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

INTERIM CONDENSED CONSOLIDATED QUARTERLY REPORT
FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2016

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

16 May 2016

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(in thousands of zlotys)

INTERIM CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the period of 3 months ended 31 March 2016

	Note	*Period ended 31 March 2016 (unaudited)*	*Period ended 31 March 2015 (unaudited)*
Continuing operations			
Sales revenue	12.1	**680 042**	**755 194**
Cost of goods sold	12.6	(543 594)	(690 355)
Gross profit / (loss)		**136 448**	**64 839**
Other operating revenues	12.2	7 264	5 706
Selling and distribution expenses	12.6	(1 144)	(823)
Administrative expenses	12.6	(27 322)	(30 202)
Other operating expenses	12.3	(860)	(1 684)
Gross profit / (loss) from operations		**114 386**	**37 836**
Finance income	12.4	3 900	20 319
Finance costs	12.5	(15 645)	(16 401)
Profit / (loss) before tax		**102 641**	**41 754**
Income tax expense (taxation)	14.1	(27 825)	(7 375)
Net profit / (loss) for the period from continuing operations		**74 816**	**34 379**
Discontinued operations		**-**	**-**
Profit/ (loss) for the period from discontinued operations		-	-
Net profit / (loss) for the period		**74 816**	**34 379**
Net profit/ (loss) attributable to equity holders of the parent		73 951	34 915
Net profit/ (loss) attributable to non-controlling interests		865	(536)
Earnings per share (in PLN)			
Basic, for profit for the period attributable to equity holders of the parent	15	1,46	0,69
Basic, for profit for the period from continuing operations attributable to equity holders of the parent	15	1,46	0,69
Diluted, for profit for the period attributable to equity holders of the parent	15	1,46	0,69
Diluted, for profit for the period from continuing operations attributable to equity holders of the parent	15	1,46	0,69

(in thousands of zlotys)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period of 3 months ended 31 March 2016

	Note	*Period ended 31 March 2016 (unaudited)*	*Period ended 31 March 2015 (unaudited)*
Net profit / (loss) for the period		**74 816**	**34 379**
Other comprehensive income		**-**	**-**
Items to be reclassified to the profit / (loss) in subsequent reporting periods:		-	-
Cash flow hedges	13	1 085	2 447
Exchange differences on translation of foreign entities		-	(21)
Income tax on other comprehensive income	13, 14.1	(206)	(465)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		879	1 961
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:		-	-
Profits / (losses) on provisions for post-employment	13	(692)	(958)
Income tax on other comprehensive income	13, 14.1	132	182
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		(560)	(776)
Net other comprehensive income		**319**	**1 185**
Comprehensive income for the period		**75 135**	**35 564**
Comprehensive income attributable to equity holders of the parent		74 270	36 100
Comprehensive income attributable to non-controlling interests		865	(536)

(in thousands of zlotys)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 March 2016

	Note	*31 March 2016 (unaudited)*	*31 December 2015*
ASSETS			
Non-current assets			
Property, plant and equipment	16	3 434 731	3 475 229
Investment property		2 356	2 363
Intangible assets	18	158 805	17 389
Loans and receivables		-	-
Assets of removing overburden and other mining assets (long-term)	19	87 091	92 748
Other long-term financial assets	20.1	10 197	13 752
Other long-term non-financial assets	20.2	8 828	10 027
Amounts due from customers under long-term construction contracts		-	-
Deferred tax assets	14.2	100 016	102 615
Total non-current assets		**3 802 024**	**3 714 123**
Current assets			
Short-term intangible assets	18	354 389	354 389
Inventories	21	159 037	157 515
Trade and other receivables	22	259 106	268 123
Income tax receivables		3 796	2 743
Short-term financial derivatives (assets)		-	-
Other short-term financial assets	20.1	78 430	76 979
Other short-term non-financial assets	20.2	14 512	12 497
Assets of removing overburden and other mining assets (short-term)	19	524	1 309
Amounts due from customers under long-term construction contracts	12.7	2 065	3 349
Cash and cash equivalents	23	280 662	383 354
Total current assets		**1 152 521**	**1 260 258**
Assets classified as held for sale		-	-
TOTAL ASSETS		**4 954 545**	**4 974 381**

(in thousands of zlotys)

	Note	31 March 2016 (unaudited)	31 December 2015
LIABILITIES AND EQUITY			
Equity			
Issued capital		101 647	101 647
Reserve capital		2 542 085	2 542 060
Revaluation reserve from valuation of hedging instruments		-	-
Other reserve capital		(11 062)	(11 941)
Retained earnings / Accumulated losses		5 877	5 877
Net profit / (loss)		(752 549)	1 128 266
Write-off of net profit during the financial year (negative value)		73 951	(1 881 086)
Exchange differences on translation of foreign entities		-	-
Equity attributable to equity holders of the parent		**1 959 949**	**1 884 823**
Equity attributable to non-controlling interests		-	-
Total equity		**1 959 949**	**1 884 823**
Non-current liabilities			
Interest-bearing loans and borrowings	24	861 151	924 519
Long-term employee benefits		78 666	77 674
Trade and other long-term financial liabilities	27.2	55 761	80 751
Long-term financial derivatives (liabilities)	27.4	8 068	8 943
Long-term subsidies	27.5	47 874	51 068
Other long-term provisions and accruals	25	348 681	334 879
Amounts due to customers under long-term construction contracts		-	-
Deferred tax liability	14.2	372 397	351 862
Total non-current liabilities		**1 772 598**	**1 829 696**
Current liabilities			
Trade and other short-term financial liabilities	27.1	169 392	237 505
Current portion of interest-bearing loans and borrowings	24	383 048	386 543
Short-term financial derivatives (liabilities)	27.4	7 067	7 349
Other non-financial liabilities	27.3	59 792	122 553
Current income tax liability		2 137	5 228
Short-term employee benefits		8 010	8 783
Short-term subsidies	27.6	12 773	12 774
Amounts due to customers under long-term construction contracts	12.7	7 539	10 080
Other short-term provisions and accruals	25	572 240	469 047
Total current liabilities		**1 221 998**	**1 259 862**
		-	-
Liabilities directly associated with assets classified as held for sale		-	-
Total liabilities		**2 994 596**	**3 089 558**
TOTAL LIABILITIES AND EQUITY		**4 954 545**	**4 974 381**

(in thousands of zlotys)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period of 3 months ended 31 March 2016

	Note	*Period ended 31 March 2016 (unaudited)*	*Period ended 31 March 2015 (unaudited)*
Cash flow from operating activities			
Profit /(loss) before tax		102 641	41 754
Adjustments for:			
Depreciation and amortization		57 734	91 994
Interests and shares in profits		10 698	7 628
(Profit) / loss on foreign exchange differences		1 579	(14 427)
(Profit) / loss on investing activities		(2 845)	(253)
(Increase) / decrease in receivables		7 714	(38 039)
(Increase) / decrease in inventories		(1 522)	(19 205)
Increase / (decrease) in payables except for loans and borrowings		(85 163)	(110 298)
Change in provisions, prepayments, accruals and employee benefits		115 866	57 080
Income tax paid		(8 908)	726
Allowances for emission of CO_2		(141 677)	(90 411)
Other		83	(1 400)
Net cash flow from operating activities		**56 200**	**(74 851)**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		451	4 103
Purchase of property, plant and equipment and intangible assets		(73 344)	(123 971)
Proceeds and expenses relating to other financial assets		5 329	100
Purchase of other financial assets		-	(5 120)
Acquisition of subsidiary, after deducting cash acquired		-	-
Dividends received		-	-
Interest received		2	2
Other		25	24
Net cash flow from investing activities		**(67 537)**	**(124 862)**
Cash flow from financing activities			
Proceeds from issuance of shares		-	-
Payment of finance lease liabilities		(4 356)	(3 274)
Proceeds from loans and borrowings and debt securities		45	145 279
Repayment of loans and borrowings and debt securities		(72 732)	(48 645)
Dividends paid		-	-
Interest paid		(12 631)	(13 390)
Other		(684)	(3 135)
Net cash flow from financing activities		**(90 358)**	**76 835**
Net increase / (decrease) in cash and cash equivalents		**(101 695)**	**(122 878)**
Cash and cash equivalents at the beginning of the period	23	**383 319**	**355 268**
Cash and cash equivalents at the end of the period, of which:	23	**281 624**	**232 390**
of restricted use		-	-

(in thousands of zlotys)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 March 2016 (unaudited)

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

For the period ended 31 March 2015 (unaudited)

	Issued capital	*Reserve capital*	*Revaluation reserve-valuation of hedging 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 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	-	-	-	-	34 915	-	34 915	(536)	34 379
Total other comprehensive income	-	-	1 982	-	(776)	(21)	1 185	-	1 185
Total income for the period	**-**	**-**	**1 982**	**-**	**34 139**	**(21)**	**36 100**	**(536)**	**35 564**
Distribution of profits from previous years	-	5	-	-	-	-	5	-	5
The effect of the settlement of a put option on the shares of non-controlling interests	-	-	-	-	(536)	-	(536)	536	-
Other changes	-	-	1	-	(6)	-	(5)	-	(5)
As of 31 March 2015	**101 647**	**2 398 404**	**(15 758)**	**5 877**	**1 365 022**	**89**	**3 855 281**	**-**	**3 855 281**

(in thousands of zlotys)

ACCOUNTING PRINCIPLES (POLICIES) 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 period ended 31 March 2016 and includes comparative data for the period ended 31 March 2015. The parent company is entered into the Register of Entrepreneurs of the National Court Register kept by the District Court Poznań – Nowe Miasto and Wilda in Poznań, IX Commercial Division of the National Court Register, under the KRS number 0000021374.

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

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

The main activities of the Group are:

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

2. Composition of the Group

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

Entity	*Seat*	*Scope of activities*	*Percentage share of the Group in capital as of*	
			31 March 2016	*31 December 2015*
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and construction services	100,00%	100,00%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń "EL PAK" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services with regard to servicing industrial automation systems and electrical equipment	100,00%	100,00%
"Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production and distribution of electricity from the unit 464 MW	100,00%*	100,00%*
"PAK – HOLDCO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activities	100,00%	100,00%
"PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction works with regard to engineering structures not elsewhere classified	100,00%	100,00%
"PAK GÓRNICTWO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Coal mining	100%	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%	96,23%
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Lignite mining	98,41%	98,41%
"Aquakon" sp. z o.o.	62-610 Sompolno Police	Production and sale of mineral waters	92,57%***	92,57%***
Eko-Surowce sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Railway transport of lignite, sale of lignite	96,23%***	96,23%***
PAK – Volt 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%****

** 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%)*
***** indirect share by "EL PAK" sp. z o.o.*

As of 31 March 2016, 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 Management Board composition was as follows at the date of submission of the report:

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

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

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

4. Basis for development of the consolidated financial statement

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

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

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

This interim condensed consolidated financial statement was developed with the assumption of continuing business activity by the Group's companies in the foreseeable future, i.e, not shorter than 12 months since 31 March 2016. At the date of authorisation of this financial statement there are no circumstances indicating any risk to the continuation of activity of the Group's companies.

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

- IFRS 9 *Financial instruments* (issued on 24 July 2014) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2018 or later,
- IFRS 14 *Regulatory Deferral Accounts* (issued on 30 January 2014) – according to the decision of the European Commission, the approval process of the standard in the preliminary version will not be initiated before the release of the standard in the final version – until the day of authorisation of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2016 or later,
- IFRS 15 *Revenue from Contracts with Customers* (issued on 28 May 2014), including the amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) – until the 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 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,
- The amendments to IFRS 10, IFRS 12 and IAS 28 *Investment entities: Application of the exception related to the consolidation* (issued on 18 December 2014) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2016 or later,
- IFRS 16 *Leases* (issued on 13 January 2016) – 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,
- Explanations to IFRS 15 *Revenue from Contracts with Customers* (issued on 12 April 2016) – until the date of approval of this financial statement, unapproved by the EU – applicable for annual periods beginning on 1 January 2018 or later.

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

6. Significant principles (policy) of accounting

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

- **Amendments resulting from the review of IFRS 2010-2012 including:**
  - Amendments to IFRS 2 Share-based Payment

This amendment is applicable prospectively and explains various issues related to the definitions of the achievements (results) and a condition related to the provision of services that are vesting conditions. These explanations are consistent with the Group’s manner of achievements (results) identification and the condition related to the provision of services that are vesting conditions in previous periods.

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

- Amendments to IFRS 3 Business Combinations

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

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

- Amendments to IFRS 8 Operating Segments

The amendments are applicable retrospectively and explain that:

The unit has to disclose the judgements of the Management Board in the process of the aggregation criteria’s application specified in clause 12 of IFRS 8, including a short description of operating segments that have been combined and have similar economic characteristics used when assessing that these segments are “similar.”

Reconciliation of segment assets with the total unit assets, as well as of its liabilities with the total liabilities, is required only when these data are presented to the main operating decision maker.

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

- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

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

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

- Amendments to IAS 24 Related Party Disclosures

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

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

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

- Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

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

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

- Amendments to IFRS 7 Financial Instruments: Disclosures

- Service contracts

The amendments explain that the service provision contract, which includes a fee, may be a continuation of involvement in the asset. The unit has to make an assessment of the fee and contract's nature in the context of the guidelines on the continuation of the involvement provided by IFRS 7 in order to conclude, whether disclosures are required. The retrospective assessment what service contracts are the continuation of the involvement in a transferred financial asset component will be necessary.

The required disclosures may be presented prospectively.

- The application of the amendments to IFRS 7 to the condensed interim financial statement

The amendments explain that the write-off disclosure requirements do not apply to the condensed interim financial statement, unless these disclosures provide information on relevant changes in relation to the last annual statement. The amendment is applied prospectively.

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

- Amendments to IAS 19 Employee Benefits

The amendments explain that the high quality corporate bonds used to evaluate the discount rate should be determined having regard to the currency, in which the benefits are to be paid, rather than the currency of the country, in which the liability is located.

In the absence of a developed market of high quality corporate bonds in a particular currency, the interest rate of government bonds may be applied. The amendments are applied prospectively.

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

- Amendments to IAS 34 Interim Financial Reporting

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

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

- Amendments to IFRS 11 Joint Arrangements

The amendments require a joint venturer recognising purchase of shares in a joint operation, in which the activities of the joint operation are a project to apply the requirements of IFRS 3 adequate to settlements of business combinations. The amendments also clarify that the current maintained share in the joint operation will not subject to revaluation at the moment of purchasing additional shares in the same joint operation, provided that the joint control is maintained. The introduced amendment does not apply to situations, in which the jointly controlling units, as well as the reporting unit, are under the joint control of the same senior controlling unit. The amendments apply prospectively.

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

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires the unit to take into account the benefits paid by employees or third parties in recognising defined benefit plans. If the benefits are linked to a service, they should be assigned to the service provisions period of as a negative benefit. The amendment explains that if the benefit value is independent from the service duration, the unit is required to recognise the benefit as a reduction in the service cost in the period when the service was provided.

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

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

The amendments explain the principles in IAS 16 and IAS 38 stating that revenues reflect the way, in which the unit achieves economic benefits from the run activities (of which an asset component is a part) but not a way to use economic benefits through the asset component use. As a result, the method based on the revenues cannot be applied to depreciate fixed assets and its application can be correct with respect to the depreciation of intangible assets only under certain circumstances. The amendments apply prospectively.

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

- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments introduce a requirement, in which biological assets meeting the definitions of bearer plants, which have been within the IAS 41 scope until then, are to be recognised as fixed assets in accordance with IAS 16. Evaluation of bearer plants, after the initial recognition, will be executed according to a cumulative cost in accordance with IAS 16 (before harvest) and using the production cost model or the revalued value model (after harvest). The amendments also require the products derived from the bearer plants to remain in the scope of IAS 41 and to be evaluated at a fair value decreased by the sale costs. The requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance are applicable to recognition of the government grants to the bearer plants. The amendments apply retrospectively.

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

- Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments allow units to recognise investments in subsidiaries, associates and joint ventures in separate financial statements using the equity method. The entities that apply IFRS and will decide to implement the change of the method of investments recognising with the equity method will apply this change retrospectively. The units that apply IFRS for the first time are required to use this method from the date of transition to IFRS.

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

- Amendments to IAS 1 Disclosure Initiative

The amendments precise the existing requirements of IAS 1 concerning:

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

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

Application of these amendments did not affect the financial position, activities' results of the Groups.

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

7. Essential values based on professional judgement and estimates

7.1. Professional judgement

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

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

Capitalisation of foreign exchange differences

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

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

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

Classification of lease contracts

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

Identification of embedded derivatives

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

7.2. Uncertainty of estimates

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

Loss in fixed assets

As a result of analyses conducted on 31 March 2016, the Group identified the existence of circumstances, which would indicate possible loss in value of a component of assets, in the form of balance sheet value of net assets of the Group, higher than the value of its market capitalisation. In relation to the above fact, the Group conducted value impairment tests of components of fixed assets. On the basis of conducted tests, it was stated that the assumptions used in the impairment tests as of 31 December 2015, which the result was impairment in the amount of PLN 1 880 000 thousand are still valid. Information about the conducted tests was presented in note 16.1.

Provisions' evaluation due to employee benefits

Provisions due to employee benefits were estimated using actuarial methods.

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

- discount rate 2,6%,
- expected inflation rate 2,5%,

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

A component of deferred tax assets

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

Fair value of financial instruments

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

Capitalisation of stripping costs in the production phase

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

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

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

Share based payments

In order to settle the employee shares, it was accepted that the date of start vesting for shares is the date of the Company's commercialisation, and the date of granting entitlements to shares is the date of final hanging lists with number of shares granted to PAK 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 28, 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 25.3.2.

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 25.3.2.

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 25.3.3.

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 March 2016 to the price amounting to 111.56 PLN/MWh. An impairment write-down is established in case when the sale price possible to achieve diminished by disposition costs is lower than the historical cost of generation.

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

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.

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

In the first quarter of 2016 years the Group purchased 5 615 500 EUA. At the same time in February 2016 years, ZE PAK received free EUAs for heat for 2016 years (acc. to Art. 10a) in the amount of 101 259 EUA. Therefore, the state of possession of EUA in the Group PAK as of 31 March 2016 amounted to 17 974 345 EUA.

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 10c for 2015, applying for granting 329 417 EUAs, which means that the Group applied for the number of EUAs less by 89 307 than initially calculated.

As of 31 March 2016, the Group created the provision for allowances in relation to the actual size of emissions for the period between 1 January 2016 and 31 March 2016.

Details regarding the provisions for liabilities arising from redemption rights to greenhouse gas emissions and certified emission reductions were presented in note 25.3.1.

8. Change of estimates

Within the 3-month-period concluded on 31 March 2016, except for these described in the financial statement, there was no significant changes in estimated sizes and the methodology of estimates that would affect the current period or future period.

9. Acquisitions of ventures

In the period between 1 January 2016 and 31 March 2016, there were no new acquisitions of ventures.

10. Seasonality of the activities

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

11. Operating segments

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

Therefore, there are following balance sheet operating segments:

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

The Group ZE PAK S.A. also performs other kinds of activities included in the column "Other". In the first quarter of 2016 year in this column are included operations of companies: EKO – Surowce sp. z o.o. and Aquakon sp. z o.o.

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

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 March 2016 and 31 March 2015 are presented below:

(in thousands of zlotys)

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

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

(in thousands of zlotys)

For the period of 3 months ended 31 March 2015 (unaudited)

	Generation	*Mining*	*Renovation*	*Sale*	*Other*	*Consolidation adjustment*	*Total*
Sales revenue to external customers	449 582	3 117	37 955	262 864	1 676	-	755 194
Sales revenue between segments	105 103	210 542	74 573	1	22 147	(412 366)	-
Sales revenue	**554 685**	**213 659**	**112 528**	**262 865**	**23 823**	**(412 366)**	**755 194**
Cost of goods sold	(511 093)	(208 256)	(105 882)	(259 065)	(22 533)	416 474	(690 355)
Gross profit / (loss)	**43 592**	**5 403**	**6 646**	**3 800**	**1 290**	**4 108**	**64 839**
Other operating income	936	4 792	304	1	10	(337)	5 706
Selling and distribution expenses	(682)	(3)	-	(102)	(36)	-	(823)
Administrative expenses	(11 554)	(10 698)	(6 078)	(1 129)	(743)	-	(30 202)
Other operating expenses	(1 372)	(215)	(144)	(10)	(4)	61	(1 684)
Finance income	20 280	34	63	123	1	(182)	20 319
Finance costs	(11 112)	(5 167)	(278)	(21)	(4)	181	(16 401)
Profit before tax	**40 088**	**(5 854)**	**513**	**2 662**	**514**	**3 831**	**41 754**
Income tax expense	(7 702)	1 937	(215)	(511)	(155)	(729)	(7 375)
Net profit/loss for the period from continuing operations	**32 386**	**(3 917)**	**298**	**2 151**	**359**	**3 102**	**34 379**
Profit / (loss) from operating activities, without financial operations and income tax	**30 920**	**(721)**	**728**	**2 560**	**517**	**3 832**	**37 836**
Depreciation / Amortization	63 462	27 684	2 160	44	176	(1 085)	92 441
Change in impairment	-	-	-	-	-	-	-
EBITDA	**94 382**	**26 963**	**2 888**	**2 604**	**693**	**2 747**	**130 277**

(in thousands of zlotys)

12. Revenues and costs

12.1. Sales revenue

Revenues by type	*3 months period ended 31 March 2016 (unaudited)*	*3 months period ended 31 March 2015 (unaudited)*
Electricity	424 338	411 329
Electricity resold from the market	159 105	220 269
Energy certificates of origin	13 808	16 412
Construction contracts	8 949	36 295
Compensation related to PPAs termination	47 687	43 758
Heat	20 894	20 516
Other	5 845	7 283
Excise	(584)	(668)
Total revenues by type	680 042	755 194

12.2. Other operating revenues

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Compensations received	2 770	477
Reversal of write-downs against receivables	10	1
Grants received	446	447
Gain on the sale of non-financial fixed assets	2 862	3 447
Reimbursement of costs previously recognized as not deductible	-	-
Reversal of provisions for costs and losses and liabilities write-off	351	3
Other	825	1 331
Total other operating income	7 264	5 706

12.3. Other operating expenses

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Loss on the sale of property, plant and equipment	3	419
Impairment write-down against receivables	7	30
Compensations paid	269	12
Loss on liquidation of fixed assets	-	4
Electricity equivalents paid for pensioners and former employees	-	2
Donations given	6	93
Cost of trade unions	19	32
Cost of shortages and damages	73	120
Other	483	972
Total other operating expenses	860	1 684

(in thousands of zlotys)

12.4. Finance income

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Interest income	1 098	974
Dividends	-	-
Foreign exchange gains	2	19 335
Other	2 800	10
Total Finance income	3 900	20 319

The main component of "other" item is a gain on the sale of 25% stake in the "Verano sp. o.o." company obtained by PAK KWB Konin S.A. in the amount of PLN 2 784 thousand.

12.5. Finance costs

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Interest expenses	8 804	5 497
Valuation and realization of financial derivatives	1 996	2 188
Foreign exchange losses	1 934	5 866
Power units utilisation provision discount	107	132
Revaluation of investments	-	-
Reclamation provision discount	1 401	1 869
Other	1 403	849
Total finance costs	15 645	16 401

12.6. Costs by type

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Depreciation / Amortisation	60 929	92 441
Impairment write-downs against property, plant and equipment	-	-
Impairment write-downs against inventories	(618)	1
Materials	72 267	117 317
External services	13 881	32 931
Taxes and charges, excluding excise duty	41 928	44 716
Costs of allowances for emission of CO_2	86 185	75 936
Employee benefits	125 911	160 004
Other costs by type	8 308	4 521
Cost of goods for resale and raw materials sold and resale of electricity from the market	155 785	212 653
Total cost by type	564 576	740 520
Items included in cost of goods sold	543 594	690 355
Items included in selling and distribution expenses	1 144	823
Items included in administrative expenses	27 322	30 202
Change in the stocks of finished goods	(7 517)	19 091
Cost of goods and services for internal needs	33	49

(in thousands of zlotys)

12.7. Construction agreements

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Revenues from contracts for construction services recognised in the period	8 949	36 295
Revenues invoiced in the period	7 691	29 239
Balance sheet valuation	1 258	7 056
Costs applied in the period	6 717	35 803
Expected losses due to the contracts recognised in the period	2	(11)
Results due to performance of the contracts included in the period	2 230	503

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Gross amount payable by contracting parties due to works resulting from the contract	2 065	9 351
Gross amount paid to contracting parties due to works resulting from the contract	7 539	12 516

13. Components of other comprehensive income

Components of other total revenues present as follows:

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Cash flow securities		
Profits (losses) for the period	(1 996)	259
Adjustment resulting from reclassification of profits (loses) included in the profit or the loss	3 081	2 188
Gross cash flow securities for the period	**1 085**	**2 447**
Income tax concerning cash flow securities	(206)	(465)
Net cash flow securities for the period	**879**	**1 982**
Actuarial gross profits (losses) concerning provisions for post-employment employee benefits	**(692)**	**(958)**
Income tax concerning actuarial profits (losses)	132	182
Actuarial net profits (losses) concerning provisions for post-employment employee benefits	**(560)**	**(776)**
Gross exchange rate differences from foreign currency conversion	**-**	**(21)**
Income tax concerning exchange rate differences from foreign currency conversion	-	-
Net exchange rate differences from foreign currency conversion	**-**	**(21)**
Other gross comprehensive income	**393**	**1 468**
Income tax concerning other comprehensive income	**(74)**	**(283)**
Other net comprehensive income	**319**	**1 185**

(in thousands of zlotys)

14. Income tax

14.1. Tax load

The main components of tax load for the year ended on 31 March 2016 and 31 March 2015 are as follows:

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Included in the profit or the loss		
Current income tax		
Current income tax load	4 764	1 526
Deferred income tax load		
Related to creation and reversal of temporary differences	23 015	5 738
Other changes	46	111
Tax load in the consolidated profit or loss	**27 825**	**7 375**
Included in the consolidated statement of the comprehensive income		
Net profit (loss) tax due to revaluation of cash flow securities	(206)	(465)
Actuarial allowance concerning actuarial profits/losses	132	182
Tax advantage/(tax load) included in comprehensive income	**(74)**	**(283)**

14.2. Deferred income tax

Deferred income tax results from following items:

	31 March 2016 (unaudited)	*31 December 2015*
Deferred tax asset		
Balance sheet provisions	157 817	142 348
Overburden and other mining assets	7 746	7 129
Interest and exchange rate differences	10 401	10 838
Hedging instruments	2 876	3 096
Valuation of non-terminated agreements for building services	3 225	3 996
Tax loss from previous years	6 070	12 342
Impairment write-down against inventories	1 708	1 781
Impairment write-down against receivables	1 464	1 465
Impairment write-downs against fixed assets	-	81
Difference between the carrying amount and tax value of fixed assets	95	1
Settlements with employees	6 628	5 991
Other	45 720	43 135
Total	243 750	232 203
Provision under deferred income tax		
Difference between the carrying amount and tax value of fixed assets	384 179	383 797
Receivables under PPAs	19 949	10 888
Energy certificates	11 371	12 315
Interest and exchange rate differences	1 355	1 538
Valuation of non-terminated construction agreements	1 792	2 209
Accrued receivables under contractual penalty fees	824	824
Mining asset	102	251
Purchased CO_2 allowances	96 545	69 624
Other	14	4
Total	516 131	481 450

(in thousands of zlotys)

After compensating balances at the level of companies from the Corporate Group, deferred tax is presented as:		
Asset	**100 016**	**102 615**
Provision	**372 397**	**351 862**

The item "other" of the deferred tax asset mostly consists of PLN 13 302 thousand of the provision for the liability to the Zarządca Rozliczeń company in the EPII (as of 31 December 2015 the amount was PLN 13 539 thousand), PLN 8 551 thousand is an evaluation of preferential loans in the EPII (as of 31 December 2015 the amount was PLN 8 629 thousand), PLN 17 053 thousand is the provision for redemption of CO_2 allowances in the EPII (as of 31 December 2015 the amount was PLN 13 728 thousand), PLN 2 546 thousand is an excess of the sale-and-lease-back transaction settled in time in PAK KWB Konin (as of 31 December 2015 the amount was PLN 3 068 thousand).

The following is the status of the tax settlements of the Group's companies for tax losses as of 31 March 2016, taking into account the deferred tax.

Tax losses, in accordance with the applicable Polish regulations of the tax law, may be deducted from future taxable income earned by the Company in next 5 years. However, the amount of deduction in any of these years must not exceed 50% of the loss amount.

As of 31 March 2016, the Elektrownia Pątnów II sp. z o.o. is able to deduct the unsettled tax loss for 2011 in the amount of PLN 88 517 thousand, which is ½ of this year loss; the remaining part of the loss is time-barred.

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

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

In the first quarter of 2016, the "Elektrownia Pątnów II" sp. z o.o. company showed a profit tax in the amount of PLN 4 907 thousand and settled the tax profits with the part of the tax losses from previous years.

As of 31 March 2016, the Company reversed the part of the impairment write-down of the deferred tax asset of 2015. The amount of the reversed asset is PLN 932 thousand and applies to the income tax, which the Company obtained for the first quarter of 2016.

As of 31 March 2016, 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 12 679 thousand,
- for the tax year of 2013, the amount of PLN 13 044 thousand,
- for the tax year of 2015, the amount of PLN 1 838 thousand,

In the current period, the Company settled the part of the tax loss for 2012 in the amount of PLN 28 769 thousand and for 2013 in the amount of PLN 4 414 thousand.

As of 31 March 2016, the PAK Kopalnia Węgla Brunatnego Adamów S.A. company does not show unsettled tax losses. In the current period, the Company settled the part of the tax loss for 2012 in the amount of PLN 4 168 thousand and the tax loss for 2014 in the amount of PLN 47 thousand.

15. Profit / (loss) per one share

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

Diluted profit / (loss) per one share 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.

(in thousands of zlotys)

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

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Net profit on continued activities of the parent company's shareholders	73 951	34 915
Profit on abandoned activities of the parent company's shareholders	-	-
Net profit of ordinary shareholders used for calculation of diluted earnings per one share	73 951	34 915
The average weighted number of ordinary shares used for calculation of basic and diluted earnings per one share	50 823 547	50 823 547

The below table shows the profit / (loss) per one share for the 3 months period ended 31 March 2016 and 31 March 2015, presented in the profit and loss account.

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Basic and diluted earnings per share for the financial year attributable to equity holders of the parent	1,46	0,69
Basic and diluted earnings per share from continuing operations attributable to equity holders of the parent	1,46	0,69

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

(in thousands of zlotys)

16. Property, plant and equipment – changes

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

	Land and perpetual usufruct	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2016	224 845	1 927 606	3 968 357	70 298	28 563	1 119 880	7 339 549
Direct purchase	-	31	403	248	120	11 611	12 413
Repairs	-	-	-	-	-	845	845
Transfer from fixed assets under construction	4 746	80 181	874 735	-	-	(959 662)	-
Sale and liquidation	(13)	(359)	(801)	(119)	(52)	-	(1 344)
Gross value as at 31 March 2016	229 578	2 007 459	4 842 694	70 427	28 631	172 674	7 351 463
Depreciation and impairment write-downs as at 1 January 2016	5 431	1 024 186	1 994 014	30 556	19 012	791 121	3 864 320
Depreciation write-down for the period	564	13 675	36 187	2 335	611	-	53 372
Impairment write-down	-	51 530	631 517	-	-	(683 047)	-
Sale and liquidation	-	(210)	(607)	(92)	(51)	-	(960)
Depreciation and impairment write-downs as at 31 March 2016	5 995	1 089 181	2 661 111	32 799	19 572	108 074	3 916 732
Net value as at 1 January 2016	219 414	903 420	1 974 343	39 742	9 551	328 759	3 475 229
Net value as at 31 March 2016	223 583	918 278	2 181 583	37 628	9 059	64 600	3 434 731

(in thousands of zlotys)

For the period of 3 months ended 31 March 2015 (unaudited)

	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	1 004	205	1 345	872	193	95 456	99 075
Repairs	-	-	-	-	-	-	-
Transfer from fixed assets under construction	2 134	11 358	4 621	25	50	(18 188)	-
Sale and liquidation	(10)	(48)	(2 392)	(6 199)	(932)	-	(9 581)
Gross value as at 31 March 2015	217 312	1 901 176	3 932 966	63 875	26 296	893 049	7 034 674
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	195	22 478	58 460	2 323	654	-	84 110
Impairment write-down	-	-	-	-	-	-	-
Sale and liquidation	-	(7)	(1 497)	(3 389)	(832)	-	(5 725)
Depreciation and impairment write-downs as at 31 March 2015	4 004	464 501	1 185 514	24 637	15 950	29 341	1 723 947
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 March 2015	213 308	1 436 675	2 747 452	39 238	10 346	863 708	5 310 727

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

In accordance with IAS 36, at the end of every reporting period, the Group's Management Board evaluates whether there are any prerequisites indicating that there may have occurred loss in value of the component of fixed assets. In case of statement that there are such prerequisites, the Group estimates recoverable amount of assets' components.

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)."

The current premise-confirming the test for impairment of assets is the situation persisting higher carrying value of net assets of the value of its market capitalization.

The identified CGUs are discussed below:

- ZE PAK S.A., the parent company of the Group, 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.
- The Pątnów Power Plant II (El. 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 "Konin" and "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 the many reasons inflows generated by particular groups of assets are very closely connected with each other. As a result, the Mine is expected to provide the Power Plant with a certain amount of coal; it is irrelevant, from which open pit it will come from. As a result, coal is supplied to the Power Plant 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 used, the financial model for the years 2016-2047 reflecting strategic priorities of the parent company ZE PAK S.A. which was described at the tests presented in earlier financial statements.

No changes in economic assumptions were introduced into the financial projections as of 31 March 2016 in relation to the projection of 31 December 2015 because the Company did not state any significant, sustainable economic changes in the economic environment in this short period. It was stated that the assumptions adopted in the value impairment tests as of 31 December 2015, which resulted in the impairment write-off of PLN 1 880 thousand, are still valid.

On the basis of conducted tests for particular CGUs, no necessity of recognition of further impairment write-downs against property, plant and equipment was stated.

17. Lease

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

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

(in thousands of zlotys)

As of 31 March 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 of 31 March 2016 (unaudited)		*As of 31 December 2015*	
	minimum payments	*present value of payments*	*minimum payments*	*present value of payments*
Up to 1 year	14 767	14 128	15 065	14 246
1 to 5 years	7 589	7 018	11 155	11 250
Over 5 years	-	-	-	-
Total minimal lease payments	22 356	21 146	26 220	25 496
Minus finance expenses	(1 210)	-	(724)	-
Present value of minimal lease payments, including:	22 295	21 146	26 151	25 496
short-term	14 729	14 128	15 031	14 246
long-term	7 566	7 018	11 120	11 250

(in thousands of zlotys)

18. Intangible assets

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

	Development costs	*Patents and licences*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2016	-	19 558	1 949	12 449	33 956
Increases	-	-	(3)	-	(3)
Decreases	-	11	39	141 676	141 726
Gross value as of 31 March 2016	-	19 569	1 985	154 125	175 679
Depreciation and impairment write-downs as at 1 January 2016	-	14 525	1 719	323	16 567
Depreciation write-down for the period	-	259	48	3	310
Impairment write-down	-	-	-	-	-
Decreases	-	-	(3)	-	(3)
Depreciation and impairment write-downs as at 31 March 2016	-	14 784	1 764	326	16 874
Net value as at 1 January 2016	-	5 033	230	12 126	17 389
Net value as at 31 March 2016	-	4 785	221	153 799	158 805

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 period ended 31 March 2016.

Long-term intangible assets – for the period of 3 months ended 31 March 2015 (unaudited)

	Development costs	*Patents and licences*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2015	-	18 549	1 847	76 922	97 318
Increases	-	-	(3)	-	(3)
Decreases	-	323	17	90 410	90 750
Gross value as of 31 March 2015	-	18 872	1 861	167 332	188 065
Depreciation and impairment write-downs as at 1 January 2015	-	13 286	1 475	294	15 055

(in thousands of zlotys)

Depreciation write-down for the period	-	307	102	6	415
Impairment write-down	-	-	-	-	-
Decreases	-	-	(3)	-	(3)
Depreciation and impairment write-downs as at 31 March 2015	-	13 593	1 574	300	15 467
Net value as at 1 January 2015	-	5 263	372	76 628	82 263
Net value as at 31 March 2015	-	5 279	287	167 032	172 598

(in thousands of zlotys)

Short-term intangible assets (unaudited)

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
	Certified emission reduction units (EUAs)	*Certified emission reduction units (EUAs)*
Gross value as of 1 January	354 389	176 957
Purchase of EUA	-	-
Redemption of EUA	-	-
Transfer of EUA	-	-
Gross value as of 31 March	354 389	176 957
Redemption and impairment as of 1 January	-	-
Impairment write-down of a period	-	-
Depreciation and impairment write-down as of 31 March	-	-
Net value as of 1 January	354 389	176 957
Net value as of 31 March	354 389	176 957

19. Assets for overburden removal and other mining assets

As of 31 March 2016, 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 86 969 thousand and assets of PAK KWB Adamów in the amount of PLN 524 thousand.

	31 March 2016 (unaudited)	*31 December 2015*
Status as of 1 January	94 057	150 457
Increases	805	1 976
Decreases	-	-
Depreciation for the period	(7 247)	(42 187)
Impairment (change)	-	(16 189)
Status as of end of period:	87 615	94 057
– long-term	87 091	92 748
– short-term	524	1 309

20. Other assets

20.1. Other financial assets

	31 March 2016 (unaudited)	*31 December 2015*
Deposits for debt service security	74 606	74 789
Investments and deposits	2 690	2 709
Investments and MLF and MRF deposits	8 095	7 637
Shares	207	2 451
Other	3 029	3 145
Total other financial assets:	88 627	90 731
– short-term	78 430	76 979
– long-term	10 197	13 752

(in thousands of zlotys)

20.2. Other non-financial assets

	31 March 2016 (unaudited)	*31 December 2015*
VAT receivables	2 199	4 031
Insurance	20	1 519
Other receivables from the state budget	7	1 783
Other accruals	11 126	6 235
Delivery prepayments	2 776	813
Prepayments for intangible assets	164	1 834
Prepayments for assets under construction	6 310	5 848
Prepayments for tangible assets – land	-	-
Other	738	461
Total other non-financial assets:	23 340	22 524
– short-term	14 512	12 497
– long-term	8 828	10 027

The largest components of the other accruals item are settlements concerning the financing costs in the amount of PLN 2 986 thousand, licensing fees in the amount of PLN 922 thousand in ZE PAK, the costs of the valuation of real estate for sale in PAK KWB Konin in the amount of PLN 936 thousand.

21. Inventories

	31 March 2016 (unaudited)	*31 December 2015*
Production fuel	10 878	14 745
Spare parts and other materials	76 570	67 019
Certificates of origin of energy	71 351	75 532
Goods	238	219
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	159 037	157 515

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

As of 31 March 2016, according to entries in the book of accounts, the Company possessed 534 497.280 MWh of ownership units from green certificates and produced yet unverified by the ERO, green energy, of which 426 526.244 MWh is already obtained property rights, while 36 061.821 MWh is the production of green energy in January 2016 waiting to be confirmed by ERO and 71 909.215 MWh are the productions months of February and March 2016 pending submission of the application by the Company. An application for the grant of property rights for January 2016 has been made by the Company in March 2016. In the first quarter of 2016, the Group received outstanding certificates for year 2015 in the amount of 115 301.589 MWh (production for months X, XI and XII of 2015).

During the current reporting period the Group was realising production from renewable sources and was presenting, in the balance sheet, of green certificates at prices current at the end of each month. Impairment of inventories at 31 March 2016 in the amount of PLN 3 668 thousand relates to the revaluation of the rights which are out of stock of the Company as of 31 March 2016 at the unit price of 111.56 PLN/MWh, thus, at the same time, the Company has adjusted (decreased) impairment of old inventories as of December 31, 2015 year by the amount of PLN 884 thousand (price from PLN 108.60 increased to PLN 111.56).

In the first quarter of 2016, the Group made impairment write-down of inventories in the amount of PLN 120 thousand for produced green certificates in the first quarter of 2016.

22. Trade receivables and other receivables

	31 March 2016 (unaudited)	*31 December 2015*

Trade receivables	121 094	179 735
Receivables due to compensation related to the termination of the PPAs	104 994	57 307
Receivables due to security of purchase of electricity in the balancing market	4 500	7 826
Other receivables	28 518	23 255
Net receivables	259 106	268 123
Write-down of receivables impairment	42 157	41 840
Gross receivables	301 263	309 963

In the line others receivables as of 31 March 2016 the Group presents mostly receivables due to the security deposit in the amount of PLN 23 492 thousand.

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

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

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

23. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 31 March 2016 amounts to PLN 280 662 thousand (as of 31 March 2015: PLN 229 817 thousand).

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

	31 March 2016 (unaudited)	*31 March 2015 (unaudited)*
Cash in hand and at bank	153 213	134 997
Short-term deposits	127 449	94 820
Total cash and cash equivalents in the balance sheet	280 662	229 817
Foreign exchange differences	962	2 573
Total cash and cash equivalents in cash flow statement	281 624	232 390

24. Interest-bearing bank credits and loans

Short-term	*Maturity*	*31 March 2016 (unaudited)*	*31 December 2015*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	136 853	136 548
Overdraft facility at BRE Bank in the amount of PLN 9 700 thousand; interest rate at WIBOR 1M + bank margin	21.04.2016	9 604	9 580
Overdraft facility at BZ WBK in the amount of PLN 65 000 thousand; interest rate at WIBOR 1M + bank margin	30.06.2016	58 705	64 385
Investment loan from BZ WBK S.A. in the amount of PLN 46 463 thousand; interest rate at WIBOR 1M + bank margin	31.12.2016	9 328	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	1 851	3 851
Bank BPH S.A. – loan agreement in the amount of PLN 67 000 thousand	31.05.2016	50 905	50 884
Overdraft facility at Millennium Bank in the amount of PLN 76 500 thousand; interest rate at WIBOR 3M + bank margin	31.12.2017	28 765	28 765
Syndicated investment loan in amount of PLN 1 110 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.12.2023	74 848	67 642

(in thousands of zlotys)

Syndicated overdraft facility in amount of PLN 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.12.2023	12 189	12 300
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		**383 048**	**386 543**

Long-term	*Maturity*	*31 March 2016 (unaudited)*	*31 December 2015*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	330 266	360 627
Overdraft facility at Millennium Bank in the amount of PLN 76 500 thousand; interest rate at WIBOR 3M + bank margin	31.12.2017	21 574	28 765
Syndicated investment loan in amount of PLN 1 110 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.12.2023	442 027	465 400
Syndicated overdraft facility in amount of PLN 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.12.2023	67 284	69727
Total		**861 151**	**924 519**

In the 3-month period ended 31 March 2016, the Group paid off the principal and interest on loans in the amount of PLN 77 305 thousand, including:

- repayment, by EPII, of the principal and interest on syndicated investment loan in the amount of PLN 34 715 thousand,
- repayment, by ZE PAK, of the principal and interest on syndicated investment loan (the Loan A) for modernisation of units 1-4 in the Pątnów I Power Plant in the amount of PLN 20 029 thousand,
- repayment, by ZE PAK, of the principal and interest on syndicated overdraft facility (the Loan B) for IOS in the amount of PLN 3 154 thousand,
- repayment, by PAK KWB Konin, of the principal and interest on investment credit in BZ WBK S.A. in the amount of PLN 3 286 thousand,
- repayment, by PAK KWB Konin, of the principal and interest on overdraft (discounting of bills of exchange) in mBank S.A., in the amount of PLN 2 040 thousand,
- repayment, by PAK KWB Konin, of the principal and interest on overdraft in Bank Millennium Bank S.A. in the amount of PLN 7 589 thousand,
- repayment, by PAK KWB Konin, of interest on overdraft in mBank in the amount of PLN 62 thousand,
- repayment, by PAK KWB Konin, of the principal and interest on overdraft in BZ WBK S.A. in the amount of PLN 6 071 thousand,
- repayment, by PAK KWB Konin, of interest on multipurpose bank loan in BPH S.A. in the amount of PLN 359 thousand.

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

In the first quarter of 2016, the limit of bonds emission which could be issued by PAK KWB Konin S.A. and the Administrator is bank PKO BP S.A., was increased from PLN 70 000 thousand to PLN 110 000 thousand.

(in thousands of zlotys)

25. Provisions and accruals

25.1. Accruals

	31 March 2016 (unaudited)	*31 December 2015*
Provision for bonuses and holiday leaves	44 265	35 624
Compensations from insurance company	-	41
Audit of the financial statements	227	393
Others	13 691	1 717
Total	58 183	37 775
– short-term	58 183	37 775
– long-term	-	-

The main item of other settlements are environmental fees in the amounts PLN 10 368 thousand in ZE PAK S.A. and PLN 1 870 thousand in Elektrownia Pątnów II.

(in thousands of zlotys)

25.2. 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 con-tract 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 2016	354 389	16 419	1 698	148	9 449	330 561	53 487	766 151
Increases	90 411	107	-	3	290	(1)	16 629	107 439
Decreases	-	-	-	(61)	(1 645)	(4 837)	(4 309)	(10 852)
As of 31 March 2016 *(unaudited)*	444 800	16 526	1 698	90	8 094	325 723	65 807	862 738
Long-term	17 498	16 526	1 005	-	-	303 172	10 480	348 681
Short-term	427 302	-	693	90	8 094	22 551	55 327	514 057
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

25.3. Description of significant titles of provisions

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

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 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 10c for 2015, applying for granting 329 417 EUAs.

The emission in the PAK Group in 2015 amounted to 12 257 921 tonnes of CO2. 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.

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

In the first quarter of 2016, the Group purchased 5 615 500 EUAs. At the same time, in February 2016, the Group received free EUAs for heat for 2016 (acc. to Art. 10a) in the amount of 101 259 EUAs. Therefore, the EUAs status in the PAK Group as of 31 March 2016 amounted to 17 974 345 EUAs.

The provision for the burden of core operating activities for purchased CO2 allowances, which the Group wants to present for the redemption for 2016, is being created. As the actual redemption of allowances happens, the provision created earlier will be terminated.

25.3.2. 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 March 2016, 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 March 2016, the provision due to this amounted to PLN 16 526 thousand.

25.3.3. Reclamation provisions and other provisions related to mining activities

PAK KWB Konin and PAK KWB Adamów are obliged to reclaim areas of extraction works pursuant to the Geological and Mining Law act. Due to this, the Group 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 March 2016 amounted to

PLN 325 724 thousand and decreased in comparison with the year ended 31 December 2015 by PLN 4 837 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.

25.3.4. Provision for redemption of energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load cogeneration. As of 31 March 2016, the provision due to this amounted to PLN 8 094 thousand.

25.3.5. Other provisions

In PAK KWB Konin, the main items of other provisions as of 31 March 2016 are: the provisions for mining damage in the amount of PLN 22 353 thousand, the provision for property tax in the amount of PLN 2 082 thousand, the provision for taking out of agricultural and forestry production in the amount of PLN 5 613 thousand, the provisions for proceedings in progress in the amount of PLN 615 thousand, the provision for remuneration for mining usufruct in the amount of PLN 1 238 thousand. In PAK KWB Adamów: the provision for permanent taking out of production for the final reservoir of the Adamów pit in the amount of PLN 15 828 thousand, the provisions for mining damage in the amount of PLN 3 881 thousand, the provisions for proceedings in progress in the amount of PLN 1 188 thousand, the provision for the mining fee in the amount of PLN 2 015 thousand, the provision for remuneration for mining usufruct in the amount of PLN 604 thousand, the provision for taking out of agricultural and forestry production in the amount of PLN 2 690 thousand. In addition, in El PAK, the provisions for warranty repairs in the amount of PLN 1 309 thousand.

26. CO_2 emission allowances

Since 1 January 2013, the next reporting period of 2013-2020 concerning CO2 allowances has been applicable. This period's assumption is granting the Group the free EUA allowances resulting from the production of heat, although, power engineering was additionally covered by opportunity of derogation. Derogation resulting from Article 10c of the ETS Directive is based on granting additional free allowances, provided that declared investment expenses for investments reported to the National Investment Plan are paid.

In December 2013, the Ministry of Environment issued a sample of a material and financial statement, which is sent annually by the ZE PAK Capital Group to the Ministry in the scope of incurred investment expenses for investment tasks reported to the National Investment Plan in order to use derogation for power engineering within Article 10c of the ETS Directive. For the incurred investment expenses from 1 July 2014 to 30 June 2015, the ZE PAK Capital Group submitted the material and financial statement and, at the same time, applied for 329 417 free EUAs. The Group received the above units on 22 April 2016 and used them to redeem the emissions for 2015 in April 2016.

Since 2015, there has been a change in the way of the publication of information on free CO_2 allowances. According to the new Act of 12 June 2015 on the CO_2 emissions trading scheme, the minister competent for the environment issues, after approval of a list of systems generating electricity with the number of emission allowances planned to be granted to these systems in a given year of a settlement period the European Commission, publishes information on the number of emission allowances, which in a given year of a settlement period will be issued to the systems generating electricity in the Public Information Bulletin. Therefore, in 2016, there appeared information that ZE PAK will receive 329 417 of EUAs for 2015 acc. to the Art. 10c and 101 259 EUAs for 2016 acc. to Art. 10a.

For the Elektrownia Pątnów II sp. z o.o. system, a certain number of CO2 allowances was allocated. However, for this system, any investment tasks that would cover receivables for CO2 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.

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

In the first quarter of 2016, the Group purchased 5 615 500 EUAs. At the same time, in February 2016, the Group received free EUAs for heat for 2016 (acc. to Art. 10a) in the amount of 101 259 EUAs. Therefore, the EUAs status in the PAK Group as of 31 March 2016 amounted to 17 974 345 EUAs.

Then, on 22 April 2016, the Group received 329 417 free EUAs pursuant to Art. 10c for 2015.

(in thousands of zlotys)

In April 2016, ZE PAK redeemed 9 907 506 EUAs for 2015, including 329 417 of free EUAs pursuant to Art. 10c for 2015 and 121 398 free EUAs pursuant to Art. 10a for 2015 in the period from 1 to 25 April. At the same time, in April 2016, EPII redeemed 2 350 415 EUAs. After the redemption of 2015, an excess of EUAs remained in the Group in the amount of 329 082 EUAs, which was transferred to the redemption of emissions for 2016 in April 2017.

In tables presented below, carbon dioxide allowances granted in the scope of the National Allocation, purchased on the secondary market including with division into the part used for their own purposes, and the one sold in periods ended 31 March 2015 and 31 March 2016.

CO_2 emission allowances in the period of 3 months ended 31 March 2016 (unaudited)

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

CO_2 emission allowances in the period of 3 months ended 31 March 2015 (unaudited)

(in tonnes)		*Zespół Elektrowni Pątnów-Adamów-Konin S.A.*	*„Elektrownia Pątnów II” sp. z o.o.*
	Emission of CO_2	2 280 468	632 646
EUA	Balance at the beginning of the period	10 697 412	2 571 207
	Purchased	2 276 000	864 000
	Free of charge	-	-
	Redemption*	-	-
	Sale	-	-
	Exchange	-	-
	Balance at the end of the period	12 973 412	3 435 207
CER	Balance at the beginning of the period	-	-
	Purchased	-	-
	Redemption*	-	-
	Sale	-	-
	Exchange	-	-
	Balance at the end of the period	-	-
	Balance at the beginning of the period	-	-

ERU	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.*

27. Trade liabilities, other liabilities and accruals

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

	31 March 2016 (unaudited)	*31 December 2015*
Trade liabilities	93 658	111 622
Financial liabilities	-	-
Other liabilities:		
Liabilities due to the put option	6 061	6 061
Investment liabilities	5 286	68 882
Liabilities to employees due to salaries	18 539	18 234
Other liabilities	45 848	32 706
Total	169 392	237 505

In the other liabilities line as of 31 March 2016, the Group presents mostly liabilities due to financial lease in the amount of PLN 14 267 thousand, liabilities related to settlement of adjustment of PPA for 2008 year, on the basis of the judgement of the Court of Appeal in Warsaw of 4 November 2014 and of the agreement concluded on 2 October 2014 between Elektrownia Pątnów II and Zarządca Rozliczeń in the amount of PLN 23 965 thousand. The remaining amount in the other liabilities item as of 31 March 2016 concerns mostly settlements with employees and deductions from the pay roll amounting to PLN 2 262 thousand, settlements due to the Company Social Insurance Fund in the amount of PLN 1 665 thousand.

Liabilities due to the put option concern obligation of ZE PAK to redemption of employee shares pursuant to the PAK KWB Konin and 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 IFSR ZE PAK recognised the obligation to redeem shares owned by non-controlling interests in the amount of PLN 11 880 thousand, in the case of PAK KWB Adamów, and in the amount of PLN 19 091 thousand, in the case of PAK KWB Konin as of the day of the acquisition of control. In connection with ongoing redemption of employee shares, as of 31 March 2016, the remaining commitments amount is PLN 6 061 thousand.

Principles and terms of payment of above financial liabilities:

- Terms of transactions with affiliates are presented in the note 31 of additional information and explanations.
- Liabilities due to supplies and services are not subject to interest and are usually settled within either the 14-day, or 30-day period.
- Liabilities due to interests are usually settled within either monthly or quarterly periods during the whole financial year.

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

	31 March 2016 (unaudited)	*31 December 2015*
Liability due to financial lease	7 677	11 909
Short-term liabilities to other entities – over 12 months	813	1 375
Other	47 271	67 467
Total	55 761	80 751

In the item "other", as of 31 March 2016, the Group presents primarily liabilities related to settlement of adjustment of PPA for 2008 year, on the basis of the judgement of the Court of Appeal in Warsaw of 4 November 2014 and of the agreement concluded on 2 October 2014 between Elektrownia Pątnów II and Zarządca Rozliczeń in the amount of PLN 46 344 thousand.

(in thousands of zlotys)

27.3. Other non-financial liabilities

	31 March 2016 (unaudited)	*31 December 2015*
VAT tax liabilities	24 645	20 551
Liabilities due to environmental charges	-	53 893
Liabilities due to the excise tax	550	701
Liabilities due to social insurance	22 788	26 964
Personal income tax	5 659	6 797
Other budget liabilities	131	89
Advanced payments for deliveries	2 577	265
Mining fee	-	12 768
Other	3 442	525
Total	59 792	122 553

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

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

27.4. Derivative financial instruments

	31 March 2016 (unaudited)	*31 December 2015*
Instruments securing floating interest rates (SWAP)	15 135	16 292
Total	15 135	16 292
− short-term	7 067	7 349
− long-term	8 068	8 943

27.5. Grants and deferred income (long-term)

	31 March 2016 (unaudited)	*31 December 2015*
Long-term preferential loans	-	-
Long-term settlement of sale-and-lease-back	2 417	5 163
Long-term grants	45 154	45 600
Other	303	305
Total	47 874	51 068

27.6. Grants and deferred income (short-term)

	31 March 2016 (unaudited)	*31 December 2015*
Short-term preferential loans	-	-
Short-term settlement of sale-and-lease-back	10 984	10 984
Short-term grants	1 786	1 786
Other	3	4
Total	12 773	12 774

28. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in the note below, as of 31 March 2016, the Group did not possess other contingent liabilities, granted guarantees, and sureties.

28.1. Judicial cases

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 173 435 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.

On 24 February 2016 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 determining the amount of the annual adjustment of the stranded costs for 2015

On 29 March 2016, the President of the Energy Regulatory Office ("the URE President") initiated administrative proceedings ex officio in order to determine the amount of the annual adjustment of the stranded costs for 2015 for “Elektrownia Pątnów II” sp. z o.o.

The proceeding is in progress.

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

On 27 January 2016 EPII, submitted a request to the President of the ERO for release from sales of electricity the obligation to sale of electricity pursuant to Art. 49a section 2 of the Act – Energy Law in relation to 60% of net electricity generated in the generating unit EPII as the one sold for the need for long-term obligations arising from contracts concluded with financial institutions in order to implement investments related to electricity generation for the period from 1 January 2017 to 31 December 2019.

The proceeding is in progress.

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 are no premises justifying creation of provisions in relation with the dispute.

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

(in thousands of zlotys)

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 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.

28.2. 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 March 2016 and 31 March 2015, appropriate provisions for recognised and calculable tax risks were created.

29. Liability repayment securities

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

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

Liabilities protected with the entity's assets

	31 March 2016 (unaudited)		*31 December 2015*	
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	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				

(in thousands of zlotys)

2.1. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 in favour of mBank S.A.	400 000 EUR	400 000 EUR
2.2. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 in favour of mBank S.A.	339 750 PLN	339 750 PLN
3. Registered pledge		
3.1. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	400 000 EUR	400 000 EUR
3.2. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	339 750 PLN	339 750 PLN
"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)	122 400 PLN	122 400 PLN
1.3. 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	1 166 PLN	1 013 PLN
2. Payment of security		
2.1. Cash - transfer	31 PLN	8 PLN
Zespół Elektrowni Pątnów – Adamów – Konin S.A.		
1. Registered and financial pledges		

(in thousands of zlotys)

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
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

	31 March 2016 (unaudited)	*31 December 2015*
Kind of liabilities, guarantees, and sureties	*Amount of security Currency*	*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
1.2. Assignment from the Framework Electricity Sales Agreement no. SPOT/127/EPII/Inter Energia/2009 concluded on 9 December 2009 between EPII and Inter Energia S.A. including Transaction Agreements for 2015 concluded in 2014	-	66 251 PLN
1.3. Assignment from the Framework Electricity Sales Agreement no. TPE/HOU/2009/0082 concluded on 30 April 2009 between EPII and TAURON Polska Energia S.A. including Transaction Agreements for 2016	121 381 PLN	-
1.4. Assignment from the Framework Electricity Sales Agreement no. SPOT/127/EPII/Inter Energia/2009 concluded on 9 December 2009 between EPII and Inter Energia S.A. including Transaction Agreements for 2016	62 024 PLN	-
1.5. Assignment from the insurance policy no 908200170153/908200174148	658 705 EUR	658 705 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		
2.1. Zakład opieki zdrowotnej i Medycy Pracy "MED ALKO" [in Polish: the Health Care and Occupational Medicine Facility	-	800 PLN

(in thousands of zlotys)

"MED ALKO"]		
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	19 200 PLN
3.2. Assignment of receivables 3 million zlotys monthly value of the ordered monthly supply of coal to ZE PAK in accordance with the agreement (BANK mBank)	36 000 PLN	36 000 PLN
3.3. Assignment of receivables 120 million zlotys monthly value of the ordered monthly supply of coal to ZE PAK in accordance with the agreement (Bank BPH)	120 000 PLN	120 000 PLN
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.		
1. Guarantees		
1.1. Performance Bond	9 110 PLN	12 133 PLN
1.2. Defect Liability Guarantee	781 EUR	781 EUR
1.3. Defect Liability Guarantee	4 366 PLN	3 246 PLN
1.4. Payment Guarantee	4 PLN	4 PLN
1.5. Performance Bond	167 EUR	-
1.6. Advanced Payment Refund Guarantee	3 083 PLN	134 PLN
2. Sureties		
2.1. Surety of Pak Serwis for Energoinwest's credit agreement in Bank Millennium	4 800 PLN	4 800 PLN
2.2. Surety of PAK Serwis for Energoinwest's multi-product limit agreement in the bank BGŻ BNP PARIBAS	1 500 PLN	1 500 PLN
3. Promissory notes		
3.1. Blank promissory note in favour of PAK KWB KONIN S.A.	148 PLN	148 PLN
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.		
1. Guarantees		
1.1. 1. Proper Performance of the Contract Guarantees	3 962 PLN	5 388 PLN
1.2. 3. Security Payment Guarantee	50 PLN	560 PLN
1.3. 2. Receivables Payment Guarantee due to use of fleet cards of PKN ORLEN S.A.	-	33 PLN
2. Other		
2.1. Transfer of title to fixed assets securiting the insurance guarantee	-	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 46 463 thousand	23 839 PLN	23 839 PLN
1.2. Surety of ZE PAK for PAK KWB Konin due to the overdraft facility in the BZ WBK bank in the amount of PLN 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, PAK-Volt, RWE Polska, 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
2.3. Assignment from electricity sales agreements with ENEA Trading, ENERGA Obrót, PAK-Volt, GET En Tra, RWE Polska and PSE Operator due to the credit of PLN 1.2 billion of 13.03.2014 in favour of the mBank bank	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

30. Obtained guarantees and sureties

Kind of liabilities, guarantees and sureties	*31 March 2016 (unaudited)*	*31 March 2016 (unaudited)*	*31 December 2015*	*31 December 2015*
	Obtained in PLN	*Obtained in EUR*	*Obtained in PLN*	*Obtained in EUR*
“Elektrownia Pątnów II” sp. z o.o.				
1. Guarantees				
1.1. Payment guarantees	10 891	-	10 891	-
1.2. Performance bond	3 134	-	3 425	-
1.3. Advance payment guarantee	291	-	-	-
Energoinwest Serwis sp. z o.o.				
1. Guarantees				
1.1. Performance and retention bonds	620	-	620	-
2. Sureties				
2.1. Surety of the multi-product limit agreement in Bank BGŻ from PAK Serwis	4 800	-	4 800	-
2.2. Surety of the credit agreement in Bank Millennium 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	-	26 223	-
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Bills of exchange				
1.1. In Blanco from FABRYKA WENTYLATORÓW FAWENT S.A.	169	-	169	-
2. Guarantees				
2.1. Retention Bond (including the validity period starting after 31.12.2016)	2 519	40	2 519	40
2.2. Performance Bond	1 212	-	1 212	-

(in thousands of zlotys)

Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Guarantees				
1.1. Performance and retention bonds (cash payment)	164	-	409	-
1.2. Performance and retention bonds	1 306	-	2 656	-
Zespół Elektrowni Pątnów – Adamów – Konin S.A.				
1. Bills of exchange				
1.1. Bills of exchange	2 525	363	27 500	363
2. Guarantees				
2.1. Performance bonds	43 440	351	49 774	351
2.2. Advanced payment refund guarantees	3 686	-	5 692	-
2.3. Payment guarantees	8 551	-	-	-
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.

31. Information about related entities

The following table shows the annual amount of transactions with related parties for the first quarter of 2016 year and the first quarter of 2015 year:

Related entity		*Sales to related entities*	*Purchase from related entities*	*Receivables from related entities*	*Liabilities towards related entities*
Elektrim S.A.	2016	-	31	-	1
	2015	-	30	-	-
Megadex Serwis Sp. z o.o.	2016	1	15 812	835	5 768
	2015	3	27 826	-	9 462
Polkomtel Sp. z o.o.	2016	30 809	650	15 429	1 088
	2015	11 976	752	9 015	1 084
Laris Investments Sp. z o.o.	2016	113	244	216	24
	2015	87	242	207	-
Total	**2016**	**30 923**	**16 737**	**16 480**	**6 881**
	2015	**12 066**	**28 850**	**9 222**	**10 546**

31.1. Loan granted to a member of the Management Board

Both in the 3-month period ended 31 March 2016, and in the one ended 31 March 2015, the Parent Company did not grant any loans and similar benefits to members of members of management and supervisory staff.

31.2. Other transactions involving members of the Management Board

Both in the 3-month period ended 31 March 2016, and in the one ended 31 March 2015, there were no transactions with members of members of management and supervisory staff.

31.3. Remuneration of chief executive staff of the Group

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

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Management Board of the parent company		

Short-term employee benefits	657	803
Long-service bonuses	-	-
Post-employment benefits	-	-
Benefits for termination of the contract of employment	-	-
Supervisory Board of the parent company	-	-
Short-term employee benefits	341	283
Long-service bonuses	-	-
Post-employment benefits	-	-
Benefits for termination of the contract of employment	-	-
Management Boards of subsidiaries		
Short-term employee benefits	1 157	1 464
Long-service bonuses	-	346
Post-employment benefits	-	18
Benefits for termination of the contract of employment	-	11
Share-based employee benefits	-	-
Supervisory Board of subsidiaries	-	-
Short-term employee benefits	91	-
Long-service bonuses	-	-
Post-employment benefits	-	-
Benefits for termination of the contract of employment	-	-
Total	2 246	2 925

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

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
Short-term employee benefits	3 323	4 259
Long-service bonuses	24	1 285
Post-employment benefits	-	22
Benefits for termination of the contract of employment	77	-
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)	3 424	5 566

32. Goals and rules of financial risk management

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

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

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

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

32.1. Interest rate risk

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

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

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

Interest rate risk – the sensitivity gap

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

(in thousands of zlotys)

	As of 31 March 2016 (unaudited)		***Interest rate risk sensitivity study as of 31 March 2016 (unaudited)***							
			WIBOR + 72bp		***WIBOR – 72bp***		***EURIBOR + 19.51bp***		***EURIBOR – 19.51bp***	
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	88 627	84 136	73	-	(73)	-	144	-	(144)	-
Trade and other receivables	259 106	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	280 662	280 662	1 602	-	(1 602)	-	113	-	(113)	-
Interest-bearing loans and borrowings	(1 244 199)	(1 244 199)	(5 595)	-	5 595	-	(911)	-	911	-
Trade payables and other financial liabilities	(225 153)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(15 135)	(15 135)	-	-	-	-	-	927	-	(927)
Total	**(856 092)**	**(894 536)**	**(3 920)**	**-**	**3 920**	**-**	**(654)**	**927**	**654**	**(927)**

	As of 31 March 2015 (unaudited)		***Interest rate risk sensitivity study as of 31 March 2015 (unaudited)***							
			WIBOR + 73bp		***WIBOR – 73bp***		***EURIBOR + 72bp***		***EURIBOR – 72bp***	
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	110 933	103 005	233	-	(233)	-	512	-	(512)	-
Trade and other receivables	304 830	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	229 817	229 817	968	-	(968)	-	700	-	(700)	-
Interest-bearing loans and borrowings	(1 283 018)	(1 283 018)	(5 253)	-	5 253	-	(4 057)	-	4 057	-
Trade payables and other financial liabilities	(410 689)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(21 101)	(21 101)	-	-	-	-	-	5 273	-	(5 273)
Total	**(1 069 228)**	**(971 297)**	**(4 052)**	**-**	**4 052**	**-**	**(2 845)**	**5 273**	**2 845**	**(5 273)**

(in thousands of zlotys)

32.2. 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 March 2016 (unaudited)		*Analysis of sensitivity to interest rate risk as of 31 March 2016 (unaudited)*			
			rate EUR/PLN + 8.525% 4.6323		*rate EUR/PLN – 8.525% 3.9045*	
Classes of financial instruments	*Carrying amount*	*Value at risk*	*Profit / (loss)*	*Other comprehensive income*	*Profit / (loss)*	*Other comprehensive income*
Other financial assets	88 627	73 934	6 303	-	(6 303)	-
Trade and other receivables	259 106	997	85	-	(85)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	280 662	58 170	4 959	-	(4 959)	-
Interest-bearing loans and borrowings	(1 244 199)	(467 119)	(39 822)	-	39 822	-
Trade payables and other financial liabilities	(225 153)	(1 290)	(110)	-	110	-
Derivative financial instruments	(15 135)	-	-	-	-	-
Total	**(856 092)**	**(335 308)**	**(28 585)**	**-**	**28 585**	**-**

(in thousands of zlotys)

	As of 31 March 2015 (unaudited)		***Analysis of sensitivity to interest rate risk as of 31 March 2015 (unaudited)***			
			rate EUR/PLN + 7,05% 4,3773		***rate EUR/PLN – 7,05% 3,8007***	
Classes of financial instruments	***Carrying amount***	***Value at risk***	***Profit / (loss)***	***Other comprehensive income***	***Profit / (loss)***	***Other comprehensive income***
Other financial assets	110 933	71 074	5 011	-	(5 011)	-
Trade and other receivables	304 830	2 482	175	-	(175)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	229 817	97 275	6 858	-	(6 858)	-
Interest-bearing loans and borrowings	(1 283 018)	(563 444)	(39 723)	-	39 723	-
Trade payables and other financial liabilities	(410 689)	(1 185)	(84)	-	84	-
Derivative financial instruments	(21 101)	-	-	-	-	-
Total	**(1 069 228)**	**(393 798)**	**(27 763)**	**-**	**27 763**	**-**

(in thousands of zlotys)

32.3. Credit risk

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

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

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

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

32.4. Liquidity risk

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

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

The table below presents financial liabilities of the Group as of 31 March 2016 and 31 December 2015 according to the maturity date based on contractual non-discounted payments.

31 March 2016 (unaudited)	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	180 894	205 925	748 435	208 292	1 343 546
Trade payables and other financial liabilities	129 490	39 902	55 736	25	225 153
Derivative financial instruments	1 811	4 740	7 419	-	13 970
Total	**312 195**	**250 567**	**811 590**	**208 317**	**1 582 669**

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)

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

31 March 2016 (unaudited)	*On demand*	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Inflows	-	(84)	(425)	(610)	-	(1 119)
Outflows	-	1 811	4 740	7 419	-	13 970
Net amount	-	(1 895)	(5 165)	(8 029)	-	(15 089)
Discounted using appropriate	**-**	**(1 895)**	**(5 172)**	**(8 068)**	**-**	**(15 135)**

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)**

(in thousands of zlotys)

33. Financial instruments

33.1. Fair values of particular classes of financial instruments

The below tables presents 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 March 2016 (unaudited)	*31 December 2015*	*31 March 2016 (unaudited)*	*31 December 2015*	
Financial assets						
Other financial assets	LaR	88 627	90 731	88 627	90 731	2
Trade receivables and other receivables	LaR	259 106	268 123	259 106	268 123	2
Derivative financial instruments	FVtPoL	-	-	-	-	2
Cash and cash equivalents	FAHtM	280 662	383 354	280 662	383 354	1
Financial liabilities						
Interest-bearing bank credits and loans, including:	FLaAC	1 244 199	1 311 062	1 244 199	1 311 062	3
– long-term ones interested according to a variable rate	FLaAC	861 151	924 519	861 151	924 519	
– short-term ones interested according to a variable rate	FLaAC	383 048	386 543	383 048	386 543	
Liabilities due to supplies and services and other financial liabilities	FLaAC	225 153	318 256	225 153	318 256	2
Derivative financial instruments	FVtPoL	15 135	16 292	15 135	16 292	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 March 2016 and 31 December 2015, the Group had following financial instruments evaluated in the fair value:

	31 March 2016 (unaudited)	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	15 135	-

	31 December 2015	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	16 292	-

In the period 3 months ended 31 March 2016 and in the year ended 31 December 2015, there were no shifts between the level 1 and the level 2 of the fair value hierarchy, and none of instruments was shifted to the level 3 of the fair value hierarchy.

33.2. Interest rate risk

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

	Type of interest rate	*Carrying amount as of 31 March 2016 (unaudited)*	*Carrying amount as of 31 December 2015*
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	232 695	362 966
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	132 104	105 523
Financial liabilities at interest rate risk – PLN	Fixed	-	-
	Variable	777 079	813 887
Financial liabilities at interest rate risk – Other currencies	Fixed	233 939	248 947
	Variable	233 181	248 228
Net exposure – PLN	Fixed	-	-
	Variable	(544 384)	(450 921)
Net exposure – Other currencies	Fixed	(233 939)	(248 947)
	Variable	(101 077)	(142 705)

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

33.2.1. Hedging

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

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

(in thousands of zlotys)

Instrument type	*Nominal value in the transaction currency [EUR]**	*Fair value in PLN*	*Expected duration of hedged item's realisation*
	31 March 2016 (unaudited)	*31 March 2016 (unaudited)*	*31 March 2016*
IRS transaction	54 807	(15 135)	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 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*

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

	3 months period ended 31 March 2016 (unaudited)	*Year ended 31 December 2015*
Opening balance	(14 742)	(21 902)
Effective part of profits / losses on a security instrument	(393)	(1 217)
Amounts charged to the income statement, including:	(1 478)	(8 377)
− adjustment of costs of interest	(1 478)	(8 377)
− adjustment under ineffective hedging	-	-
Closing balance	(13 657)	(14 742)
Deferred tax assets – recognized in the revaluation reserve	2595	2 801
Closing balance including deferred tax	(11 062)	(11 941)

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	6 005 000	46 994	EUR	Up to 1 year
Forward	650 000	5 332	EUR	Up to 2 year

34. Capital management

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

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. In the period 3 months ended 31 March 2016 and in year ended 31 December 2015, there were no introduced amendments to goals, rules and processes applying in this area.

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

(in thousands of zlotys)

	31 March 2016 (unaudited)	*31 December 2015*
Interest-bearing credits and loans	1 244 199	1 311 062
Derivative financial instruments (liabilities)	15 135	16 292
Trade liabilities and other financial liabilities	225 153	318 256
Minus cash and its equivalents	280 662	383 354
Net debt	1 203 825	1 262 256
Equity	1 959 949	1 884 823
Capitals from revaluation of security instruments	(11 062)	(11 941)
Total capital	1 971 011	1 896 764
Net capital and debt	**3 174 836**	**3 159 020**
Leverage ratio	37.92%	39.96%

35. Events after the balance sheet date

On 10 May 2016 year ZE PAK SA applied to the consortium of banks consisting of: mBank S.A., Bank Gospodarstwa Krajowego, Bank Millennium S.A., Bank Polska Kasa Opieki S.A. and Powszechna Kasa Oszczędności Bank Polski S.A., which granted ZE PAK S.A. loan in the total amount of PLN 1 200 million to finance the modernisation of units 1-4 in the Pątnów I Power Plant and refinancing of debt under the loan in 2006 for the construction of flue gas desulphurisation plant for units in Pątnów I Power Plant, with the notice of voluntary release of the unused amount of the loan in the amount of PLN 533 million.

At the same time ZE PAK S.A. applied to the banks with a request to extend the waiver by the banks to exercise the rights arising from the default schedule of commencement of modernisation works on units 3 and 4 until signing the annex to the credit agreement.

Releasing the aforementioned unused amount of the loan does not change the strategy of ZE PAK SA assuming the modernization of units 3 and 4 in Pątnów I power plant. The Company plans to complete the modernization process, which according to earlier statements, the Company expects to implement systemic solutions that will ensure the economic viability of the investment. Due to the inability to determine the date of the introduction of the aforementioned system solutions, the company decided to abandon the maintenance of the unused amount of the loan, not to pay the related financial costs.

The company used the amount of PLN 667 million under the loan. Current debt under the loan is PLN 600 million.

ZESPÓŁ ELEKTROWNI PĄTNÓW-ADAMÓW-KONIN S.A.

QUARTERLY CONDENSED FINANCIAL STATEMENT
FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2016

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

16 MAY 2016

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(in thousands of zlotys)

BALANCE SHEET

Assets

	As of 31 March 2016 (unaudited)	*As of 31 December 2015*	*As of 31 March 2015 (unaudited)*
A. Non-current assets	**2 316 164**	**2 184 042**	**3 555 869**
I. Intangible assets	**424 632**	**289 858**	**265 305**
1. Development expenses			
2. Goodwill			
3. Other intangible assets	424 632	289 858	265 305
4. Prepayments for intangible assets			
II. Property, plant and equipment	**681 716**	**684 220**	**2 063 578**
1. Tangible fixed assets	643 206	392 252	1 266 135
a) land (including perpetual usufruct)	1 247	1 248	1 251
b) buildings, premises and constructions	195 957	178 928	579 689
c) plant and machinery	443 282	209 074	680 940
d) motor vehicles	1 242	1 381	2 119
e) other	1 478	1 621	2 136
2. Construction in progress	34 391	287 639	780 210
3. Prepayments for construction in progress	4 119	4 329	17 233
III. Long-term receivables			
1. From affiliates			
2. From other entities			
IV. Long-term investments	**1 205 434**	**1 205 340**	**1 221 124**
1. Property	-	-	-
2. Intangible assets	-	-	-
3. Long-term financial assets	1 205 434	1 205 340	1 221 124
a) in affiliates	1 205 283	1 205 189	1 220 973
– shares	1 143 453	1 143 453	1 146 744
– other securities			
– loans granted	61 830	61 736	74 229
– other long-term financial assets			
b) in other entities	151	151	151
– shares	151	151	151
– other securities			
– loans granted			
– other long-term financial assets			
4. Other long-term investments			
V. Long-term prepayments and deferred costs	**4 382**	**4 624**	**5 862**
1. Deferred tax assets	-	-	-
2. Other prepayments and deferred costs	4 382	4 624	5 862
B. Current assets	**388 291**	**465 329**	**478 063**
I. Inventories	**105 546**	**104 156**	**201 895**
1. Raw materials	42 974	38 536	48 997
2. Semi-finished goods and work-in-progress			
3. Finished goods			
4. Goods	59 850	64 816	150 389
5. Inventory prepayments	2 722	804	2 509

(in thousands of zlotys)

II. Short-term receivables	**123 328**	**153 828**	**141 963**
1. Receivables from affiliates	44 440	51 587	42 438
a) trade receivables, due in:	44 440	44 187	42 438
– up to 12 months	44 440	44 187	42 438
– over 12 months			
b) other		7 400	
2. Receivables from other entities	78 888	102 241	99 525
a) trade receivables, due in:	62 020	78 595	63 854
– up to 12 months	62 020	78 595	63 854
– over 12 months			
b) taxation, subsidy, customs duty, social security, health insurance and other debtors	6 696	8 030	22 897
c) other	10 172	15 616	12 774
d) submitted to court			
III. Short-term investments	**156 461**	**206 163**	**132 061**
1. Short-term financial assets	156 461	206 163	132 061
a) in affiliates	23 422	23 174	22 933
– shares			
– other securities	7 522	7 537	7 522
– loans granted	15 900	15 637	15 411
– other long-term financial assets			
b) in other entities			
– shares			
– other securities			
– loans granted			
– other long-term financial assets			
c) cash and other monetary assets	133 039	182 989	109 128
– cash on hand and cash at bank	133 039	182 989	109 128
– other cash and cash equivalents			
– other monetary assets			
2. Other short-term investments			
IV. Short-term prepayments and deferred costs	**2 956**	**1 182**	**2 144**
TOTAL ASSETS	**2 704 455**	**2 649 371**	**4 033 932**

(in thousands of zlotys)

Liabilities and equity

	As of 31 March 2016 (unaudited)	*As of 31 December 2015*	*As of 31 March 2015 (unaudited)*
A. Equity	**1 429 522**	**1 360 431**	**2 999 911**
I. Share capital	101 647	101 647	101 647
II. Unpaid share capital (negative value)			
III. Treasury shares (negative value)			
IV. Reserve capital	2 542 085	2 542 060	2 398 404
V. Revaluation reserve	227 507	227 531	286 224
VI. Other reserves	5 877	5 877	5 877
VII. Accumulated profits (losses) from previous years	(1 516 685)	(834)	203 808
VIII. Net profit (loss) for the period	69 091	(1 515 850)	3 951
IX. Deductions from net profit during the period (negative value)			
B. Liabilities and provisions for liabilities	**1 274 933**	**1 288 940**	**1 034 021**
I. Provisions for liabilities	**464 105**	**374 770**	**284 225**
1. Deferred tax liability	79 166	62 920	72 550
2. Provision for retirement benefits and similar obligations	11 667	11 598	12 028
– long-term	11 162	10 967	11 139
– short-term	505	631	889
3. Other provisions	373 272	300 252	199 647
– long-term	17 531	17 424	17 274
– short-term	355 741	282 828	182 373
II. Long-term liabilities	**510 456**	**536 213**	**445 698**
1. To affiliates	812	845	761
2. To other entities	509 644	535 368	444 937
a) loans	509 311	535 127	431 878
b) debt securities issued			
c) other financial liabilities			
d) other	333	241	13 059
III. Short-term liabilities	**255 128**	**343 449**	**264 416**
1. To affiliates	100 070	85 602	87 282
a) trade creditors, payable in:	96 700	75 744	73 957
– up to 12 months	96 700	75 744	73 957
– over 12 months			
b) other	3 370	9 858	13 325
2. To other entities	149 412	253 112	170 221
a) loans	87 036	79 943	44 981
b) debt securities issued			
c) other financial liabilities			9
d) trade liabilities payable in:	19 354	15 184	20 028
– up to 12 months	19 354	15 184	20 028
– over 12 months			
e) advance payments received	17	124	33
f) bills of exchange payable			
g) taxation, customs duty and social security creditors	29 888	83 113	23 959
h) payroll	3 924	4 067	4 055
i) other	9 193	70 681	77 156
3. Special funds	5 646	4 735	6 913

(in thousands of zlotys)

IV.	**Accruals and deferred income**	**45 244**	**34 508**	**39 682**
	1. Negative goodwill			
	2. Other accruals and deferred income	45 244	34 508	39 682
	– long-term	15 152	15 234	15 479
	– short-term	30 092	19 274	24 203
TOTAL LIABILITIES AND EQUITY		**2 704 455**	**2 649 371**	**4 033 932**

(in thousands of zlotys)

PROFIT AND LOSS ACCOUNT (CALCULATION VARIANT)

		3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
A.	**Net sales of finished goods, goods for resale and raw materials, of which:**	**416 335**	**403 037**
	– from affiliates	140 665	130 871
	I. Net sales of finished goods	399 928	374 359
	II. Net sales of goods for resale and raw materials	16 407	28 678
B.	Cost of finished goods, goods for resale and raw materials sold, of which:	363 436	383 217
	– to affiliates		
	I. Cost of finished goods sold	348 225	358 531
	II. Cost of goods for resale and raw materials sold	15 211	24 686
C.	**Gross profit (loss) on sales (A–B)**	**52 899**	**19 820**
D.	Selling expenses	872	814
E.	Administrative expenses	8 203	9 398
F.	**Profit (loss) on sales (C–D–E)**	**43 824**	**9 608**
G.	Other operating income	2 778	494
	I. Gains on the sale of non-financial non-current assets		37
	II. Grants	82	83
	III. Other	2 696	374
H.	Other operating expenses	(75)	912
	I. Loss on the sale of non-financial non-current assets		
	II. Impairment of non-financial assets	(764)	
	III. Other	689	912
I.	**Operating profit (loss) (F+G–H)**	**46 677**	**9 190**
J.	Finance income	42 986	2 397
	I. Dividends and shares in profits, of which:	41 994	1 618
	– from affiliates	41 994	1 618
	II. Interest, of which:	866	771
	– from affiliates	285	330
	III. Gains on the sale of investments		
	IV. Revaluation of investments	114	
	V. Other	12	8
K.	Finance costs	4 326	6 963
	I. Interest, of which:	3 811	767
	– to affiliates		
	II. Loss on the sale of investments		
	III. Impairment of investments		3 559
	IV. Other	515	2 637
L.	**Gross profit (loss) on ordinary activities (I+J–K)**	**85 337**	**4 624**
M.	Result on extraordinary items (M.I.–M.II.)		
	I. Extraordinary gains		
	II. Extraordinary losses		
N.	**Gross profit (loss) (L±M)**	**85 337**	**4 624**
O.	Corporate profits tax	16 246	673
P.	Other tax charges		
R.	**Net profit (loss) (N–O–P)**	**69 091**	**3 951**

(in thousands of zlotys)

STATEMENT OF CASH FLOWS

	3 months period ended 31 March 2016 (unaudited)	*3 months period ended 31 March 2015 (unaudited)*
A. Cash flow from operating activities		
I. Net profit (loss)	69 091	3 951
II. Adjustments, total	(67 369)	(85 598)
1. Depreciation	8 112	20 835
2. Foreign exchange gains (losses)	(102)	5 079
3. Interest and shares in profits (dividends)	(38 470)	(1 182)
4. Profit (loss) on investing activities	-	275
5. Change in provisions	89 336	42 795
6. Change in inventories	(1 390)	(21 377)
7. Change in receivables	28 906	7 331
8. Change in short-term liabilities, except for loans and borrowings	(28 024)	(78 846)
9. Change in prepayments, accruals and deferred income	9 230	4 880
10. Other adjustments	(134 967)	(65 388)
III. Net cash flow from operating activities (I±II)	**1 722**	**(81 647)**
B. Cash flow from investing activities		
I. Inflows	43 644	2 057
1. Sale of intangible assets and tangible fixed assets	1 594	51
2. Sale of investments in property and intangible assets	-	-
3. From financial assets, of which:	42 050	2 006
a) in affiliates	42 050	2 006
b) in other entities	-	-
– sale of financial assets	-	-
– dividends and shares in profits	-	-
– repayment of long-term loans granted	-	-
– interest received	-	-
– other	-	-
4. Other investing inflows	-	-
II. Outflows	71 813	103 891
1. Purchase of intangible assets and tangible fixed assets	71 813	96 391
2. Investments in property and intangible assets	-	
3. For financial assets, of which:	-	7 500
a) in affiliates	-	7 500
b) in other entities	-	-
– purchase of financial assets	-	-
– long-term loans granted	-	-

4. Other investing outflows	-	-
III. Net cash flow from investing activities (I-II)	**(28 169)**	**(101 834)**
C. Cash flow from financing activities		
I. Inflows	-	123 679
1. Net inflows from issue of shares, issue of other capital instruments and additional payments to capital	-	-
2. Loans and borrowings	-	123 679
3. Issue of debt securities	-	-
4. Other financial inflows	-	-
II. Outflows	23 491	3 333
1. Re-acquisition of own shares	-	-
2. Dividends and other payments to shareholders	-	-
3. Outflows due to appropriation of profit other than payments to shareholders	-	-
4. Repayment of loans and borrowings	18 802	-
5. Redemption of debt securities	-	-
6. Relating to other financial liabilities	-	-
7. Finance lease payments	32	22
8. Interest paid	4 602	3 311
9. Other financing outflows	55	-
III. Net cash flow from financing activities (I-II)	**(23 491)**	**120 346**
D. Total net cash flow (A.III±B.III±C.III)	**(49 938)**	**(63 135)**
E. Balance sheet change in cash and cash equivalents, of which:	(49 938)	(63 135)
– change in cash and cash equivalents due to foreign exchange gains/losses	(12)	(1 520)
F. Cash and cash equivalents at the beginning of the period	**182 989**	**173 239**
G. Cash and cash equivalents at the end of the period (F±D), of which:	**133 051**	**110 104**
– of restricted use	4 132	2 942

(in thousands of zlotys)

STATEMENT OF CHANGES IN EQUITY

	3 months period ended 31 March 2016 (unaudited)	*12 months period ended 31 December 2015*	*3 months period ended 31 March 2015 (unaudited)*
I. Equity at the beginning of the period (OB)	**1 360 431**	**2 995 960**	**2 995 959**
– changes in accounting policy			
– correction of prior period error			
I.a. Equity at the beginning of the period (OB), after adjustments	**1 360 431**	**2 995 960**	**2 995 959**
1. Share capital at the beginning of the period	101 647	101 647	101 647
1.1. Changes in share capital			
a) increases			
b) decreases			
1.2. Share capital at the end of the period	**101 647**	**101 647**	**101 647**
2. Unpaid share capital at the beginning of the period			
2.1. Changes to unpaid share capital			
a) increases (due to)			
b) decreases (due to)			
2.2. Unpaid share capital at the end of the period			
3. Treasury shares at the beginning of the period			
a) increases			
b) decreases			
3.1. Treasury shares at the end of the period			
4. Reserve capital at the beginning of the period	2 542 060	2 398 399	2 398 398
4.1. Changes in reserve capital	-	143 661	-
a) increases (due to)	25	143 661	5
– share premium			
– statutory profit appropriation	-	143 654	-
– liquidation and disposal of fixed assets	25	7	5
b) decreases			
4.2. Reserve capital at the end of the period	**2 542 085**	**2 542 060**	**2 398 403**
5. Revaluation reserve at the beginning of the period	227 531	286 229	286 229
5.1. Changes in revaluation reserve	(25)	(58 698)	(5)
a) increases			
b) decreases (due to)	25	58 698	5
– liquidation and disposal of fixed assets	25	7	5
– correction of revaluation	-	58 691	-
5.2. Revaluation reserve at the end of the period	**227 506**	**227 531**	**286 224**

(in thousands of zlotys)

6. Other reserves at the beginning of the period	5 877	5 877	5 877
6.1. Changes in other reserves			
a) increases			
b) decreases			
6.2. Other reserves at the end of the period	**5 877**	**5 877**	**5 877**
7. Accumulated profits from previous years at the beginning of the period	-	204 642	204 643
7.1. Accumulated profits from previous years at the beginning of the period	-	204 642	204 643
– changes in accounting policy			
– correction of prior period error			
7.2. Accumulated profits from previous years at the beginning of the period, after adjustments	-	204 642	204 643
a) increases (due to)			
– appropriation of profit from previous years			
b) decreases (due to)	-	204 642	-
– transfer of profit to reserve capital	-	143 654	-
– dividend payments to shareholders		60 988	
7.3. Accumulated profits from previous years at the end of the period	-	-	204 643
7.4. Accumulated losses from previous years at the beginning of the period	(1 516 684)	(834)	(834)
– changes in accounting policy			
– correction of prior period error			
7.5. Accumulated losses from previous years at the beginning of the period, after adjustments	(1 516 684)	(834)	(834)
a) increases (due to)			
– transfer of prior year losses			
b) decreases (due to)			
7.6. Accumulated losses from previous years at the end of the period	**(1 516 684)**	**(834)**	**(834)**
8. Net result	**69 091**	**(1 515 850)**	**3 951**
a) net profit	69 091	(1 515 850)	3 951
b) net loss			
c) deductions from profit			
II. Equity at the end of the period (CB)	**1 429 522**	**1 360 431**	**2 999 911**
III. Equity after proposed profit distribution (loss coverage)	**-**	**1 360 431**	**-**

(in thousands of zlotys)

ADDITIONAL INFORMATION TO THE QUARTERLY CONDENSED FINANCIAL STATEMENT

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

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

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

The duration of the Company is indefinite.

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

	volume	*in zlotys*	*%*	*volume*	*%*
Shareholder	*Number of shares*	*The nominal value of one share*	*Share in the total number of shares*	*Number of votes*	*Share in the total number of votes*
Zygmunt Solorz Żak (directly) through: Elektrim S.A., Embud Sp. z o.o., IPOPEMA 116 FIZ Aktywów Niepublicznych, Trigon XIX FIZ, Argumenol Investment Company Limited	26 200 867	2,00	51,55	26 200 867	51,55
Nationale-Nederlanden OFE	5 068 410	2,00	9,97	5 068 410	9,97
Other shareholders	19 554 270	2,00	38,48	19 554 270	38,48
Total shareholders	**50 823 547**	**2,00**	**100,00**	**50 823 547**	**100,00**

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

The main subject of the Company's activities is:

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

1. Continuation of activity

The financial statement of the Company was developed with the assumption of continuing business activity by the Company in the foreseeable future, at least 12 months after the balance sheet date that is after 31 March 2016.

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

2. Merger of commercial companies

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

3. Accepted principles (policy) of accounting

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

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

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

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

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

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

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

ADDITIONAL INFORMATION
FOR EXTENDED CONSOLIDATED REPORT FOR 1st QUARTER OF 2016

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

16 MAY 2016

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1. SELECTED FINANCIAL DATA

Selected consolidated financial data	*PLN thousand* *3 months of 2016 period from 01.01.2016 to 31.03.2016*	*PLN thousand* *3 months of 2015 period from 01.01.2015 to 31.03.2015*	*EUR thousand* *3 months of 2016 period from 01.01.2016 to 31.03.2016*	*EUR thousand* *3 months of 2015 period from 01.01.2015 to 31.03.2015*
Sales revenue	680 042	755 194	156 120	182 023
Operating profit/loss	114 386	37 836	26 260	9 120
Profit/Loss before tax	102 641	41 754	23 564	10 064
Net profit/loss for the period	74 816	34 379	17 176	8 286
Net profit attributable to equity holders of the parent	73 951	34 915	16 977	8 415
Total comprehensive income	75 135	35 564	17 249	8 572
Net cash flow from operating activities	56 200	(74 851)	12 902	(18 041)
Net cash flow from investing activities	(67 537)	(124 862)	(15 505)	(30 095)
Net cash flow from financing activities	(90 358)	76 835	(20 744)	18 519
Net increase / (decrease) in cash and cash equivalents	(101 695)	(122 878)	(23 346)	(29 617)
Net profit per share (in PLN/EUR per share)	1,46	0,69	0,34	0,17
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	as of 31.03.2016	*as of 31.12.2015*	*as of 31.03.2016*	*as of 31.12.2015*
Total assets	4 954 545	4 974 381	1 160 750	1 167 284
Non-current assets	3 802 024	3 714 123	890 738	871 553
Current assets	1 152 521	1 260 258	270 012	295 731
Total equity	1 959 949	1 884 823	459 177	442 291
Share capital	101 647	101 647	23 814	23 852
Share capital attributable to equity holders of the parent	1 959 949	1 884 823	459 177	442 291
Total liabilities	2 994 596	3 089 558	701 573	724 993
Non-current liabilities	1 772 598	1 829 696	415 284	429 355
Current liabilities	1 221 998	1 259 862	286 289	295 638
Book value per share (in PLN/EUR per share)	38,56	37,09	9,03	8,70
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

Selected financial data of ZE PAK S.A.	*PLN thousand* 3 months of 2016 period from 01.01.2016 to 31.03.2016	*PLN thousand* 3 months of 2015 period from 01.01.2015 to 31.03.2015	*EUR thousand* 3 months of 2016 period from 01.01.2016 to 31.03.2016	*EUR thousand* 3 months of 2015 period from 01.01.2015 to 31.03.2015
Sales revenue	416.335	403.037	95.580	97.143
Operating profit/loss	46.677	9.190	10.716	2.215
Profit/Loss before tax	85.337	4.624	19.591	1.115
Net profit/loss for the period	69.091	3.951	15.861	952
Net cash flow from operating activities	1.722	(81.647)	395	(19.679)
Net cash flow from investing activities	(28.169)	(101.834)	(6.467)	(24.545)
Net cash flow from financing activities	(23.491)	120.346	(5.393)	29.007
Total net cash flow	(49.938)	(63.135)	(11.464)	(15.217)
Net earnings per share (in PLN/EUR per share)	1,36	0,08	0,31	0,02
Weighted average number of shares	50.823.547	50.823.547	50.823.547	50.823.547
	as of 31.03.2016	*as of 31.12.2015*	*as of 31.03.2016*	*as of 31.12.2015*
Total assets	2 704 455	2 649 371	633 599	621 699
Non-current assets	2 316 164	2 184 042	542 630	512 505
Current assets	388 291	465 329	90 969	109 194
Total equity	1 429 522	1 360 431	334 908	319 238
Share capital	101 647	101 647	23 814	23 852
Liabilities and provisions for liabilities	1 274 933	1 288 940	298 691	302 462
Non-current liabilities	510 456	536 213	119 590	125 827
Current liabilities	255 128	343 449	59 771	80 593
Book value per share (in PLN/EUR per share)	28,13	26,77	6,59	6,28
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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

- *particular items of statement of comprehensive income (Profit & loss account) and statement of cash flows (Cash flow) – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period starting from 1 January 2016 to 31 March 2016, which is 4.3559 EUR/PLN and starting from 1 January 2015 to 31 March 2015, which is 4.1489 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 March 2016, which is 4.2684 EUR/PLN and as of 31 December 2015, which is 4.2615 EUR/PLN.*

2. DESCRIPTION OF THE GROUP

2.1. Basic information

As of 31 March 2016 the ZE PAK Capital Group (hereinafter referred to as the Group, the ZE PAK Capital Group) is composed of a dominant entity Zespół Elektrowni Pątnów-Adamów-Konin S.A. (hereinafter referred to as ZE PAK 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 referred to as the PAK KWBA S.A.), PAK Kopalnia Węgla Brunatnego Konin S.A. (hereinafter referred to as the PAK KWBK S.A.), Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o. (hereinafter referred to as the PAK Serwis Sp. z o.o.), Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK Sp. z o.o. (hereinafter referred to as the EL PAK Sp. z o.o.), EL PAK Serwis Sp. z o.o., Aquakon Sp. z o.o., Eko-Surowce Sp. z o.o., Energoinwest Serwis Sp. z o.o., PAK Górnictwo Sp. z o.o., PAK Holdco Sp. z o.o., PAK Infrastruktura Sp. z o.o. Consolidation covers all the above-mentioned companies.

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

The production facilities of the Group include four lignite-fired power plants located in the central part of Poland in the Wielkopolskie voivodship. These are the Pątnów II Power Plant which is equipped with a supercritical power unit, Pątnów I Power Plant, Adamów Power Plant and Konin Power Plant equipped additionally with 55 MW power unit with biomass fired boiler. Total installed gross power output of the production facilities of the Group was 2506 MWe as of 31 March 2016.

The Group’s mining assets are concentrated in three companies. the PAK KWBK, which currently operates on Jóźwin, Tomisławice and Drzewce open casts, the PAK KWBA, which operates on Adamów and Koźmin open casts as well as PAK Górnictwo Sp. z o.o. which executes works related to search and identification of lignite deposits in the areas of Poniec-Krobia and Oczkowice in the southern Wielkopolskie Province.

Majority of the Group’s sales revenue is derived from sale of electricity (both generated within the Group and purchased for resale) and revenue from energy certificates. This is supplemented by revenues from sale of heat and from construction contracts. An additional sales revenue, which depends on the level of electricity prices on the market as well as the volume of generated electricity, is revenue from termination of long-term contracts for sale of electricity (Power Purchase Agreements), generated by Elektrownia Pątnów II Sp. z o.o. ZE PAK S.A., by purchasing lignite mines, provided the Group with an access to continuous supplies of lignite for its own power plants located in the direct vicinity of mines. The vertically integrated Group allows for optimization of lignite inventories and supplies while coordinating lignite extraction with its requirements for this fuel. The requirements for biomass are satisfied by the supplier of this raw material.

2.2. Structure

Picture 1: Structure of the Group as of 31 March 2016

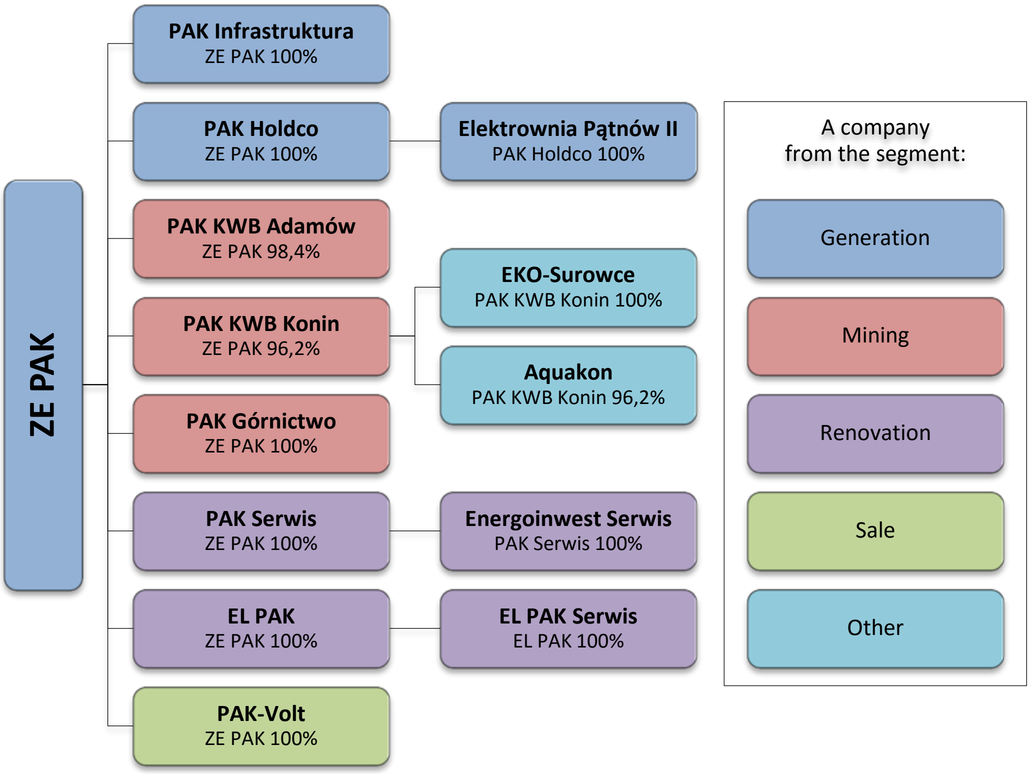


Table 1: Listing of the Group companies (without ZE PAK S.A.)

Entity	*Registered office*	*Scope of activity*	*Percentage of capital held by the Group as of* 31 March 2016	*Percentage of capital held by the Group as of* 31 December 2015
Przedsiębiorstwo Remontowe „PAK SERWIS” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%	100,00%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń „EL PAK” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services related to industrial automatics and electric appliances maintenance	100,00%	100,00%
„Elektrownia Pątnów II” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric energy production and distribution from the 464 MW power unit	100,00%*	100,00%*
„PAK – HOLDCO” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activity	100,00%	100,00%
„PAK Infrastruktura” sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100,00%	100,00%
„PAK GÓRNICTWO” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Lignite extraction	100,00%	100,00%
Energoinwest Serwis sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Construction and repair services	100,00%*	100,00%*
PAK Kopalnia Węgla Brunatnego Konin S.A.	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	96,23%	96,23%
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Lignite extraction	98,41%	98,41%
„Aquakon” sp. z o.o.	62-610 Sompolno Police	Mechanical services, repairs, reclamation of land, production and trade of mineral water	92,57%*	92,57%*

Eko-Surowce sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Vulcanization services, sale of lignite	96,23%*	96,23%*
PAK-Volt 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 and maintenance of electric equipment, repair and maintenance of machines.	100,00%*	100,00%*

* *Indirect share via companies from ZE PAK Group.*

2.3. Composition of the Management Board

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

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

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

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

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

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

3. SIGNIFICANT EVENTS AFFECTING THE GROUP'S ACTIVITY

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

Short description of the achieved financial results

In the first quarter of 2016, total sales amounted to PLN 680 042 thousand and compared to the first quarter of 2015 decreased by PLN 75 152 thousand, i.e. about 9.95%.

In the quarter, compared to the same quarter last year, the Group reduced sales of electricity from TWh 3.58 to TWh 3.35, i.e. about 6.42%. Parallel to PLN/MWh 174.21, i.e. by 1.26%, decreased the average achieved selling price of electricity. Both of these factors meant that the revenues from sales of electricity decreased by PLN 48 071 thousand, i.e. about 7.62%. The lower volume of electricity sales was due to lower sales of electricity from trading, which decreased from TWh 1.24 to TWh 0.90. The volume of electricity sales from own production increased from TWh 2.34 to TWh 2.45 (net production volumes of individual plants of the Group are presented in Chart 3).

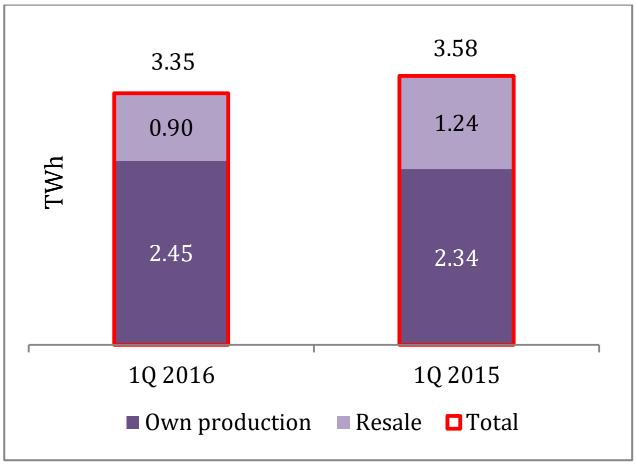
In the first quarter of 2016 compared to the first quarter 2015 revenues from the sale of property rights from certificates of origin of energy decreased by PLN 2 604 thousand, i.e. by 15.87% due to a decrease in the average price of green certificates by 14.56%.

In the first quarter of 2016 years revenues from compensation for termination of long-term contracts for Elektrownia Pątnów II they were higher by PLN 3 929 thousand, i.e. by 8.98% in comparison with the compensation obtained in the first quarter of 2015. The main reason for the increase of the compensation costs are: a major overhaul of Pątnów II Power Plant (renovation costs are recorded every month in the amount of 1/12 of the costs) and the decrease in revenues related to the lower production volume and lower selling price.

Revenues from contracts for construction services in the first quarter 2016 compared to revenues earned in the same quarter of the previous year decreased by PLN 27 346 thousand, i.e. by 75.34%. The main reason for the decrease in revenues is lower range of construction works than it did in the first quarter of last year.

Heat sales in the first quarter of 2016 years were higher than those achieved in the first quarter of the previous year by PLN 378 thousand, i.e. 1.84%, despite lower sales volume of heat by GJ 15 508.

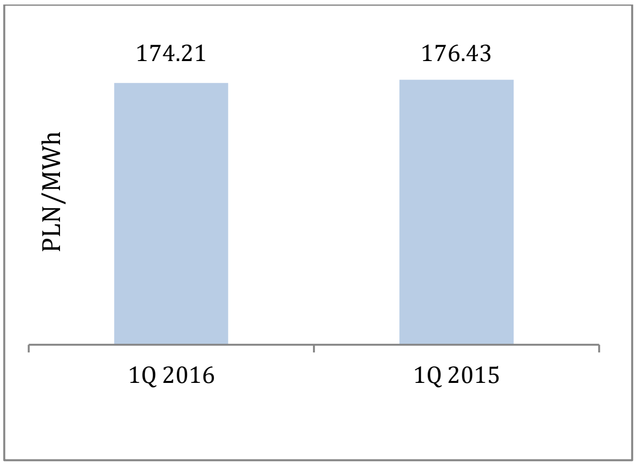
*Chart 1: Sale of electricity**



* *Electricity sales in the first quarter of 2016 does not include sales of 0.04 TWh in the framework of the production of power units no. 1 and 2 in Pątnów I Power Plant in the period of investment, which revenues have reduced the capital expenditure.*

Source: own data

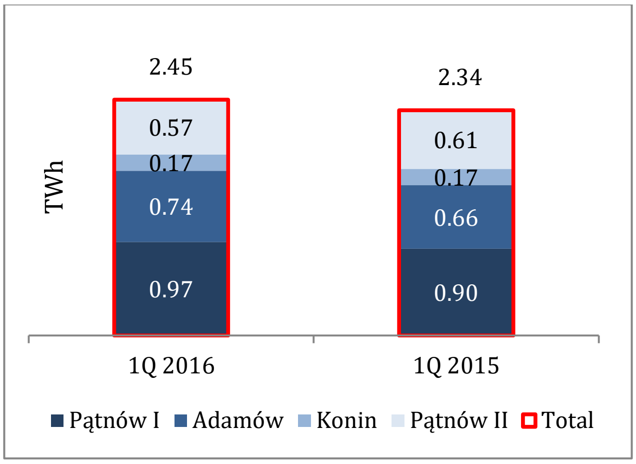
*Chart 2: Average electricity sale prices**



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

Source: own data

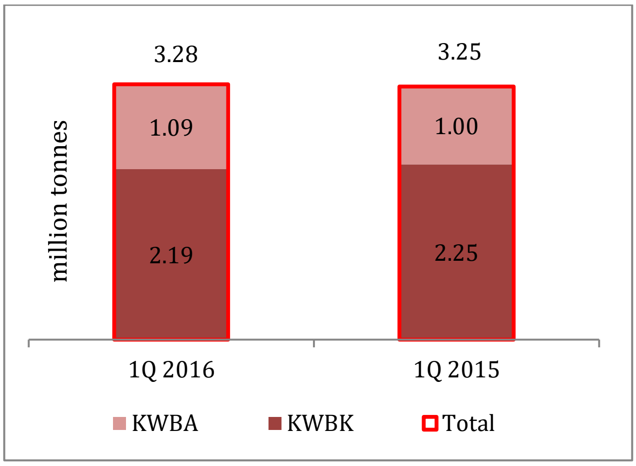
*Chart 3: Net production of electricity**



* *Net production of electricity in the first quarter of 2016 does not include production of 0.03 TWh in the framework of the production of power units no 1 and 2 in Pątnów I Power Plant in the period of investment.*

Source: own data

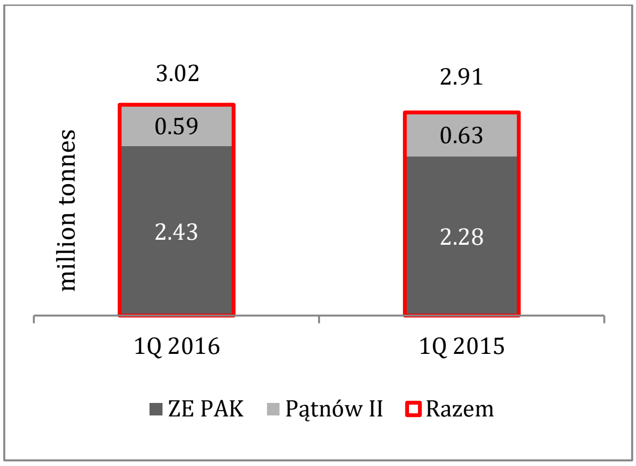
*Chart 4: Consumption of lignite**



* *Consumption of lignite in the first quarter of 2016 years does not include 0.05 million tons of lignite consumed in the production of electricity in units no 1 and 2 in Pątnów I Power Plant, the costs of which have increased the capital expenditure.*

Source: own data

*Chart 5: CO_2 emissions**



* *CO_2 emissions in the first quarter of 2016 years does not contain 0.04 million tonnes of CO_2 emitted in the production of electricity in units no 1 and 2 in Pątnów I Power Plant, the costs of which increased the capital expenditure.*

Source: own data

Table 2: Specification of consolidated sales revenue

	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	3 months period ended 31 March 2016	*3 months period ended 31 March 2015*	*change*	*dynamics*
Electricity (decreased by excise tax)	423 754	410 661	13 093	3,19
Electricity resold from the market	159 105	220 269	(61 164)	(27,77)
Energy certificates of origin	13 808	16 412	(2 604)	(15,87)
Construction contracts	8 949	36 295	(27 346)	(75,34)
Compensation related to LTC termination	47 687	43 758	3 929	8,98
Heat	20 894	20 516	378	1,84
Other	5 845	7 283	(1 438)	(19,74)
Total sales revenues	**680 042**	**755 194**	**(75 152)**	**(9,95)**

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

	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	3 months period ended 31 March 2016	*3 months period ended 31 March 2015*	*change*	*dynamics*
Sales revenues	**680 042**	**755 194**	**(75 152)**	**(9,95)**
Cost of goods sold	(543 594)	(690 355)	146 761	(21,26)
Gross profit (loss) on sales	136 448	64 839	71 609	110,44
Other operating income	7 264	5 706	1 558	27,30
Selling and distribution expenses	(1 144)	(823)	(321)	39,00
Administrative expenses	(27 322)	(30 202)	2 880	(9,54)
Other operating expenses	(860)	(1 684)	824	(48,93)
Profit (loss) on operating activities*	**114 386**	**37 836**	**76 550**	**202,32**
Finance income	3 900	20 319	(16 419)	(80,81)
Finance costs	(15 645)	(16 401)	756	(4,61)
Gross profit (loss)	**102 641**	**41 754**	**60 887**	**145,82**
Income tax (taxation)	(27 825)	(7 375)	(20 450)	277,29
Net profit (loss)	**74 816**	**34 379**	**40 437**	**117,62**
Net other comprehensive income	319	1 185	(866)	(73,08)
Comprehensive income for the period	**75 135**	**35 564**	**39 571**	**111,27**
EBITDA*	**175 315**	**130 277**	**45 038**	**34,57**

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

Cost of sales in the first quarter of 2016 years amounted to PLN 543 594 thousand and compared to that paid in the first quarter of 2015 years decreased by PLN 146 761 thousand, i.e. by 21.26%. To reducing the cost to the greatest extent contributed: lower depreciation (in effect of an impairment loss of generation assets of the Company made in 2015), the lower value of electricity to resell purchased from the market, lower cost of external services and materials consumption and lower the cost of benefits employee. By contrast, to increasing the cost influenced higher costs of CO2 emissions through the purchase of more emission allowances than it was in the first quarter of last year and the higher price of their purchase in euro and the higher EUR/PLN exchange rate.

Table 4: Consolidated cost by type

	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	3 months period ended 31 March 2016	*3 months period ended 31 March 2015*	*change*	*dynamics*
Depreciation and amortization	60 929	92 441	(31 512)	(34,09)
Impairment of fixed assets	-	-	-	-
Impairment of inventory	(618)	1	(619)	-
Materials	72 267	117 317	(45 050)	(38,40)
External services	13 881	32 931	(19 050)	(57,85)
Taxes and fees excluding excise tax	41 928	44 716	(2 788)	(6,23)
Costs of CO_2 emission	86 185	75 936	10 249	13,50
Employee benefits	125 911	160 004	(34 093)	(21,31)
Other costs by type	8 308	4 521	3 787	83,76
Cost of goods for resale and raw materials sold and resale of electricity purchased from the market	155 785	212 653	(56 868)	(26,74)
Total costs by type	**564 576**	**740 520**	**(175 944)**	**(23,76)**

Other operating income in the first quarter of 2016 amounted to PLN 7 264 thousand and were higher by PLN 1 558 thousand than those achieved in the same period last year, mainly due to higher revenues from compensations by PLN 2 293 thousand.

Selling expenses in the first quarter of 2016 amounted to PLN 1 144 thousand and were higher by PLN 321 thousand from the expenditure incurred in the same period last year.

General and administrative expenses in the first quarter of 2016 amounted to PLN 27 322 thousand and were lower than those incurred in the corresponding quarter of the previous year by PLN 2 880 thousand, i.e. 9.54%. The decrease in general and administrative expenses is mainly the result of declining employment in the Group.

Other operating expenses in the reporting quarter amounted to PLN 860 thousand and decreased compared to the first quarter of the previous year by PLN 824 thousand mainly due to lower costs of court proceedings about PLN 323 thousand, respectively, and the fact that in 2015 this item there was a loss on sale of property fixed assets in the amount of PLN 419 thousand.

The ZE PAK Capital Group in the first quarter of 2016 achieved operating profit of PLN 114 386 thousand, which compared to a profit in the first quarter of last year increased by PLN 76 550 thousand, i.e. by 202.32%.

In the first quarter of 2016 on the achieved results were negatively influenced by the negative result of financial activity in the amount of PLN (11 745) thousand. In the same period last year on financing activities were positive in the amount of PLN 3 918 thousand, which resulted mainly from a decline in the EUR/PLN. In the first quarter of 2016 years there was no effect of the exchange rate but incurred higher interest costs associated with the start of recording in the financial costs of interest on the loan for the modernization of units at Pątnów I Power Plant.

Gross profit in the first quarter of 2016 amounted to PLN 102,641 thousand, that is, in relation to profit for the first quarter of 2015 increased by PLN 60,887 thousand, i.e. by 145.82%.

Net profit in the first quarter of 2016 amounted to PLN 74,816 thousand, which compared to the net profit for the first quarter of 2015 increased by PLN 40,437 thousand, i.e. by 117.62%.

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

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

Execution of the investment programme

In the period from 1 January to 31 March 2016, the investment expenses in the Group along with the renovation components amounted to PLN 13 307 thousand. The investment tasks executed in this period mostly regarded the generation segment.

Generation Segment

After commissioning of the modernised units nos. 1 and 2 in the Pątnów Power Plant, the main goal of the investment expenses spent in the first quarter of 2016 was to finance the ongoing modernisation of the existing Pątnów Power Plant's coal handling system. At the turn of March and April 2016, the guarantee measurements of the unit no. 1, which are to confirm fulfilling of all guaranteed technical parameters of the unit after the modernisation of unit no. 1's by its contractors, were also completed. Currently, the Company is waiting for a report on the guarantee measurements. The guarantee measurements of the unit no. 2 will be conducted in June, this year.

In the first quarter of 2016, 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 and the talks on contracts required to implement the project are being continued.

Mining Segment

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

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

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

Dęby Szlacheckie brown coal deposit

Deposit documentation stage.

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

The stage of works aiming at the preparation for the construction of the new Dęby Szlacheckie open pit mine:

In May 2015, in the Regional Directors of Environmental Protection in Poznań ("RDOŚ Poznań"), we applied for the issue of the environmental decision (including determination of the report's scope) for the project called: "Extraction of brown coal and associated minerals from the Dęby Szlacheckie deposit in districts of: Babiak and Koło, the Wielkopolska Province." In July 2015, the RDOŚ Poznań's letter determining the material competence of the authority was received. The RDOŚ Poznań acknowledged that it is the competent authority to issue the environmental decision for the scope: execution of an opencast excavation with construction of a process system of overburden collection in it, execution of an external dump and construction of an overburden dump system, execution of the well drainage system and the surface drainage system, execution of the local yard transport facilities, execution of the final reservoir for completion of the deposit utilisation, reclamation works on dump plateaus. In August 2015, the RDOŚ Poznań's letter with the observations of the proceeding parties to the submitted investment project's data sheet and to the developed report on the impact of the investment on the environment of the Dęby Szlacheckie Deposit ("Report") was received. Pursuant to the decision of 12 August 2015, the RDOŚ Poznań defined the scope of the Report. The Report was prepared by the contractor and submitted on 27 November 2015 to PAK KWBK S.A. In January 2016, PAK KWBK S.A. filed an application on amendment to the study of conditions and directions of spatial development of the Babiak

Commune to the Babiak Commune in order to ensure the implementation of the investment “Exploitation of coal from the Dęby Szlacheckie deposit.”

Ościsłowo brown coal deposit

In March 2015, PAK KWBK SA applied to the Head of the Wilczyn Commune for the closure of the proceeding for the issue of the environmental decision concerning the project “Extraction of brown coal and associated minerals from the Ościsłowo deposit” because the competence of the authority issuing the environmental decision changed and, currently, the competent authority is the RDOŚ Poznań. The expert's report concerning the impact of the projected Ościsłowo open pit on bodies of surface and underground waters as well as protected areas and the report on the impact of the Ościsłowo open pit on the environment were prepared.

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

On 16 September 2015, the proceedings on the issue of the environmental decision for the Ościsłowo Open Pit were initiated. The RDOŚ Poznań set a new deadline for settlement of the matter on 06 June 2016. Currently, in the proceedings conducted by the RDOŚ Poznań on the environmental decision for the Ościsłowo open pit, there are two environmental organisations as parties.

Piaski brown coal deposit

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

Poniec-Krobia and Oczkowice brown coal deposits

The Pak Górnictwo Sp. z o.o. company is currently at the stage of balancing the completed works. The documentation on the formal matters related to the current activities is also completed.

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

Other significant events of the reporting period

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 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 end of April, the parties did not agree on a common position (did not conclude an agreement), and the talks are still in progress (have not been broken by any of the parties). One of the topics of the conducted talks are issues related to Employee Pension Fund (“EPF”). On 12 May 2016, the Management Board of the Company decided to liquidate the EPF. The fund will be liquidated with 12-month notice.

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 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.

Events after the balance sheet date

On 10 May 2016 years ZE PAK SA applied to the consortium of banks consisting of: mBank S.A., Bank Gospodarstwa Krajowego, Bank Millennium S.A., Bank Polska Kasa Opieki S.A. and Powszechna Kasa Oszczędności Bank Polski S.A., which granted ZE PAK S.A. loan in the total amount of PLN 1 200 million to finance the modernisation of units 1-4 in the Pątnów I Power Plant and refinancing of debt under the loan in 2006 for the construction of flue gas desulphurisation plant for units in Pątnów I Power Plant, with the notice of voluntary release of the unused amount of the loan in the amount of PLN 533 million.

At the same time ZE PAK S.A. applied to the banks with a request to extend the waiver by the banks to exercise the rights arising from the default schedule of commencement of modernisation works on units 3 and 4 until signing the annex to the credit agreement.

Releasing the aforementioned unused amount of the loan does not change the strategy of ZE PAK SA assuming the modernization of units 3 and 4 in Pątnów I. The Company plans to complete the modernization process, which according to earlier statements, the Company expects to implement systemic solutions that will ensure the economic viability of the investment. Due to the inability to determine the date of the introduction of the aforementioned system solutions, the company decided to abandon the maintenance of the unused amount of the Loan, not to pay the related financial costs.

The Company used the amount of PLN 667 million under the loan. Current debt under the loan is PLN 600 million.

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

In the first quarter of 2016, 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, signature act VI Co 311/12 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 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 for the period ended 31 March 2016 in point 28.1.

5. INFORMATION REGARDING THE SHAREHOLDING STRUCTURE

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

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

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

Shareholder	*Number of shares and corresponding number of votes at the General Meeting**	*% Share [%] in the total number of shares/votes*
Zygmunt Solorz-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 information available to the Company on the basis of the submission of notifications on the acquisition / disposal of shares.*

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

*Table 6: List of management and supervising personnel holding ZE PAK S.A. shares, including the number of held shares, as of the date of submission of this report**

Shareholder	*Position in the Company's authorities*	*Number of shares and the corresponding number of votes at the General Meeting*	*% Share [%] in the total number of shares/votes*
Zygmunt Solorz-Żak (indirectly) through:	**President of the Supervisory Board of the Company**	**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*

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

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

Zespół Elektrowni Pątnów-Adamów-Konin S.A. has not published any financial forecasts.

7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS

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

The Management Board will present the proposed manner to cover the loss for 2015 for the evaluation by the Supervisory Board of Company. The Ordinary General Meeting of ZE PAK S.A. will make the final decision on this matter.

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

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

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

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

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

In the first quarter of 2016, PAK KBWK S.A., a company subject to consolidation under the ZE PAK Capital Group, has made four emission of debentures in the total amount of PLN 42 500 thousand (in total covered by the companies within the Group). In the first quarter of 2016, PAK KWBK S.A. also has made redemptions of debentures in the amount of PLN 27 500 thousand (including PLN 22 500 thousand within the Group).

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

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

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

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

Furthermore, an important factor that could have a significant impact on the Company's financial results in the further quarters includes the value impairment test result. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last such a test was carried out on 31 March 2016, and its result justified the write-down for asset components. It should be noted that the valuation model of the Company's assets shows sensitivity to a range of parameters, among others, the ones described in this section. Therefore, in the face of deterioration of the operational perspectives, both the market ones and those having its origin in the legal conditions, the assumptions for the valuation model of the Company's assets can change, and consequently the value impairment test result may cause the necessity of verifying the value of the write-downs against the asset components in the future. Another analysis of the reasons justifying the potential necessity to conduct the value impairment test of the Company's asset components will be executed at the end of the next reporting period.

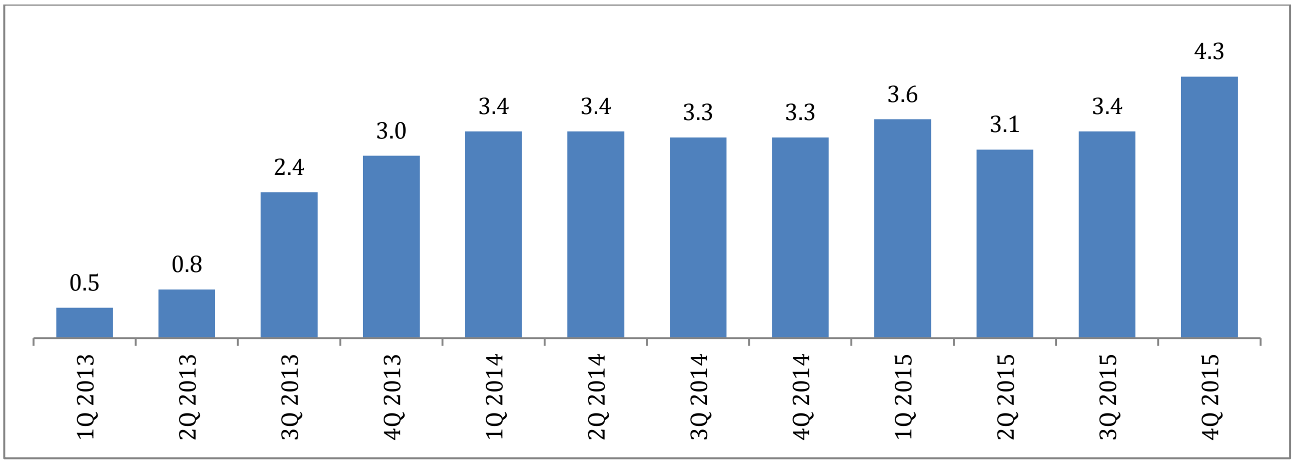
11.1. Macro-economic trends in the Polish economy and the demand for electricity

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

The gross domestic product ("GDP") 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, the acceleration of the dynamics' upward trend could be observed. A rough estimate of the Central Statistical Office on the GDP in the fourth quarter of 2015 indicated the dynamics at 3.9% in comparison to the previous year (in fixed prices of the previous year), which means the highest value for four years. The estimate on the fourth quarter, however, was elevated to the value of 4.3% with a simultaneous, slight decrease in the dynamics in the previous quarters of 2015. The estimate data for the first quarter of

2016 will be announced on 13 may. However, on the basis of readings of micro-data on particular months, it should be assumed that the current trend will not collapse sharply.

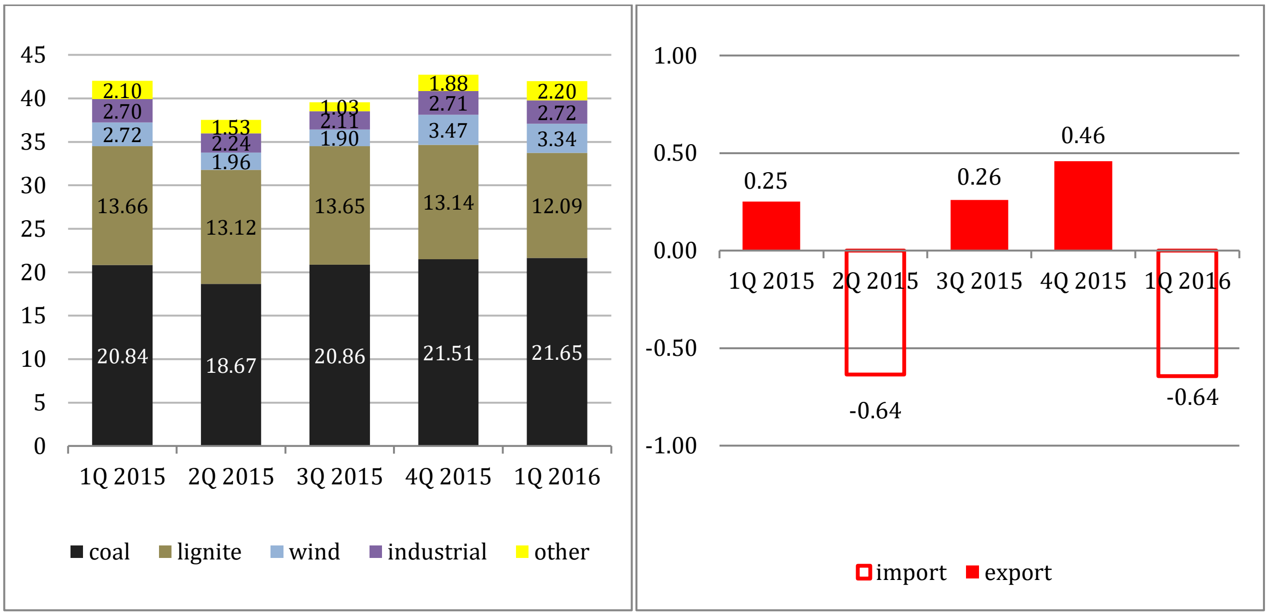
Chart 6: GDP dynamics (%) in relation to the analogous quarter of the year before (yearly average fixed prices)



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

The industrial production in the first quarter of this year increased by 3% Y-o-Y in comparison to 6% recorded in the fourth quarter of 2015. A deterioration was observed in the construction industry, where production decreased by over 13% on a year-to-year basis, while in the fourth quarter of 2015 years, it was a decrease by only 1.5%. The factor that raises optimism are data on retail sales in the first quarter of this year. In volume terms, the retail sales increased by 4.4%, which is the same as in the fourth quarter of 2015 which seemed to be the result that is hard to be repeated, especially at the strengthening of deflationary trends in terms of prices. However, the fact that in 2016 the Easter fell on the first quarter, while in 2015, as late as in April must be taken into account. The above data may suggest some slowdown in the GDP dynamics in the first quarter in comparison to the high reading for the fourth quarter of the previous year, but the difference should not be drastic. In subsequent periods, the factors determining the rate of GDP and, in particular, the consumer demand should be the launch of the "500+" new child benefit programme as well as the effects of the improvement in the labour market observed for a long time. The periodic weakness of the Polish zloty increasing the attractiveness of the export activities may also prove to be a positive factor.

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



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

The data concerning the functioning of the Public Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne S.A., show that the national electricity consumption in the first quarter of 2016 was 42.6 TWh, and increased by 2.1% in comparison to the analogous first quarter of the year before. The increase in consumption concerned especially January and February. In the period from January to March 2016, the electricity generation remained almost at the same level as in the analogous period of the previous year. The power plants generating power on hard coal had the greatest share in the generation structure. Their generation increased by 3.85% in relation to the first quarter of 2015. The significant decrease in generation on the brown coal by 11.5% draws attention, which can be connected with more repairs of the units generating on this raw material in the first quarter of 2016, and the influence of the transmission system operator’s balance sheet activities. Wind power plants generated nearly 23% more energy than in the same period of the last year. The balance of cross-border exchange showed advantage on the side of energy imported into Poland in the amount of 0.64 TWh in the first quarter of 2016.

11.2. 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 CO2 emissions), obligation of public sales of a part of the produced energy as well as the support of specific energy production processes. It is also necessary to take into consideration the regulations of the tax law as well as interpretations and recommendations issued by the Energy Regulatory Office.

In the first quarter of 2016, there were no major regulatory changes that affected or could likely significantly affect the Group’s activities.

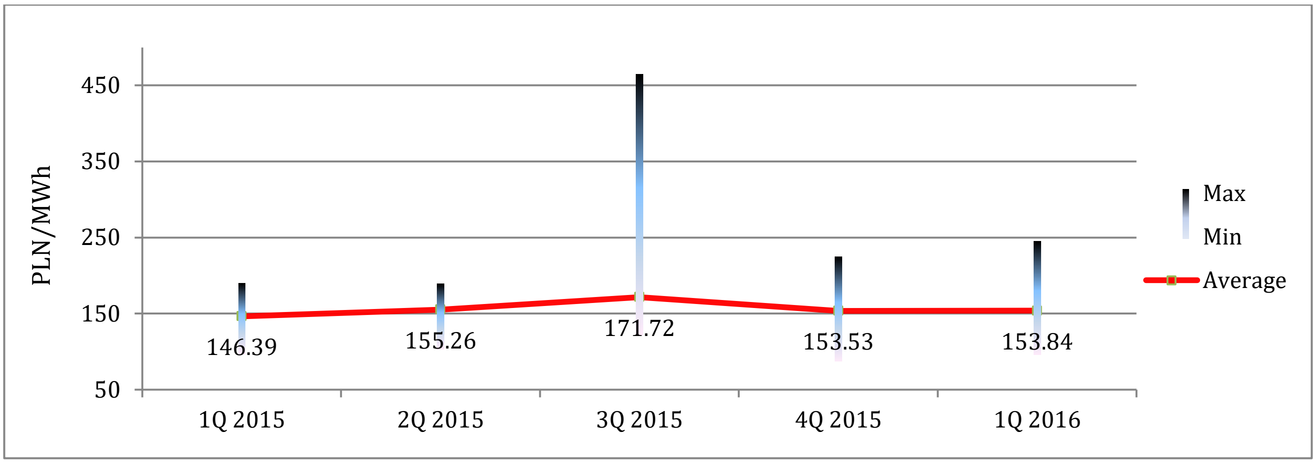
11.3. Electricity prices

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

Analysing the price situation on the OTC market, a slight decrease in the prices can be observed when comparing the first quarter of 2016 with the same quarter of the previous year. According to the notification of the Energy Regulatory Office, the average electricity sale price in the competitive market in the first quarter of 2016 amounted to PLN/MWh 169.13 in comparison to PLN/MWh 172.22 in the first quarter of 2015 (the average price of electricity sold pursuant to principles other than those resulting from Article 49a paragraph 1 and 2 of the Act – Energy Law).

On the day-ahead-market of the Polish Power Exchange the first quarter of 2016, was characterised by a slightly greater amplitude of fluctuations than the analogous period of the previous year. The biggest price fluctuations were recorded in January, when the prices reached their quarterly peak close to PLN/MWh 245. The factors supporting the price increase in the first half of January were slightly lower average temperatures than in the previous year. The low temperatures cause increased demand for power in the NPS, which translates into higher energy prices. Relatively less favourable wind conditions in the first month of the year also mattered. The balance of the factors supporting the upward trend on the energy market started to change in the second half of January and intensified in February. The temperatures did not reach the values of deviating negatively from the averages of previous years. The generation from wind sources also increased significantly. The high growth in wind powers (compared to February of the last year), in combination with good wind conditions in February, caused the increase in generation of wind sources higher by over 96% than in the analogous month of the previous year. In February and March, there was also a negative balance of the cross-border trade, which means that in these months, Poland imported energy, in contrast to the analogous period of the previous year. The factor influencing the reversion of the current trend was, among others, a change of the direction of trade on the cross-border connection with Lithuania, where after commissioning of the connection with Sweden, the prices fell significantly to levels justifying import to Poland from this direction. The energy prices on TGE in February and March fluctuated within a band between PLN/MWh 95 (quarterly minimum) and PLN/MWh 170. The weighted average quarterly market price for the day-ahead-market on TGE in the first quarter of 2016 amounted to PLN/MWh 153.84 (IRDN), which means the comparable value in relation to the average of the fourth quarter of 2015 and an increase compared to the average of the first quarter of 2015 by 5%.

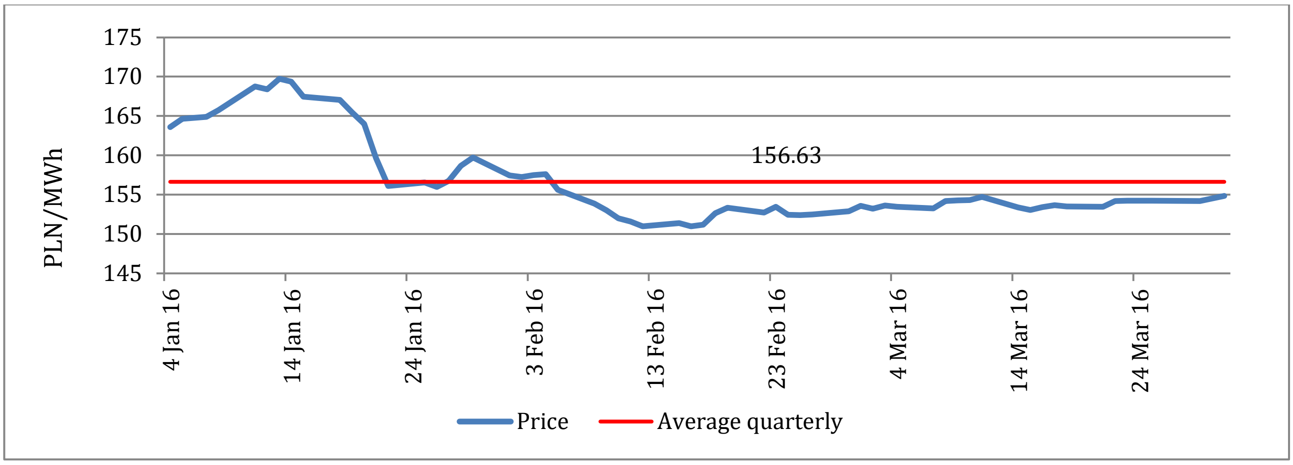
Chart 8: Energy prices (IRDN)



Source: Own development based on the TGE data.

The highest prices on the futures market of the electricity of the Polish Power Exchange in the first quarter of this year were in the first half of January. The annual contract BASE_Y-17 recorded its price maximum close to PLN/MWh 170. However, the price failed to remain at a similar level for too long. In the later period, the influence of deep revaluation of energy resources, the price of the CO2 allowances and declines in energy prices on spot markets in the country as well as on the markets in neighbouring countries brought the prices to the level of PLN/MWh 151 in mid-February. Until the end of the quarter, the prices had not beaten this level but also failed to stand out above the level of PLN/MWh 155. The arithmetic mean of prices in the first quarter of 2016 amounted to PLN/MWh 156.63.

Chart 9: The price of the futures contract for the supply of electricity (band) for 2017



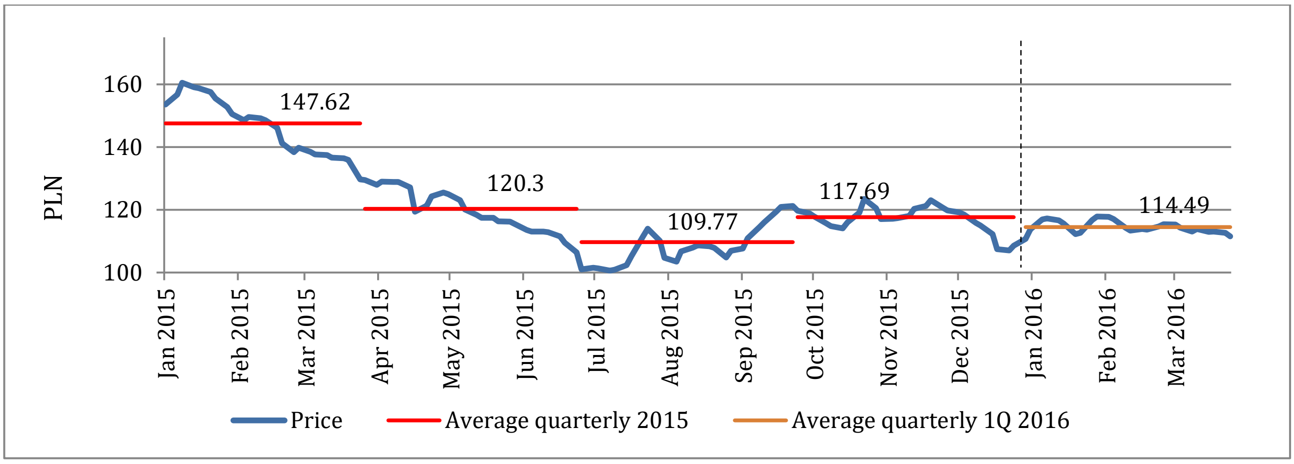
Source: Own development based on the TGE data.

11.4. Prices and supply of certificates of origin

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

The range of variation in green certificates prices in the first quarter of 2016 was relatively narrow against the fluctuations of the previous year. The prices ranged between PLN 111 to nearly PLN 118. The weighted-average for the quarter amounted to PLN 114.49 per a certificate. The prices were similar to those recorded in the fourth quarter of 2015 but were far from the levels of the first quarter of 2015, when the average was as high as PLN 147.62, which was by nearly 29% more than in the first quarter of 2016. It is worth noting that at the beginning of 2016, new principles on the lack of allocation of green certificates for the “large-scale” water energy sector and reducing the allotment of certificates for biomass co-firing technology by half already entered into force. However, these amendments have failed to generate upward impulse on the green certificates market so far.

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



Source: Own development based on the TGE data.

11.5. Fuel costs, coal extraction costs

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

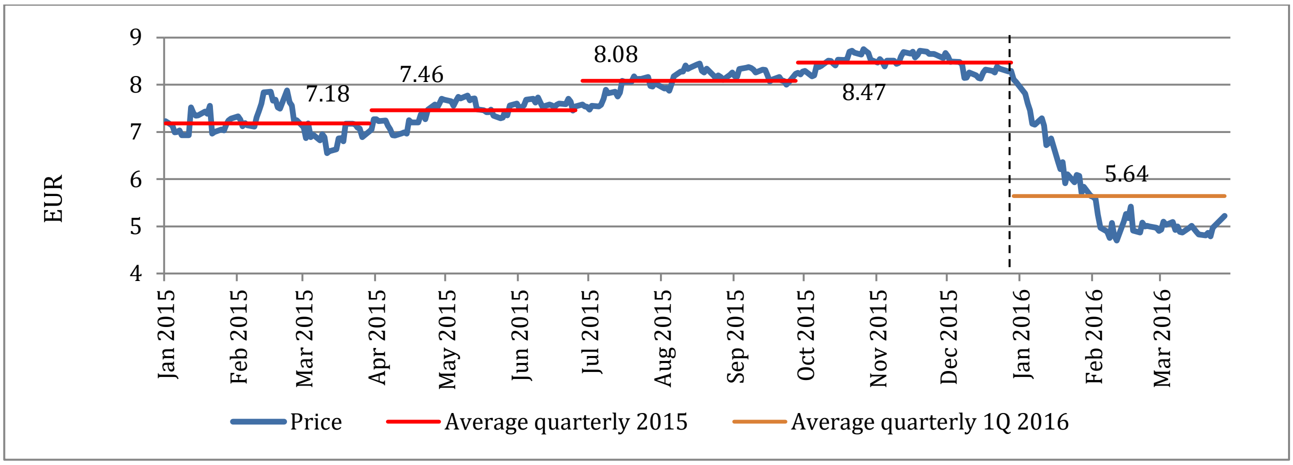
Two lignite mines, PAK KWBK S.A. and PAK KWBA S.A., which are the only suppliers of lignite to the ZE PAK Group's power plants, satisfy the entire demand of generation assets for this basic fuel. Therefore, the ZE PAK Group does not rely on external suppliers and eliminates the exposure to potential 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.

11.6. CO_2 allowances costs

The activity in the field of electricity and heat generation from conventional sources is associated with the need to bear the CO2 emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from brown coal, the impact of emitted quantities of CO2 and the price of emissions allowances is of great importance to the activities results. The results largely depend also on the amount of free-of-charge CO2 allowances granted in a given period. The numbers of allowances possible to be obtained for power engineering were specified in article 10c of the ETS directive and the amounts that can be physically obtained by particular systems depend on the expenses incurred for investments which are recorded in the National Investment Plan. The Company is obligated to purchase the other part of the missing allowances at the free market. The company will use the free allowances only on the basis of the art. 10A of the Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003.

In the first quarter of 2016, on the CO2 allowances market, a very dynamic and deep prices decrease occurred. While the EUAs prices were reaching higher and higher quotes through the entire previous year, they failed to reach new peaks as soon as in December. However, in the beginning of the year, there was already a very strong downward trend. The arithmetic mean for quotes in the first quarter of 2016 was EUR/EUA 5.64, which means a decrease by over 33% in comparison to the mean of the fourth quarter of 2015. A part of the analysts considers the correlation with the prices of energy sources, which also suffered deep prices decreases, the reason for deep decreases. However, the downward trends on raw-material markets dominated already in the previous year, while the EUAs prices were then reaching higher and higher quotes, supported by plans and announcements of actions at the EU level to raise the EUAs prices by tampering with the market based mechanism. The first quarter of each year is a specific period on the emission allowances market when free allocations of units are distributed for these systems, to which they are entitled. At the same time, market participants are preparing for the period of redeeming the allowances corresponding to the amount of CO2 emitted in the previous year. The rapid and deep decrease from the beginning of the year can be also reflected by the share of conventional energy declining faster in relation to expectations in the energy generation structure, especially in the countries of Western Europe.

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



Source: Own development based on the ICE data.

11.7. Compensation for the stranded costs related to the termination of the Pątnów II Power Plant's "Long-term Contract" ("LCT")

The long-term contract for the sale of power and electricity (LCT) was concluded between Elektrownia Pątnów II Sp. z o.o. and Polskie Sieci Elektroenergetyczne 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.

11.8. Seasonality and meteorological conditions

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

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

11.9. Investment expenses

The activities in the coal extraction and energy production sector requires substantial investment expenses. The Group's generation assets require periodical renovations and on-going modernisation, both due to the increasing strictness of requirements in the scope of environmental protection as well as the need for improvement of electricity production effectiveness. The level of investment expenses had major impact, and according to expectations will still have major impact, on the results of the operating activities, level of debt and cash flows. Delays in execution, changes of the investment programme, and excess in the budget can have severe impact on the investment expenses incurred in the future, as well as on the results, financial position and perspectives of development. Moreover, the part of the Group's planned investment projects reported to the National Investment Plan involves the allocation of free units allowing for CO_2 emission.

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

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

The most important factors include:

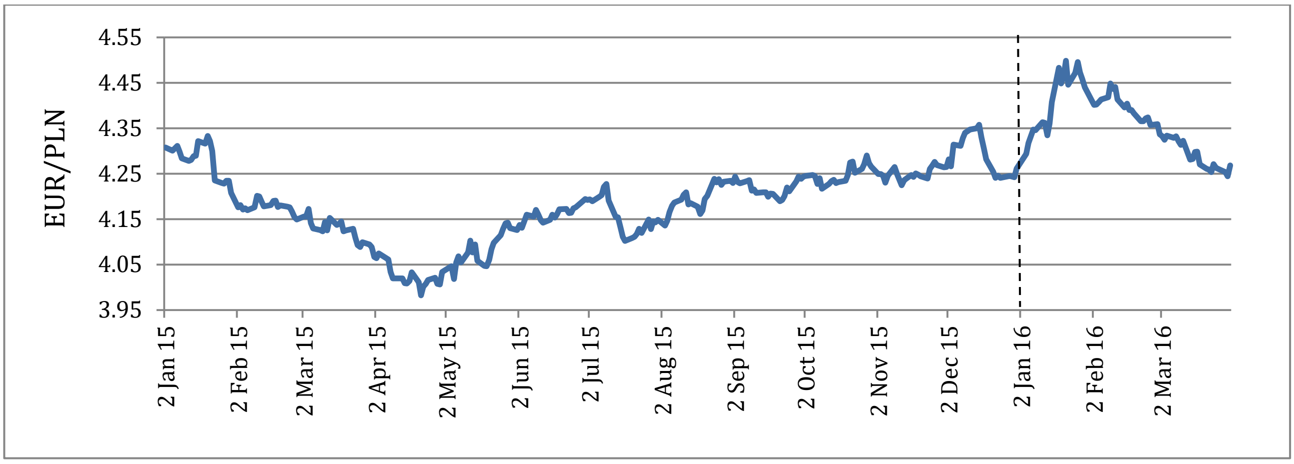
- A significant part of the debt (that is the Corporate Credit taken by Elektrownia Pątnów II) is denominated in EUR, which means that the depreciation of the value of PLN in relation to EUR has negative impact on financial results, because it increases the financing costs in PLN related to the foreign 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.
- 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.

The EUR/PLN exchange rate, at the end of the first quarter of 2016, did not deviate significantly from the quotes from the end of the year. However, during the first quarter, initially the Polish zloty weakened rapidly to the level close to EUR/PLN 4.5 in mid-January, after which it was strengthening until the end of the quarter, and finished March at nearly the same level as at the end of 2015.

Chart 12: Average EUR/PLN exchange rate



Source: Own development based on NBP average exchange rate tables