 2014	-		25 108	PLN
1.4. Assignment from the Trilateral Agreement concluded on 2 December 2013 in case of execution of the Transaction Agreement for 2014 no. 63(3) of 16 September 2013 to the Long-term Electricity Sales Agreement no. 23/12/PAK/ENERGA/2013-2015 concluded on 1 August 2012 between ZE PAK and ENERGA-OBRÓT S.A.	-		71 935	PLN
1.5. Assignment from the insurance policy no 908200170145/908200174147 in favour of the mBank S.A. bank	658 705	EUR	651 159	EUR
PAK Kopalnia Węgla Brunatnego Konin S.A.				
1. Guarantees				
1.1. Guarantee of Bank Przemysłowo-Handlowy S.A.	4 000	PLN	4 000	PLN
1.3. Guarantee of Bank Przemysłowo-Handlowy S.A.	4 800	PLN	4 800	PLN
2. Sureties				

(in thousands of zlotys)

2.1. Zakład opieki zdrowotnej i Medycy Pracy "MED ALKO" [in Polish: the Health Care and Occupational Medicine Facility "MED ALKO"]	800	PLN	800	PLN
2.2. Surety of the credit in the amount of PLN 1 million for AQUAKON Sp. z o .o.	1 000	PLN	1 000	PLN
2.3. Surety of the credit in the amount of PLN 1 million for Eko-Surowce Sp. z o .o.	1 000	PLN	1 000	PLN
3. Assignments of receivables				
3.1. Assignment of receivables 1.6 million zlotys monthly value of the ordered monthly supply of coal to ZE PAK in accordance with the agreement (BANK mBank)	19 200	PLN	-	
3.2. Assignment of receivables 3 million zlotys monthly value of the ordered monthly supply of coal to ZE PAK in accordance with the agreement (BANK mBank)	36 000	PLN	-	
3.3. Assignment of receivables 120 million zlotys monthly value of the ordered monthly supply of coal to ZE PAK in accordance with the agreement (Bank BPH)	120 000	PLN	-	
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Guarantees				
1.1. Performance Bond	12 133	PLN	4 350	PLN
1.2. Defect Liability Guarantee	781	EUR	781	EUR
1.3. Defect Liability Guarantee	3 246	PLN	2 229	PLN
1.4. Payment Guarantee	4	PLN	12	PLN
1.5. Advanced Payment Refund Guarantee	134	PLN	1 310	PLN
2. Sureties				
2.1. Surety of Pak Serwis for Energoinwest's credit agreement in Bank Millennium	4 800	PLN	1 125	PLN
2.2. Surety of Pak Serwis for Energoinwest's multi-product limit agreement in the BGŻ bank	1 500	PLN	1 500	PLN
3. Promissory notes				
3.1. Blank promissory note in favour of PAK KWB KONIN S.A.	148	PLN	-	
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Guarantees				
1.1. 1. Proper Performance of the Contract Guarantees	5 388	PLN	5 040	PLN
1.2. 3. Security Payment Guarantee	560	PLN	2 500	PLN
1.3. 2. Receivables Payment Guarantee due to use of fleet cards of PKN ORLEN S.A.	33	PLN	24	PLN
2. Other				
2.1. Transfer of title to fixed assets securiting the insurance guarantee	702	PLN	702	PLN
Zespół Elektrowni Pątnów – Adamów – Konin S.A.				
1. Sureties				
1.1. Surety of ZE PAK for PAK KWB due to the investment credit in the BZ WBK bank in the amount of PLN 32,572 thousand	23 839	PLN	32 572	PLN
1.2. Surety of ZE PAK for PAK KWB Konin due to the overdraft facility in the BZ WBK bank in the amount of 65,000 thousand	65 000	PLN	65 000	PLN
1.3. Surety of ZE PAK for PAK KWB Konin due to the working capital facility in the Millennium bank in the amount of PLN 76,500 thousand	76 500	PLN	76 500	PLN
1.4. Surety of ZE PAK for PAK KWB Adamów due to the overdraft facility in the BZ WBK bank in the amount of PLN 10,000 thousand	10 000	PLN	10 000	PLN
2. Assignment				

(in thousands of zlotys)

2.1. Assignment from the insurance agreement of property of Elektrownia Pątnów and assignment from insurance of the investment entitled "Modernisation of Units 1-4 in Elektrownia Pątnów" due to the credit of PLN 1.2 billion of 13.03.2014 in favour of the mBank bank	1 200 000	PLN	1 200 000	PLN
2.2. Assignment from electricity sales agreements with ENERGA Obrót, Elektrim-Volt, RWE Polska, ENEA, Tauron, and PSE Operator due to the credit of PLN 1.2 billion of 13.03.2014 in favour of the mBank bank	1 200 000	PLN	1 200 000	PLN
3. Other				
3.1. Power of attorney to bank accounts of ZE PAK S.A. in mBank, PEKAO S.A., BGK, PKO BP, and Millennium banks due to the credit of PLN 1.2 billion of 13.03.2014	1 200 000	PLN	1 200 000	PLN
3.2. Power of attorney to the bank account of ZE PAK S.A. in the PEKAO S.A. bank due to the overdraft facility in the amount of PLN 80.0 million of 20.12.2005	80 000	PLN	80 000	PLN
3.3. Statement on submission to enforcement due to the credit of PLN 1.2 billion of 13.03.2014	2 040 000	PLN	2 040 000	PLN

37. Obtained guarantees and sureties

Kind of liabilities, guarantees and sureties	*31 December 2015 Obtained in PLN*	*31 December 2015 Obtained in EUR*	*31 December 2014 Obtained in PLN*	*31 December 2014 Obtained in EUR*
“Elektrownia Pątnów II” sp. z o.o.				
1. Guarantees				
1.1. Payment guarantees	10 891	-	7 356	-
1.2. Performance bonds	3 425	-	2 659	-
Energoinwest Serwis sp. z o.o.				
1. Guarantees				
1.1. Performance and retention bonds	620	-	853	-
2. Sureties				
2.1. Surety of the credit agreement in Bank Millennium from PAK Serwis	4 800	-	1 125	-
2.2. Surety of the multi-product limit agreement in Bank BGŻ from PAK Serwis	1 500	-	1 500	-
PAK Kopalnia Węgla Brunatnego Konin S.A.				
1. Sureties				
1.3. Surety of ZE PAK S.A.	76 500	-	76 500	-
1.4. Surety of ZE PAK S.A.	65 000	-	65 000	-
1.5. Surety of ZE PAK S.A.	26 223	-	34 885	-
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Bills of exchange				
1.1. In Blanco as a security for the guarantee period	169	-	31	-
2. Guarantees				
2.1. Retention Bond (including the validity period starting after 31.12.2014)	2 519	40	1 303	40
2.2. Performance Bond	1 212	-	906	-
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Guarantees				
1.1. Performance and retention bonds (cash payment)	409	-	167	-
1.2. Performance and retention bonds	2 656	-	3 292	-

(in thousands of zlotys)

Zespół Elektrowni Pątnów – Adamów – Konin S.A.				
1. Bills of exchange				
1.1. Bills of exchange	27 500	363	27 500	908
2. Guarantees				
2.1. Performance bonds	49 774	351	57 418	351
2.2. Advanced Payment Refund Guarantees	5 692	-	38 665	-
3. Sureties				
3.1. Sureties	211 143*	17 550	211 143*	17 550

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

38. Information about related entities

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

Related entity		*Sales to related entities*	*Purchase from related entities*	*Receivables from related entities*	*Liabilities towards related entities*
Elektrim S.A.	2015	-	120	-	-
	2014	1	154	-	3
Megadex Serwis Sp. z o.o.	2015	13	118 668	509	7 859
	2014	13	91 487	-	5 816
Polkomtel Sp. z o.o.	2015	48 939	3 841	7 891	1 532
	2014	43 258	13 630	14 708	10 269
Laris Investments Sp. z o.o.	2015	405	970	211	-
	2014	181	966	207	-
Total	**2015**	**49 357**	**123 599**	**8 611**	**9 391**
	2014	**43 453**	**106 237**	**14 915**	**16 088**

38.1. Loan granted to a member of the Management Board

Both in the financial year ended 31 December 2015 and in the one ended 31 December 2014, the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff.

38.2. Other transactions involving members of the Management Board

Both in the financial year ended 31 December 2015 and in the one ended 31 December 2014, there were no transactions with members of management and supervisory staff.

38.3. Remuneration of chief executive staff of the Group

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

	Year ended 31 December 2015	*Year ended 31 December 2014*
Management Board of the parent company		
Short-term employee benefits	2 737	2 805
Long-service bonuses	-	-
Post-employment benefits	-	-
Benefits for termination of the contract of employment	1 394	-
Supervisory Board of the parent company		
Short-term employee benefits	1 040	1 020
Long-service bonuses	-	-
Post-employment benefits	-	-

Benefits for termination of the contract of employment	-	-
Management Boards of subsidiaries		
Short-term employee benefits	6 179	6 351
Long-service bonuses	406	127
Post-employment benefits	18	92
Benefits for termination of the contract of employment	18	320
Share-based employee benefits	-	-
Supervisory Board of subsidiaries		
Short-term employee benefits	7	-
Long-service bonuses	-	-
Post-employment benefits	1	-
Benefits for termination of the contract of employment	-	-
Total	11 800	10 715

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

	Year ended 31 December 2015	*Year ended 31 December 2014*
Short-term employee benefits	16 533	17 453
Long-service bonuses	1 404	266
Post-employment benefits	27	69
Benefits for termination of the contract of employment	63	275
Share-based employee benefits	-	-
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	18 027	18 063

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

The following table presents the remuneration of an entity entitled to audit accounts paid or due to the year ended 31 December 2015, and for the year ended 31 December 2014, divided into types of services:

	Year ended 31 December 2015	*Year ended 31 December 2014*
Mandatory audit of the consolidated financial statement	215	195
Other attestation services	-	-
Tax consultancy services	-	-
Other services	102	245
Total	317	440

40. Goals and rules of financial risk management

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

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

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

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

40.1. 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)

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

	As of 31 December 2014		*Interest rate risk sensitivity study as of 31 December 2014*							
			WIBOR + 71bp		*WIBOR – 71bp*		*EURIBOR + 102bp*		*EURIBOR – 102bp*	
Classes of financial instruments	***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	107 339	102 860	205	-	(205)	-	755	-	(755)	-
Trade and other receivables	253 977	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	356 120	356 120	2 010	-	(2 010)	-	744	-	(744)	-
Interest-bearing loans and borrowings	(1 215 774)	(1 215 774)	(4 254)	-	4 254	-	(6 290)	-	6 290	-
Trade payables and other financial liabilities	(458 944)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(23 743)	(23 743)	-	-	-	-	-	8 627	-	(8 627)
Total	**(981 025)**	**(780 537)**	**(2 039)**	**-**	**2 039**	**-**	**(4 791)**	**8 627**	**4 791**	**(8 627)**

(in thousands of zlotys)

40.2. Currency risk

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

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

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

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

(in thousands of zlotys)

	As of 31 December 2014		***Analysis of sensitivity to interest rate risk as of 31 December 2014***			
			rate EUR/PLN + 7,7% 4,5905		***rate EUR/PLN – 7,7% 3,9341***	
Classes of financial instruments	***Carrying amount***	***Value at risk***	***Profit / (loss)***	***Other comprehensive income***	***Profit / (loss)***	***Other comprehensive income***
Other financial assets	107 339	74 035	5 701	-	(5 701)	-
Trade and other receivables	253 977	1 105	85	-	(85)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	356 120	72 952	5 617	-	(5 617)	-
Interest-bearing loans and borrowings	(1 215 774)	(616 696)	(47 486)	-	47 486	-
Trade payables and other financial liabilities	(458 944)	(2 043)	(157)	-	157	-
Derivative financial instruments	(23 743)	-	-	-	-	-
Total	**(981 025)**	**(470 647)**	**(36 240)**	**-**	**36 240**	**-**

(in thousands of zlotys)

40.3. Commodity prices risk

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

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

	2015		*2014*	
	Volume (tonnes)	*Consumption cost (in PLN thousand)*	*Volume (tonnes)*	*Consumption cost (in PLN thousand)*
Fuel				
Lignite	12 510 143	760 747	13 761 742	834 310
Forestry biomass	349 015	75 073	294 309	62 546
Agricultural biomass	136 336	48 665	73 334	22 934
Heating oil	12 886	19 885	11 837	24 856
Sorbent	177 289	14 889	234 480	19 172

40.4. Credit risk

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

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

Main recipients of electricity are big energy groups, such as ENERGA S.A. and TAURON Polska Energia S.A. Capital Group. Transactions concluded on an exchange are settled on a day-by-day basis by Towarowa Giełda Energii S.A., which minimises credit risk.

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

40.5. Liquidity risk

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

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

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

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

(in thousands of zlotys)

31 December 2014	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	180 585	171 088	789 537	184 951	1 326 161
Trade payables and other financial liabilities	288 338	66 864	103 671	71	458 944
Derivative financial instruments	2 416	6 479	15 899	-	24 794
Total	**471 339**	**244 431**	**909 107**	**185 022**	**1 809 899**

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

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

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

31 December 2014	*On demand*	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Inflows	-	64	145	807	-	1 016
Outflows	-	2 416	6 479	15 899	-	24 794
Net amount	-	(2 352)	(6 334)	(15 092)	-	(23 778)
Discounted using appropriate	-	(2 352)	(6 332)	(15 059)	-	(23 743)

(in thousands of zlotys)

41. Financial instruments

41.1. 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.

	Category according to IAS 39	*Carrying amount*		*Fair value*		*Level of the fair value hierarchy for needs of disclosures*
		31 December 2015	*31 December 2014*	*31 December 2015*	*31 December 2014*	
Financial assets						
Other financial assets	LaR	90 731	107 339	90 731	107 339	2
Trade receivables and other receivables	LaR	268 123	253 977	268 123	253 977	2
Derivative financial instruments	FVtPoL	-	-	-	-	2
Cash and cash equivalents	FAHtM	383 354	356 120	383 354	356 120	1
Financial liabilities						
Interest-bearing bank credits and loans, including:	FLaAC	1 311 062	1 215 774	1 311 062	1 215 774	3
– long-term ones interested according to a variable rate	FLaAC	924 519	867 221	924 519	867 221	
– short-term ones interested according to a variable rate	FLaAC	386 543	348 553	386 543	348 553	
Liabilities due to supplies and services and other financial liabilities	FLaAC	318 256	458 944	318 256	458 944	2
Derivative financial instruments	FVtPoL	16 292	23 743	16 292	23 743	2

Abbreviations used:
LaR – Loans and receivables,
FVtPoL – Financial assets/ financial liabilities at fair value through profit or loss,
FAHtM – Financial assets held to maturity,
FLaAC – Other financial liabilities at amortised cost,
HFS – Financial assets held for sale.

(in thousands of zlotys)

As of 31 December 2015 and 31 December 2014, the Group had following financial instruments evaluated in the fair value:

	31 December 2015	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	16 292	-

	31 December 2014	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	23 743	-

In the period ended 31 December 2015 and the one ended 31 December 2014, there we 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)

41.2. Items of revenue, costs, profits and losses included in the income statement, divided into categories of financial instruments

For the year ended 31 December 2015

	Revenues /(costs) due to interests (including effect of valuation with depreciated cost)	*Profits / (losses) due to exchange rate differences*	*Redemption / (creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	4 066	(2 048)	-	-	-	2 018
Other short-term financial assets	(771)	619	2	-	(312)	(462)
Deliveries and services receivables	4	20	(78)	-	-	(54)
Other receivables	245	-	-	-	-	245
Derivative instrument	-	-	-	-	-	-
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(13 332)	(1 956)	-	-	(712)	(16 000)
Deliveries and services liabilities	(318)	(880)	-	-	2	(1 196)
Other financial liabilities (without instruments)	(1 000)	-	-	-	-	(1 000)
Derivative instruments	-	-	-	(8 426)	-	(8 426)
Other liabilities	(2 189)	-	(6 203)	-	(1 108)	(9 500)
Total	(13 295)	(4 245)	(6 279)	(8 426)	(2 130)	(34 375)

(in thousands of zlotys)

For the year ended 31 December 2014

	Revenues /(costs) due to interests (including effect of valuation with depreciated cost)	*Profits / (losses) due to exchange rate differences*	*Redemption / (creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	6 701	1 738	-	-	(7)	8 432
Other short-term financial assets	(620)	1 997	-	-	5	1 382
Deliveries and services receivables	201	(11)	(52)	-	-	138
Other receivables	904	61	(399)	-	-	566
Derivative instrument	-	-	-	-	-	-
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(24 192)	(17 467)	-	-	(560)	(42 219)
Deliveries and services liabilities	(1 561)	(253)	-	-	(2)	(1 816)
Other financial liabilities (without instruments)	(1 864)	-	-	-	-	(1 864)
Derivative instruments	-	-	-	(9 432)	-	(9 432)
Other liabilities	(1 697)	18	(12 222)	-	(3 215)	(17 116)
Total	(22 128)	(13 917)	(12 673)	(9 432)	(3 779)	(61 929)

(in thousands of zlotys)

41.3. Interest rate risk

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

	Type of interest rate	*Carrying amount as of 31 December 2015*	*Carrying amount as of 31 December 2014*
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	362 966	311 992
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	105 523	146 987
Financial liabilities at interest rate risk – PLN	Fixed	-	-
	Variable	813 887	599 077
Financial liabilities at interest rate risk – Other currencies	Fixed	248 947	308 714
	Variable	248 228	307 982
Net exposure – PLN	Fixed	-	-
	Variable	(450 921)	(287 085)
Net exposure – Other currencies	Fixed	(248 947)	(308 714)
	Variable	(142 705)	(160 995)

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.

41.3.1. Hedging

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

In the tables shown below, basic parameters of derivative transaction indicates as security instruments, including periods, when cash flows due to cash flow securities and when they will influence the financial result, as well as their fair value in PLN as of 31 December 2015 and 31 December 2014 are presented.

Instrument type	*Nominal value in the transaction currency [EUR]**	*Fair value in PLN*	*Expected duration of hedged item's realisation*
	31 December 2015	*31 December 2015*	*31 December 2015*
IRS transaction	58 418	(16 292)	in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019

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

Instrument type	*Nominal value in the transaction currency [EUR]**	*Fair value in PLN*	*Expected duration of hedged item's realisation*
	31 December 2014	*31 December 2014*	*31 December 2014*
IRS transaction	72 429	(23 743)	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*

(in thousands of zlotys)

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

	Year ended 31 December 2015	*Year ended 31 December 2014*
Opening balance	(21 902)	(23 248)
Effective part of profits / losses on a security instrument	(1 217)	(8 059)
Amounts charged to the income statement, including:	(8 377)	(9 405)
− adjustment of costs of interest	(8 377)	(9 405)
− adjustment under ineffective hedging	-	-
Closing balance	(14 742)	(21 902)
Deferred tax assets – recognized in the revaluation reserve	2 801	4 161
Closing balance including deferred tax	(11 941)	(17 741)

The Group also secures the risk of changing prices of CO_2 allowances using forward transactions to purchase the allowances for its own needs. The following table presents a summary of the active forward transactions as of the balance sheet date.

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions*	*Currency of transactions*	*Maturity*
Forward	2 700 000	22 409	EUR	Up to 1 year

42. Capital management

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

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. In year, ended 31 December 2015 and 31 December 2014, there were no introduced amendments to goals, rules and processes applying in this area.

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

	31 December 2015	*31 December 2014*
Interest-bearing credits and loans	1 311 062	1 215 774
Derivative financial instruments (liabilities)	16 292	23 743
Trade liabilities and other financial liabilities	318 256	458 944
Minus cash and its equivalents	383 354	356 120
Net debt	1 262 256	1 342 341
Equity	1 884 823	3 819 717
Capitals from revaluation of security instruments	(11 941)	(17 741)
Total capital	1 896 764	3 837 458
Net capital and debt	**3 159 020**	**5 179 799**
Leverage ratio	39,96%	25,91%

43. Employment structure

The average employment in the Group for the years ended 31 December 2015 and 31 December 2014 was developing as follows:

	Year ended 31 December 2015	*Year ended 31 December 2014*
Management Board of the parent company	4	3
Management Board's of the Group's entities	25	23
Administration	338	431
Sales department	61	36

(in thousands of zlotys)

Production division	5 872	6 128
Other	730	564
Total	7 030	7 185

44. Significant events after the balance sheet date

Discussions between the Management Board and the social party

In the fourth quarter of 2015, the Management Board, having regard to the impact of deteriorating external factors on the Company financial condition, decided to temporarily suspend the financing of the employee pension plan as well as to reduce the statutory bonus attributable to employed workers. The Management Board decisions did not require interference in the content of provisions of the agreements between the employer and employees. At the same time, the Management Board offered the social party temporary suspension of the Corporate Collective Labour Agreement, as a whole or in part. The Management Board's proposals were not accepted by the social party.

On the other hand, after the reporting period closing on 8 February 2016, trade unions acting in ZE PAK S.A. reported, under the Act of 23 May 1991 on resolution of collective disputes, requests related to, among others, new components of the remuneration system, severance payments and work safety.

The Management Board refused to execute the trade unions' requests. The Management Board considered the trade unions' requests on introducing new components to the remuneration system as unacceptable, according to Article 4 paragraph 2 of the Act on resolution of collective disputes. The consequence of failure to take into account the requests, since 8 February 2016, includes the occurrence of a collective dispute between ZE PAK S.A., as an employer, and trade unions, as representation of employees. Until the date of development of this report, the Parties had not taken any further actions in order to conduct a collective dispute, and on 25 February 2016, they published a joint communication on initiating mutual discussions without imposing preconditions, and they declared to refrain from taking actions, which may interfere with the dialogue process, throughout their duration. The parties agreed that the discussions would be held until the end of April with the possibility to modify this date.

Agreement on financial support for PAK KWB Konin S.A.

In the course of the work related to preparing the description of further strategy of the Company and Capital Group, as well as final projections for banks granting the loan for the final stage of the 1-4 unit modernisation in Elektrownia Pątnów, the ZE PAK S.A. and PAK KWB Konin S.A. Management Boards decided to conclude the agreement for reaching the necessary decisions on providing financial support for the investment carried out by PAK KWBK S.A. that involves the opening of a new lignite open pit, which is to secure uninterrupted supplies of coal for the purposes of the ZE PAK Capital Group's power plant. On 16 March 2016, a relevant agreement, which constitutes the first stage of setting the rules on developing the necessary decisions between the parties, including the conditions for granting financial support for construction of a new pit, was concluded. The final decisions will be preceded by a design economic and financial analysis of opening a new pit. The final stage will be to conclude the relevant (final) agreement/agreements on financial support after obtaining the required corporate consents.

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

MANAGEMENT BOARD'S REPORT FROM THE CAPITAL GROUP'S OPERATIONS IN 2015

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

21 March 2016

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1. SELECTED CONSOLIDATED FINANCIAL DATA

Selected Consolidated Financial Data	*PLN thousand* *12 months of 2015 period from 01.01.2015 to 31.12.2015*	*PLN thousand* *12 months of 2014 period from 01.01.2014 to 31.12.2014*	*EUR thousand* *12 months of 2015 period from 01.01.2015 to 31.12.2015*	*EUR thousand* *12 months of 2014 period from 01.01.2014 to 31.12.2014*
Sales revenue	2 947 816	2 680 111	704 410	639 752
Operating profit/loss	(1 795 822)	147 430	(429 130)	35 192
Profit/Loss before tax	(1 833 235)	97 985	(438 070)	23 389
Net profit/loss for the period	(1 879 808)	78 484	(449 199)	18 734
Net profit attributable to equity holders of the parent	(1 881 086)	81 977	(449 504)	19 568
Total comprehensive income	(1 873 706)	71 749	(447 741)	17 127
Net cash flow from operating activities	467 136	413 672	111 627	98 745
Net cash flow from investing activities	(414 971)	(549 785)	(99 161)	(131 236)
Net cash flow from financing activities	(24 115)	60 064	(5 763)	14 337
Net increase / (decrease) in cash and cash equivalents	28 050	(76 049)	6 703	(18 153)
Net profit per share (in PLN/EUR per share)	(37.01)	1.61	(8.84)	0.38
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	As at 31.12.2015	*As at 31.12.2014*	*As at 31.12.2015*	*As at 31.12.2014*
Total assets	4 974 381	6 867 688	1 167 284	1 611 263
Non-current assets	3 714 123	5 685 991	871 553	1 334 019
Current assets	1 260 258	1 181 697	295 731	277 244
Total equity	1 884 823	3 819 717	442 291	896 163
Share capital	101 647	101 647	23 852	23 848
Share capital attributable to equity holders of the parent	1 884 823	3 819 717	442 291	896 163
Total liabilities	3 089 558	3 047 971	724 993	715 100
Non-current liabilities	1 829 696	1 841 869	429 355	432 130
Current liabilities	1 259 862	1 206 102	295 638	282 970
Book value per share (in PLN/EUR per share)	37.09	75.16	8.70	17.63
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 2015 to 31 December 2015, which is 4.1848 EUR/PLN and starting from 1 January 2014 to 31 December 2014, which is 4.1893 EUR/PLN;
- particular items of the Statement of financial position (Balance sheet) according to average EUR/PLN exchange rate published by the National Bank of Poland as of 31 December 2015, which is 4.2615 EUR/PLN and as of 31 December 2014, which is 4.2623 EUR/PLN.

2. DESCRIPTION OF THE COMPANY AND OF THE CAPITAL GROUP

2.1. Basic information on the Company and the Capital Group

Basic information on the Company

Zespół Elektrowni Pątnów – Adamów – Konin S.A. (hereinafter referred to as ZE PAK, ZE PAK S.A. or Company) operates in the form of a joint-stock company, pursuant to the regulations of the Code of Commercial Companies as well as other regulations of the generally applicable Polish law. The Company was established as result of transformation of Zespół Elektrowni Pątnów – Adamów – Konin state-owned company with registered office in Konin into a company wholly owned by the State Treasury under the business name of Zespół Elektrowni „Pątnów – Adamów – Konin" Spółka Akcyjna. The deed of transformation was signed on 29 December 1994 in the presence of the notary public Elżbieta Brudnicka from the Notarial Office in Warsaw. On 31 December 1994, the Company was entered into the commercial register section "B" by the District Court in Konin under number RHB 847. Based on the decision of the District Court in Poznań, 22nd Commercial Department of KRS dated 21 June 2011, the Company was entered into the Register of Entrepreneurs. Currently the Company is entered into the Register of Entrepreneurs kept by the District Court Poznań Nowe Miasto i Wilda, IX Commercial Department, under the KRS number 0000021374. The Company was established for an unlimited period of time.

Name:	Zespół Elektrowni „Pątnów – Adamów – Konin" Spółka Akcyjna
Legal status:	spółka akcyjna
Abbreviated name :	ZE PAK S.A.
Registered office and address :	ul. Kazimierska 45, 62-510 Konin, Polska
Telephone number:	+48 63 247 30 00
Fax number:	+48 63 247 30 30
Website:	www.zepak.com.pl
Email address:	zepak@zepak.com.pl
KRS number:	0000021374
REGON number:	310186795
NIP number:	665-000-16-45

According to the Company's Articles of Association, the primary subject of the Company's operations is the production and sales of electricity as well as the production and sales of heat. The Company produces energy from conventional sources as well as by biomass combustion. The Company can conduct operations within the territory of the Republic of Poland as well as abroad.

The Company's shares are listed on the regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange). The Company's shares are dematerialised and marked by Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities) with the following stocks code: ISIN PLZEPAK00012.

In 2015, the share capital of ZE PAK S.A. has been not changed. As of 31 December 2014 amounts to PLN 101 647 094.00 and is divided into 50 823 547 bearer shares class A with a face value of PLN 2.00 each, which represent 50 823 547 votes at the Company's General Meeting, comprising 100% of the total votes at the Company's General Meeting.

The Company has no branches (establishments).

Basic information about Capital Group

As at 31 December 2015, the ZE PAK Capital Group (hereinafter also referred to as the Group, the Capital Group, the ZE PAK Group) is comprised of the parent company: Zespół Elektrowni Pątnów – Adamów – Konin S.A. and thirteen subsidiaries, i.e. Elektrownia Pątnów II Sp. z o.o. (hereinafter referred to as the EPII), PAK-Volt S.A., PAK Kopalnia Węgla Brunatnego Adamów S.A. (hereinafter also referred to as PAK KWBA S.A.), PAK Kopalnia Węgla Brunatnego Konin S.A. (hereinafter also referred to as PAK KWBK S.A.), Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o. (hereinafter also referred to as PAK SERWIS sp. z o.o.), Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK Sp. z o.o. (hereinafter also referred to as 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. All the above mentioned companies are subject of consolidation.

The companies that are most important for the Group due to the size of their operations include ZE PAK S.A., which deals with generation of electricity and heat, Elektrownia Pątnów II Sp. z o.o., which deals with generation of electricity, and PAK KWBA S.A. and PAK KWBK S.A., which are engaged in the extraction of lignite. In addition to the main areas of the Group's operations, the Group also includes other companies, which are engaged, among others, in: carrying out construction and assembly works, maintenance works, services, production and trade operations for the purpose of satisfying their own needs as well as providing comprehensive services to the industry.

The Group's generation assets include four lignite -fired power plants located in the Wielkopolskie Province, in central Poland. These include: the Pątnów II power plant, equipped with a supercritical power unit, the Pątnów I power plant, Adamów power plant as well as the Konin power plant, equipped with a 55 MW unit with a dedicated biomass-fired boiler. The total installed gross generation capacity of the Group's generation assets as of 31 December 2015 was 2 506 MWe.

The Group's mining assets are concentrated in three companies. (1) PAK KWBK, which currently utilises the Jóźwin, Tomisławice and Drzewce open casts, (2) PAK KWBA, which utilises the Adamów and Koźmin open casts as well as (3) PAK Górnictwo S.A. which executes works related to search and identification of lignite deposits in the areas of Poniec-Krobia and Oczkowice in the southern Wielkopolskie Province.

Majority of the Group's sales revenue is derived from sale of electricity (both generated within the Group and purchased for resale) and revenue from energy certificates. This is supplemented by revenues from sale of heat and from construction contracts. An additional sales revenue, which depends on the level of electricity prices on the market as well as the volume of generated electricity, is revenue from termination of long-term contracts for sale of electricity (Power Purchase Agreements), generated by Elektrownia Pątnów II Sp. z o.o. The Group, by purchasing lignite mines, provided the power plants with access to continuous supplies of lignite for its own production systems located in the direct vicinity of the mines. The vertically integrated Group allows for optimisation of lignite inventories and supplies while coordinating lignite extraction with the demand for this fuel. The demand for biomass is satisfied pursuant to agreements concluded with the supplier.

Structure of the ZE PAK Group as at 31 December 2015 presents Picture 1.

In 2015, the following changes were made to the ZE PAK Capital Group's structure:

- On 29 January 2015, the liquidation process of the PAK CUI Sp. z o. o. company was ended with the adoption of the liquidation report of the Extraordinary Shareholders' Meeting. As of the date of submission of this report, the company was deleted from the National Court Register. PAK CUI Sp. z o.o. provided the IT services, the company's employees were transferred according to § 231 of the Labor Code to the ZE PAK S.A. structures.
- On 29 January 2015, the liquidation process of the PAK CBJ Sp. z o. o. company was ended with the adoption of the liquidation report of the Extraordinary Shareholders' Meeting. As of the date of submission of this report, the company was deleted from the National Court Register. PAK CBJ Sp. z o.o. provided the services in terms of the performed research, analyses as well as physic and chemical measurements, the company's employees were transferred according to § 231 of the Labor Code to the ZE PAK S.A. structures.
- On 29 January 2015, PAK KWBK S.A. sold all shares in KWE Sp. z o.o. in liquidation for the entity from outside the Capital Group. KWE Sp. z o.o. was formed with the participation of PAK KWB Konin S.A. in the period prior to the acquisition of the mine's shares by ZE PAK S.A. The purpose of appointing KWE Sp. z o.o. was the execution of the joint venture project involving the construction of a wind farm with the use of, among others, the excavated areas intended for reclamation.
- In accordance with the provisions of the agreement of acquisition from the State Treasury 85% of the shares of PAK KWBK S.A. and PAK KWBA S.A. of 2012, the Company obliged to the redemption of the remaining 15% of shares, which, in accordance with the Act on the commercialisation and privatisation, were granted to the entitled employees of both companies. On 18 March 2015, the Company launched the programme related to the redemption of employee shares. Until 31 December 2015 the Company, by the redemption of shares, increased its share in the PAK KWB Adamów SA initial capital to 98.41%, and in PAK KWB Konin SA to 96.23%.
- On 19 November 2015 Ochrona Osób i Mienia ASEKURACJA Sp. z o.o in liquidation was delated from National Court Register.

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 regarding processes, power systems and devices, heating and mechanical devices, power chemistry devices and environmental protection. The aforementioned company also deals with consulting in the management of investment and modernisation processes, including processes related to the construction of new generation units, fulfilment of emission allowances and power efficiency. ZE PAK S.A. has 1 share with a value of PLN 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-Żak has substantial direct or indirect share.

Picture 1: Diagram of the Group as at 31 December 2015

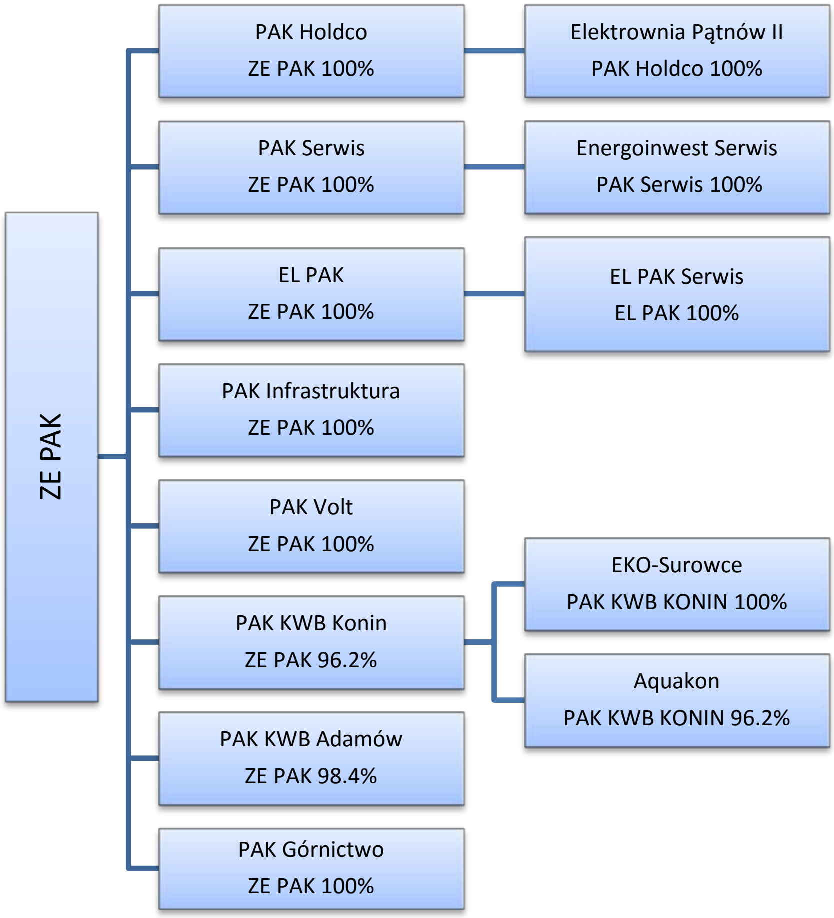

Table 1: Description of the Group's companies (excluding ZE PAK S.A.)

Entity	*Registered office*	*Scope of operations*	*Group's share in the capital in percent* 31.12.2015	31.12.2014
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Renovation 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 in the scope of industrial automation and electrical devices	100.00%	100.00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production and distribution of electricity in the 464 MW unit	100.00%*	100.00%*
„PAK – HOLDCO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding operations	100.00%	100.00%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Execution of general construction works in the scope of engineering structures, unclassified elsewhere	100.00%	100.00%
„PAK Centrum Usług Informatycznych" sp. z o.o. w likwidacji	62-510 Konin ul. Kazimierska 45	IT services	-	100.00%
„PAK Centrum Badań Jakości" sp. z o.o. w likwidacji	62-510 Konin ul. Przemysłowa 158	Chemical testing and analyses	-	100.00%

„PAK GÓRNICTWO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Coal extraction	100.00%	100.00%
Energoinwest Serwis sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Renovation and construction services	100.00%*	100.00%*
PAK Kopalnia Węgla Brunatnego Konin S.A.	62-540 Kleczew ul. 600-lecia 9	Coal extraction	96.23%	85.00%
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Coal extraction	98.41%	85.00%
Ochrona Osób i Mienia „ASEKURACJA" sp. z o.o. w likwidacji	62-540 Kleczew ul. 600-lecia 9	Security of people and property	-	85.00%*
„Aquakon" sp. z o.o.	62-610 Sompolno Police	Production and trade of mineral waters	92.57%*	81.80%*
Eko-Surowce sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Lignite sales	96.23%*	85.00%*
KWE sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Wind farms, production of electricity	-	42.50%*
PAK-Volt S.A.	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 of electric devices, repair of machinery.	100.00%*	100.00%*

* *Indirect share via companies from ZE PAK Group.*

2.2. Basic principles of management of the Company and of the ZE PAK Capital Group as well as changes thereto

In order to provide appropriate solutions for key issues related to management of the Capital Group, in which ZE PAK S.A. is the parent company and, at the same time, the owner of capital, seeking a satisfactory return on the funds engaged, a separate Legal and Organisational Department was established within the organisational structure of the Company. The main task of this Department is supervision over the operations of the ZE PAK Capital Group and other companies in which the Company holds shares. This unit coordinates the consistency of the operations of all entities in the Group and monitors their compliance with the legal regulations in force as well as the interests of the whole Capital Group. The Department is subject to direct sovereignty of President of the Management Board.

Direct supervision over the operations of the companies in which ZE PAK S.A. holds an interest is also executed by the Supervisory Councils, the role of which in the system of corporate governance in relation to the above-mentioned companies is defined in a statutory manner. In accordance with the Group's policy, the positions of Presidents of Supervisory Councils in the subsidiaries are held by Members of the Management Board of ZE PAK S.A. Furthermore, to ensure proper functioning of the corporate governance body, the ZE PAK S.A.'s Board recommends other members of the Supervisory Councils of the Group companies.

During the year of 2015, there were no significant changes in the principles of management of the Company or of the ZE PAK Capital Group.

2.3. Description of main products, goods for resale and services as well as main markets and sources of supplies

The Company's operations are focused in several areas. The main area is doubtlessly generation of and wholesale trading in electricity, which is supplemented by sales of energy certificates, operations undertaken to ensure an adequate amount of CO_2 allowances as well as generation and sales of heat. In addition, the Group also includes other companies, which are engaged, among others, in: carrying out construction and assembly works, maintenance works, services, production and trade operations for the purpose of satisfying their own needs as well as providing comprehensive services to the industry. In 2015, the Group mainly conducted its operations in the Polish market. The only exception included operations related to transactions regarding the CO_2 allowances, which were executed between ZE PAK and EPII as well as foreign partners. Also one of the subsidiaries, i.e. PAK Serwis Sp. z o.o., executed in first quarter 2015 some of its operations in Germany.

The Group is the fifth largest producer of electricity in Poland and second largest producer of electricity generated from lignite. The share of all of the Group's power plants in the entirety of electricity produced in Poland amounts to 6.8%[1]. The net electricity production in the Pątnów I power plant was equal to 4.01 TWh in 2015, while in the Adamów, 2.92 TWh, in Konin 0.65 TWh and Pątnów II power plant - 2.21 TWh, The total electricity production in all power plants of the Group in 2015 was lower by 2.9% in comparison to the year before. The decrease in production regarded the Adamów and Pątnów II power plants and was related to higher excess capacity in the system at night (increased wind generation), resulting in the reduction of operating units by the system operator. In Pątnów power plant was at comparable level and in Konin the increase in production was caused by higher biomass boiler production. In 2015, the Group sold 14.16 TWh of electricity, i.e. nearly 4.8% more than in 2014.

The main direction of electricity sales in 2015 was the sale on the exchange market, which was responsible for 49.8% of total energy sold volume. The trend of increasing participation of exchange sales in the total sold volume has been visible for several years. However, in 2015, for the first time, the electricity sale by the Group's companies on the exchange market exceeded the volume of energy sales in bilateral contracts. Elektrownia Pątnów II Sp. z o. o., as an electricity producer entitled to receive compensations to cover the so-called "stranded costs" under the term of "the Act on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity," in accordance with the provisions of the Energy Law, is obliged to sell the entire generated electricity on the exchange market or by way of an open tender. However, by decision of the President of the Energy Regulatory Office, Elektrownia Pątnów II Sp. z o. o. has been exempted from the obligation of public sale in relation to 60% of the net electricity generated by the Pątnów II power plant until the end of 2016. Within the framework of bilateral contracts concluded with electricity trade companies conducting activities on the Polish market, the Group's companies sold 44.38% of the full-year energy sales volume executed in 2015, including the share of the five largest counterparties of the Group amounting to 39.46% of total sales. Transactions with final recipients amounted only to 2.0% of the entire volume of electricity sales. The electricity balancing market, on which the Group's companies sold 5.82% of the total electricity sales volume, is the supplementation of the sales structure.

Electricity sales revenues (in total – produced and traded) comprised 85.16% of the Group's total sales revenues, whereas revenues from the received compensation for the coverage of the so called "stranded costs" in the Pątnów II power plant comprised 5.9% of the Group's sales revenues.

The number of green and red certificates obtained by the Group in 2015 for the production of the biomass unit and high efficiency cogeneration in heat production is substantially higher from the number of certificates that the Group is obliged to present for redemption to the URE President in order to fulfil the obligations imposed by the current regulations. Due to the above, the excess certificates are sold mainly on Towarowa Giełda Energii (Polish Power Exchange). In 2015, the Group generated 0.47 TWh of green certificates and 0.17 TWh of red certificates. The revenues from sales of certificates comprised 1.1% of the Group's total sales revenues.

The heat generated in the Group's power plants is sold to local recipients. The main recipients include local heat power engineering companies, as well as local industrial manufacturers. The Group covers almost the entire heat demand of the Konin and Turek cities. In 2015, the Group's power plants sold 2 005 TJ of heat. The heat sales comprised 2.0% of the Group's total sales revenues.

Among the significant sources comprising the supplementation of the revenue structure, it is necessary to mention the activities in the scope of execution of construction and installation works. Four companies in the Group's structure, i.e. PAK Serwis Sp. z o. o., Energoinwest Sp. z o.o., EL PAK Sp. z o. o. and EL PAK Serwis Sp. z o.o. are dealing with the execution of such tasks for the Group and for third party entities. The main third party recipients of both companies are entities from the industrial construction sector as well as the electricity production and distribution sector. The revenues obtained by the Group's companies from services provided to third party entities comprised 4.8% of the Group's total sales revenues in 2015. Other activities generated 1.04% of the total revenues in the previous year.

The main raw material used by the Group for energy production is lignite, which is extracted only for the purposes of the power plant. This is due to the fact that the lignite extracted in Poland is a soft coal and its long-distance transport is not cost-effective due to the large contents of water. The extracted lignite is delivered directly from open pit mines to the nearby power plants. Therefore, the extraction of lignite in the ZE PAK Group is strictly related to the amounts of electricity produced by the power plants located in the vicinity of the mines.

Nearly all of the coal extracted in both mines is delivered to the ZE PAK Capital Group's power plants, whereas a slight amount (below 1%) is used for the needs of the mines or is sold to other recipients.

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[1] According to the Table: The structure of electricity production in domestic power plants, the amounts of exports of electricity and domestic electricity consumption – monthly and cumulative amounts from the beginning of the year – gross amounts, source PSE S.A. Total gross electricity generation in Poland in 2015 amounted to 161 772 GWh.

The Group also uses biomass as a raw material for the production of energy, which is combusted in a dedicated boiler located in the Konin power plant. Energy producers are obligated to use a share of agricultural biomass specified in the regulations of the law. This share is fixed for the unit in Konin and amounts to 20%.

3. DESCRIPTION OF ACTIVITIES

3.1. Significant events in the accounting year as well as events after the balance sheet date affecting the current and future activities

Significant events in the accounting year

Commissioning of modernised 1 and 2 units in the Pątnów power plant

Within the investment plans, the Company assumed modernisation of 4 units, each with a capacity of 200 MW, in the Pątnów power plant. The modernisation works on the units 1 and 2 in the Pątnów power plant were completed in September 2015 (unit 1) and in December 2015 (unit 2). Both units were entered into books of account of fixed assets in January 2016. As a result of modernisation, NO_X emission was reduced, the electricity generation efficiency was improved, CO_2 emission was decreased, and the technical possibility to operate the modernised units of the Pątnów power plant for at least 15 years was provided. The maximum power of each of the modernised units was increased from 200 MW to 222 MW. The modernisation of the units 1 and 2 was broadly described in section 4.3 of this report.

The suspension of further works related to modernisation of the unis 3 and 4 in the Pątnów power plant as well as starting negotiations with the banks co-financing the modernisation of 4 units in the Pątnów power plant.

In accordance with the original investment schedule, the modernisation works on the unit 3 in the Pątnów power plant were to start immediately after completion of works in the unit 1, and in case of modernisation works on the unit 4 after completion of works on the unit 2. However, in the face of different market conditions than these occurred while planning the entire modernisation process, the Company decided about the schedule change consisting of the modernisation process suspension of the units 3 and 4 of the Pątnów power plant. Currently, investment decisions, especially in the conventional power engineering sector, are burdened with a much greater risk (the reasons for modernisation suspension of the units 3 and 4 can be found in section 4.3 of this report). The investment rescheduling resulted in the necessity to start negotiations with the banks co-financing the modernisation process. On 8 December 2015, the Company accepted the bank syndicate conditions in terms of regulating the issues of default related to the investment project implementation schedule including modernisation of the units 1-4 in the Pątnów power plant. In accordance with the terms accepted by the Company, the banks co-financing the investment, until 31 May 2016, waived from exercising the rights resulting from the failure to comply with the investment project implementation schedule. Whereas the Company obliged to present the lenders with the description of the further strategy of the Company and the ZE PAK S.A. Capital Group (the "Group") taking into account the postponement of the modernisation commencement of the units 3 and 4 together with the strategy of further operation of these units. The Company intends to maintain the possibility of the banks' co-financing of modernisation of the units 3 and 4 until the system solutions, which will provide the investment economic viability and allow to resume the modernisation process, are implemented.

Municipal referendum on the Dęby Szlacheckie open pit

On 21 June 2015, in the Babiak Commune, the municipal referendum on expressing the public opinion about the lignite mine that is to be established in the Babiak Commune – the Dęby Szlacheckie open pit, was held. The content of the referendum question was as follows: "Are you in favor of construction of the lignite mine in the Babiak Commune based on the Dęby Szlacheckie open pit?" Most of the eligible participants of the referendum voted against the mine construction. The attendance in the referendum was 42.98%, which means that the referendum is valid. Despite the negative result of the referendum, ZE PAK Capital Group is still interested in exploitation of the Dęby Szlacheckie deposit and it does not stop the activities aimed at obtaining the necessary decisions. After completion of all works, which provide the complex assessment of the impact of the planned open pit on the environment, the dialogue with the local community will be continued.

Changes in the Management Board and the Supervisory Board

On 2 October 2015, the Supervisory Board of the Company dismissed three members of the Management Board of the Company, the fourth member of the Management Board resigned. At the same time, a new composition of the Management Board was elected at the same meeting. Last year, changes in the Management Board composition were conducted even several times, it is possible to read more about changes in section 3.3 of this document. As of the publication date of this report, the Management Board of the Company consists of five persons and is as follows:

1) Aleksander Grad – President of the Board,
2) Aneta Lato-Żuchowska – Vice-President of the Board,
3) Zygmunt Artwik – Vice-President of the Board,
4) Adrian Kaźmierczak – Vice-President of the Board,
5) Tomasz Zadroga – Vice-President of the Board.

Termination of the Corporate Collective Labour Agreement in PAK KWBK S.A.

On 29 October 2015, the Management Board of PAK KWBK S.A. decided to terminate the Corporate Collective Labour Agreement in PAK KWBK S.A. ("CCLA"). The termination follows the completion of the negotiations with trade union organisations on suspension of the application of the CCLA in the company for three years. These negotiations did not lead to the agreement signing. The termination notice period expired on 29 February 2016 as it was confirmed in the collective bargaining agreements kept by the District Labour Inspector in Poznań. On 13 November 2015, the trade union organisations operating in PAK KWBK S.A. requested to conclude a new collective labour agreement. The PAK KWBK S.A. Management Board appointed a team to negotiate a new collective labour agreement. Negotiations on a new agreement are taking place.

Redemption of PAK KWBK S.A. and PAK KWBA S.A. employee shares:

In accordance with the provisions of the agreement of acquisition from the State Treasury 85% of PAK KWBK S.A. and PAK KWBA S.A. shares of 2012, the Company obliged to the redemption of the remaining 15% of shares, which, in accordance with the Act on the commercialisation and privatisation, were granted to the entitled employees of both companies. On 18 March 2015, the Company launched a programme related to the redemption of employee shares. Within the framework of the conducted programme of redemption of employee shares, the ZE PAK S.A. share in the PAK KWBK S.A. capital increased by 96.23% at the end of 2015, and up to 98.41% in the PAK KWBA S.A. capital.

Significant events after the balance sheet date

Discussions between the Management Board and the social party

In the fourth quarter of 2015, the Management Board, having regard to the impact of deteriorating external factors on the Company financial condition, decided to temporarily suspend the financing of the employee pension plan as well as to reduce the statutory bonus attributable to employed workers. The Management Board decisions did not require interference in the content of provisions of the agreements between the employer and employees. At the same time, the Management Board offered the social party temporary suspension of the Corporate Collective Labour Agreement, as a whole or in part. The Management Board's proposals were not accepted by the social party.

On the other hand, after the reporting period closing on 8 February 2016, trade unions acting in ZE PAK S.A. reported, under the Act of 23 May 1991 on resolution of collective disputes, requests related to, among others, new components of the remuneration system, severance payments and work safety.

The Management Board refused to execute the trade unions' requests. The Management Board considered the trade unions' requests on introducing new components to the remuneration system as unacceptable, according to Article 4 paragraph 2 of the Act on resolution of collective disputes. The consequence of failure to take into account the requests, since 8 February 2016, includes the occurrence of a collective dispute between ZE PAK S.A., as an employer, and trade unions, as representation of employees. Until the date of development of this report, the Parties had not taken any further actions in order to conduct a collective dispute, and on 25 February 2016, they published a joint communication on initiating mutual discussions without imposing preconditions, and they declared to refrain from taking actions, which may interfere with the dialogue process, throughout their duration. The parties agreed that the discussions would be held until the end of April with the possibility to modify this date.

Agreement on financial support for PAK KWB Konin S.A.

In the course of the work related to preparing the description of further strategy of the Company and Capital Group, as well as final projections for banks granting the loan for the final stage of the 1-4 unit modernisation in Pątnów power plant, ZE PAK S.A. and PAK KWB Konin S.A. Management Boards decided to conclude the agreement for reaching the necessary decisions on providing financial support for the investment carried out by PAK KWBK S.A. that involves the opening of a new lignite open pit, which is to secure uninterrupted supplies of coal for the purposes of the ZE PAK Capital Group's power plant. On 16 March 2016, a relevant agreement, which constitutes the first stage of setting the rules on developing the necessary decisions between the parties, including the conditions for granting financial support for construction of a new pit, was concluded. The final decisions will be preceded by a design economic and financial analysis of opening a new pit. The final stage will be to conclude the relevant (final) agreement/agreements on financial support after obtaining the required corporate consents.

3.2. Significant agreements concluded in the accounting year

Significant agreements for the Group's activity

In 2015, the Capital Group companies did not conclude any significant agreements, apart from the agreements concluded in the course of an ordinary activity, such as electricity sale agreements, raw material supply agreements or purchase agreements of CO_2 allowances.

Agreements regarding the obtained credits and loans

In 2015, the Group's companies concluded the following agreements regarding credits and loans:

1. ZE PAK SA signed two annexes to the Corporate Credit Agreement as of 13 March 2014. Annex no. 1 amended the way of transferring the financial statement for I and III quarters, however, Annex no. 2 determines the payment manner of amounts retained from the Company's bank accounts for the entities engaged in modernisation of the units 1-4 in the Pątnów power plant. The corporate credit agreement in the amount of PLN 1 200 000 thousand was concluded on 13 March 2014 with the consortium of banks comprising of: mBank, Bank Millennium, BGK, PKO BP and PEKAO SA.
2. ZE PAK S.A. concluded Annex no. 18 with the PKO BP S.A. bank extending the deadline for repayment of the overdraft facility until 25 November 2016. The available credit limit amounts to PLN 90 000 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.
3. ZE PAK S.A. concluded Annex no. 10 with the PEKAO BP S.A. bank extending the deadline for repayment of the overdraft facility until 30 September 2016. The available credit limit amounts to PLN 80 000 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.
4. On 18 March 2015, PAK KWBK S.A signed an Annex to the Working capital credit agreement concluded with Bank Millennium S.A. This annex renewed the credit limit to the amount of PLN 76 500 thousand. The repayment date is 31 December 2017. The interest rate according to the WIBOR rate amounts to 3M plus the bank's profit margin.
5. On 19 March 2015, PAK KWBK S.A. signed with PKOBP S.A. Annex no. 2 to the Debenture Issue Agreement of 20 December 2012 amending the limit value of debentures from PLN 50 000 thousand to PLN 70 000 thousand.
6. PAK KWBK S.A. signed three Annexes to the Working capital credit agreement concluded with mBank S.A. in the amount of PLN 9 700 thousand extending the deadline for repayment of the credit – the current repayment date is 21 April 2016. The interest rate according to the WIBOR rate amounts to 3M plus the bank's profit margin.
7. On 30 June 2015, PAK KWBK S.A. signed an Annex to the Working capital credit agreement concluded with BZ WBK S.A. in the amount of PLN 65 000 thousand extending the deadline for repayment of the credit until 30 June 2016. The interest rate according to the WIBOR rate amounts to 1M plus the profit margin.
8. On 30 June 2015, PAK KWBK S.A. concluded three financial leasing agreements for 13 heavy-wheeled vehicles (passenger transport) for the total amount of PLN 5 198 thousand.
9. On 22 September 2015, PAK KWBK S.A. signed the Debenture Issue Agreement with the PKOBP S.A. Bank. Signing the Agreement was a consequence of the amendment to the Act on debentures. This agreement governs the emissions of debenture series without increasing the emission amount maximum limit.
10. On 30 September 2015, PAK SERWIS Sp. z o.o signed with the PEKAO S.A. bank Annex no. 2 extending the agreement validity date by a multi-purpose credit limit until 30 September 2016. Annex also reduces the available limit to the amount of PLN 20 000 thousand.
11. Energoinwest Serwis Sp. z o.o. signed with the Millennium S.A. bank Annex A7/139/09/308/03 extending the deadline for repayment of the overdraft facility until 29 July 2016. The available credit limit amounts to PLN 3 000 thousand, the interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.
12. Energoinwest Serwis Sp. z o.o. signed with the BGŻ BNP Paribas S.A. Annex no. 3 extending the deadline for repayment of the overdraft facility until 29 June 2016. The available credit limit amounts to PLN 500 thousand, the interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.

Agreements regarding the granted loans

On 26 January 2015, EL PAK Sp. z o.o. of the ZE PAK Capital Group granted its subsidiary, i.e. EL PAK Serwis Sp. z o.o., a loan in the amount of PLN 450 thousand. The loan repayment date is 30 November 2016. The loan interest rate was determined based on market conditions.

Granted and obtained guarantees and sureties

Information regarding the granted and obtained guarantees and sureties was presented in point 36 and 37 of the Group's Consolidated Financial Statement for 2015.

Insurance agreements

The amendments to one of the insurance agreements that were concluded by the Group's companies were described below.

In 2015, two Annexes on increasing the capital work insurance sum by a total amount of PLN 246 million were signed. The annexes related to the Pątnów power plant insurance agreement (Policy) within the framework of the General Complex Insurance Agreement of the PAK Group's Companies (ZE PAK S.A., PAK KWBK S.A. and PAK KWBA S.A.) concluded on 31 March 2014 for a period from 1 April 2014 to 31 March 2017 with the consortium of Co-insurers comprised of: Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A., Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A., Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska S.A. and UNIQA Towarzystwo Ubezpieczeń S.A. The estimated insurance sum of fixed assets before signing the annexes amounted to a total of PLN 11.7 billion. The Policy Agreements include insurance coverage; property from any risk, loss of profit due to any risk, machinery and devices from damage, loss of profit due to machinery and device failure, electronic equipment from all risk, machinery and devices from electric damage.

The agreements concluded with affiliates on conditions different than market conditions

In 2015, there were no agreements concluded on conditions different from market conditions between the affiliates of the ZE PAK Capital Group.

3.3. Investment programme execution

Key investments during execution

Pątnów power plant

The main purpose of disbursement of the investment expenses in 2015, like in the previous year, was to finance the final stage of modernisation of the power units 1 and 2 in the Pątnów power plant as well as the preparation for modernisation of the units 3 and 4.

The carried out investment tasks included the condensing turbine modernisation, start-up of nitrogen oxide (NO_X) emission reducing systems (in order to reduce the NO_X emission from 1.37 kg/MWh before modernisation to the assumed level of 0.74 kg/MWh), as well as replacement or modernisation of elements crucial for the operation of the units in order to improve the operation of electricity generation (from 32.9% to the assumed level of 37.5%). The conducted modernisation was also aimed at reducing CO_2 emission (from 1.17 Mg/MWh to the assumed level of 1.05 Mg/MWh) and providing the opportunities to operate the Pątnów power plant's units for at least 15 years. The result of modernisation is to improve the equipment operational safety and the electricity generation effectiveness while preserving the environmental requirements.

In case of the units nos. 1 and 2, the works were executed in accordance with the signed schedules with annexes to the agreements.

The modernisation works on unit no. 1 were completed in September 2015. On 22 September 2015, the commissioning committee drew up a final acceptance protocol of the unit after modernisation. In the fourth quarter of 2015, the conduct of all the acceptance tests, which are required by PSE, determining the unit fulfilment of requirements of the Transmission Grid Operation and Maintenance Instructions "IRiESP" was completed. In November 2015, an annex to the unit 1 connection agreement, which determines the commercial sales of electricity generated in this unit after the carried out modernisation, was concluded with PSE. In December 2015, the modernisation works on unit 2 were completed in accordance with the task schedule. In the period from 16 November to 18 December 2015, the 720-hour test run, which demonstrated the contractors' achievement of the assumed basic technical parameters, was carried out. Until 19 December 2015, all the acceptance tests agreed with PSE, which determine the unit 2 fulfilment of the Transmission Grid Operation and Maintenance Instructions requirements, were conducted. On 22 December 2015, the commissioning committee drew up a final acceptance protocol of the unit after the completed modernisation. In January 2016, the decisions of Poviat Inspectorate of Building Supervision [Powiatowy Inspektorat Nadzoru Budowlanego] in Konin on permits for use of the units 1 and 2 in the Pątnów I power plant became valid. The maximum power of each of the modernised units amounts to 222 MWe (previously 200 MWe) Both units generate electricity to the National Power System and provide the system services related to controllability of a generating unit in terms of power raging from the technical minimum of 132 MWe to the permanent generating capacity of 222 MWe and the service of the unit's participation in defense and restoration of the National Power System, the so-called island operation.

In the first and second quarters of 2016, in accordance with the contractual provisions, it is planned to carry out warranty measurements of achieving all of the units' guaranteed technical parameters. Accordingly, the 1 unit tests will be conducted in March, and – in case of unit2 – in June.

The investment programme for the Pątnów I power plant also assumes the modernisation works on the units 3 and 4. However, they are not being currently implemented. It should be noted that the Company's investment programme was developed in market conditions different from the current ones on the energy market, in particular in the sector of producers of electricity. Currently, the investment decisions, especially in the conventional power engineering sector, are burdened with much greater risk. The change of the economic and legal conditions, including the decrease in the profitability of energy production in coal-fired power plants, currently justifies a re-analysis of effectiveness of the investment tasks planned for the units 3 and 4. In particular, it must take into account the requirements concerning BAT conclusions, which will be announced within the IED, and the current and expected economic, legal and technical conditions. Currently, uncertainty concerning the final form of the environment requirements complicates making decisions related to the high investment expenses. It is reasonable to wait for the final form of regulations on emission standards, which have a significant impact on the assumptions adopted for the calculation of effectiveness of the planned investments. The scope of the planned system solutions aimed at creation of investment pulses for new power and modernisation of the already existing generation assets is of great importance in the context of the modernisation work execution on the units 3 and 4. The company carefully follows every proposal in this regard.

PAK KWB Adamów

The scope of the task execution included, among others, the following tasks:

"Maintenance of the production capacities of the Adamów open pit"

The activities were focused on maintaining the production continuity of the Adamów open pit. For this purpose, the B 1800 station was modernised and the implementation of the next stage of the deep water well barrier, pipeline and power supply system construction, in order to ensure water draining of the Adamów open pit's foreground using deep water wells, was continued. In 2016, it is planned to perform the final stage of the open pit drainage.

"Maintenance of the production capacities of the Koźmin open pit"

In 2015, the implementation of the drainage system construction, which allows to drain the Koźmin open pit excavation using deep water wells, was completed. For 2016, the expenditures related to settlement of the tasks assigned in the previous years were planned.

"Purchase and sale of property"

In 2015, the actions related to the acquisition of land in order to ensure the extraction activity and sale of land unnecessary for the Company, were taken. In the reporting year, PAK KWBA acquired land properties for a total amount of approx. PLN 1.075 million with a total area of 14.03 ha. In the same year, the company achieved the amount of approx. PLN 607 thousand from the sale of properties with a total area of approx. 29 ha.

PAK KWB Konin

"Maintenance of the production capacities of the Jóźwin open pit"

The conducted works were focused on maintaining the production continuity of the Jóźwin open pit. The standard activities include improvements in the tangible assets of primary machinery (renovations of excavators and stackers), removal of worn out and damaged machinery sets at the renovation site and their replacement with new elements or post-renovation elements. The inspections and diagnostics of the used devices were continuously executed on a regular basis. The works on the open pit drainage system related to the SK-6 pump station construction were continued. Along with the drainage system construction, the power supply system and teletechnical system construction were executed. Within the framework of the basic machine power supply system extension, the SR-9 reduction station was relocated.

"Maintenance of the production capacities of the Tomisławice open pit"

The carried out works primarily were related to the completion of the IV stage of the drainage system construction as well as commencement of the V stage of the open pit drainage system construction. The works on the power supply focused on the construction of 30 kV power lines and the SRT-4 reduction station relocation. The works on the construction of the delivery of coal from the open pit are being continued.

"Maintenance of the production capacities of the Drzewce open pit"

In 2015, the works on the open pit's B field drainage system construction, which will also be conducted in 2016, were continued.

"Purchase and sale of property"

In 2015, the actions related to the acquisition of land in order to ensure the extraction activity and sale of land unnecessary for the Company, were taken. In the reporting year, PAK KWBK S.A. acquired properties for a total amount of approx. PLN 9.3 million with a total area of 67.74 ha. In the same year, the company achieved the amount of approx. PLN 2.1 million from the sale of properties with a total area of approx. 36.08 ha.

Key investments during the preparatory stage

Konin power plant

Apart from the tangible ventures, in 2015, the design works connected with the steam and gas unit construction in the Konin power plant, which is an investment aimed at diversification of fuel sources used to produce energy in the Group, were continued. The project includes the start-up of a high-efficiency electricity and heat production facility by way of construction of a gas and steam unit with a capacity of approx. 120 MWe and approx. 90 MWt as well as an additional peak load boiler with a capacity of approx. 40 MWt (dedicated to the supply of heat for the city of Konin), the commissioning of which is initially planned for 2020. The investment execution will allow to replace the deteriorated lignite-fire units in the Konin power plant.

The documentation needed for obtaining all the necessary administrative and legal permits related to the planned investment is being collected. In order to adjust the conditions of heat reception to the change in raw material from coal to gas, the negotiations related to the agreements on a new long-term agreement draft with a distributor of heat were carried out. The negotiations with Miejskie Przedsiębiorstwo Energetyki Cieplnej – Konin Spółka z o.o. [Local Municipal Heating Company] on the long-term agreement for the heat supply to the Konin heating network were completed in December 2015. The result of these negotiations is a long-term agreement to be signed, which determines rules for the heat supply from the new unit in 2020 - 2030. In December 2015, the connection agreement with PSE, which defines the conditions for the supply of electricity generated by the new steam and gas unit to the National Power System, was concluded. In the final stage, there are also negotiations with the GAZ System S.A. company on the connection agreement for the gas supply and gas pipeline construction from Koło to the Konin power plant. The appointed tender committee proceeded to the technical negotiations with the tenderers, who sent offers for the steam and gas unit "turn key" construction, which will result in selection of the optimal offer for the unit construction. It is planned that the agreement for the steam and gas unit construction with a selected tenderer will be concluded in 2016. Deliberations are also being conducted with financial institutions in order to ensure external financing for the planned investment. Further economic analyses, in the scope of preparations for the execution of the subject investment, are being conducted in order to confirm the profitability of the unit's construction with optimisation of its future operation scenarios.

3.4. Risk management

While conducting its operations, the Group is exposed to a series of risks, occurring actually, potentially or theoretically, present in the industry as well as on the markets on which the Capital Group's companies operate. These are factors which originate both from the inside of the Group as well as from its environment. Taking into account the formalisation of the realm related to the risk in the Group's operations, the complex document titled "Principles of Risk Management for the ZE PAK S.A. Capital Group" ("Management Principles") was developed. The Management Principles were developed and introduced in order to define and specify the limits of risks present or which can occur in the ZE PAK S.A. Capital Group as well as to specify the mechanisms used to minimise risk exposure in the course of conducting operations in the energy sector and to minimise the effects of the risk, which due to the specificity of the ZE PAK S.A. Capital Group's primary production operations cannot be eliminated in its entirety.

The first stage was to specify the Group's companies, in the operations of which the risk with material significance for the operations of the entire group can be identified and then to use appropriate principles of procedure. The Companies significantly affecting the Group's primary operations are: ZE PAK S.A., EPII, PAK KWBK S.A., PAK KWBA S.A., PAK Centrum Usług Informatycznych Sp. z o.o., Elektrim Volt S.A. Other Companies in the Group do not directly affect the operational risks.

The Capital Group's business model and strategy were established pursuant to the aforementioned principles. The primary principle of the business model executed by the Group in the realm of its business operations: extraction, production and trade is to maximise the production and profit with simultaneous compliance with the risk minimisation principle. In order to achieve its business goals, the Group accepts to incur the risk, but only in the scope and pursuant to principles specified in the Management Principles. All types of business risks and situations resulting in exposure to risk are constantly minimised, provided that the Management Principles or the Board's decisions do not authorise specific deviations. The specific roles and the scope of liability for decisions and actions related to the executed market policy and strategy were distinguished in relation to the Group's capital structure and the organisational chart of particular companies. A special role, related to the compliance and proper application of the Management Principles, is played by the task team named the Risk Management Committee, which acts as a consultative body for the ZE PAK S.A.'s Board. The body was appointed by the Order of the President of the Company's Board. The main task of the Risk Management Committee is to recognise, identify and evaluate in substantive terms all economic risks with a value exceeding PLN 10 million, related to the business operations conducted by the Group.

The scope of the Group's risk management featured identification of specific areas of risks related to the execution of the established business goals:

1) raw material risks;
2) production risks;
3) market risks and related financial risks;
4) operational risks related to the operation of IT systems;
5) risk in the area of information security.

Each area of risk identified above included the identification of specific types of risks related a specific area. The type of a given risk was thoroughly described with specification of theoretical examples of its occurrence in the Group's operating activities. Each type of risk also features specific forms of action aiming at its minimisation or elimination, a specific benchmark was also assigned and the so called "key performance indicator", i.e. the minimum performance level, was specified wherever possible.

Directors and employees of organisational units allocated to a given area of risk are subject to inspection in the scope of compliance with the Management Principles, appropriately to their scope of operations. The management of the organisational units is responsible for the proper and compliant with the Management Principles execution of tasks by subordinate organisational units and individual positions. The Management Principles also include an in-depth description of the correct reporting process regarding the identified risk as well as the method of procedure in case of identifying the infringement of the principles described in the document.

According to the Management Principles, the compliance with the procedures and methods of procedure described in the document can be abandoned only in case of obtaining the approval of the ZE PAK S.A.'s Board expressed in writing. In such case a special procedure also described in the Management Principles is applied.

On 22 October 2015, under Resolution of the ZE PAK S.A. Management Board, the Management Principles' provisions in the field of risk management were changed. The change arose from modification of the Group's commercial strategy within the electricity trading, sale of CO_2 allowances and trading with property rights resulting from certificates of origin (green certificates) and certificates of origin from co-generation (red certificates).

3.5. Description of use of emission earnings

In 2015, PAK KWBK S.A., a company subject to consolidation under the ZE PAK Group, made sixteen emissions of debentures – the total amount of issued debentures was PLN 97 500 thousand in 2015, including debentures in the amount of PLN 92 500 thousand were acquired by the Group's companies. The earnings from the emission of debentures served to finance the current activities of PAK KWBK S.A.

The total amount of debentures purchased in 2015 by the PAK KWBK S.A. amounted to PLN 70 000 thousand, including the amount of redemption of the debentures covered by the Group amounted to PLN 65 000 thousand.

4. MAIN BUSINESS RISKS

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

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

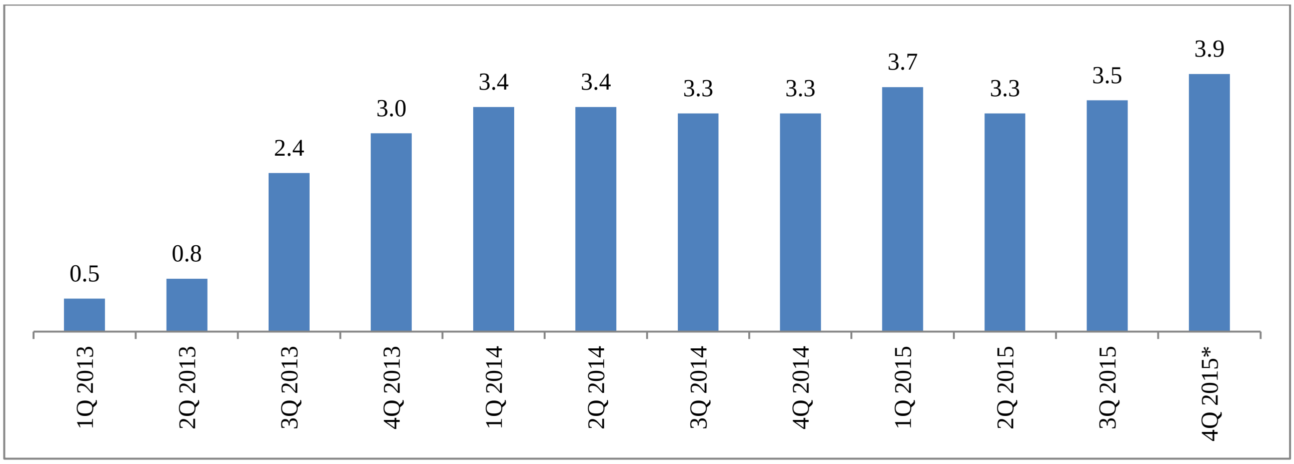
- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- fuel costs, coal extraction costs;
- CO_2 allowances costs;
- compensation for the stranded costs related to the termination of Elektrownia Pątnów II's LTC contract;
- seasonality and meteorological conditions (including mainly wind 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 Group's financial results in the further quarters includes the value impairment test result of the Group. 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 December 2015, and its result justified the write-down for asset components (more information about the test results can be read in 6.4 point of this report). It should be noted that the valuation model of the Group'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 Group'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 Group's asset components will be executed at the end of the next reporting period.

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

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

Chart 1: GDP dynamics (%) in relation to the analogous quarter of the previous year



** The so-called "Quick estimate of the gross domestic product for the IV quarter of 2014"*

Source: Central Statistical Office (GUS) data

The gross domestic product ("GDP") calculated in fixed prices from the previous year increased in real terms in 2015 by 3.6% in relation to the growth by 3.3% in 2014. For more than two years, the quarter dynamics of the gross domestic product growth has been maintained at a level above 3%. In 2015, it is even possible to observe acceleration of the dynamics upward trend. According to a rough estimate of the Central Statistical Office, the gross domestic product ("GDP") in the fourth quarter of 2015 was higher in real terms by 3.9% in comparison to the previous year (in fixed prices of the previous year), which means the highest value for four years. In the past year, the upward trends were consolidated in almost all areas, and as a result, Poland was one of the fastest developing countries in the EU a subsequent year in a row. The factors that most positively affect the gross domestic product dynamics level in 2015 included private consumption and foreign trade balance. The household expense increased in the previous year by 3.1% compared to 2.6% in 2014, and it means that private consumption has added 1.8 percentage points to the growth rate, instead of 1.5 percentage points the year before. On the other hand, the net export growth added 0.3 percentage points, subtracting 1.5 percentage points in 2014. The favourable trends in the international trade suggest that the demand for Polish products on foreign markets was rebuilt after the collapse of eastern directions in 2014. In 2015, the investment growth slowed down. The investment dynamics was 6.1% compared with 9.8% in the previous year. As a result of the investment growth dynamics slowdown, the impact of this factor on the gross domestic product dynamics decreased from 1.8 to 1.2 percentage points. The factor supporting the consumer demand was the improving situation on the labour market as evidenced by even a decrease in the unemployment rate published by the Central Statistical Office below 10% for the first time in ten years in September 2015. High increases in the real wage bills are also the consequence of positive trends in the labour market. The sustaining recovery still lacks significant inflation stresses, which encouraged the Monetary Policy Council to lower basic interest rates by as many as 50 basis points in the first quarter. The factor supporting the current lack of inflationary pressure constituted a great decrease in fuel prices.

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 consumption[2] in 2015 was 161.4 TWh, and in comparison to the previous year increased by 1.7%. Whereby a slight decrease in consumption was reported only in January and December, while in all remaining months of 2015, there was an increase in consumption. The decrease in consumption during the winter months is typical for the periods when the average temperatures are higher than the average ones for these months, as occurred in recent years. In contrast, the consumption growth, especially in the summer, is conductive to the temperatures higher than the average ones due to the intensity of using cooling appliances. The same situation took place in August when high temperatures, small amount of rainfall, and numerous hydrological restrictions of power units as well as low generation of wind sources led to introducing the 20th power supply limitations in the country, which related to restrictions on the possibilities of energy consumption for many industrial customers. Accordingly, the above reduced the energy consumption potential in this period. A stable rate of economic development, including the dynamics of the industrial production growth, also influenced the energy consumption in the analysed period. In 2015, the total electricity generation increased by 3.32%, while considering the entire year balance, there was no significant changes in the structure of energy production from the two main (taking into account the volume of the produced energy) raw materials; hard coal and lignite. The energy production of hard coal increased by 1.99% and in case of lignite decreased by 1.2%. However, it is worth noting that in the second half of the year, the production from hard coal dynamically increased. For example, in September, the increase was 10.73% and in August – as much as 19.13% in relation to the analogous months of the previous year. At the same time, it is possible to observe noticeable declines of use for the lignite production. The dynamic generation growth from wind sources was recorded again, this time by 39.8% per year. It is worth noting that the production from wind sources accounted for more than 6% of the entire energy production in 2015. Generation from wind sources grew dynamically due to both the increase in the installed capacities and excellent wind conditions. In a significant manner, in comparison to the previous year, the production from gas sources increased by even 28%, which can probably be related to the reintroduction of support for the production in co-generation. However, the adverse balance in the foreign trade reversed. Last year, Poland was a net exporter of net electricity, the excess of exports over imports amounted slightly to 0.3 TWh, however, in comparison with 2014, when Poland was a net importer of net electricity in the amount of more than 2.1 TWh, it is a significant change.

Regulatory environment

The entities conducting activities in the electricity market are subject to strict regulation, such as the Energy Law, Resolutions as well as the Directives of the European Commission and international conventions, regarding, among others, the environmental protection and climactic changes (including CO_2 emissions), obligation of public sales of a

[2]According to the Table: The structure of electricity generation in domestic power plants, the amounts of exports of electricity and domestic electricity consumption – monthly and cumulative amounts since the beginning of the year – gross amounts included in PSE S.A.'s website.

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.

Several significant events took place in the widely understood regulatory environment, which is significant for the electricity producers, last year. After several years of works, at the Parliament's session on 20 February 2015, the Act on renewable energy sources (RES) was passed. The Act came into effect on 4 May 2015, however, its provisions, from the power producers' point of view, on the support rules of the power producers from renewable sources were to be effective from 1 January 2016. After the October election, parliamentarians of the new term decided that the provisions of section 4 of the Act of 20 February 2015 would come into force not until 1 July 2016. Section 4 of the Act on RES applies, in particular, to issues related to the auction system starting to the electricity purchase from RES system and mechanisms supporting the electricity generation in microsystems. The auction system was supposed to be a solution targeted primarily at emerging RES power. In the auction system, the government had to decide on the amount of renewable energy it needs and prepare auctions for its delivery for particular technologies and volume of sources. The auction will be won by the producer who proposes the lowest price. In return, the support will be guaranteed to the producer. The Act also includes regulations regarding prosumers (simultaneous energy producers and consumers) producing energy from RES in micro- and small systems. The necessity to conduct additional assessment of the regulation results and introduction of mechanisms to avoid bankruptcy of the currently functioning agricultural biogas plants and their further development, preparation of the necessary regulation in the field of location rules and the wind power plant construction on land as well as completion of investment processes, which could not be completed until 2015 (so that they can use the system of green certificates) due to the reasons beyond the investors, was considered as a justification for a half-year deferral of the provisions' entry into force. Among the changes, which started to come into force from the beginning of 2016, it is worth mentioning about the lowering of support for the so-called multi-fuel firing (co-firing) systems from the 1 green certificate level for every MWh of produced energy to the 0.5 level of the certificate for 1 MWh energy. Since the beginning of the year, the support mechanisms for water turbine plants with the installed capacity of above 5 MW, which had produced electricity for the first time before the entry of the act into force, have been completely eliminated. One of the provisions of section 4, which includes the use of a net metering for prosumers and resale of energy surplus for 100% of the electricity price in the wholesale market from the previous quarter has also been introduced.

On 8 July 2015, the European Parliament approved the provisions related to the establishment of a stability reserve (MSR – Market Stability Reserve) for the EU market of CO_2 emissions allowances. According to the initial findings, the reserve was to be launched in 2021 but under the strong pressure from some EU states, its launch was expedited and the rules, according to which it is to operate, were modified. From the beginning, Poland was against the creation of the reserve and later it tried to mobilise a group of EU states that would obstruct the entry into force of the modified rules of MSR creation. Main assumptions of put-through amendments envisage the creation of a stability reserve in 2018 and its launch on 1 January 2019 as well as the transfer of 900 million of allowances withdrawn from the market within the so-called backloading to the reserve. Initially, in accordance with the accepted rules, these allowances were to be back on the market. By the end of 2025, 10% of allowances will have to be excluded within the so-called solidarity package, which then are to be divided between the poorest EU countries (with a GDP lower than 90% of the EU average). The idea of its creators is that MSR is to have an impact on raising the price of CO_2 allowance and later, through interference with the market mechanism, help to control their prices according to needs in the implementation of the EU's climate policy. Poland intends to submit a complaint to the Court of Justice of the European Union on the decision on the establishment and functioning of the market stability reserve for the EU Emissions Trading System (EU ETS). In accordance with the opinion of the Polish government, starting the functioning of the MSR mechanism in 2019 takes place in the current billing period of the EU ETS system (2013-2020), which substantially amends the legal frameworks of the system developed in the perspective for 2020. Interference with the emission trading system will cause changes, which market participants did not expect when planning their business and investment operations. According to the Polish government, among others, the principle of legal certainty and the principle of protection of legitimate expectations were breached by adopting the measures interfering with emission trading system during the settlement period.

On 26 September 2015, the President signed an amendment to the Energy Law on integrity and transparency in the wholesale energy market, which implements the EU's REMIT regulation into the Polish law. The amendment to the law introduces sanctions for non-compliance with the obligations and frauds related to the functioning on the energy market. Among others, penalties for the use of internal information, manipulations or attempted manipulations in energy trade, and for failure to trade data to the Agency for the Cooperation of Energy Regulators (ACER) were adopted. The new provisions grant the President of the Energy Regulatory Office (ERO) powers aimed at ensuring the conduct of an efficient energy market monitoring in order to detect potential frauds. Cooperation in this regard with ACER is to become an important aspect. The President of the ERO was granted tools similar to the ones used by the OCCP. The President of the ERO is required to control and conduct preliminary investigations on manipulations and misuse of information on the energy market. In addition, he or she will have the ability to impose pecuniary penalties for breaching the regulation's provisions.

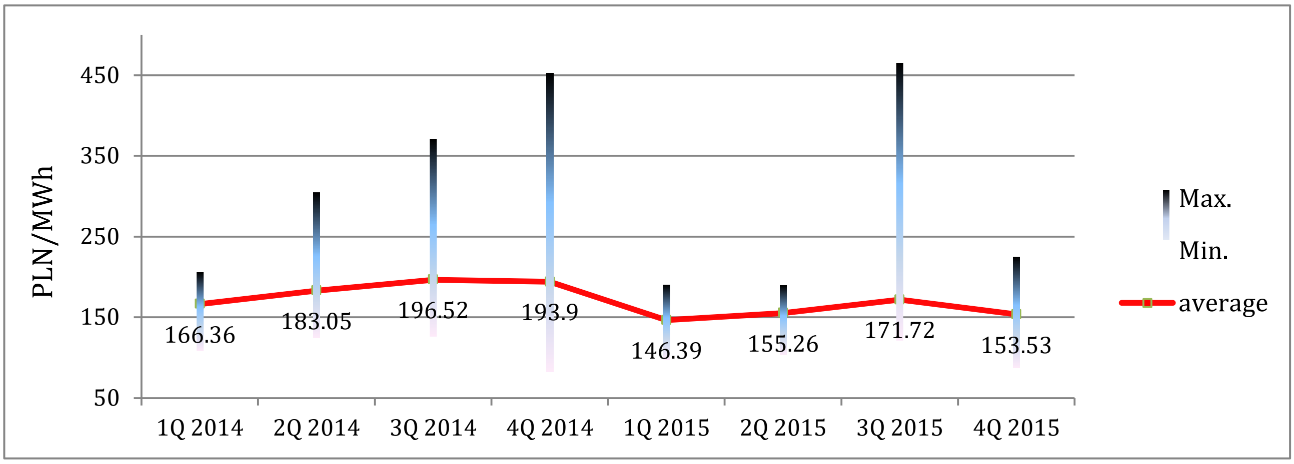
Electricity prices

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

In 2015, we observe a significant decrease in the average price of energy in relation to the previous year. The weighted average of the quotations of the IRDN index (Next Day Market Forecast) on TGE (Polish Power Exchange), for 2015, stood at 156.04 PLN/MWh, which means a decrease in relation to 2014 by 28.11 PLN/MWh, i.e. by about 15%. The factors influencing significantly the level of stock prices on the SPOT market remained the same, of which the most important are: the size of the wind generation rate, Nordpool import transmission capacities, the reserves in the National Power System, as well as weather conditions. 2015 was characterised by a significant increase in wind generation. It was impacted by the perfect wind conditions (especially in the first and fourth quarters), and the increase in new wind powers. Investors hurried to put new offshore wind farms into operation in order to make it before the entry into force of the new act on RES, amending the support system for producers of renewable energy. According to the PSE data, at the end of 2015, there were over 5000 MW of wind turbines' capacity installed in the system, which means an increase by approximately 1300 MW, i.e. 35% year-on-year. In 2015, wind generation constituted 6.2%[3] of the total energy production in Poland, while in 2014, this share was 4.6%. It is worth mentioning that in the windiest months, production of wind turbines was able to cover even over 10% of the demand for energy, as it was, for example, in December 2015. Relatively high temperatures were another factor significantly influencing energy prices. 2015 turned out to be the warmest one in metering history. Higher than average temperatures limited demand for energy in the winter months at the beginning and end of the year. On the other hand, the warm summer contributed to the increase in demand due to the increasing amount of used cooling devices. The heatwave and drought that persisted in August in Poland caused the first announcement of the 20th level of power supply limitations since 1987. 10 August proved to be a special day, when the demand for power increased to almost 22.2 GW, and numerous shutdowns of power units, caused by not only temperatures, but also low river levels, launched an escalation matrix. In order to avoid even worse consequences, PSE decided to introduce the 20th level of power supply limitations and restrictions on collection of energy for recipients with the contracted power of over 300 kW. Restrictions in access to energy lasted for several days. The problem of ensuring adequate reserve in the system is a factor supporting the growth of prices on the market. That is why the prices in the third quarter of 2015 were the highest in the entire year – weighted average price (IRDN, Next Day Market Forecast) for the third quarter amounted to 171.72 PLN/MWh, while the lowest prices were recorded in the first quarter of 2015 – the weighted average price in the first quarter was at the level of 146.39 PLN/MWh. The low level of reserves in the system, especially in adverse weather conditions (high temperatures, low river levels, weak winds), is the more and more often raised issue, especially in the context of system solutions related to the potential introduction of power market. A difficult situation in the hard coal mining could also impact negatively the energy prices level in the analysed period. Coal prices on the world markets in 2015, as well as prices of other energy resources, decreased very much. The domestic coal producers were also affected – Kompania Węglowa, the largest mining company in Europe, launched the sale of its growing coal inventory offering lower and lower prices, which had never been recorded on the market before. This caused pressure on other mining companies and, consequently, reduced the prices of raw material for energy producers based on hard coal. The decrease in coal prices, at simultaneous increase in the price of CO_2 allowances, allows producers of hard coal-based energy to compete with the producers of lignite-based one in terms of costs.

[3] On the basis of the PSE data "Structure of electricity generation in domestic power plants, the amounts of exports of electricity and domestic electricity consumption – monthly and cumulative amounts from the beginning of the year – gross amounts."

Chart 2: Electricity prices (IRDN)

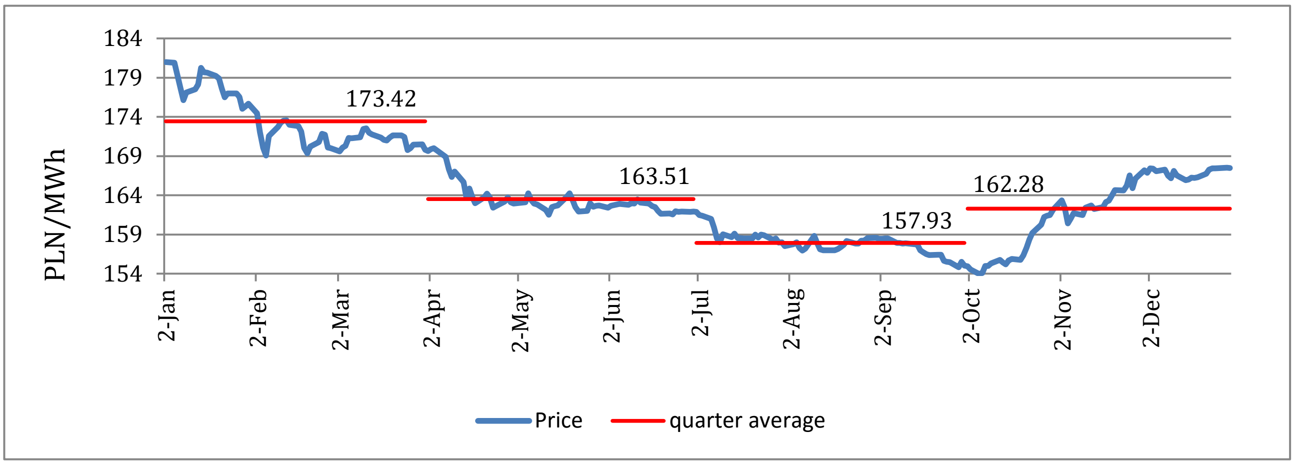


Source: Own development based on the TGE data.

On the futures market of the electricity of the Polish Power Exchange, the most liquid instrument, the annual contract BASE_Y-16, was being quoted at lower and lower levels over the first three quarters of 2015. The most dynamic decrease was recorded at the beginning of the year, when the price decreased from over PLN 180 to about PLN 162 in mid-April. Another downward impulse took place in July, and then in September. At the end of the third quarter, the price of the futures contract for the supply of electricity for 2016 was quoted close to its minimum – about PLN 155. Prices rebounded at the beginning of the fourth quarter. Quotations of the annual contract BASE_Y16 closed the year at the level close to PLN 168.

It is worth emphasizing that the level of quotations of futures contracts was often largely determined by the SPOT market moods but in 2015, this trend weakened significantly. When comparing price quotes on the IRDN market and the futures market, one can even speak of a negative correlation. Prices on the SPOT market were increasing from early 2015 reaching its peak in the third quarter and decreasing in the fourth quarter. On the futures market, the situation was exactly opposite. Predictions concerning the carbon market, about the plan to withdraw the excess allowances to the provision (MSR – Market Stability Reserve), were also an important variable for the futures market. In 2015, arrangements in this regard strongly influenced the level of energy prices quotations in the subsequent years.

Chart 3: The price of the futures contract for the supply of electricity (base) for 2016



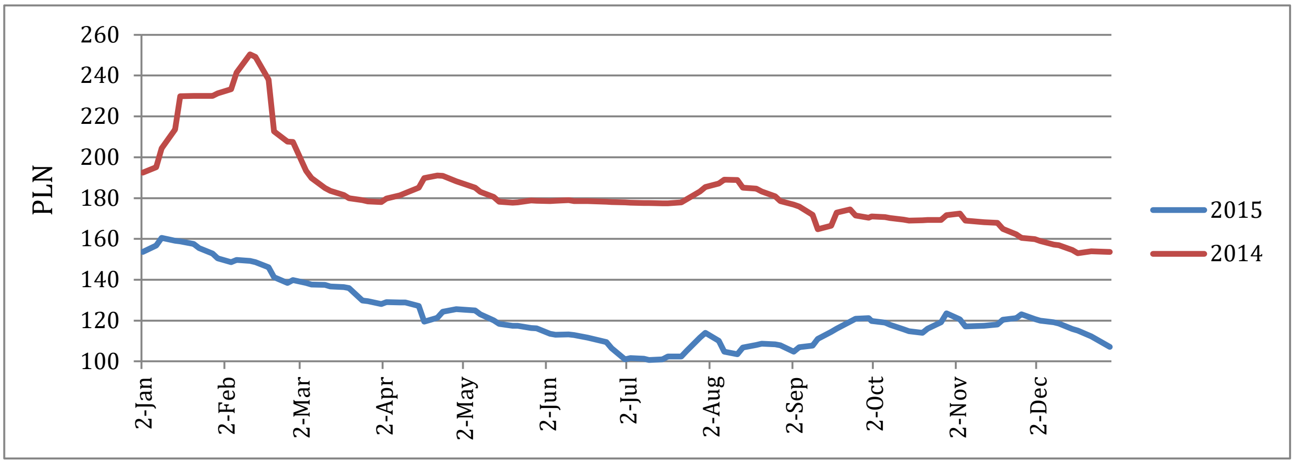
Source: Own development based on the TGE data.

Certificates of origin

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

Comparing the prices of green certificates in 2015 and the ones of 2014, the differences in the quoted levels are clearly visible. In both years, the highest levels were recorded in the first quarter. Later, a gradual decline or stagnation at low levels occurred. Although in the third quarter of 2015 there was a moderate rebound on this market in September, when the price increased from its minimum of nearly PLN 100 to PLN 121, the price difference still, however, exceeded PLN 40. In the fourth quarter, the downward tendency returned again, although new annual minimums were not recorded until the end of the year. The average price of green energy origin rights for 2015 amounted to PLN 123.60[4] and decreased by nearly 34% in relation to the average of 2014. Faced with an oversupply of green energy origin rights, it seems that a permanent change of the low prices of the green certificates could be brought by only a new act on RES. Although it did not enter into force in its entirety on 1 January 2016, however, provisions limiting support for installation of biomass co-combustion to some extent and eliminating the support of the so-called "large" hydrological systems producing energy have been already in force since the beginning of 2016. The provisions of the new act on RES also provide an increase in the coefficient of the obligation to redeem the certificates of origin. However, in view of the oversupply of green certificates of origin, balancing on the market will probably be a stretched process.

Chart 4: Average price of certificate of origin for RES produced energy



Source: Own development based on the TGE data.

Fuel cost, coal extraction cost

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

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

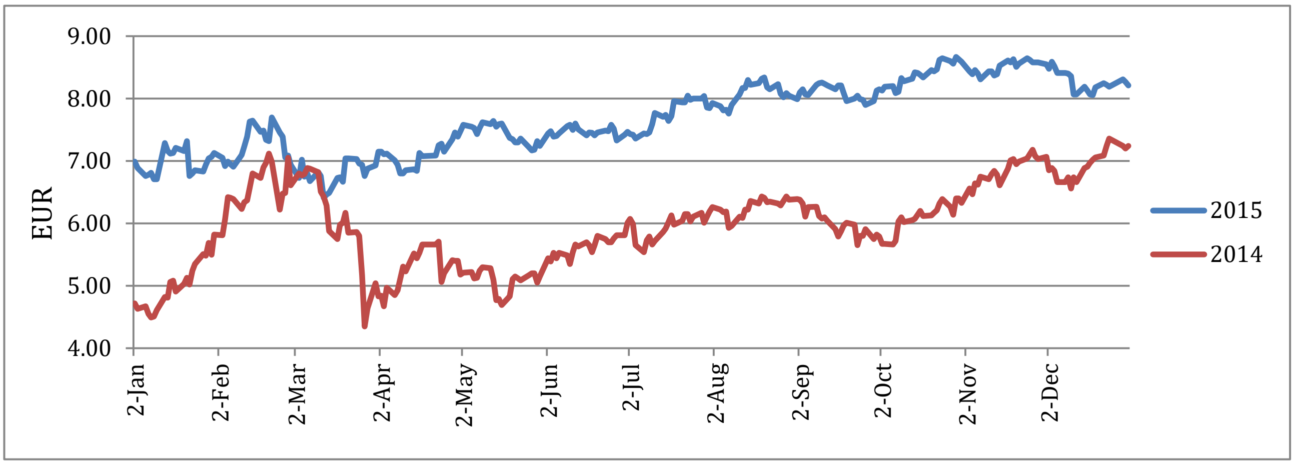
CO_2 allowances costs

The activities in the scope of production of electricity and heat from conventional sources, and thus the operational results, are largely dependent on the number of free CO_2 allowances granted in a given period. The number of allowances possible to be obtained for power engineering were specified in article 10c of the ETS directive and the amounts that can be physically obtained by particular systems depend on the expenses incurred for investments which are recorded in the National Investment Plan. The Group is obligated to purchase the other part of the missing allowances at the free market.

[4] The weighted average of the PMOZE_A instrument quotations on the Polish Power Exchange.

The average price of emission rights in 2015 amounted to 7.68 EUR/EUA[5], which is a substantial increase by nearly 29% in relation to the average price of 2014 at 5.96 EUR/EUA. Virtually, throughout the entire 2015, with the exception of March and December, there was a stable upward trend on the CO_2 allowances market. The carbon market largely depends on political decisions taken at the EU level. It was clearly visible in 2015, when the CO_2 emission allowances prices were changing together with the projections concerning the details of the MSR (Market Stability Reserve) functioning. The main uncertainties for the market participants were the date of the reserve start up and the manner of treatment of the 900 million allowances withdrawn from the system within the "backloading." According to the original assumptions, the MSR was to start functioning from 2021, but earlier reports about willingness to start up the reserve, reported by some EU countries, resulted in increases on the CO_2 emission allowances market. Analogous information about the disagreement of the group of countries (including Poland) to change the date of the introduction of the MSR contributed to periodic price drops on the market. Finally, in July, the European Parliament passed provisions, pursuant to which MSR is to start to operate at the beginning of 2019, and 900 million allowances withdrawn from the market within the backloading will not return to the market but to the MSR pool. Such provisions became an important support for the increase in the credit of CO_2 emission units. Waiting for the findings of the Paris climate summit in December 2015 was another factor, which supported EUA prices, especially in the fourth quarter of 2015. In particular, the amount of reduction of CO_2 in 2020-2030 planned by individual countries. Finally, the agreement reached in Paris is only a declaration in terms of emission reductions. There are also discussions about a general purpose to be achieved that involves keeping global average temperatures at the level well below 2 degrees Celsius above the pre-industrial level. In general, the objectives achieved by the participants of the conference are significantly less ambitious than those executed by the European climate policy.

Chart 5: Price of the futures contract for the supply of EUA



Source: Own development based on the ICE data.

Compensation for the stranded costs related to the termination of Elektrownia Pątnów II's "Long term Contract" ("KDT")

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

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

Seasonality and meteorological conditions (including mainly wind conditions)

The demand for electricity and heat, especially among consumers, is subject to season fluctuation. So far, the practice showed that the consumption of electricity was higher in the winter (mainly due to low temperatures and shorter days) and lowered in the summer (due to the summer period, higher ambient temperatures, and a longer day). In the last

[5] The arithmetic mean of the day-end levels for quotations of EUAs on ICE.

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 air conditioners and cooling devices

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

Investment expenses

The activities in the coal extraction and energy production sector requires substantial investment expenses. The Group's generation assets require periodical renovations and on-going modernisation, both due to the increasing strictness of requirements in the scope of environmental protection as well as the need for improvement of electricity production effectiveness. The level of investment expenses had major impact, and according to expectations will still have major impact, on the results of the operating activities, level of debt and cash flows. Delays in execution, changes of the investment programme, and excess in the budget can have severe impact on the investment expenses incurred in the future, as well as on the results, financial position and perspectives of development. Moreover, the part of the Group's planned investment projects reported to the National Investment Plan involves the allocation of free units allowing for CO_2 emission. The topic of the Group's investment plans and the execution of current tasks is more widely discussed in points 4.3 and 8 of this statement.

EUR/PLN exchange rate, interest rate

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

The most important factors include:

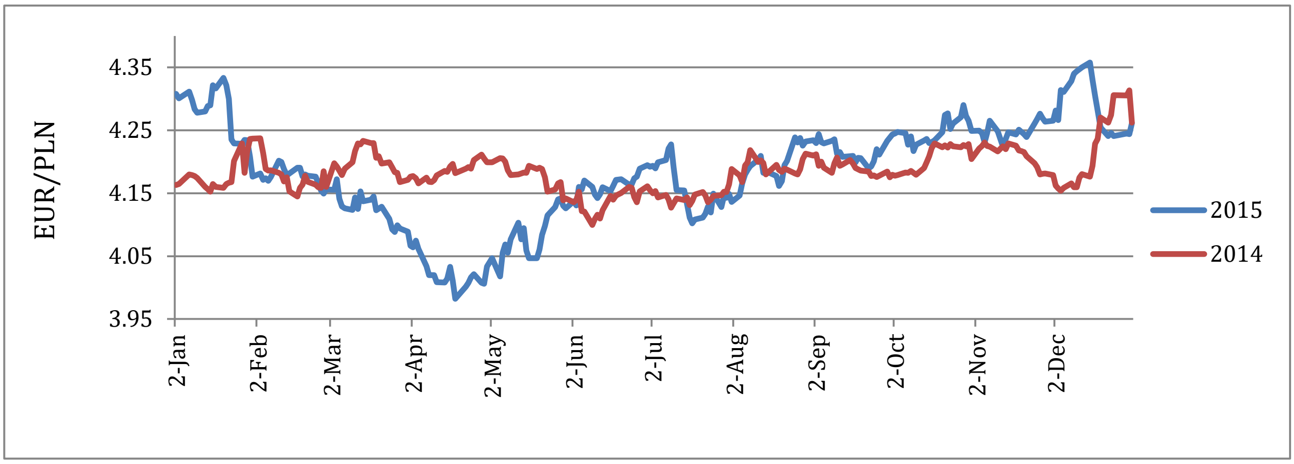
- A significant part of the debt (that is the Corporate Credit taken by Elektrownia Pątnów II) is denominated in EUR, which means that the depreciation of the value of PLN in relation to EUR has negative impact on financial results, because it increases the financing costs in PLN related to the foreign currency debt, whereas the depreciation of the value of EUR in relation to PLN has positive impact on financial results, because it decreases the financial costs in PLN related to the debt in foreign currency.
- ZE PAK S.A. and EPII use debt financing based on a variable interest rate.
- PAK Serwis Sp. z o.o., a subsidiary embraced by consolidation, in the first quarter of 2015, had its facility, within the meaning of the agreement on avoiding double taxation, in Germany, where it conducted a part of its activities and EUR was the functional currency for that facility. Currently, the facility has already been closed down due to the completion of works in Germany.
- Transactions relate to the purchase of EUAs are settled in EUR.

Currently, the ZE PAK Capital Group's companies do not use instruments, which limit the risk resulting from the changes in the exchange rate. 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 by the ZE PAK Capital Group, possible transactions will have the 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 S.A. and EPII. 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 and concern the EPII's the corporate credit based on the variable EURIBOR interest rate. IRS instruments were used in security.

In 2015, the EUR/PLN exchange rate showed noticeably greater variability than it was year before. In the second quarter of 2015, it decreased definitely, descending to below 4.00 in mid-April, but since then, the trend has changed for the upward one. The increase lasting from the mid-April raised the quotation level to nearly 4.35 EUR/PLN in mid-December. At the end of the year, PLN strengthened a little bit reaching 4.26. It was a level comparable to the one at the end of 2014. The euro weakness in relation to other currencies of the first months of the year should be associated with the assets buying programme (mainly debentures issued by the euro area countries) initiated by the European Central Bank ("ECB"). The attractiveness of the Polish zloty against the euro was also caused by the level of real interest rates in Poland, which still remained at relatively high level in relation to the recorded levels of real interest rates in many economies, not only of the euro area. In the second quarter, the PLN quotations were influenced by uncertainty about the manner of resolving the issue of the Greek debt. However, in the third quarter, the emerging economy currencies (which include also PLN) reacted negatively to the problems of the Chinese economy and the concerns about the perspectives for the global economic growth. To some extent, the course of two election campaigns (presidential and parliamentary ones) and the potential impact of some election promises on the future condition of the Polish economy also left a stamp on the level of the PLN quotations and the shape of the monetary policy.

Chart 6: average EUR/PLN exchange rate



Source: Own development based on NBP average exchange rate tables

5. DESCRIPTION OF THE FINANCIAL AND ECONOMIC SITUATION

5.1. Principles of development of the financial statement

The Group develops the financial statements on the basis of the International Financial Reporting Standards approved by the European Union. The above standards, known collectively as International Financial Reporting Standards (IFRS), also include the International Accounting Standards (IAS) and Interpretations issued by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee.

The significant principles of accounting used in the Group's Consolidated Financial Statement are discussed in note no. 10 of the Group's Consolidated Financial Statement for 2015.

5.2. Specification of the basic economic and financial values

Consolidated profit and loss account and the consolidated total income statement

Sales revenues in 2015 amounted to PLN 2 947 816 thousand and in relation to 2014, they increased by PLN 267 705 thousand, i.e. by 9.99%.

The largest increase in revenues in 2015 was within the electricity sales revenues, which together increased by PLN 242 728 thousand, i.e. by 10.71%. The increase in the revenues in 2015 was influenced by both the electricity sales price higher by 9.60 EUR/MWh and energy sales volume higher by 0.65 TWh. The higher electricity sales volume was achieved in its entirety within the electricity from the market (increase by 1.69 TWh) at simultaneous decrease of the electricity from own generation volume (decrease by 1.04 TWh). Reducing the generation concerned the Pątnów II and Adamów power plants. In the case of Pątnów II, the cause was higher capacity excesses in the system at night (increased wind generation), which resulted in a reduction in the unit's operation by the system operator. In the Adamów power plant, generation production was affected by market conditions. In the Pątnów I power plant, in 2015, the generation was at a similar level as in 2014, but 0.75 TWh of the generation in the units 1 and 2 was executed during the investment period, so the revenues obtained from generation in this period were not included in the revenues from electricity sale but for reduction of the investment expenses on these units.

In 2015, the compensations related to LTC termination were higher by PLN 74 212 thousand, i.e. by 74.79%. However, in 2014, in this item, impairment write-downs in the total amount of PLN 81 575 thousand related to the amount of the adjustment of stranded costs for 2008 were made. If the write-down's effect was omitted, the compensation in 2015 would prove to be lower than the compensation in 2014 by PLN 7 363 thousand, which is the result of better results achieved in 2015 by the Elektrownia Pątnów II Sp. z o.o. company, which is the beneficiary of the LCT termination, and a higher discount rate's value.

Table 2: Specification of consolidated sales revenues

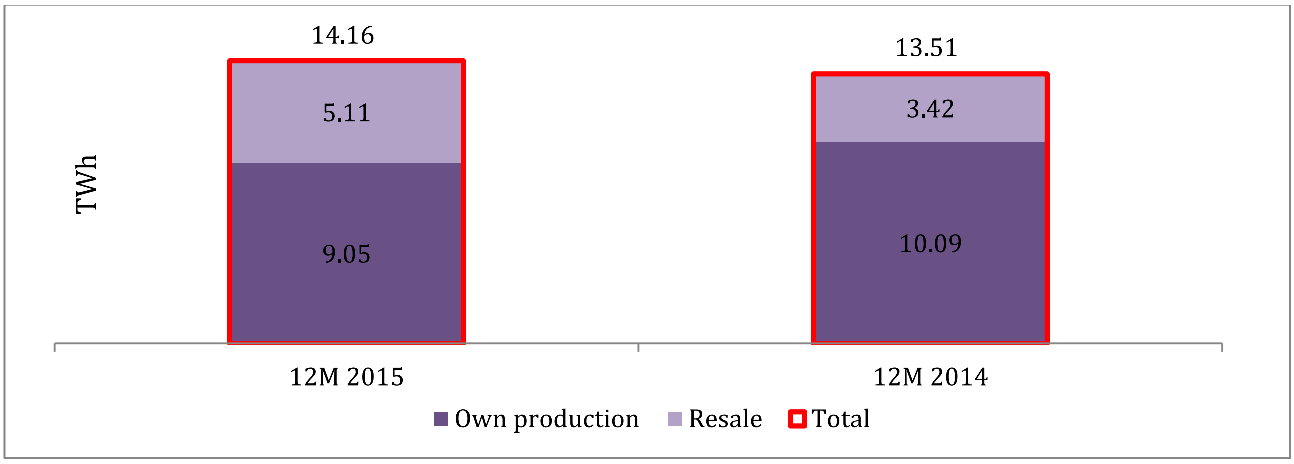
	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	12 months period ended 31 December 2015	*12 months period ended 31 December 2014*	*change*	*dynamics*
Electricity from own production (decreased by excise duty)	1 602 096	1 689 659	(87 563)	(5.18)
Electricity from resale on the market	906 021	575 730	330 291	57.37
Certificates of origin of electricity production	33 901	63 327	(29 426)	(46.47)
Construction agreements	141 398	147 735	(6 337)	(4.29)
LTC compensations	173 435	99 223	74 212	74.79
Heat	60 874	58 276	2 598	4.46
Other	30 091	46 161	(16 070)	(34.81)
Total	**2 947 816**	**2 680 111**	**267 705**	**9.99**

In 2015, in comparison to 2014, revenues from the sale of energy certificates of origin' ownership units decreased by PLN 29 426 thousand, i.e. by 46.47% in relation to the revenues achieved in the previous year. Lower revenues from the sale of energy certificates' ownership units were the result of the decrease in market prices of green certificates. In addition, in 2015, the part of the possessed stock of green certificates from previous years were sold. They were valued at the price at the end of 2014, that is 153.63 PLN/MWh. At the time of their sale at a market price lower than the valuation price, the cost of their sale had an effect on lowering the obtained sale revenues.

Revenues from contracts for construction services in 2015 decreased by PLN 6 337 thousand, i.e. by 4.29% in relation to the revenues achieved in the previous year. The reduction in revenues is the result of progressive reduction of repair companies' involvement in upgrading of the Pątnów I power plant in relation to completion of works on the unit no. 1 in the third quarter and on the unit no. 2 in the fourth quarter.

The Group obtained higher revenues from the sales of heat by PLN 2 598 thousand as a result of the sales volume higher by 26.62 TJ and the obtained price higher by 0.90 PLN/GJ.

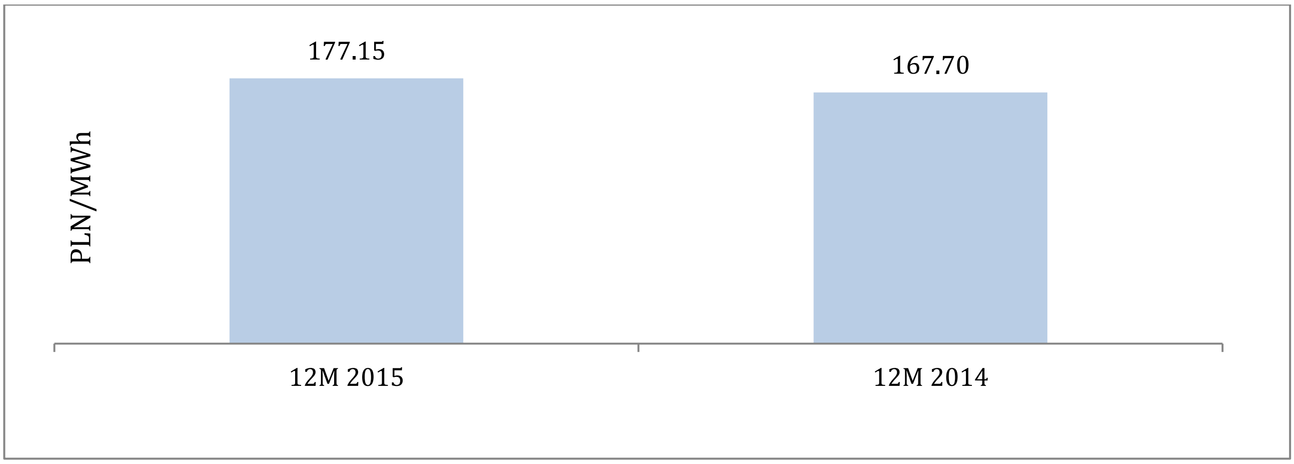
*Chart 7: Sale of electricity**



* *Electricity sales in 2015 does not contain 0.77 TWh of sales within start-up of the units nos. 1 and 2 in the Pątnów I power plant, from which the obtained revenues decreased the amount of investment expenses in 2015.*

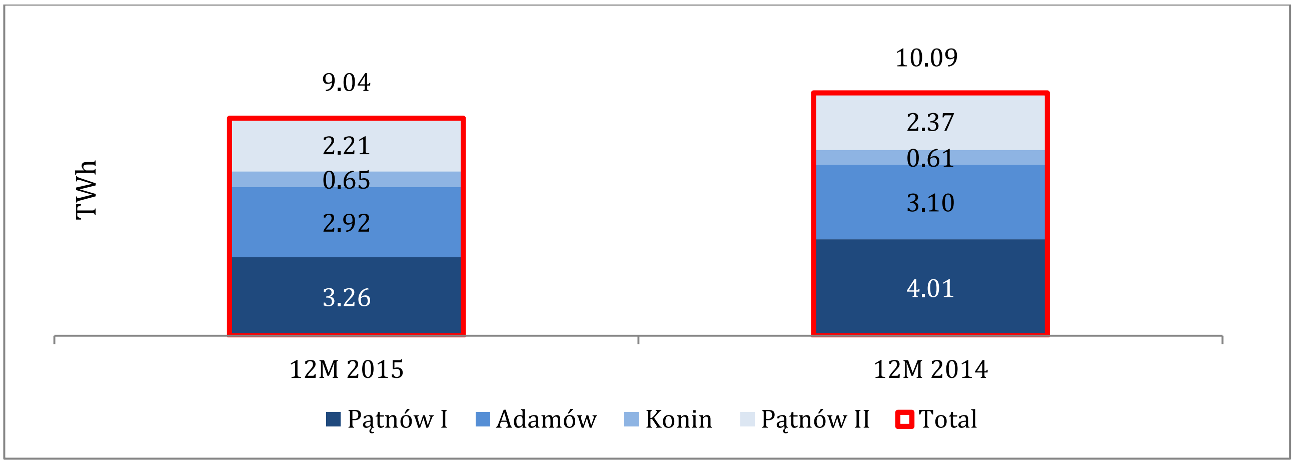
Source: internal data

Chart 8: Average electricity sale price



Source: internal data

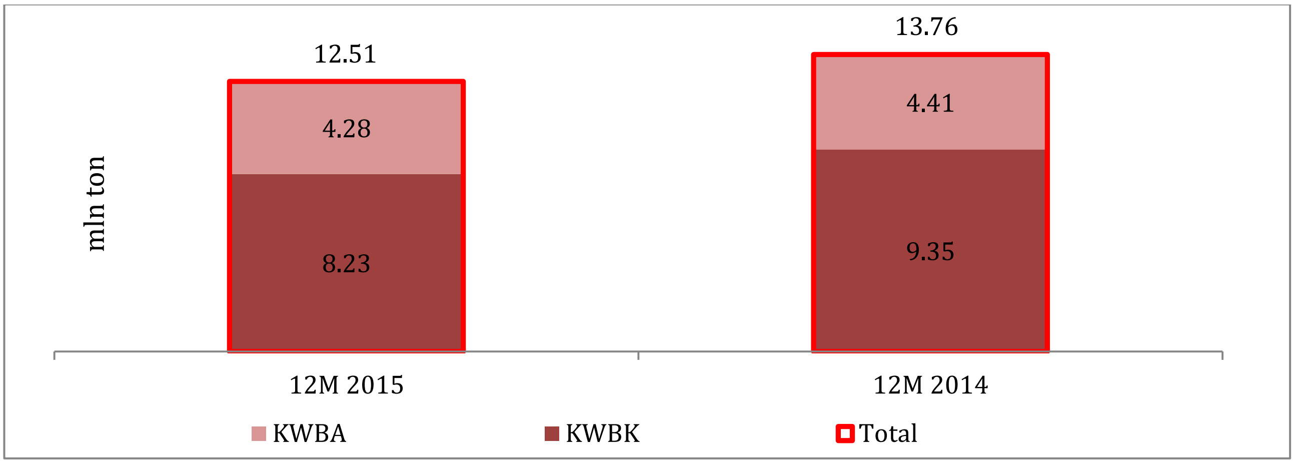
*Chart 9: Electricity net production**



* *Net electricity generation in 2015 does not contain 0.75 TWh of sales executed during start-up of the units nos. 1 and 2 in the Pątnów I power plant.*

Source: internal data

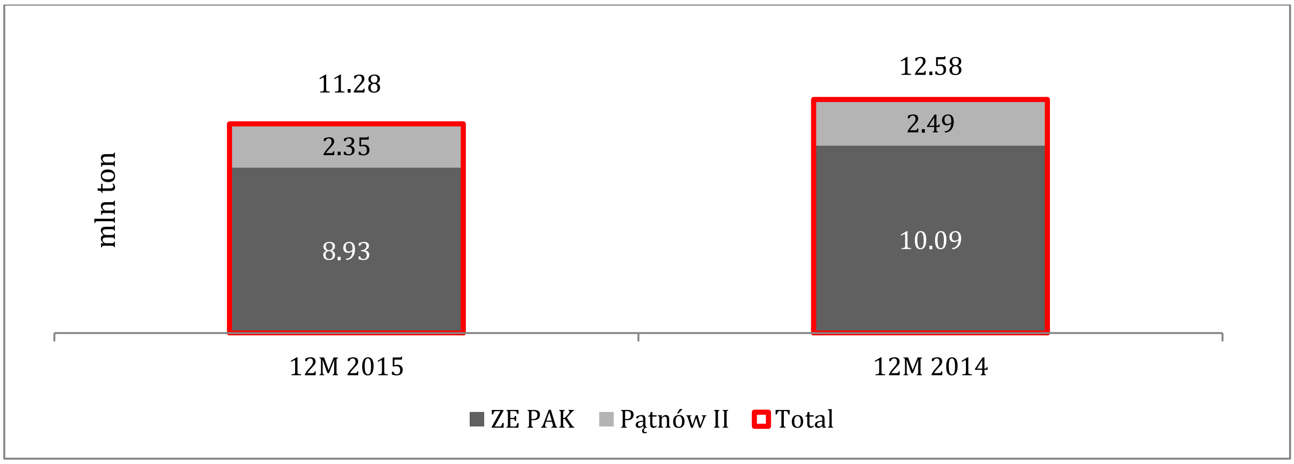
*Chart 10: Lignite consumption**



* *Lignite consumption in 2015 does not contain 1.10 tonnes of lignite consumed during start-up of the units nos. 1 and 2 in the Pątnów I power plant, whose cost increased the amount of investment expenses in 2015.*

Source: internal data

*Chart 11: CO_2 Emission**



* *CO_2 emission in 2015 does not contain 0.98 tonnes of CO_2 emitted within start-up of the units nos. 1 and 2 in the Pątnów I power plant, whose cost increased the amount of investment expenses in 2015.*

Source: internal data

Tablea 3: Selected items from the consolidated profit and loss account and the consolidated total income statement

	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	12 months period ended 31 December 2015	*12 months period ended 31 December 2014*	*change*	*dynamics*
Sales revenues	**2 947 816**	**2 680 111**	**267 705**	**9.99**
Cost of goods sold	(4 651 152)	(2 452 160)	(2 198 992)	89.68
Gross profit (loss) on sales	(1 703 336)	227 951	(1 931 287)	-
Other operating revenues	29 966	88 060	(58 094)	(65.97)
Selling costs	(4 920)	(3 973)	(947)	23.84
Administrative expenses	(111 323)	(148 639)	37 316	(25.11)
Other operating costs	(6 209)	(15 969)	9 760	(61.12)

Profit (loss) on operating activities	**(1 795 822)**	**147 430**	**(1 943 252)**	**-**
Financial revenues	6 496	21 344	(14 848)	(69.57)
Financial costs	(43 909)	(70 789)	26 880	(37.97)
Gross profit (loss)	**(1 833 235)**	**97 985**	**(1 931 220)**	**-**
Income tax (tax load)	(46 573)	(19 501)	(27 072)	138.82
Net profit (loss)	**(1 879 808)**	**78 484**	**(1 958 292)**	**-**
Net other comprehensive income	6 102	(6 735)	12 837	-
TOTAL INCOME FOR THE PERIOD	**(1 873 706)**	**71 749**	**(1 945 455)**	**-**
EBITDA*	**494 072**	**507 448**	**(13 376)**	**(2.64)**

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

Cost of goods sold in of 2015 amounted to PLN 4 651 152 thousand and, in comparison to the previous year, increased by PLN 2 198 992 thousand, i.e. by 89.68%. In addition to the impairment write-downs, tangible fixed assets in the amount of PLN 1 880 000 thousand, the increase in the prime cost was mostly influenced by the value of sold goods and materials as well as sold electricity purchased in trade higher by PLN 289 935 thousand, CO_2 emission costs higher by PLN 143 259 thousand and depreciation higher by PLN 33 150 thousand.

The detailed analytical presentation of costs by type is included in Table 4.

Table 4: Consolidated cost by type

	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	12 months period ended 31 December 2015	*12 months period ended 31 December 2014*	*change*	*dynamics*
Depreciation	393 705	360 555	33 150	9.19
Fixed assets – write offs	1 896 189	(537)	1 896 726	-
Inventory – write-offs	12 930	22 412	(9 482)	(42.31)
Materials consumption	435 014	448 448	(13 434)	(3.00)
External services	100 786	178 732	(77 946)	(43.61)
Taxes and fees excluding excise tax	211 623	231 378	(19 755)	(8.54)
CO_2 allowances costs	320 216	176 957	143 259	80.96
Employee benefits costs	538 579	556 640	(18 061)	(3.24)
Other costs by type	16 597	33 870	(17 273)	(51.00)
Value of sold goods and materials and of sold energy purchased from trade	879 147	589 212	289 935	49.21
Total	**4 804 786**	**2 597 667**	**2 207 119**	**84.97**

Other operating income in the first half of 2015 years amounted to PLN 29 966 and were lower than these of the last year by PLN 58 094 thousand, i.e. by 65.97% but in 2014, in this item, higher revenues from, among others, redemption of the provisions for employee tariff in ZE PAK S.A. in the amount of PLN 45 668 thousand and received compensations were registered. Other operating costs in 2015 years amounted to PLN 6 209 thousand and decreased in relation to the previous year by PLN 9 760 thousand, i.e. by 61.12%.

Selling expenses in 2015 amounted to PLN 4 920 thousand and were higher by PLN 947 thousand, i.e. by 23.84%, mainly due to higher fees incurred in relation to energy sales on the exchange.

Administrative expenses in 2015 amounted to PLN 111 323 thousand and they are lower than the ones incurred in the last year by PLN 37 316 thousand, i.e. by 25.11%.

As a result of the significant increase in cost of goods sold in 2015 on operating activities, a loss in the amount of PLN 1 795 822 thousand was incurred.

Similarly to the previous year, but to a lesser extent, the results were negatively affected by the negative result on financial activities in the amount of PLN 37 413 thousand. In 2015, among others, levels of interest costs and revenues, negative exchange differences and received dividends decreased.

In 2015, the Group incurred a gross loss in the amount of PLN 1 833 235 thousand. At the level of the net, the loss amounted to PLN 1 879 808 thousand.

Consolidated statement of financial position

Total balance sheet amounted to PLN 6 880 259 thousand as of 31 December 2015 and increased in comparison to the state as of 31 December 2014 by PLN 12 571 thousand, i.e. by 0.18%.

Table 5: Selected items from consolidated assets

	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	31 December 2015	*31 December 2014*	*change*	*dynamics*
Fixed assets				
Tangible fixed assets	3 475 229	5 299 618	(1 824 389)	(34.42)
Investment property	2 363	2 799	(436)	(15.58)
Intangible assets	17 389	82 263	(64 874)	(78.86)
Assets concerning stripping and other mining assets (long-term)	92 748	149 901	(57 153)	(38.13)
Other long-term financial assets	13 752	12 591	1 161	9.22
Other long-term non-financial assets	10 027	25 949	(15 922)	(61.36)
Deferred tax assets	102 615	112 870	(10 255)	(9.09)
Total fixed assets	**3 714 123**	**5 685 991**	**(1 971 868)**	**(34.68)**
Current assets				
Short-term intangible assets	354 389	176 957	177 432	100.27
Inventory	157 515	237 116	(79 601)	(33.57)
Deliveries and services receivables and other receivables	268 123	253 977	14 146	5.57
Income tax receivables	2 743	12 742	(9 999)	(78.47)
Other short-term financial assets	76 979	94 748	(17 769)	(18.75)
Other short-term non-financial assets	12 497	39 434	(26 937)	(68.31)
Assets concerning stripping and other mining assets (short-term)	1 309	556	753	135.43
Long-term contract receivables due from ordering parties	3 349	10 047	(6 698)	(66.67)
Cash and cash equivalents	383 354	356 120	27 234	7.65
Total current assets	**1 260 258**	**1 181 697**	**78 561**	**6.65**
TOTAL ASSETS	**4 974 381**	**6 867 688**	**(1 893 307)**	**(27.57)**

On 31 December 2015, property, plant and equipment amounted to PLN 3 714 123 thousand. In relation to the last day of the previous year, they decreased by PLN 1 971 868 thousand, i.e. by 34.68%. The greatest changes occurred in the following items:

- tangible fixed assets, which increased by PLN 1 824 389 thousand net, primarily as a result of an impairment write-down related to the loss of value of property, plant and equipment in the amount of PLN 1 880 000 thousand and the amount of PLN 55 611 thousand, which is per the balance difference of investment expenses incurred in 2015 (associated mainly with the modernisation of the Pątnów I power plant) and depreciation;
- intangible assets, which decreased by PLN 64 874 thousand, which results from the fact of the smaller stock of purchased CO_2 allowances for the next financial year than it was last year;

- assets concerning stripping and other mining assets that decreased by PLN 57 153 thousand, which is associated with increased depreciation cost of the settlement of expenses in PAK KWB Konin and an impairment write down against the mining asset in PAK Górnictwo Sp. z o.o.

On 31 December 2015, current assets amounted to PLN 1 260 258 thousand. In relation to the last day of the previous year, they increased by PLN 78 561 thousand, i.e. by 6.65%. The greatest changes occurred in the following items:

- short-term intangible assets, which increased by PLN 177 432 thousand – this increase is related with the purchases of CO_2 allowances for the needs of 2015;
- inventory, which decreased by PLN 79 601 thousand primarily as a result of the sale of the certificates of origin of energy (green certificates).

Table 6: Selected items from consolidates equity & liabilities

	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	31 December 2015	*31 December 2014*	*change*	*dynamics*
Equity				
Issued capital	101 647	101 647	-	-
Supplementary capital	2 542 060	2 398 399	143 661	5.99
Capital from the revaluation of the derivate instrument quotation	(11 941)	(17 741)	5 800	(32.69)
Other reserve capitals	5 877	5 877	-	-
Retained profits / Uncovered losses	1 128 266	1 249 448	(121 182)	(9.70)
Net profit (loss)	(1 881 086)	81 977	(1 963 063)	-
Exchange rate differences from foreign currency conversion	-	110	(110)	(100.00)
Equity of the majority shareholders	1 884 823	3 819 717	(1 934 894)	(50.66)
Total equity	**1 884 823**	**3 819 717**	**(1 934 894)**	**(50.66)**
Long-term liabilities				
Interest credits and loans	924 519	867 221	57 298	6.61
Long-term employee benefits	77 674	108 554	(30 880)	(28.45)
Long-term delivery and service liabilities and other financial liabilities	80 751	103 742	(22 991)	(22.16)
Long-term derivative financial instruments (liabilities)	8 943	15 059	(6 116)	(40.61)
Long-term subsidies	51 068	63 832	(12 764)	(20.00)
Other long-term provision as well as prepayments and accruals	334 879	361 142	(26 263)	(7.27)
Deferred income tax provision	351 862	322 319	29 543	9.17
Total long-term liabilities	**1 829 696**	**1 841 869**	**(12 173)**	**(0.66)**
Short-term liabilities				
Short-term delivery and service liabilities and other financial liabilities	237 505	355 202	(117 697)	(33.14)
Current part of interest credits and loans	386 543	348 553	37 990	10.90
Short-term derivative financial instruments (liabilities)	7 349	8 684	(1 335)	(15.37)
Other non-financial liabilities	122 553	134 015	(11 462)	(8.55)
Income tax liabilities	5 228	1 970	3 258	165.38
Short-term employee benefits	8 783	38 553	(29 770)	(77.22)
Short-term subsidies	12 774	12 779	(5)	(0.04)
Long-term contract receivables due to ordering parties	10 080	20 245	(10 165)	(50.21)
Other short-term provisions as well as prepayments and accruals	469 047	286 101	182 946	63.94
Total short-term liabilities	**1 259 862**	**1 206 102**	**53 760**	**4.46**
Total liabilities	**3 089 558**	**3 047 971**	**41 587**	**1.36**
TOTAL equity & liabilities	**4 974 381**	**6 867 688**	**(1 893 307)**	**(27.57)**

As of 31 December 2015, equities decreased by PLN 1 934 894 thousand and amounted to PLN 1 884 823 thousand.

As of 31 December 2015, liabilities amounted to PLN 3 089 558 thousand, which means that they increased by PLN 41 587 thousand, i.e. by 1.36%. The greatest changes occurred in the following items:

- credits and loans, which increased by PLN 95 288 thousand as a result of the financing the modernisation in the Pątnów I power plant with credit;
- provisions as well as prepayments and accruals, which increased by PLN 186 226 thousand, primarily as a result of:
  - the higher provision for the redemption of CO_2 allowances in the amount of PLN 177 432 thousand,
  - the increase in the deferred income tax provision, which increased by PLN 29 543 thousand,
- liabilities on deliveries and services as well as other financial liabilities, which decreased by PLN 140 688 thousand,
- employee benefits, which decreased by PLN 60 650 thousand.

Consolidated cash flow statement

In 2015, the Group made a positive cash flow balance resulting on operating activities in the amount of PLN 467 136 thousand, which in comparison to the previous year, was higher by PLN 53 464 thousand. Sale of stock of certificates of origin of energy (green certificates) influenced obtaining a higher balance despite an obtained lower gross profit and incurred higher expenses for the purchase of CO_2 allowances.

The cash operation balance on investment activities amounted to minus PLN 414 971 thousand and, in comparison to the previous year, decreased by PLN 134 814 thousand. The highest expenses in the investment part regarded the expenses for the acquisition of tangible and intangible assets – PLN 409 858 thousand was spent for this purpose. In 2015, the process of purchase of PAK KWB Konin S.A. and PAK KWB Adamów S.A.'s shares from employees and pensioners took place – PLN 24 909 thousand was spent for this purpose.

The cash operation balance within investment activities amounted to minus PLN 24 115 thousand. During the year, the Group increased the debt – the received income from financial instruments were higher than the expenses by PLN 91 474 thousand. Servicing of financing costs encompassed PLN 53 383 thousand, similarly to the last year. In 2015, the Company spent EUR 1.20 per share for the dividend, hence shareholders were paid the dividend in the amount of PLN 60 988 thousand.

Cash at the end of the 2015 increased by PLN 28 050 thousand and at the end of the year, amounted to PLN 383 318 thousand.

Tablae7: Selected items from the consolidated cash flow statement

	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	12 months period ended 31 December 2015	*12 months period ended 31 December 2014*	*change*	*dynamics*
Cash flows on operating activities				
Gross profit (loss)	(1 833 235)	97 985	(1 931 220)	-
Item adjustments	2 300 371	315 687	1 984 684	628.69
Net cash on operating activities	**467 136**	**413 672**	**53 464**	**12.92**
Cash flows on investment activities	-	-	-	-
Sale of tangible and intangible assets	559	40 357	(39 798)	(98.61)
Acquisition of tangible and intangible assets	(409 858)	(616 608)	206 750	(33.53)
Expenses and income related to other financial assets	19 122	20 918	(1 796)	(8.59)
Acquisition of other financial assets	(24 909)	-	(24 909)	-
Received dividends	49	5 522	(5 473)	(99.11)
Received interest	6	83	(77)	(92.77)
Other	60	(57)	117	-
Net cash on investment activities	**(414 971)**	**(549 785)**	**134 814**	**(24.52)**
Cash flows on financial activities	-	-	-	-
Repayment of financial leasing liabilities	(13 029)	(17 413)	4 384	(25.18)
Credits, loans and debt stocks income	336 925	412 912	(75 987)	(18.40)

Repayment of credits, loan and debt stocks	(232 422)	(278 962)	46 540	(16.68)
Paid-out dividends	(60 988)	(34 560)	(26 428)	76.47
Paid interest	(53 383)	(53 871)	488	(0.91)
Other	(1 218)	31 958	(33 176)	-
Net cash on financial activities	**(24 115)**	**60 064**	**(84 179)**	**-**
Increase (decrease) in net cash and its equivalents	**28 050**	**(76 049)**	**104 099**	**-**
Cash opening balance	355 268	431 317	(76 049)	(17.63)
Closing cash balance	**383 318**	**355 268**	**28 050**	**7.90**

Financial indexes

Net loss in 2015 caused that all indicators of profitability became negative.

An indicator of the overall debt, which shows the ratio of liabilities to total assets at the end of 2015, as a result of a reduction of the total balance sheet by PLN 1 893 307 thousand, increased its value by 40.91%. The index value indicates that liabilities comprise 62% of the Company's assets.

The value of the net debt/EBITDA index indicates that the debt in the Group lessened by cash status is about 1.77 times greater than the made operating profit plus depreciation and impairment write-downs against fixed assets, intangible assets and mining assets.

The current liquidity index, informing about the extent of coverage of the liabilities with the current assets at the end of the 2015, formed at the level of 1.00, i.e. its value increased by 0.02, which means that at the end of 2015, the liquidity situation of the Company did not change.

Table 8: Indexes

		2015	*2014*	*change*	*% dynamics*
ROE	*%*	(99.73)	2.05	(101.78)	-
ROA	*%*	(37.79)	1.14	(38.93)	-
Net sales profitability	*%*	(63.77)	2.93	(66.70)	-
General debt index	*x times*	0.62	0.44	0.18	40.91
Net debt / EBITDA	*x times*	1.77	1.57	0.20	12.74
Current liquidity index	*x times*	1.00	0.98	0.02	2.04

5.3. Specification of factors affecting the current and future financial results

The financial results of the Group, as an entity focused on activities in the field of electricity generation, selling its product on the free wholesale electricity market, including the Towarowa Giełda Energii S.A., fully subject to and depend on the behaviours of all participants of this market. These, in turn, depend largely on the proposed or newly introduced legislative changes influencing the domestic electricity market. The price of electricity in the wholesale market is created by all the entities participating in the market trade and a single participant, even the one with a relatively big share in the market, is not able to affect its level on his or her own.

Looking from the point of view of an electricity producer, evaluating the environment in terms of both facts and regulations, some particularly important phenomena in the last year that may also affect the Company's results in the future, should be taken into account:

Judging from the point of view of a producer, you must take into account some particularly important phenomena in the last year:

- the continuing increase in power in the KSE in the segment of wind turbines,
- Poland's participation in the interconnection projects, aimed at the construction of a common European market in the Price Coupling of Regions model,
- more and more frequent autumn-winter periods with average temperatures higher than the average of previous years, leading to a reduction in the potential of electricity demand during those periods, as well as hot and dry summers resulting in an increase in electricity demand,
- frequent changes in the legal environment, not only the domestic one, but also at the EU and global levels.

The relatively low variable costs of electricity generation by the Group's companies and the geographical location of the Group's power plants still cause that the factors listed above can now affect the size of the volume of the electricity generated by the Group to a moderate extent.

The Group generates most of their revenues from the production and sales of electricity, therefore the price at which it sells electricity is very important for the results of its activities. Analysing the current market trends in the context of the level of electricity prices on wholesale energy markets, we must look at, above all, prices quoted on the Polish Power Exchange, which, as the most transparent, are the basis of establishing price conditions in the bilateral agreements concluded on a bilateral bidding market (OTC market). Analysing stock quotes, it is observed that despite recorded gradual increase in prices at the beginning of 2016, both on the futures market and the SPOT market, addressing levels of the quoted prices to price levels from the end of 2015, a picture of relatively low energy prices on TGE S.A. still emerges. The price increases on the exchange observed at the beginning of the year were the result of a combination of several factors, i.e. difficult weather conditions, increase in the maximum price paid for the operational reserve from the amount of 37.28 PLN/MWh paid in the previous year to 41.20 PLN/MWh paid from 1 January 2016 and the launch of a cross-border connections with Lithuania. Analysing the level of exchange quotations in the longer time and market span, it should be noted that it significantly depends on the amount of wind generation, the volume of import capacity on the Poland's energy connections with Sweden (SwePol Link) and Lithuania (LitPol Link), signals from the CO_2 allowances market, the status of provisions in the National Power System (KSE) as well as weather conditions. In recent years, we have been observing an increase in demand for electricity during the summer (due to the growth of cooling equipment potential). Usually, it applies also to the decrease in the provision in the KSE, related to the repair campaign, as well as unplanned emergency shutdowns of the generation units, resulting from technical difficulties, related to the cooling of the infrastructure for the electricity generation. August was an excellent example of the analysed period, when high air temperatures, low precipitation and numerous emergency shutdowns of power units led to the introduction of the 20th level of power supply limitations in the country, which was related to limitations in the capabilities of the collection of energy for numerous industrial recipients. This, in turn, reduced the potential of energy consumption during this period and caused two-day, record-breaking price increases on TGE S.A. It should be added that regardless of the level of exchange quotations, the Group's power plants remain in the group of producers participating in covering the demand and balancing the KSE.

One should take a closer look at the changes in the regulatory environment among the factors influencing the price of property rights. Since 30 April 2014, the amendment to the Energy Law, prolonging the support system for the energy production in peak load co-generation systems (simultaneously producing electricity and heat) until the end of 2018 has been in force. Currently, works on the continuation of the support system after 2018 executed due to the initiative of the Polish Association of Professional Heat and Power Plants and the Chamber of Commerce Polish District Heating are in progress. According to the first information, it is to be a system consistent with the mechanism already implemented in the act on RES, based on auctions, but only to the extent of additional bonuses for new heat producers in co-generation. The "red certificates" obtained by ZE PAK S.A. after the entry into force of the act, due to the lack of ability to transfer between settlement periods ("bankability") are up-to-date sold at the exchange price, which is around the cost of a compensatory fee after the resumption of the system. Constant changes that can have an effect on the situation of the domestic energy producers entitled to obtain these certificates of origin also take place in the broadly understood formal and legal environment affecting the prices of the certificates of origin from RES (green certificates). We still observe a significant oversupply of green certificates on the market, which is probably a consequence of the delay in their issuance in previous years by the President of ERO. Currently, the price of green certificates is at a relatively low level, close to 120 PLN/MWh in relation to the compensatory fee, which is at the level of 300.03 PLN/MWh. The new act of 20 February 2015 on renewable energy sources, which was to enter into force, with regard to Chapter 4, on 1 January 2016, was postponed until 1 July 2016. The RES act, in terms of chapter 4, will introduce new principles and obligations for renewable energy, including among others introduction of the auction system divided into two power capacity baskets – for projects of up to 1 MW and above this volume. Systems with an installed capacity of over 50 MW will be excluded from auction procedures, which will exclude the participation of the dedicated unit in Konin power plant in the auction, as a result of which the ZE PAK S.A. will be obtaining green certificates for the biomass units in the current way for the next 12 years. In addition, the Act introduces new RES fees to cover the costs arising from the provisions of the new RES act in the amount of 2.51 PLN/MWh calculated per the volume of sales to end recipients and will determine the level of fulfilling the obligation of redemption of green certificates in 2016 to 15%, while giving the possibility for the Minister of Economy to introduce progressively the obligation to 20%, but only from 2017, which will probably allow to discharge the resultant oversupply of certificates on the market and can lead to an increase in their prices in c. two-three years.

The most important event on the CO_2 allowances last year was the adoption of the proposal to create the Market Stability Reserve (MSR) until 2019 by the ministers of environment of the EU member states – a solution whose goal is balancing the supply of emission allowances, and this should translate into an increase in their prices. Since September 2015, negotiations on the EU Climate Package after 2020 have been in progress. The discussion on the future of the EU ETS system can affect the volatility of prices on the carbon market. Currently, after a long-term, progressive increase in prices, which reached to a level of 8.8 EUR/EUA, there was a price adjustment in December and now price decreases are visible, even to a level below 5 EUR/EUA. The main causes of the downward trends must be sought in the reduction of energy commodity quotations, i.e. crude oil, electricity and natural gas as well as the increasing correlation of EUA allowances' prices with the prices on commodity markets. The cause may also be oversupply of emission allowances, for which the intervention involving the withdrawal of 900 million EUAs within "backloading" failed to compensate. In addition, a fast-growing share of RES sources in electricity generation in some countries of the Western Europe reduces demand for the emission allowances on the side of the conventional producers in these countries.

In 2016, ZE PAK S.A. will receive a very small amount of free CO_2 allowances oscillating in the range of 150 thousand EUAs, most of which results from the allocation for heat generation. Therefore, practically the entire amount emission allowances needed for the ZE PAK Group must be purchased on the primary (auctions) and secondary markets (ICE exchange and bilateral contracts). Since 2015, the volume of free emission allowances received by the Group has differed significantly from the amount of free units received in previous years and the allocations received by other major energy producers in Poland. Hence, the topic of CO_2 emission is crucial for predicting the financial results of the Group in the coming years. The lower amount of free emission units should be associated with a delay in the commencement of one of investments (the gas-steam unit in the Konin power plant), which was included in the National Investment Plan, and thus incurred expenses entitle to receive the EUAs. It should be mentioned that the Company will receive these units in the next years if the investment is executed.

A factor impacting the Polish power engineering sector is "aging" of the currently functioning generating units. The installed capacity, age and efficiency of the units will have a fundamental impact on ensuring safe and stable operation of the National Power System, as these units are still the regulatory and controllable provision for RES units. When in August 2015 energy in the Polish power system run out, for the first time in 25 years, the recipients felt the effects of the lack of system solutions. In addition, PSE S.A. warns that supply restrictions may repeat periodically, and after 2020, we will be able to feel the serious effects of the lack of power. At the beginning of this year, the newly established Ministry of Energy took the official position stating the need for intervention in the energy market, which will enable the construction of new conventional power plants. However, details of potential solutions in terms of e.g. commencement of the market power, on which the previous government executed a number of works, are unknown. Implementation of solutions in the field of the market power could lead to price displacements between two commodities – energy and power, which in turn could result, in the case of energy, covering its short-term variable costs, while the price of other commodity, which power would be, would cover maintenance costs or construction of new assets with a minimum margin.

5.4. Unusual events affecting the obtained financial results

In relation to the completion of works connected with the value impairment tests of assets according to the IAS 36 requirements, the Company made the impairment write-downs against the value of tangible fixed assets in the following units generating independent cash flows ("CGU"): CGU ZE PAK S.A. and CGU PAK KWBK S.A. The work on tests include an unfavourable situation in the electricity production market, conservative forecasts on shaping the electricity prices, and the related production limits, which are expected within the Group, during the testing period. The results of value impairment tests of assets of the Capital Group indicated impairment in the amount of PLN 1 880 million reducing the financial result by this amount. The impairment write-down did not affect the consolidated EBITDA result value.

Apart from the above-mentioned write-downs, the Company took into account the impact of the following one-off events of a non-monetary nature, i.e. the asset value impairment due to the deferred tax in ZE PAK S.A. and Elektrownia Pątnów II Sp. z o.o. in the total amount of PLN 26 million as well as the mining asset write-down of the PAK Górnictwo Sp. z o.o. company in the amount of PLN 16.2 million, on the financial results.

6. MANAGEMENT OF FINANCIAL ASSETS

6.1. Evaluation of financial assets management

Companies in the ZE PAK Capital Group have sufficient cash resources to conduct business operations and constantly execute both all their operational liabilities and liabilities resulting from concluded financial and investment agreements. The Group manages its current financial resources in a flexible manner by using cash liquidity analysis models and planning future cash flows on the basis of short-term and long-term financial forecasts developed periodically. By using the aforementioned tools, the Group's Companies execute current monitoring and analyses of the maturity dates of receivables and liabilities as well as adjust the deadlines and bank account balances to the amounts of cash flows. The excess cash is managed by investing in safe instruments of the financial market, which mainly include bank deposits.

6.2. Evaluation of investment plan execution

The Group has its own development strategy and an investment plan adjusted to it. The investment plans take into consideration the current conditions in legislation and law, as well as economy and technology. The adopted manner of execution of the planned investments is mainly based on the use of resources obtained from current operations as well as external financing. During financing planning, the Group's Companies take into consideration a series of existing or future factors which can significantly affect the executed program. The projected financing structure of particular investment plans also takes into consideration the levels of a series of financial indexes, such as the debt or liquidity index, in a way which allows obtaining their optimal levels. In the view of the ZE PAK CG, the currently adopted investment plans are possible to execute with the use of the possessed and potential resources. It is however necessary to note that the Group is constantly monitoring the factors which have the biggest impact on the executed investment program and in case of substantial changes in either one of several of them, the Group does not exclude adjustments or significant changed in the executed strategy.

7. SIGNIFICANT FACTORS AND DEVELOPMENT PROSPECTS

Directional activities designated by the Group's strategy

The ZE PAK Capital Group conducts systematic analyses of price trends, mechanisms supporting different technologies of electricity and heat generation and mega trends related to the company's activity area. The aim is to optimise the investment plans for objective matters and schedules of generation devices operation. The obtained results allow to develop a model of long-term functioning in conditions which indicate negative trends for coal energy covering the risks arising from the increasingly aggravating environmental regulations as well as anticipated changes in Poland's energy mix.

A step to execute the intends is, among others, the proceeding integration of the extraction and production activities allowing for achieving synergy in the entire process chain. The Group's strategy assumes focusing the auxiliary activities in particular subsidiaries belonging to the Group in order to achieve synergy in order to link the current auxiliary activities of the Group with the auxiliary activities of the mines. After the completed restructuration of the Group and increasing the effectiveness of separate activities, the strategy assumes the possibility to sell chosen subsidiaries, which are not related to the primary activities, also to industrial or financial investors, who will guarantee the provision of the scope of services necessary for the Group by the sold companies.

Prospects for functioning of existing coal assets of the power plants determine the need to adjust the extraction and the construction of new open pits in PAK KWBK S.A. and adjustment of coal extraction and launch of the Adamów mine liquidation process. The Adamów power plant, included in a derogatory mechanism of a limited exemption in the entire life, has a consent to functioning with the current emission standards for 17.5 thousand hours counted from 1 January 2016. This means that in the turn of 2017 and 2018, the power plant will be inactivated. the Konin power plant – the coal part – may function until mid-2020 as it is included in other derogatory mechanism, i.e. the Transitional National Plan, under provisions of which it will be obligated to remain within the annually allocated pollutants emission ceilings. The generation equipment in the above power plants are technically depleted and analyses have not shown the purposefulness of their modernisation. On the other hand, the method of operation during the transitional period was closely matched to their capabilities by choosing a dedicated exemption. The remaining coal assets were partially upgraded and will be operating until 2030.

The Company is aware of the changes, especially the ones in the legislation and legal area, which are taking place in its surroundings. The legal regulations aiming at reducing emissions of CO_2 and other gases (SO_2, NO_X) as well as regulations regarding the renewable energy source sector comprise significant challenges for the companies of the Group. New environmental regulations, appearing in 2021, resulting from the implementation of the BAT conclusions (Best Available Technology) extending the catalogue of limited pollutions, require further analyses regarding the scope of investments for achieving compliance with these provisions. In order to meet the requirements of the current and future legal regulations regarding the widely understood environmental protection, the Group plans to modify its production capacity portfolio. An additional advantage is the advantageous location of generation capacities in the vicinity of the coal deposits, as well as gas pipelines of Yamal and Gustorzyn-Odolanów. The location in central Poland ensures the ability to lead the power into the system and expand the activities to northern Poland, which is characterised by a substantial power deficit when taking into account the entire country. The aim is to finish the implementation of an investment program embracing both the modernisation of the possessed generation assets in the Pątnów power plant –

units 3 and 4 – as well as the replacement of the depleted generation facilities with facilities based on modern technologies. The execution of the planned investment tasks will allow to limit the process risk, increase the generation effectiveness, and by the diversification of the fuel base will be a good step for the plans to develop a low-emission economy in Poland.

In the view of the Company, the achievement of the goals specified in the strategy is dependent on the execution of the adopted investment program. The main assumptions of the investment plan are briefly described below.

Key investment projects during execution:

- In the Pątnów power plant: The continuation of the modernisation process of units 3 and 4, which includes the modernisation of condensing steam turbines, start-up of nitrogen oxide (NO_X) emission reducing systems as well as replacement or modernisation of elements crucial for the operation of the units (including, among others, carbonisation and cooling systems) in order to improve the safety and operation of electricity generation, and thus decrease the CO_2 emissions as well as ensure the ability to utilise units 1-5 until at least 2030. In the turn of 2015 and 2016, the modernisation of the units 1 and 2 in the Pątnów I power plant was completed. Confirmation of obtained performance with final-guarantee tests is in progress. The modernisation of units 3 and 4 was suspended until confirmation that the system solutions guaranteeing economic profitability of the conventional units' functioning will be implemented is obtained.
- PAK KWBK S.A. and PAK KWBA S.A.: The continuation of investment expenses for works related to the development of the documentation necessary for submission of the application for obtaining licences for extracting minerals from the local perspective deposits. Furthermore, the investment programs assume the continuation of current expenses for the maintenance of the currently utilised open pits of Drzewce, Jóźwin, Tomisławice and Adamów until their resources' exhaustion.

Key investment projects during the preparatory stage in 2016-2019:

- In the Konin power plant: The start-up of a high-efficiency electricity and heat production facility by way of construction of a gas and steam unit with a capacity of approx. 120 MWe and approx. 90 MWt as well as an additional gas-fired back-up peak load boiler with a capacity of approx. 40 MWt, dedicated to the supply of heat for the city of Konin, the commissioning of which is initially planned for 2020. During the previous year, further economic analyses were conducted in order to confirm the profitability of the unit's construction, including changed assumptions regarding the prices of electricity and CO_2, as a result of the EC's adoption of further reduction goals in the ETS system after 2020. We also applied to the Energy Regulation Office for obtaining support for electricity generation within peak load co-generation. In order to adjust the conditions of heat reception at the change in raw material from coal to gas, a new long-term agreement with the heat distributor was negotiated. ZE PAK S.A. has relevant environmental and building decisions. In December of last year, we concluded an agreement with PSE to connect the gas-steam unit to the transmission system. Currently, a tender, in which potential contractors of the planned unit are taking part, is in progress.
- In the Adamów power plant: The construction of the peak load gas-steam unit generating electricity in condensation with a capacity of c. 400 MWe (the unit's size may be subject to optimisation). The strategic investment program for ZE PAK S.A., which takes into consideration the Polish Energy Policy's assumption in effect in 2008, was developed in a period prognosticating advantageous conditions for investments in gas-fired devices. So far, the Polish economy has not created advantageous conditions for the construction of the projected steam and gas unit for the Adamów power plant. ZE PAK S.A., in close co-operation with the General Design Engineer – Energoprojekt Katowice – using professional tools, has conducted tests and analyses of the volume of energy generation in the new unit in particular years, after commissioning of the coal and gas units in the country, for which the decisions on construction were already made. The results of these tests confirm that the acceptable demand for energy from the designed steam and gas unit in the Adamów power plant will occur as late as after 2020. In this situation, ZE PAK S.A. suspends the decision on the development of this project. If the power market mechanism is implemented in a satisfactory form – and ZE PAK S.A. is among those entities, which obtain the contract – then the Company will proceed to build a new unit in the Adamów power plant.

In accordance with the implemented policy and market practice adopted by other companies from the power engineering sector, more investment projects are analysed and prepared than actually implemented. In the future, decisions on the implementation of other projects than those mentioned above, provided for in the documents defining the Group's strategy, may be made.

Strategy execution costs

According to estimates, the execution of the final stage of the suspended modernisation project of units 3 and 4 in the Pątnów I power plant requires investment expenses of PLN 1.1 billion with financing costs, PLN 580 million will come from an investment credit and the rest – from own resources. The Company obtained an investment credit of PLN 1.2

billion for co-financing the modernisation of units 1-4 in the Pątnów power plant. The credit was partially used to co-finance the already completed modernisation works on the units 1 and 2. Now, talks with creditors aimed at ensuring the maintenance of co-financing opportunity of modernisation works on the units 3 and 4 are in progress. However, the decision on resuming the works may be made only after the introduction of such system solutions, which will ensure the profitability of the undertaken investment.

The construction of the steam and gas unit in the Konin power plant will require expenses of PLN 720 million (including estimated financing costs), while the above amount will be updated as result of the conducted tenders for the supply of devices. The Company plans to finance the biggest possible part of the investment costs with external resources. Until the execution of tender proceedings for the facility execution as well as until the conclusion of negotiations regarding the conditions of gas supply to the new steam and gas unit, all amounts related to the investment project in the Konin power plant are adopted at the levels, which are typical for this class of devices.

The PAK KWB Konin S.A. company intends to allot an amount of PLN 284 million for investments in new open pit mines to 2021 year.

8. SPECIFICATION OF THE SHAREHOLDING STRUCTURE

8.1. Shareholding structure

As of 31 December 2015, the Company's share capital amounted to PLN 101 647 094.00 and consisted of 50 823 547 shares with a face value of PLN 2.00 each.

The below table includes the specification of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting according to the Company's knowledge as of 31 December 2015.

*Table 9: Description of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting as of 31 December 2015**

	shares.	*%*
Shareholder	*Number of shares and corresponding number of votes at the General Meeting*	*Share [%] in the total number of shares/votes*
Zygmunt Solorz-Żak (indirectly) through:	**26 200 867**	**51.55**
– *Elektrim S.A.*	*196 560*	*0.39*
– *Embud Sp. z o.o.*	*592 533*	*1.16*
– *IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*	*9 000 000*	*17.71*
– *Trigon XIX Fundusz Inwestycyjny Zamknięty*	*10 004 001*	*19.68*
– *Argumenol Investment Company Limited*	*6 407 773*	*12.61*
Nationale-Nederlanden OFE	**5 068 410**	**9.97**

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

The structure of the Company's shareholders was presented according to the Company's knowledge on the basis of notifications submitted by the shareholders. As of the date of submission of this statement, the shareholding structure according to the specified criterion, according to the Company's knowledge, was as presented:

*Table 10: Description of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting as of the day of submission of this report**

	shares.	*%*
Shareholder	*Number of shares and corresponding number of votes at the General Meeting*	*Share [%] in the total number of shares/votes*
Zygmunt Solorz-Żak (indirectly) through:	**26 200 867**	**51.55**
– *Elektrim S.A.*	*196 560*	*0.39*
– *Embud Sp. z o.o.*	*592 533*	*1.16*

– *IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*	*4 000 000*	*7.87*
– *Trigon XIX Fundusz Inwestycyjny Zamknięty*	*10 004 001*	*19.68*
– *Argumenol Investment Company Limited*	*11 407 773*	*22.45*
Nationale-Nederlanden OFE	**5 068 410**	**9.97**

** according to the Company’s knowledge on the basis of notifications submitted by the shareholders.*

The Company is not aware of any agreements which would result in future changes in the shareholding structure of the current shareholders.

8.2. Acquisition of own shares

The Company did not acquire own shares in 2015.

8.3. Shares of the ZE PAK Capital Group entities belonging to the supervising and managing persons

The below table presents the Company’s share holdings (direct and indirect), as well as affiliates’ share holdings of management personnel as of 31 December 2015 and as of the date of development of this statement.

Table 11: Company’s share holdings as well as affiliates’ share holdings by management personnel

Name and surname	*ZE PAK S.A shares.*		*Affiliate shares*	
	quantity	*face value*	*quantity*	*face value*
Aleksander Grad	0	0	0	0
Aneta Lato-Żuchowska	0	0	0	0
Adrian Kaźmierczak	0	0	0	0
Tomasz Zadroga	0	0	0	0
Zygmunt Artwik	0	0	0	0

The below table presents the Company’s share holdings (direct and indirect), as well as affiliates’ share holdings of supervising personnel as of 31 December 2015 and as of the date of development of this statement.

Table 12: Company’s share holdings as well as affiliates’ share holdings by supervisory personnel

Name and surname	*ZE PAK S.A shares.*		*Affiliate shares*	
	quantity	*face value*		*quantity*
Zygmunt Solorz-Żak	26 200 867	52 401 734	0	0
Henryk Sobierajski	0	0	0	0
Wojciech Piskorz	0	0	0	0
Leszek Wysłocki	0	0	0	0
Wiesław Walendziak	0	0	0	0
Ludwik Sobolewski	0	0	0	0
Lesław Podkański	0	0	0	0

8.4. Control of employee share option plan

The Company does not have an employee share option plan, therefore it does not include a system for the control of the employee share option plan.

9. DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RULES

Declaration of compliance with the corporate governance rules is presented in accordance with § 91 paragraph 5 (4) of the Resolution of the Minister of Finances of 19 February 2009 on the current and periodical information submitted by issuers of stocks as well as conditions for the recognition as equally important of information required by the regulations of the law of a country which is not a Member State.

9.1. Set of corporate governance rules applied

In 2015, the Company is subject to corporate governance rules described in the "Code of Best Practice for WSE Listed Companies" (Code of Best Practice) adopted by Resolution no. 12/1170/2007 of the WSE Supervisory Council (WSE Council) of 4 July 2007, subsequently amended by the Resolution no. 17/1249/2010 of the WSE Council of 19 May 2010, Resolution no. 15/1282/2011 of the WSE Council of 31 August 2011, Resolution no. 20/1287/2011 of the WSE Council of 19 October 2011 and Resolution no. 19/1307/2012 of the WSE Council of 21 November 2012 (with proviso that the changes introduced in 2012 are applicable from 1 January 2013).

The Company's Management Board, within the competencies granted to it by the Articles of Association and the generally binding legal regulations, exercises due care in order to ensure the Company's compliance with the Code of Best Practice to the greatest extent possible. The number and scope of principles, which were not applied in 2015, was at the same level as in previous year. The Company's Management Board makes all exceptional efforts in order for the Company's information policy towards investors, both individual and institutional, comprising the execution of guidelines included in the Code of Best Practice, to be compliant with the expectations. Furthermore, due to reasons beyond the Company's control, not all principles included in the Code of Best Practice are applied.

The Code of Best Practices is published on the website of the Warsaw Stock Exchange at the following address (http://corp-gov.gpw.pl).

9.2. Set of rules which Company has not complied with

Presented below are corporate governance rules, which the Company has not complied with in its activities in 2015, together with an explanation of the Company's position for each specific departure.

Recommendation I.5 of the Code of Best Practice

A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. The Commission Recommendation of 14 December 2004 on fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.

Reasons for non-compliance with recommendation I.5 of the Code of Best Practice:

The Company has not applied the above-mentioned recommendation with respect to members of management and supervisory bodies. In accordance with the Company's Articles of Association, both the remuneration as well as other terms of employment of a given member of the Company's Management Board are determined by the Supervisory Council on an individual basis. The principles regarding the remuneration of Supervisory Council members are determined by the Company's General Shareholders' Meeting in the form of resolutions. The main criteria for determining the remuneration of members of management and supervisory bodies include their competencies, skills and responsibilities.

The Company would like to emphasise that the remuneration of the Company's management and supervisory personnel as well as other benefits granted to such personnel during the financial year are published by the Company in the annual report.

The Company believes that it applies a transparent remuneration policy.

Recommendation I.9 of the Code of Best Practice

The WSE recommends that public companies and their shareholders ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' business.

Reasons for non-compliance with recommendation I.9 of the Code of Best Practice:

The Company has not fully complied with the above-mentioned principle. Until 2 October 2015, in the Management Board of the Company, there was a balance in terms of gender. As of 31 December 2015 and the date of this report development, the Management Board consists of four men and one woman. However, in the Supervisory Board consists of men only. However, the Company would like to ensure that such objective criteria as: knowledge, experience, competencies and skills required for a given position are critical in the selection of its management and supervisory personnel. These criteria ensure an effective and efficient functioning of the Company and implementation of the adopted strategy to the greatest extent possible.

Principle II.1.1) of the Code of Best Practice

A company should operate a corporate website and publish on it, in addition to information required by legal regulations: basic corporate regulations, in particular the articles of association and the regulations of the company's bodies.

Reasons for non-compliance with recommendation II.1.1) of the Code of Best Practice:

The Company includes its Articles of Association, the Regulations of the Supervisory Board as well as the Board Regulations on its website. The Company did not include the Regulations of the Shareholders' Meeting because such a document has not yet been adopted but at the time of adoption, it will also be included, fully complying the above rule at the same time.

Recommendation I.12 of the Code of Best Practice:

A company should enable its shareholders to execute the right of ballot, whether in person or via a proxy, in a General Meeting using electronic communication means.

Principle II.1.9a) of the Code of Best Practice

A company should operate a corporate website and publish on it, in addition to information required by legal regulations: the general meeting deliberation log, in an audio or video form,

Principle IV.10 of the Code of Best Practice:

The Company should guarantee the shareholders the ability to participate in the general meeting using electronic communication means, consisting of:

1) real-time broadcasts from the deliberations of the general meeting,
2) real-time two-way communication, during which the shareholders can express their opinion in the course of the general meeting when being in a different location than the location of the deliberations.

Reasons for non-compliance with recommendation I.12, principle II.1.9a and principle IV.10 of the Code of Good Practices:

Taking into consideration the Company's experience, according to which most of the Company's shareholders directly participate in the deliberations of the General Meeting as well as the fact that the recording of the course of the general meeting and guaranteeing the ability to participate in the General Meeting with the use of electronic communication means could be involved with substantial costs and potential difficulties of organisational and technical nature, the Company does not log and broadcast the course of the general meeting.

The Company's Articles of Association provides the ability to exercise the right of ballot personally or via a proxy in the course of the General Meeting, outside its location, with the use of electronic communication means. The Supervisory Council decides to conduct the General Meeting with the use of electronic communication means.

In the view of the Company, the decision about the use of electronic communication means during the General Meeting depends on the notification about such need by a bigger group of the Company's shareholders. In case of such a need, the Company will consider all possibilities and available solutions, on the basis of, among others, the market practice.

9.3. Description of the main characteristics of internal control and risk management systems in relation to the process of financial statement and consolidated financial statement development

The process of development of the Company's financial statements as well as the Capital Group's consolidated financial statements takes place with the use of internal control and risk management mechanisms, such as: Company's internal procedures, mechanisms introduced for management of the IT systems used for registration and development of statements, as well as protection mechanisms, principles of supervision over the financial statement preparation, principles of verification and evaluation of statements, internal auditing, as well as other control elements.

The development of the Company's financial statements, as well as Capital Group's consolidated financial statements is executed in an orderly manner, pursuant to the organisational structure of the Company and Group. The management accounting tools and IT systems introduced in the Company and Group for the purpose of registration of economic events in books of account provide the basis for the evaluation whether the Company's financial statements and the Group's consolidated financial statements are developed in a reliable manner, as well as whether they include all material data, which is necessary for the determination of the Company's and Group's financial and economic position.

The primary regulations in the scope of financial statement development include: The International Financial Reporting Standards (IFRS) approved by the European Union, accounting policy in accordance with the ZE PAK Capital Group's MSSF, the Accounting Act of 29 September 1994, procedure of closure of books of account in the Capital Group, as well as the financial statement and consolidated financial statement development requirements imposed by the Warsaw Stock Exchange.

As of the date of development of this statement, the Company did not make a decision on the keeping of books of account in the Group pursuant to the IFRS standards. Therefore, the process of financial statement development in the Group takes place in two stages. First, all the companies in the Group develop their own individual statements pursuant to the Polish accounting standards. These statements are approved by the boards of the companies provided that they fulfil the conditions for the audit. Then the companies transform their individual statements for the purpose of the Group's consolidation, pursuant to the Accounting policy agreed for the Group in accordance with the IFRS standards, by using the so called sheets of transition into IFRS statements. Such developed individual statements are the basis for developing the Group's consolidated financial statement.

The Group's consolidated statement is developed on the basis of the SAP BPC IT system. The system includes a separate central unit in the parent company, connected with accounting departments in particular subsidiaries. The consolidation process is commenced by the central unit by enabling companies to enter data into the system and the subsidiaries are obviously able to access their historic data at any moment, however without the ability to correct them. The central unit constantly monitors the entry of data by the companies. After entering individual data, the central unit commences the consolidation process. This process is based on defined business principles which determine the contents of consolidation adjustments. Additionally, the consolidation process enables entry of manual adjustments by the central unit, if necessary. The effect of completion of the consolidation process is a complete financial statement package including explanatory notes in Excel files, which are exported to a Word file after verification.

The Board is responsible for the Company's internal control system and for its effectiveness in the process of development of financial statements and periodical reports developed and published in accordance with the Resolution of the Minister of Finances of 19 February 2009 on the current and periodical information submitted by issuers of stocks, as well as conditions for the recognition as equally important of information required by the regulations of the law of a country not comprising a Member State.

The technical supervision over the process of development of the Company's and Group's financial statements and periodical reports is executed by the Vice-President of the Board, who is responsible for financial issues. The organisation of works related to the development of financial statements is the responsibility of the Company's Principal Accountant, who manages the Accounting and Reporting Department and who reports directly to the Vice-President of the Company's Board.

The Company's effective internal control and risk management systems related to the process of financial reporting is ensured thanks to the following aspects:

- development of procedures specifying the principles and division of responsibility for the development of financial statements,
- specification of the scope of reporting pursuant to the mandatory International Financial Reporting Standards as well as International Accounting Standards,
- development, introduction and execution of supervision over the use by the Capital Group's companies of coherent principles of accounting, as well as

- semi-annual inspections and annual studies of the published financial statements of ZE PAK S.A. and Capital Group by an independent auditor.

Annual and semi-annual financial statements are subject to an independent auditing and inspection by external statutory auditors, who give an opinion on the reliability, correctness, and clarity of such a statement, as well as correctness of books of account comprising the basis for the development of such a statement.

The choice of the statutory auditor is made by the Supervisory Council pursuant to the Board's request, from a group of reputable auditing companies, which guarantee high service standards and the required independence.

The audits are conducted in accordance with the following provisions:

- chapter 7 of the Act of 29 September 1994 on Accounting,
- standards related to the practice of the profession of statutory auditor, issued by the National Chamber of Statutory Auditors.

The audits, in particular, include the verification of the correctness of the accounting and significant estimates principles used by the Company and the Group, verification – in a random manner – of accounting records and entries, which provide the numbers and information included in the financial statement, as well as the overall evaluation of the financial statement.

The Company's and Group's financial results are regularly monitored during the accounting year and are subject to periodical evaluation made by the Supervisory Council. During regular sessions of the Council, the Company's Board provides information regarding the current financial position of the Company and the ZE PAK Group.

The Company's and Group's task is to develop a financial statement which includes numerical data and wordy clarifications which:

- reliably and clearly present all information which are significant for the evaluation of the financial and economic position for the given day, as well as the financial result for the given period,
- were developed correctly in all significant aspects, i.e. in accordance with the accounting principles, resulting from the International Accounting Standards, International Financial Reporting Standards, as well as the interpretations related to them and published in the form of European Commission resolutions, as well as according to the requirements of the Accounting Act and executive regulations issued on the basis of that Act, as well as on the basis of correctly kept books of account,
- are compliant with the regulations of law and provisions of the Company's articles of association, which affect the contents of the financial statement.

The Company and the Group has documentation which describes the accounting principles adopted by them, specified in Article 10 of the Accounting Act. The applied principles of cost accounting, assets and liabilities quotation, as well as determination of the financial result are in accordance with the International Accounting Standards, as well as the regulations of the Accounting Act.

The Board is responsible for the correct keeping of the Company's and Group's accounting. The Company keeps the books of account in an integrated IT system. The system, similarly to the aforementioned statement consolidation system, guarantees the division of competencies, coherence of activity entries in the books, as well as the control between the main book of account and the auxiliary books. The conducted registration allows to determine the financial result, VAT tax, as well as other budget liabilities. The account registration ensures the correctness and completeness of the entries. The chronology of economic events is kept. Entries in the books of account reflect the actual state of affairs, data are entered in a complete and correct manner, on the basis of accounting records qualified for entry. The continuity of entries and the correctness of the applied procedures is ensured. The accounting records fulfil the requirements of the Accounting Act. The books of account are kept in the Company's registered office. It is possible to modify the operation of the system in order to ensure the adequacy of technical solutions to the changing accounting principles and legal standards. The system includes documentation regarding the end users, as well as the technical part. The system's documentation is subject to periodical verification and updating. The Company introduced organisational and system solutions to ensure the proper use and protection of data access protection systems and hardware. The access to the financial registration system resources is limited with the use of proper enhancements which are provided to authorised employees only in the scope of their responsibilities and activities.

The Company also features internal auditing, the aim of which is to execute independent and objective evaluation of the risk management and internal control systems. Internal auditing is conducted on the basis of the auditing regulations. Auditing executes planned and temporary auditing tasks both in the parent company, as well as in the Group's companies. The auditing plans are developed on the basis of risk analyses. The audit results are reported to the Company's Board. Information on the activities of internal auditing are also the subject of works of the Auditing Committee.

As part of the control activities, the periodical management reporting is subject to evaluation in terms of rationality of information included in it, especially in terms of the analysis of deviations from provisions adopted in the financial plans.

9.4. Shareholders with significant blocks of shares

The below table presents the shareholders with significant blocks of shares, in accordance with the Company's knowledge, based on the notifications submitted to the Company.

*Table 13: Shareholders holding, either directly or indirectly, significant blocks of shares in accordance with the Company's knowledge as of 31 December 2015 and as of the day of submission of this report.**

Shareholder	*Number of shares*	*Percentage share in the share capital*	*Number of votes*	*Percentage share in the share capital*
Zygmunt Solorz-Żak*(indirectly) through: Elektrim S.A., Embud Sp. z o.o., IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, Trigon XIX Fundusz Inwestycyjny Zamknięty, Argumenol Investment Company Limited.	26 200 867	51.55%	26 200 867	51.55%
Nationale-Nederlanden Otwarty Fundusz Emerytalny**	5 068 410	9.97%	5 068 410	9.97%

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

9.5. Holders of stocks giving special control rights

As of 31 December 2015 and as of the date of development of this statement, the Company has not issued stocks giving special control rights.

9.6. Limitations in the execution of the right of ballot

According to the Company's Articles of Association and other internal documents of the Company as of 31 December 2015 and as of the date of development of this report, there are no limitations regarding the execution of the right of ballot.

9.7. Limitations regarding the transfer of right of ownership to stocks

As of 31 December 2015 and as of the date of development of this statement, the Company does not include any limitations regarding the transfer of right of ownership to Company's stocks.

9.8. Principles for the appointment and dismissal of management and supervisory personnel

Management Board

The Management Board is comprised of 3 to 6 members appointed for joint term. The composition of the Management Board includes: President of the Board, Vice-Presidents, as well as other members of the Board. The number of Board members and their functions are specified by the Supervisory Council. The Management Board's term is five years. The Board's President, Vice-Presidents, as well as other members are appointed and dismissed by the Supervisory Council during a secret ballot. The Board's President, Vice-Presidents, as well as other members can also be dismissed or suspended in duties during the General Meeting.

The Board administers the Company's cases and represents the Company. The Board acts pursuant to the Board's Regulations which specifically determine the Board's action mode. The Regulations are established by the Board and approved by the Supervisory Council by way of a resolution.

The Board's resolutions are required for cases exceeding common management, which especially include:

1) resolution and changes in the organisational regulations which specify the organisation of the Company's entrepreneurship,
2) contracting credits and loans,
3) proxy establishment,
4) granting credit guarantees and sureties,
5) acquisition and disposal of property, right of perpetual usufruct or share in property or perpetual usufruct.
6) decisions in cases, the value of which exceeds PLN 500 000.00. The value of transactions expressed in foreign currencies is subject to conversion according to the average exchange rate of the National Bank of Poland (NBP) of the date of resolution passing.

The Board's resolutions are also required for cases in which the Board addresses the General Meeting and the Supervisory Board.

Supervisory Board

The Supervisory Board is comprised of 5 to 14 members appointed for joint term. The Board's term is five years. The members of the Supervisory Board are appointed and dismissed during the General Meeting. The General Meeting, prior to the appointment of the Board's members for a new term, specifies the number of members of the Board. The Board appoints the President, Secretary, Vice-President or, if deemed reasonable, two Vice-Presidents, among its members in a secret ballot.

The composition of the Board should include two members who fulfil the independence criteria projected for an independent Board member within the meaning of the Commission's Recommendation of 15 February 2005 regarding the role of non-executive directors or directors acting as members of supervisory Boards in stock exchange listed companies and the (supervisory) Board's committee (2005/16/EC) with consideration of Good Practices of the Warsaw Stock Exchange Listed Companies ("Independent Supervisory Board Members"). A candidate for the Independent Supervisory Board Members provides the Company, prior to his/her appointment as a Board member, with a written declaration on the fulfilment of the independence criteria.

The Board supervises the Company's activities in all areas of its operation.

The Board's rights especially include:

1) approval of the Board's Regulations and giving opinion on the organisational regulations, which specify the organisation of the Company's entrepreneurship,
2) conclusion, termination, and amending agreements with the Board members, as well as establishment of the Board's remuneration principles and the remuneration amounts for the Company's Board members,
3) appointment and dismissal of the Board's President, Vice-Presidents, as well as other Board members in a secret ballot,
4) suspension in duties due to significant reasons, in a secret ballot, of the Board's President, Vice-Presidents, as well as other Board members, or the entire Management Board,
5) delegation of a Board member or members for temporary execution of Board member activities in case of suspension of Board members or the entire Management Board,
6) selection of the entity authorised to audit the Company's financial statements,
7) evaluation of the Board's report from the Company's activities or financial statement for the previous accounting year,
8) evaluation of the Board's conclusion regarding the division of profit or loss coverage,
9) submission to the General Meeting of the written annual report on the results of evaluations specified in paragraph 7 and 8,
10) submission to the General Meeting of the annual brief evaluation of the Company's situation, as well as the annual report on the Board's work,
11) giving opinion on cases submitted by the Board and comprising the subject of the General Meeting's resolutions,
12) approval of the Company's and ZE PAK Capital Group's perennial activity programs, including the Company's and ZE PAK Capital Group's activity strategies, developed by the Board, and

13) approval of the Company's annual activity programs, as well as the Capital Group's annual activity programs, especially including production plans and revenues, type cost plans, unit cost plans, remuneration plans, investment plans, as well as renovation and maintenance service plans.

The Board's competencies also include giving the Board an approval:

1) to participate in other companies and disposal of shares in other companies,
2) to establish foreign branches,
3) to make advanced payments for dividends,
4) for the Company to execute activities which result in incurring liabilities, except for:
    a. activities provided in the Company's annual activity program approved by the Board,
    b. activities resulting in incurring liabilities with a value of up to PLN 1 000 000, including granting sureties or guarantees as well as suretyship,
5) acquisition and disposal of property, right of perpetual usufruct or share in property or perpetual usufruct with a value exceeding PLN 1 000 000,
6) conclusion by the Company and an affiliate of a major agreement within the meaning of the regulations regarding the current and periodical information provided by issuers of stocks accepted for trade in a regulated market, excluding typical agreements concluded by the Company pursuant to market conditions, within the conducted operational activities,
7) designation by the Board of personnel acting in the bodies of companies or other entities in which the Company has a direct or indirect share, as well as
8) establishment by the Board of the manner of ballot execution during the General Meeting or the Meeting of Partners in companies, in relation to which the Company is a parent company or an affiliate within the meaning of the Code of Commercial Companies, in the following cases:
    a. disposition and lease of the company's entrepreneurship or its organised part, establishment of a limited property right for them, as well as execution of other activities related to the acquisition or administration of the company's asset components which comprise the subject of the General Meeting's or Meeting of Partners' deliberations,
    b. company's termination or liquidation,
    c. amendment of the company's articles of association or deed
    d. company's merger, division or transformation, as well as
    e. increase or decrease in the company's share capital.

Pursuant to the Board's application, the Supervisory Board grants Board members the approval to take positions in the bodies of companies, in which the Company holds shares, as well as for the collection of remuneration for acting in these positions.

9.9. Composition, its changes as well as description of the management and supervisory bodies

Management Board

The Company's Board composition was as follows at the beginning of the accounting year of 2015:

1) Katarzyna Muszkat – President of the Board,
2) Anna Striżyk – Vice-President of the Board,
3) Piotr Jarosz – Vice-President of the Board,
4) Sławomir Sykucki – Vice-President of the Board.

At the meeting of 2 October 2015, the Supervisory Board of the ZE PAK S.A. adopted Resolutions on dismissal of the following persons from the Company's Management Board:

1) Katarzyna Muszkat – President of the Board,
2) Anna Striżyk – Vice-President of the Board,
3) Piotr Jarosz – Vice-President of the Board.

In addition, Mr. Sławomir Sykucki resigned from the position of the Vice-President of the Company's Board with effect from 2 October 2015.

At the same meeting, i.e. of 2 October 2015, the Supervisory Board of ZE PAK S.A. appointed the following persons to the Management Board of the Company:

1) Janusz Kaliszyk – President of the Board;
2) Aneta Lato-Żuchowska – Vice-President of the Board;
3) Adrian Kaźmierczak – Vice-President of the Board;
4) Tomasz Zadroga – Vice-President of the Board.

Before adoption of the resolution on appointment to the Composition of the Company's Management Board, Mr. Tomasz Zadroga made a statement of resignation from the membership in the Supervisory Board of ZE PAK S.A. with immediate effect.

On 30 October 2015, the Supervisory Board of ZE PAK S.A. adopted a resolution appointing Mr. Zygmunt Artwik to the Management Board of the Company and for the role of the Vice-President of the Board.

Since 30 October 2015, the Management Board of the Company has operated in the following, five-person composition:

1) Janusz Kaliszyk – President of the Board,
2) Aneta Lato-Żuchowska – Vice-President of the Board,
3) Zygmunt Artwik – Vice-President of the Board,
4) Adrian Kaźmierczak – Vice-President of the Board,
5) Tomasz Zadroga – Vice-President of the Board.

On 16 November 2015, Mr. Janusz Kaliszyk resigned from the position as the President of the Company's Board. Accordingly, on 17 November 2015, the Supervisory Board of the Company, in accordance with art. 383 § 1 of the Code of Commercial Companies, delegated Mr. Wojciech Piskorz, the Member of the Supervisory Board, to temporarily act as the President of the Company's Board for a period not longer than 3 months.

Since 17 November 2015, the composition of the Management Board of the Company has been as follows:

1) Wojciech Piskorz – the Member of the Supervisory Board delegated to temporarily act as the President of the Board,
2) Aneta Lato-Żuchowska – Vice-President of the Board,
3) Zygmunt Artwik – Vice-President of the Board,
4) Adrian Kaźmierczak – Vice-President of the Board,
5) Tomasz Zadroga – Vice-President of the Board.

The Company's Management Board acts pursuant to the Act of 15 September 2000 "the Code of Commercial Companies" as well as other regulations of the law, the provisions of the Company's Articles of Association as well as the ZE PAK S.A.'s Regulations of the Board.

In 2015, the ZE PAK S.A.'s Board held 46 sessions, during which it passed a series of decisions documented in protocols. The Board passed a total of 314 resolutions during the reporting period. All resolutions and recommendations of the ZE PAK S.A.'s Board have been executed or are undergoing execution by the appropriate substantive organisational units of the Company.

After the balance sheet period, at the meeting on 11 February 2016, the Supervisory Board of ZE PAK S.A. adopted a Resolution on the appointment of Mr. Aleksander Grad to the composition of the Management Board of the Company on 18 February 2016 and entrusted to him the function of the President of the Board.

Since 18 February 2016, the Management Board of the Company has operated in the following, five-person composition:

1) Aleksander Grad – President of the Management Board,
2) Aneta Lato-Żuchowska – Vice-President of the Board,
3) Zygmunt Artwik – Vice-President of the Board,
4) Adrian Kaźmierczak – Vice-President of the Board,
5) Tomasz Zadroga – Vice-President of the Board.

Supervisory Board

The Company's Supervisory Board composition undergone the following changes during the reporting period.

The ZE PAK S.A.'s Supervisory Board composition was as follows at the beginning of the accounting year of 2015:

1) Zygmunt Solorz-Żak – President,
2) Henryk Sobierajski – Vice-President,
3) Wojciech Piskorz – Secretary,
4) Leszek Wysłocki,

5) Lesław Podkański,
6) Ludwik Sobolewski,
7) Tomasz Zadroga,
8) Wiesław Walendziak.

On 2 October 2015 – before the Supervisory Board's adoption of resolution on appointment to the composition of the Management Board of the Company – Mr. Tomasz Zadroga made a statement of resignation from the membership in the Supervisory Board of the Company with immediate effect.

On 17 November 2015, the Supervisory Board of the Company, in accordance with art. 383 § 1 of the Code of Commercial Companies, delegated Mr. Wojciech Piskorz, the Member of the Supervisory Board, to temporarily act as the President of the Board of the Company for a period not longer than 3 months. Therefore, for the time of the above-mentioned delegation, the rights and duties of Mr. Wojciech Piskorz arising from the participation in the Supervisory Board were suspended.

The Supervisory Board members that fulfil the independence criteria are Mr. Ludwik Sobolewski and Mr. Lesław Podkański.

In the sequence of their code and statutory obligations, in 2015, the Supervisory Board held five sessions and passed a total of 39 resolutions. The Supervisory Board executed its statutory obligation of holding a session in each quarter.

In the reporting period, the Supervisory Board supervised collectively the Company's activities in all areas of its operation. The Supervisory Board focused on the following issues:
1) evaluation of statements developed for the accounting year of 2014,
2) giving an opinion on the Company's new organisational structure,
3) the approval of the Company's budget for 2015 and the control of its implementation, in particular the conditions in the field of energy generation and the results achieved by the Company from the sale of own and foreign electricity, including the one generated from renewable energy sources,
4) giving an opinion on the applications submitted by the Board in regard to cases related to the Company's current activities;
5) changes in the composition of the Management Board of the ZE PAK S.A.;
6) the project of a gas-steam unit construction in the Konin power plant.

In the accounting year of 2015, the ZE PAK S.A.'s Supervisory Council Audit Committee held three meetings, at which passing 1 resolution in total. During the held meetings, the ZE PAK S.A.'s Supervisory Council Audit Committee discussed with a statutory auditor, among others, the results of financial statements' audits for 2014 and the review of interim financial statements for 2015. The Audit Committee also dealt with the issue of selection of the entity authorised to audit financial statements prepared for 2015 and issues related to risk management and functioning of an internal audit in the Company.

9.10. Procedure and basic powers of the General Meeting as well as description of shareholders' rights and their exercise

General Meeting

The General Meeting is held in cases specified in the Code of Commercial Companies and in the Company's Articles of Association. The General Meeting is held in principle by the Company's Board and deliberates, and an ordinary or extraordinary meeting. In case of summoning the General Meeting by an entity or body other than the Company's Board, the Board is obligated to cooperate with the entity or body in order to execute any activities specified by the law as necessary to summon, organise, and execute the General Meeting. Since the first day of listing of the Company's shares in the regulated market of the Warsaw Stock Exchange Joint-stock Company, the General Meetings can take place with the use of electronic communication resources. The decision on arranging the General Meeting using electronic communication devices is made by the Company's Supervisory Council.

The General Meeting takes place in Warsaw or in the Company's registered office.

The ZE PAK S.A.'s General Meeting is summoned by notification placed on the Company's website and in a manner specified for provision of current information in accordance with the regulations on public bidding and conditions for introducing financial instruments to the organised trade system and on public companies.

The materials made available to shareholders in relation to the General Meeting, including drafts of resolutions proposed for passing, as well as other important materials are made available by the Company on the http://ri.zepak.com.pl/ website.

The basic competencies of the General Meeting include:

1) examination and approval of the Board's report on the Company's activities, as well as the financial statement for the previous accounting year, as well as acknowledgement of the fulfilment of duties by the Company's body members,
2) division of profit and loss coverage,
3) change in the subject of the Company's activities,
4) amendments to the Company's Articles of Association,
5) increase or decrease in the share capital,
6) authorisation of the Board to acquire own shares for the purpose of redemption,
7) appointment and dismissal of Council members,
8) establishment of the remuneration of Council members,
9) Company merging, division and transformation,
10) Company termination and liquidation,
11) emission of convertible bonds or bonds with right of priority and subscription warrants,
12) sale or lease of the company or its organised part as well as establishment of a limited property right for them,
13) establishment and cancellation of the Company's capitals and funds,
14) conclusion by the Company of a credit, loan, surety agreement, or a similar agreement with a member of the Company's Board, Supervisory Council, proxy or liquidator, or for any of this personnel,
15) conclusion by an affiliate of a credit, loan, surety agreement or a similar agreement with a member of the Company's Board, Supervisory Council, proxy or liquidator, or for any of this personnel,
16) any provisions regarding claims the remedy of damage done during the Company's establishment or executing management or supervision, and
17) use of the share capital.

The active right to participate in the General Meeting is available to persons being the shareholders, 16 days prior to the General Meeting. The condition of admitting a shareholder to participate in the General Meeting is the submission of a registered certificate regarding the right to participate in the General Meeting, which is issued by the entity that keeps the stocks account.

The shareholder participates in the General Meeting's deliberations and executes the right of ballot in person or via an authorised representative.

The shareholder who represents at least 1/20 of the Company's share capital is entitled to request specific cases to be included in the Company's General Meeting agenda. The request should be reported to the Company's Board no later than 21 days prior to the Company's General Meeting.

The shareholder, who requests to include specific cases in the General Meeting's agenda, should demonstrate the possession of the proper number of shares at the date of request submission, including a deposit certificate to the request, issued by the entity keeping the stocks account.

The shareholder representing at least 1/20 of the Company's share capital can submit resolution drafts regarding the cases introduced into the General Meeting's agenda, or cases, which are to be introduced into the agenda in a written or electronic form prior to the date of the General Meeting.

Each of the shareholders authorised to participate in a general meeting can provide the resolution drafts regarding the cases introduced into the agenda during the Company's General Meeting.

The General Meeting's resolutions are passed with a majority of 75% votes, provided that the Code of Commercial Companies does not specify otherwise. Each Company's share entitles to a single vote at the General Meeting.

9.11. Description of the amendments to the Company's Articles of Association

Amendments to the Company's Articles of Association, in accordance with the Code of Commercial Companies and provisions of the Company's Articles of Association, require the General Meeting to pass a suitable resolution and an entry into the register of entrepreneurs. The General Meeting can authorise the Company's Supervisory Council to develop a uniform text of the amended articles of association, or to introduce editorial changes specified in the General Meeting's resolution. Amendments to the Articles of Association are binding since the moment of entry into the register of entrepreneurs.

9.12. Information on the remuneration system and the amount of management and supervisory staff's remuneration

In the Zespół Elektrowni Pątnów – Adamów – Konin S.A. company, the remuneration system is based on the Corporate Collective Labour Agreement for ZE PAK S.A.'s employees of 24 September 1993 (CCLA). Only members of the Board, the principal accountant and key managers are not subject to the CCLA's provisions.

The basic components of remuneration for the employees contained in the CCLA are an individual monthly basic salary, a monthly statutory bonus, an annual bonus, a post-employment benefit and allowances. The employees are also entitled to receive awards from the president's fund and social benefits as well as the right to join the Employee Pension Plan (EPP).

The board determines the principles of remuneration of key managers in individual agreements. The basic component of remuneration is the basic salary. Moreover, the key managers are entitled to the annual award (bonus), the amount of which is split into a discretionary part, whose granting depends on the Board's assessment of the degree of individual tasks' implementation, and a coefficient part depending on the achievement of a specific economic coefficient (since 1 January 2016, the bonus has been replaced with a discretionary award granted by the Board's decision). The key managers are also entitled to some components of the CCLA.

The members of the ZE PAK S.A.'s Board are paid on the basis of the provisions of individual management agreements, the content of which is formed by the Supervisory Board of the Company. There are no other additional regulations or other documents creating the rules of the Board's remuneration. The members of the Board are entitled to a monthly salary. They can also be granted a discretionary award. They can also join the EPP. In the case of dismissal from the Board's composition, the payment of a severance pay in the amount of a six-month salary is provided. The severance pay is not entitled if the dismissal occurs for reasons concerning the dismissed member of the Board, particularly for the reasons set forth in article 52 of the Labour Code.

The Company does not have a motivational or bonus program based on the Company's capital.

Table 14: Information on the value of remuneration paid by the Company as well as the Company's subsidiaries to all acting Board members in 2015

	thousand PLN	*thousand PLN*	*thousand PLN*	*thousand PLN*
The Board's member name and surname	*Value of (gross) remuneration paid by the Company*	*Value of (gross) remuneration paid by the Company's subsidiaries*	*In total:*	*including variable elements of remuneration**
Wojciech Piskorz	0.0	1.2	1.2	1.2
Aneta Lato-Żuchowska	0.0	1.0	1.0	1.0
Adrian Kaźmierczak	390.0	1.8	391.8	61.0
Tomasz Zadroga	88.0	0.4	88.4	0.4
Zygmunt Artwik	0.0	0.5	0.5	0.5
Janusz Kaliszyk	0.0	0.0	0.0	0.0
Katarzyna Muszkat	1 509.0	0.7	1 509.7	819.5
Anna Striżyk	1 120.1	58.9	1 179.0	597.0
Piotr Jarosz	925.4	32.9	958.3	464.2
Sławomir Sykucki	10.0	614.3	624.3	60.3
Total	4 042.5	711.7	4 754.2	2 005.1

** The variable remuneration components included: awards and bonuses, severance pays for dismissal of the Board, equivalents for holiday, a post-retirement benefit and remunerations for participation in meetings of the supervisory boards.*

Table 15: Information on the value of non-cash benefits paid by the Company as well as the Company's subsidiaries to all acting Board members in 2015

	thousand PLN	*thousand PLN*	*thousand PLN*
The Board's member name and surname	*Total estimated value of non-cash benefits granted by the Company*	*Total estimated value of non-cash benefits granted by the Company's subsidiaries*	*In total:*
Wojciech Piskorz	0.1	0.0	0.1
Aneta Lato-Żuchowska	0.2	0.0	0.2
Adrian Kaźmierczak	24.5	0.0	24.5

Tomasz Zadroga	0.2	0.0	0.2
Zygmunt Artwik	0.2	0.0	0.2
Janusz Kaliszyk	0.4	0.0	0.4
Katarzyna Muszkat	63.9	0.0	63.9
Anna Striżyk	57.6	0.0	57.6
Piotr Jarosz	44.8	0.0	44.8
Sławomir Sykucki	0.1	0.6	0.7
Total	192.0	0.6	192.6

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid by the Company and the Company's subsidiaries to the Board members amounted to PLN 4 946.8 thousand in 2015. The given amount must be treated as the gross value of remunerations paid or to be paid in the period from 1 January to 31 December 2015.

The members of the ZE PAK S.A.'s Supervisory Board are paid on the basis of the Resolution no. 4 of the Extraordinary General Meeting of 21 February 2013, which fixed the monthly salary for the Chairperson of the Supervisory Board in the amount of PLN 15 thousand and for the other members – in the amount of PLN 10 thousand.

Table 16: Information on the value of paid remuneration as well as the value of non-cash benefits paid by the Company as well as the Company's subsidiaries to all acting Board members in 2015

	thousand PLN	*thousand PLN*	*thousand PLN*
The Supervisory Board's member name and surname	*Value of (gross) remuneration paid by the Company and the Company's subsidiaries*	*Total estimated value of non-cash benefits granted by the Company and the Company's subsidiaries*	*In total:*
Zygmunt Solorz-Żak	180.0	0.0	180.0
Henryk Sobierajski	120.0	0.0	120.0
Wojciech Piskorz	110.0	0.0	110.0
Leszek Wysłocki	120.0	0.0	120.0
Lesław Podkański	120.0	0.0	120.0
Wiesław Walendziak	120.0	0.0	120.0
Tomasz Zadroga	100.5	0.0	100.5
Ludwik Sobolewski	120.0	0.0	120.6
Total	990.5	0.0	991.1

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid by the Company and the Company's subsidiaries to the Supervisory Board members amounted to PLN 991.1 thousand. The given amount must be treated as the gross value of remunerations paid or to be paid in the period from 1 January to 31 December 2015.

10. GROUP'S SOCIAL RESPONSIBILITY

10.1. Involvement in environmental issues

Utilisation of the lignite deposits and the production of electricity is inevitably related to interference in the natural environment. On the other hand, one of the main goals of the ZE PAK Group is the minimisation or prevention, if possible, of negative effects on the environment. The activities conducted by the Group affect the natural environment, especially by the emission of contaminants into the air, production and processing of wastes, utilisation of waters, and introduction of sewage wastes into waters or the soil. This impact is regulated by the current regulations on environmental protection. In relation to the conducted activities, the ZE PAK Group's companies have a series of environmental approvals, including integrated approvals which regulate the operational and environmental aspects of the main and auxiliary systems. Furthermore, the Group has approvals for the utilisation of systems which are not embraced by the integrated approvals, including approvals subject to the Water Act Law and approvals for the production and processing of wastes. All the obligated companies in the Group fulfil the obligations in the scope of reporting to applicable offices, as well as make timely charges relating to the economical use of the environment.

Air protection

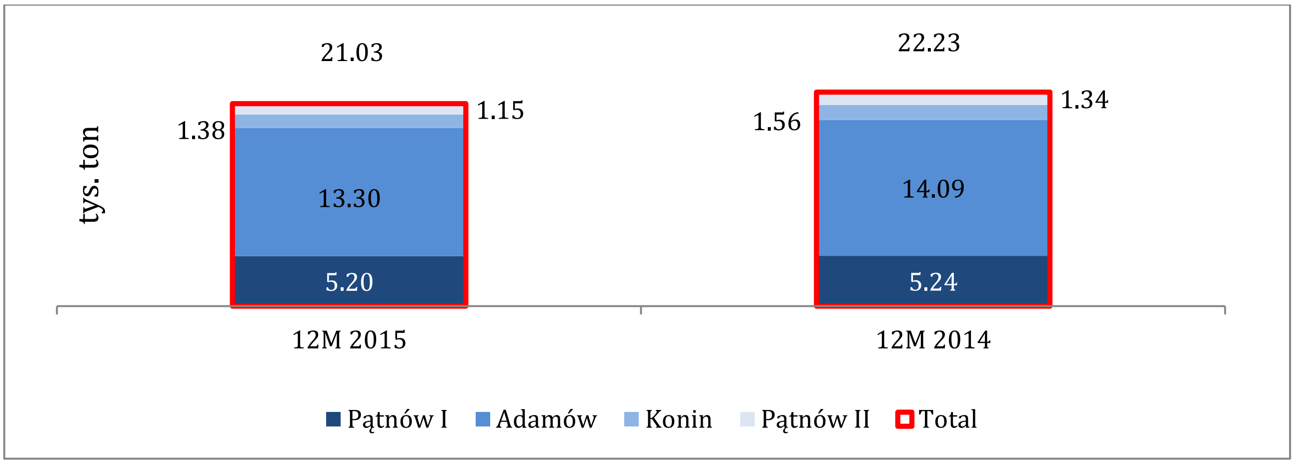
In 2015, general annual and monthly emission values of major pollutions into the air: SO_2, NO_X, CO, CO_2 and dust from fuel combustion systems in ZE PAK S.A. and Elektrownia Pątnów II Sp. z o.o. did not exceed the maximum levels specified in the IPPC Permits, with the exception of the average monthly dust concentrations in the months of: January, February, March, May, November and December in the Adamów power plant. Excesses of the standard of dust emission in the Adamów power plant were due to the combustion of poor quality lignite with higher ash and sand content. Electrostatic precipitators installed in the Adamów power plant, in accordance with the assumptions, should dispose ashes from fumes from combustion of the lignite with ash content along with sand at a certain level. The parameters of coal supplied in 2015 to the Adamów power plant from the Adamów and Koźmin open pits differed from the assumptions in the above mentioned months.

Systems for continuous monitoring of dust and gas pollutions' emissions are installed on flue stacks of all fuel combustion systems in the Group. On the basis of the annual settlement of meeting emission standards, it should be stated that:

- in the Pątnów I power plant – there were no excesses of concentration limits of SO_2, NO_X and dust (at the operation of two flue gas desulphurization systems),
- in the Adamów power plant – excesses of permissible values of 48-hour dust concentrations (102 times) and average monthly concentrations in: January, February, March, May, November and December. The projected fine is the amount of PLN 1.2 million,
- in the Konin power plant: there were no excesses of concentration limits of SO_2, NO_X and dust in the boiler part and the boiler combusting biomass,
- in the Pątnów II power plant – excesses of average daily values of concentrations of NO_X (1 time) and SO_2 (1 time) were recorded.

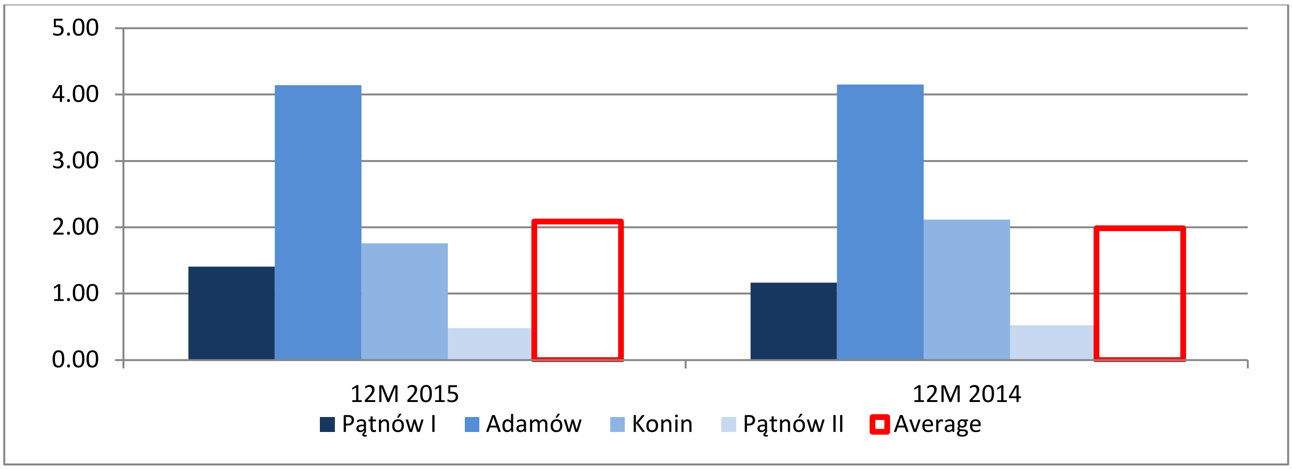
The attached charts illustrate the annual emissions of air pollutants in 2014 and 2015.

Chart 12: SO_2 emission in 2014 and 2015



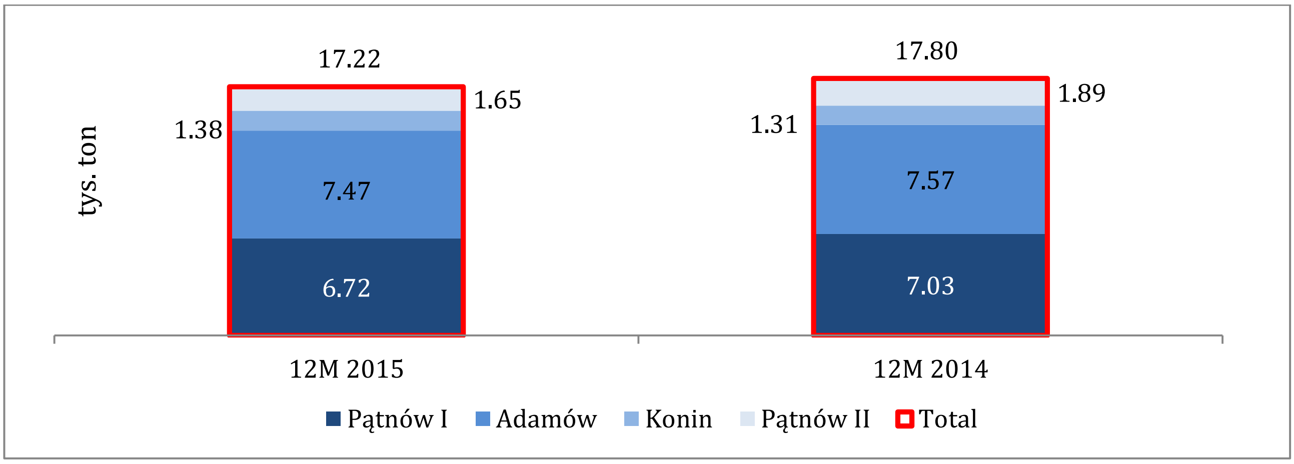
Source: internal data

Chart 13: SO_2 emission in 2014 and 2015 per generation unit



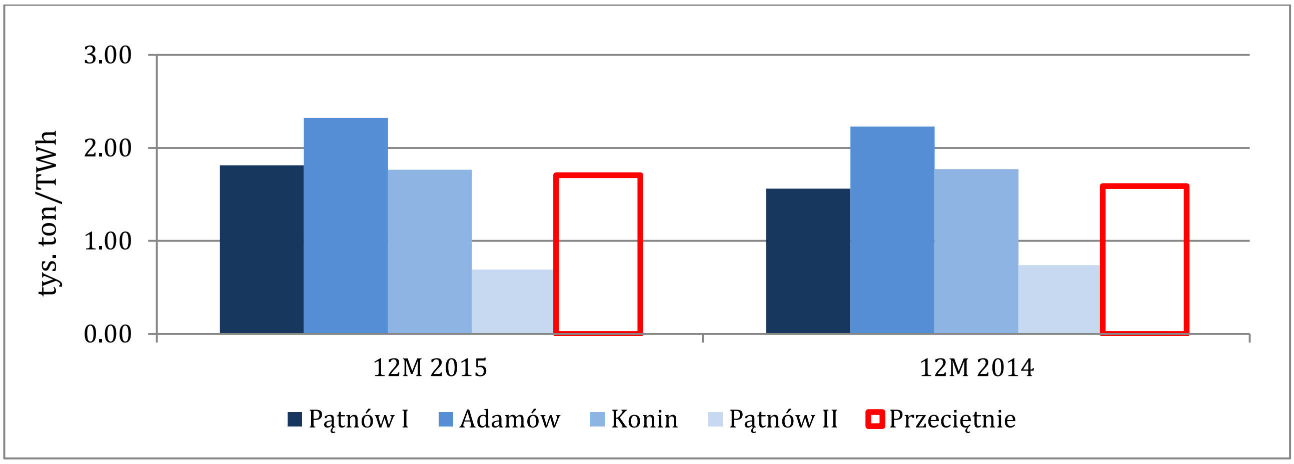
Source: internal data

Chart 14: NO_X emission in 2014 and 2015



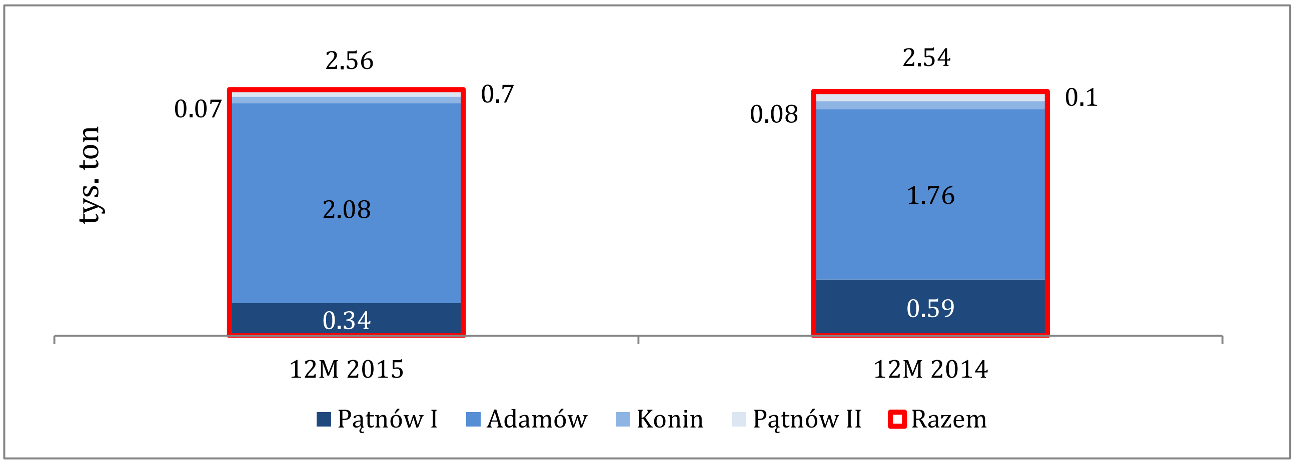
Source: internal data

Chart 15: NO_X emission in 2014 and 2015 per generation unit



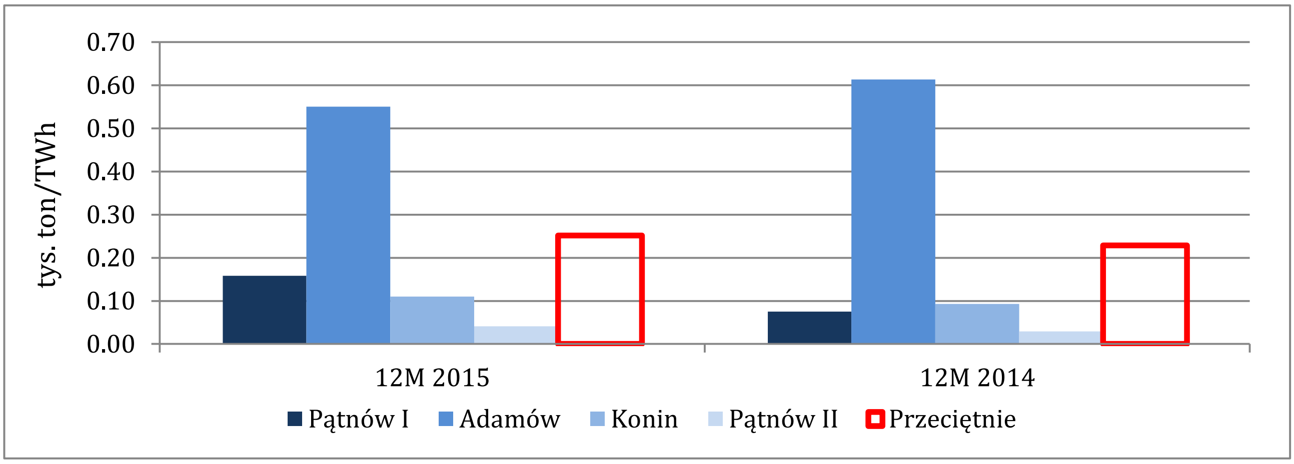
Source: internal data

Chart 15: Dust emission in 2014 and 2015



Source: internal data

Chart 16: Dust emission in 2014 and 2015 per generation unit



Source: internal data

The Group's power plants pass their emission reports for 2015 of four fuel combustion systems on time to the National Centre of Emission Balancing and Management within meeting the mandatory reporting obligations. While pollutant release and transfer registers (PRTR) from all the Group's power plants are submitted to the Chief Inspectorate of Environmental Protection. Within the Central Statistical Office's reporting, on the CSO's reporting portal, reports for 2015 for particular power plants were generated. Schedules of charges for 2015 submitted to the Marshal Office of the Wielkopolska Province have been extended with a list of additional pollutions emitted from the systems' flue stacks fixed installation as a result of specialised tests that were undertaken in 2010-2012.

Monitoring of air pollutants in the area of the Group's power plants impact is also conducted. It is executed through measurements in two automatic measuring stations in the vicinity of the Pątnów, Konin and Adamów power plants. In 2015, no significant excesses of the tested factors' permissible values were recorded. Comparisons of condition of air around the Group's power plants and the level of air pollution in the areas monitored by the Provincial Environmental Protection Inspectorate of Wielkopolska's stations do not show deviations from the norm.

Water and waste water management

The Pątnów, Konin and Pątnów II power plants use the string of natural glacial lakes connected with canals and pumping stations as a cooling system. The Adamów power plant, due to the lack of natural water reservoirs, is equipped with cooling towers. Konin lakes are a team of water reservoirs which consists of the following lakes: Gosławskie, Pątnowskie, Wąsowsko-Mikorzyńskie, Ślesińskie and Licheńskie. These lakes are an example of many anthropogenic impacts. In addition to the impact of power engineering, the lakes are also subject to the impact of open-pit mining, fishing and tourism. ZE PAK S.A. conducts constant monitoring of the waters of Konin lakes and on the basis of these studies, where appropriate, undertakes actions preventing the negative impacts of own activities. The monitoring conducted for many years also allows to observe thoroughly changes in the observed environment. Within each of the power plants, there are deep water wells that supply drinking water to the staff. Until 2014, in the Pątnów power plant, deep underground water was also used for process purposes – the production of demi water. Starting from 2015, demi water has been already being produced in a modern demineralisation station in the Pątnów II power plant, where surface water is raw material. The performance of the station allows to meet the needs of both the Pątnów II and Pątnów power plants . This is of enormous importance taking into account the economical use of groundwater resources. Each of the ZE PAK S.A.'s power plants have its own domestic and industrial waste water treatment plant. The Pątnów II power plant uses the Pątnów power plant's sewage systems. Treated waste water is discharged to the receivers and their parameters are regularly examined. In 2015, no excesses of permissible parameters of discharged and treated waste water were recorded. Waste process water, which is difficult to treat in the treatment plant, is managed in an internal system of power plants for, among others, the production of fly ash suspension. Then, the mutual neutralisation takes place without negative impact on the environment. In the summer, the plant takes care of not exceeding temperatures in the waters of lakes and canals consisted in the cooling system in a special way. Very high air temperatures of the exceptionally hot summer 2015 required conduction of the daily monitoring of the water temperature in the reservoirs. In critical situations, the power of the individual power plants' units was lowered. Ecological considerations are one of the most important issues in the company management.

The legislature, through legal acts and standards specified in them, affects the shape of the company's activity, specifying the permissible concentration and volumes of pollutants and introducing charges for use of the environment in accordance with the "polluter pays" principle. Taking the above into account and promoting a high level of environmental awareness, the Group undertakes preventive measures in order to reduce the negative impact on the soil and water environment to a minimum.

Waste

In the ZE PAK Group, there is an integrated waste management system that includes:

- requirements related to the prevention or reduction of the amount of generated waste,
- selective collection of generated waste and manners of generated waste management that are safe for people and the environment
- transfer of waste for further management to other economic entities having permits required by law and technical equipment and organisational capabilities relevant to the management manner.

Processes (fuel combustion, vent gas treatment and water treatment processes) are the source of the waste generation in the Group's power plants. Moreover, in the plant's premises, other waste not related directly with the generation process but with the executed renovation and modernisation works are also generated irregularly in insignificant amounts – operation and maintenance waste. The Group uses part of the generated waste in waste recovery processes (e.g. for shot peening, reclamation of the closed parts of waste landfills) and disposes other part on own waste landfills:

- the combustion waste landfill the Gosławice open pit with the Linowiec vaporiser,
- the northern combustion waste landfill the Pątnów open pit,
- the combustion and solid waste landfill the Western open pit,
- the solid waste landfill the Pątnów open pit,

Part of combustion and flue gas desulphurization waste is also sold to external recipients for use in construction and road engineering. ZE PAK SA performs a series of tests of their generated combustion and flue gas desulphurization waste in order to find new applications for them and obtain as many recipients as possible. Combustion and flue gas desulphurization waste generated in ZE PAK SA meet the requirements of environmental protection and does not endanger human life and health, which was confirmed by tests in the field of physico-chemical, toxicological and ecotoxicological properties executed for the needs of substances registration in accordance with the REACH regulation's requirements.

In 2015, the Group sold over 148 thousand tons of combustion waste and over 270 thousand tons of synthetic gypsum (flue gas desulphurization waste). On waste landfills operated by ZE PAK S.A., in 2015, monitoring of the groundwater, surface and supernatant water quality with the frequency specified in the IPPC permits was conducted. The monitoring was carried out in the network of basic and supplementary monitoring. Within the monitoring of waste landfills, an annual assessment of the stability of slopes and the subsidence volume was conducted. Most of the monitored slopes proved to be stable.

In 2015, ZE PAK S.A. also continued the reclamation of the closed section of the solid waste landfill Pątnów open pit and began the reclamation of the closed section of the combustion waste landfill Gosławice open pit. The total area on which reclamation works were executed in 2015 was 42.67 ha.

Noise

Within the obligation of monitoring noise emitted into the environment imposed by the IPPC permits for the fuel combustion systems in the Group's power plants in 2015, measurements of noise from the Adamów power plant's area and in the Pątnów II power plant. Noise measurements from the Pątnów and Konin power plants' area were not performed. The current measurements are from 2014. The conducted measurements showed no excess of permissible values of noise level in the environment specified by the integrated permit, both during the day and night.

Inspection, verification of IPPC permits and new legal requirements

In 2015, the Provincial Inspectorate of Environmental Protection in Poznań – Delegation in Konin (WIOŚP) conducted 4 inspections in the Group's power plants, and the State County Sanitary Inspectorate in Konin – 3 inspections. As their result, no fines were imposed on ZE PAK S.A. Post-inspection recommendations were implemented. In the Group's mines, WIOŚP conducted two inspections in 2015. In both cases, no fines were imposed and no post-inspection recommendations were issued.

Last year, the Marshal Office of the Wielkopolska Province conducted an analysis of the IPPC Permit for the fuel combustion system in the Adamów power plant. The analysis of the IPPC permit was conducted in accordance with article 216 paragraph 1 of the act of 27 April 2001 Environmental Protection Law ("EPL"), pursuant to which the authority competent to issue a permit analyses the issued IPPC permit at least once every five years.

Implementation of the Directive 2010/75/EU provisions, the so-called IED Directive (integrated pollution prevention) resulted in a change in the provision of the article 201 of the EPL act. On the basis of this article, the regulation of the Minister of Environment of 27 August 2014 on the types of installations likely to cause major contamination of respective natural elements or the environment as a whole was issued. In the annex to the regulation, in point 13, treatment systems of waste water, excluding urban waste water treatment plants, from systems requiring an IPPC permit were listed. The industrial waste water and storm water treatment plant in the Adamów power plant belongs to these systems. Therefore, a radical change in the IPPC permit for the Adamów power plant was made with including provisions concerning the treatment plant. Since 2015, a sector permit for discharging treated waste water into the Kiełbaska river has not been in force as it used to be. These issues are legalised by an IPPC permit.

In 2015, analyses of necessity to prepare an initial report were developed for all the Group's power plants. The analyses characterised substances that cause the risk (used, produced or released) located on the plant site, identified the potential pollution hotspots and assessed the risk of the possibility of soil and water environment pollution's occurrence in detail. On the basis of the collected materials and data, it was estimated that there is a real risk of soil and water environment pollution. The necessity of the works execution resulted from an amendment in the EPL Act, according to which at making any changes in the integrated permit (after the verification of the IPPC permits made ex officio), it is necessary to submit an initial report containing information about the pollution of soil, ground and groundwater or an analysis of lack of necessity to prepare such a report to the Marshal Office. This requirement also applied to each new system, for which it is required to obtain an IPPC permit.

The European Chemicals Agency, under the REACH regulation, continued the verification process of the registration documentation concerning generated ash and gypsum submitted by ZE PAK S.A. and EPII in 2015. Within the verification, it was not necessary to conduct additional tests for the registered substances.

Last year, the process of adapting the IPPC Permits for the fuel combustion systems of ZE PAK S.A. and Elektrownia Pątnów II, resulting from the implementation of the IED directive according to the EPL Act's current provisions, including implementing regulations of this act, on the introduction of dust and gases into the air and the requirements ensuring protection of soil, ground and groundwater, including measures to prevent emissions into soil, ground and groundwater and the manner of their systematic supervision was commenced. In addition, the IPPC Permits application period was change into indefinite.

ZE PAK S.A. declared their intention to join the Transitional National Plan (PPK) for 6 boilers of the Pątnów I power plant (K1-K6) and 4 boilers of the Konin power plant (K85, K86, K111, K112) in terms of SO_2, NO_2 and dust in the period from 1 January 2016 until the expiry of the settlements within the PPK, but not later than until 30 June 2020. The Transitional National Plan contains a list of all the combustion plants included in the plan (including any relevant information about their operating characteristics); the calculated contribution of each single combustion plant to the emission ceilings per year in 2016-2019 and for the first half-year of 2020 for each pollutant included in the plan. During this time, both plants could be exempted from the obligation to comply with the emission limit valuesreferred to in article 30 paragraph 2 of the IED directive and could be operated according to more lenient emission standards for these pollutions. In derogation periods, the emission limit valuesin accordance with Directive 2001/80/EC, i.e. emission limit values specified in the IPPC permit applicable on 31 December 2015. The IPPC permit issued on 30 December 2015 for the Fuel Combustion Systems in the Pątnów and Konin power plants determines the amount of a substance permissible to discharge into the air in the period from 1 January 2016 to the end of participation in the PPK – by the end of June 2020 at the latest. On the other hand, in the period from 1 January 2016, ZE PAK S.A. declared their intention to use a limited derogation from adjustment to the stricter emission standards for all 5 OP-380b boilers in the Adamów power plant, assuming the use of the derogation involving limiting its use time to 17 500 h. During this time, the object will be exempted from the obligation to comply with the emission limit values referred to in article 30 paragraph 2 of the IED directive and it could be operated according to the emission standards applicable to the IPPC permit of 31 December 2015. The IPPC permit issued on 30 December 2015 for the Fuel Combustion System in the Adamów power plant determines the volumes of substances permitted to be discharged into the air during the period from 1 January 2016 to 31 December 2023 or in a shorter period if the time limit for use of the source amounting to 17 500 h will be used before 31 December 2023.

Site reclamation

The Group's companies executing extraction activities using the excavation method are obligated pursuant to applicable regulations to reclaim the areas used in the process of obtaining lignite. Technical and biological reclamation is executed in the excavated areas. The scope of both types of reclamation processes includes actions related to waters, forests and agriculture.

The technical reclamation executed by the mines or pursuant to their commission in the previous year, first of all, comprised of the execution of area levelling and profiling works and preparation of the surface for seeding. On the other hand, the biological reclamation included the works involving:

- planting trees and bushes; in total, 345.3 thousand pieces of trees and bushes were planted, including the ones obtained from the outskirts of open pits – 7 thousand pieces,
- agrotechnical cultivation and seeding of mixtures of alfalfa and grass as well as mineral fertilisers in the areas developed for agricultural and recreational reclamation,
- anti-erosive protection of reservoir embankments of the reservoir by agrotechnical cultivation and seeding mixtures of grass and Leguminosae plants,
- cultivation of planted trees and bushes (distribution of fertilisers as well as reaping of grasses and weeds),
- decalcification of dumps for the agricultural and recreational reclamation.

Trees were planted in accordance with decisions to remove trees or bushes from the outskirts of open pits:

- in 2015, in total, within planting trees in accordance with the decisions to remove trees and bushes from the outskirts of an open pit, 316 pieces of trees were planted, which in 2018-2019 will result in redemption of fees for untimely tree removal in the amount of over PLN 3 million,
- decisions redeeming fees for untimely tree removal in the amount of over PLN 2.9 million concerning plantings in 2011 and 2012 were obtained.

Table 17: Specification of sizes of areas subject to technical reclamation, during biological reclamation and seeding, as well as areas with a decision regarding the successfully executed reclamation in 2015.

Technical reclamation (in hectares)	*Biological reclamation in progress (in hectares)*	*Completed biological reclamation (in hectares)*
118.6	524.5	79.9

Environmental management system – ISO 14001

The ZE PAK Group, within their operation, tries to meet the highest standards. This also applies to environmental protection issues. Any tools to support activities in this field are subject to inspection and verification in terms of achieved performance. In the assessment of the Management Board of the Company, standards implemented in over 80% of the systems operated by the Group in accordance with the requirements of the environmental standard ISO 140001 are the one of the most important elements of quality control system.

10.2. Employment and employee issues

The below table presents the specification of the average employment rate in 2014-2015.

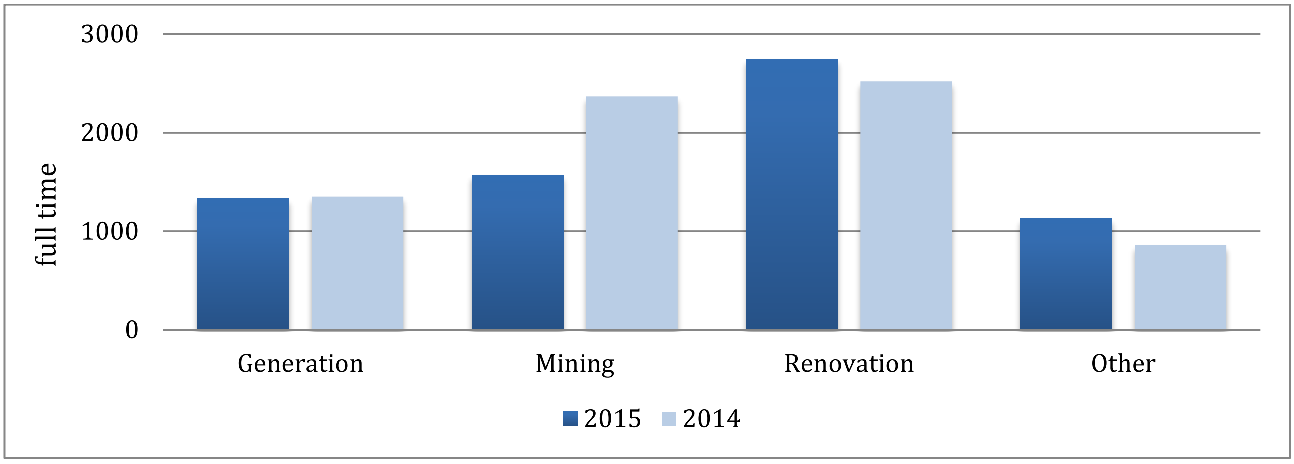
Table 18: Specification of the average employment rate

	2015	*2014*		*Change*
	full time	*Full time*	*Full time*	*%*
Management Board of a parent company	4	3	1	33.3
Management Boards of a subsidiaries	25	23	2	8.7
Administration	338	431	-93	-21.6
Operational	6 663	6 728	-65	-1.0
Total	7 030	7 185	-155	-2.1

Source: internal data

The employment in both comparable periods decreased by 155 FTEs, i.e. about 2.1%. However, due to the fact that in 2014, employment in one of the subsidiaries of the PAK KWBK was not included in the table (irrelevance effect of the company's results in consolidation), making the data comparable for both periods, the average number of FTEs in 2015 decreased by 319, i.e. 4.3% in relation to 2014. The structure of employment changed significantly in terms of the number of people employed in the particular Group's segments once again. These changes are a consequence of the restructuring processes started as early as in 2014 conducted with the particular focus on the mining segment. The Group, within the employment structure optimisation strategy, distinguished groups of employees providing precise services for these entities from both mines and transferred them mainly to the companies of the renovation segment. These activities are to result in improved use of the potential of these employees thanks to a better ability of controlling the work performance. The motive behind these changes is also getting greater flexibility in the remuneration system.

Chart 16: Changes in the employment level in the particular Group's segments (as of the end of the year).



Source: internal data

In 2015, as in the previous year, the renovation segment employs the most employees in the Group. The employment in the generation segment remained stable. Reducing employment was recorded in the extraction segment. However, in most cases, the employees were moved to the companies of the renovation and other segments.

In terms of education, the largest group among employees are persons with secondary education.

Table 19: Structure of education of the Group's employees (in persons), status at the end of 2015.

Education level	*Number of employees*
University education (bachelor's degree, master's degree, postgraduate studies, PhD, professors)	1 578
Secondary education (general upper secondary school, technical upper secondary school, post-secondary non-tertiary schools)	2 627
Vocational education (basic vocational, vocational training)	2 195
Elementary education (primary school, lower secondary school)	388
Total	6 788

Source: internal data

The biggest group of employees are persons aged 46-50. Women are 8.9% of the Group's staff. The staff structure is largely determined by the type of activities it executes. The extraction and energy generation segments are fields requiring high input of heavy physical labour.

Table 20: Structure of gender and age of the Group's employees (in persons), status at the end of 2015.

Age	*Female*	*Male*	*Total*
below 30 years	52	822	874
31-40 years	99	1 143	1 242
41-45 years	70	1 285	1 355
46-50 years	91	1 411	1 502
51-55 years	164	810	974
56-60 years	120	585	705
above 60 years	12	124	136
Total	608	6 180	6 788

Source: internal data

Due to the specificity of the fields, in which the Group operates, special attention is paid to notions regarding the Occupational Health & Safety. We take care to employ persons with proper qualifications for the execution of tasks entrusted to them. The Group provides its employees with equipment and machines of proper parameters and attestation, allowing for effective and safe execution of their responsibilities. Taking into account the Group's key companies – the number of people injured in 2015 at work decreased by c. 30% compared to 2014. Last year, one fatal accident occurred, while in 2014, 4 fatal accidents happened at work.

10.3. Involvement in social issues

The ZE PAK Capital Group does not limit the employee rights related to the free ability to form organisations. Considering the main companies of the Group, the number of enterprise and inter-enterprise trade unions is 15 and they associate a total of 4 354 members.

One of the areas of the Group's interest is care for the development and improvement of the employee staff. The on-going process of competence development features sending employees to various types of trainings, among others, including: mandatory, specialist, industry conferences and various types of meetings allowing for acquisition and exchange of knowledge used in every-day work. In 2015, the demand for these trainings resulted, among others, from the current circumstances, e.g. changes in the legal regulations or organisational changes. The trainings conducted in the ZE PAK Group mainly regarded the energy law, environmental protection and included trainings for engineers, as well as staff and financial trainings.

The ZE PAK Capital Group views its functioning in its environment with consideration of all standards and expectations that are material for its employees, the local community, as well as other groups of stakeholders. The principles used in the Group strictly exclude any forms of mobbing, forced labour, or employment of juveniles. We take good care to prevent any possible types of corruption or, for example, unequal treatment of the Group's partners. The internal regulations and the adopted standards prevent the execution of activities commonly viewed as unethical in this scope.

The Group takes steps to support initiatives and undertakings which have a positive effect on the local community or in a wider range, in the scope of development of proper relations with the outside environment and considering the financial and organisational capabilities. In 2014, the Group supported two domestic and international undertakings. These include: Konin Branch of Wielka Orkiestra Świątecznej Pomocy [the Great Orchestra of Christmas Charity] (ZE PAK S.A. annually participates in the auctions of the Charity's golden hears) and Międzynarodowy Dziecięcy Festiwal Piosenki i Tańca [International Children's Festival of Music and Dancing] in Konin (the Company takes part in the financing of awards for the Festival's participants).

11. OTHER INFORMATION

11.1. Significant court proceedings

In 2015, Zespół Elektrowni Pątnów – Adamów – Konin S.A. 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 S.A., except the ones specified below.

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

Due to the above fact, pursuant to Article 75 § 1, in relation to Article 75 § 2 of the Act of 29 August 1997 – Tax Ordinance (Polish Journal of Laws of 1997; Dz.U. no. 137, item 926, as amended), ZE PAK S.A. submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008, as well as January and February 2009 for the total amount of PLN 626 000 thousand, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK S.A. are not subject to 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 S.A., in cooperation with a tax advisor, analysed the resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011, where the Supreme Administrative Court recognised that the pass-through of 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 S.A. submitted to the District Court of Warszawa Śródmieście a summons for the State Treasury for a conciliatory hearing for the amount of approx. PLN 626 406 thousand and thus stopped the statute of limitation.

A conciliatory settlement was not reached since during the hearing of 16 April 2012, the representatives of the Treasury did not agree to settle. Simultaneously, the Company, waiting for the results of the tax proceedings regarding the previously submitted application for overpayment, submitted in writing, on 14 September 2012, in the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic analysis, the purpose of which was to demonstrate whether the Company suffered loss related to the payment of excise tax to which it was not obliged. The Company's opinion is that the submitted document also applies to other overpayment applications from the entire period embraced by the proceedings, i.e. between January 2006 and February 2009. Ultimately, all applications were included in the cause lists of the Provincial Administrative Court (WSA) and the Supreme Administrative Court (NSA). As of the date of development of this statement, the status of the proceeding is as follows

- Twenty-two cases for the period of January 2006 – November 2007 (excluding November 2006) were conducted from the start by the Head of the Customs Office, after the cases returned from the Supreme Administrative Court. The Company included monthly economic analyses of punitive damage. After the negative decisions of the Head of the Customs Office and then of the Head of Customs Chamber, complaints were submitted to the Provincial Administrative Court in Poznań, Hearings before the Provincial Administrative Court in Poznań took place on 4 and 18 November 2015. In all cases, negative judgements for the Company were given. The Company decided to file a cassation to the Supreme Administrative Court.
- 14 proceedings for the period December 2007 – February 2009 (excluding July 2008) are suspended in the Provincial Administrative Court pursuant to the amicable application of both parties because of the resolution ref. II FPS 5/13 passed by the Supreme Administrative Court on 27 January 2014. So far, none of the parties has applied for resumption of the proceedings. These proceedings also included annual economic analysis. These proceedings should be undertaken at the latest by November 2016,
- 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 the Company's cassation appeal by the Supreme Administrative Court. On the hearing on 29 April 2015, the Supreme Administrative Court dismissed the

Company's cassation appeal and pointed out that it fully agrees with the Provincial Administrative Court in Poznań in the judgement, against which the cassation appeal was submitted.

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

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

On 1 March 2009, the Act of 6 December 2008 on excise tax came into effect, and pursuant to which, the sale of electric energy to an entity, which is not its final recipient, is not subject to excise tax.

PAK KWB Konin S.A. 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 S.A. 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 S.A. On 7 January 2013, PAK KWBK Konin S.A. submitted a cassation appeal from the described decision. After the review on the hearing on 7 October 2014, the Supreme Administrative Court dismissed the PAK Kopalnia Węgla Brunatnego Konin S.A.'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 S.A. 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.

Other legal proceedings have been described in the consolidated financial statement of the Group in point 35.1.

11.2. Significant achievements in the field of research and development

As of the date of this report, the ZE PAK Capital Group Companies do not conduct research and development works, which would have material relevance for the Group. Furthermore, the Group has not assigned major financial expenses for research and development works.

11.3. Information on the auditing of the financial statement

The agreement regarding the auditing of the Group's consolidated financial statement with the entity authorised to audit financial statements, i.e. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. [Ernst & Young

Audit Poland Limited Liability Company, Limited Company] with registered office in Warsaw, Rondo ONZ 1, was concluded on 24 July 2015.

Information regarding the remuneration of the entity authorised to audit financial statements was presented in paragraph 39 of the Group's consolidated financial statement for 2015.

11.4. Financial forecasts

The Capital Group has not published the financial forecasts. The Group does not intend to present forecasts for 2016.

12. REPRESENTATIONS OF THE MANAGEMENT BOARD

12.1. Representation on the reliability of development of the financial statement

The Board of Zespół Elektrowni Pątnów – Adamów – Konin S.A. hereby declares that, according to its best knowledge, the ZE PAK Capital Group's financial statement for the year concluded on 31 December 2015 and the comparative data were developed in accordance with the current principles of accounting and that they realistically and reliably reflect the property and financial position, as well as the financial result of the ZE PAK Capital Group. Furthermore, we declare that the Board's Report on the activities of the ZE PAK Capital Group for the accounting year of 2015 includes the real representation of the development, achievements, and the position of the ZE PAK Capital Group, including the description of basic risks and hazards.

12.2. Representation on the appointment of the entity authorised to audit the financial statement

The Board of Zespół Elektrowni Pątnów – Adamów – Konin S.A. hereby declares that the entity authorised to audit financial statements, conducting the audit of the ZE PAK Capital Group's consolidated Financial Statement for the accounting year concluded on 31 December 2015, was chosen in accordance with the regulations of the law, and that this entity and the statutory auditors conducting the audit complied with the conditions to express an unbiased and independent opinion on the audited annual financial statement, in accordance with the current regulations and occupational standards.