ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
ALONG WITH THE OPINION OF THE INDEPENDENT STATUTORY AUDITOR

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

21 MARCH 2017

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(in zloty thousand)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2016

	Note	*year ended 31 December 2016*	*year ended 31 December 2015*
Continuing operations			
Sales revenue	*13.1*	**2 704 711**	**2 947 816**
Cost of goods sold	*13.6*	(2 241 353)	(4 651 152)
including impairment loss of fixed assets and mining assets	*19.1*	-	*(1 896 189)*
Gross profit / (loss)		**463 358**	**(1 703 336)**
Other operating revenues	*13.2*	26 461	29 966
Selling and distribution expenses	*13.6*	(4 360)	(4 920)
Administrative expenses	*13.6*	(108 634)	(111 323)
Other operating expenses	*13.3*	(5 392)	(6 209)
Gross profit / (loss) from operations		**371 433**	**(1 795 822)**
Finance income	*13.4*	9 117	6 496
Finance costs	*13.5*	(72 672)	(43 909)
Profit / (loss) before tax		**307 878**	**(1 833 235)**
Income tax expense (taxation)	*15.1*	(57 592)	(46 573)
Net profit / (loss) for the period from continuing operations		**250 286**	**(1 879 808)**
Discontinued operations			
Profit/ (loss) for the period from discontinued operations		-	-
Net profit / (loss) for the period		**250 286**	**(1 879 808)**
Net profit/ (loss) attributable to equity holders of the parent		247 674	(1 881 086)
Net profit/ (loss) attributable to non-controlling interests		2 612	1 278

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

Profit / loss per share (in zloty):			
Basic, for profit for the period attributable to equity holders of the parent	17	4,87	(37,01)
Basic, for profit for the period from continuing operations attributable to equity holders of the parent	17	4,87	(37,01)
Diluted, for profit for the period attributable to equity holders of the parent	17	4,87	(37,01)
Diluted, for profit for the period from continuing operations attributable to equity holders of the parent	17	4,87	(37,01)

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Andrzej Krzemiński
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(in zloty thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	*year ended 31 December 2016*	*year ended 31 December 2015*
Net profit / (loss) for the period		**250 286**	**(1 879 808)**
Other comprehensive income			
Items to be reclassified to the profit / (loss) in subsequent reporting periods:			
Cash flow hedges	*14*	5 996	7 160
Exchange differences on translation of foreign entities		-	103
Other	*15.1, 14*	(1 139)	(1 360)
Income tax on other comprehensive income		4 857	5 903
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods			
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:			
Profits / (losses) on provisions for post-employment	*14*	4 613	246
Income tax on other comprehensive income	*15.1, 14*	(876)	(47)
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		3 737	199
Net other comprehensive income		**8 594**	**6 102**
Comprehensive income for the period		**258 880**	**(1 873 706)**
Comprehensive income attributable to equity holders of the parent		256 268	(1 874 984)
Comprehensive income attributable to non-controlling interests		2 612	1 278

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(in zloty thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31December 2016

	Note	*31 December 2016*	*31 December 2015*
ASSETS			
Non-current assets			
Tangible fixed assets	*19*	3 391 246	3 475 229
Investment property		2 337	2 363
Intangible assets	*21*	119 282	17 389
Assets of removing overburden and other mining assets (long-term)	*22*	80 524	92 748
Other long-term financial assets	*23.1*	11 945	13 752
Other long-term non-financial assets	*23.2*	5 726	10 027
Deferred tax assets	*15.3*	90 998	102 615
Total non-current assets		**3 702 058**	**3 714 123**
Current assets			
Short-term intangible assets	*21*	273 036	354 389
Inventories	*25*	105 296	157 515
Trade and other receivables	*26*	246 025	268 123
Income tax receivables		10 227	2 743
Short-term financial derivatives (assets)	*33.4*	296	-
Other short-term financial assets	*23.1*	77 317	76 979
Other short-term non-financial assets	*23.2*	28 776	12 497
Assets of removing overburden and other mining assets (short-term)	*22*	-	1 309
Amounts due from customers under long-term construction contracts	*13.8*	8 168	3 349
Cash and cash equivalents	*27*	350 101	383 354
Total current assets		**1 099 242**	**1 260 258**
TOTAL ASSETS		**4 801 300**	**4 974 381**

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	Note	31 December 2016	31 December 2015
LIABILITIES AND EQUITY			
Equity			
Share capital	28	101 647	101 647
Supplementary capital	29	1 028 647	2 542 060
Revaluation reserve from valuation of hedging instruments		(7 084)	(11 941)
Other reserve capital	29.1	3 472	5 877
Retained earnings / Accumulated losses		769 302	1 128 266
Net profit / (loss)		247 674	(1 881 086)
Equity attributable to equity holders of the parent		**2 143 658**	**1 884 823**
Equity attributable to non-controlling interests		-	-
Total equity		**2 143 658**	**1 884 823**
Non-current liabilities			
Interest-bearing loans and borrowings	30	587 851	924 519
Long-term employee benefits	24.1	48 587	77 674
Trade and other long-term financial liabilities	33.2	5 069	80 751
Long-term financial derivatives (liabilities)	33.4	4 294	8 943
Long-term subsidies	33.5	43 302	51 068
Other long-term provisions and accruals	31	312 253	334 879
Deferred tax liability	15.3	388 359	351 862
Total non-current liabilities		**1 389 715**	**1 829 696**
Current liabilities			
Trade and other short-term financial liabilities	33.1	302 662	237 505
Current portion of interest-bearing loans and borrowings	30	421 958	386 543
Short-term financial derivatives (liabilities)	33.4	5 759	7 349
Other non-financial liabilities	33.3	116 431	122 553
Current income tax liability		166	5 228
Short-term employee benefits	24.1	6 503	8 783
Short-term subsidies	33.6	6 670	12 774
Amounts due to customers under long-term construction contracts	13.8	3 990	10 080
Other short-term provisions and accruals	31	403 788	469 047
Total current liabilities		**1 267 927**	**1 259 862**
Total liabilities		**2 657 642**	**3 089 558**
TOTAL LIABILITIES AND EQUITY		**4 801 300**	**4 974 381**

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CONSOLIDATED STATEMENT OF CASH FLOWS

(in zloty thousand)

For the year ended 31 December 2016

	Note	*year ended 31 December 2016*	*year ended 31 December 2015*
Cash flow from operating activities			
Profit /(loss) before tax		307 878	(1 833 235)
Adjustments for:			
Depreciation and amortization	*27*	207 829	380 935
Interests and shares in profits		44 717	25 012
(Profit) / loss on foreign exchange differences		10 752	2 784
(Profit) / loss on investing activities		15 219	1 079
(Increase) / decrease in receivables	*27*	3 123	16 102
(Increase) / decrease in inventories	*27*	52 219	79 601
Increase / (decrease) in payables except for loans and borrowings	*27*	(5 117)	(88 567)
Change in provisions, prepayments, accruals and employee benefits	*27*	239 186	268 209
Income tax paid		(24 074)	5 033
Allowances for emission of CO_2		(315 533)	(287 229)
Impairment loss of fixed assets and mining assets		-	1 896 189
Other		(148)	1 223
Net cash flow from operating activities		**536 051**	**467 136**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		3 723	559
Purchase of property, plant and equipment and intangible assets		(195 352)	(409 858)
Proceeds and expenses relating to other financial assets	*27*	7 773	19 122
Purchase of other financial assets	*27*	-	(24 909)
Dividends received		60	49
Interest received		6	6
Other		82	60
Net cash flow from investing activities		**(183 708)**	**(414 971)**

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Cash flow from financing activities			
Payment of finance lease liabilities		(15 038)	(13 029)
Proceeds from loans and borrowings and debt securities		12 295	336 925
Repayment of loans and borrowings and debt securities		(334 211)	(232 422)
Dividends paid		-	(60 988)
Interest paid		(48 632)	(53 383)
Other		(1 428)	(1 218)
Net cash flow from financing activities		**(387 014)**	**(24 115)**
Net increase / (decrease) in cash and cash equivalents		**(34 671)**	**28 050**
Cash and cash equivalents at the beginning of the period	*27*	**383 318**	**355 268**
Cash and cash equivalents at the end of the period		**348 647**	**383 318**

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(in zloty thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Note	*Issued capital*	*Reserve capital*	*Revaluation reserve of financial instruments*	*Other reserve capital*	*Retained earnings / Accumulated losses*	*Exchange differences on translation of foreign entities*	*Total*	*Non-controlling interest*	*Total Equity*
As of 1 January 2016		**101 647**	**2 542 060**	**(11 941)**	**5 877**	**(752 820)**	**-**	**1 884 823**	**-**	**1 884 823**
Net profit for the period		-	-	-	-	247 674	-	247 674	2 612	250 286
Total other comprehensive income		-	-	4 857	-	3 737	-	8 594	-	8 594
Total income for the period		**-**	**-**	**4 857**	**-**	**251 411**	**-**	**256 268**	**2 612**	**258 880**
Distribution of profits from previous years		-	(1 513 413)	-	(2 405)	1 515 818	-	-	-	-
The effect of the settlement of a put option on the shares of non-controlling interests	*29.3*	-	-	-	-	2 612	-	2 612	(2 612)	-
Other changes		-	-	-	-	(45)	-	(45)	-	(45)
as of 31 December 2016		**101 647**	**1 028 647**	**(7 084)**	**3 472**	**1 016 976**	**-**	**2 143 658**	**-**	**2 143 658**

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(in zloty thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Nota	*Issued capital*	*Reserve capital*	*Revaluation reserve of financial instruments*	*Other reserve capital*	*Retained earnings / Accumulated losses*	*Exchange differences on translation of foreign entities*	*Other components of other comprehen sive income*	*Total*	*Non-controlling interest*	*Total Equity*
As of 1 January 2015		**101 647**	**2 398 399**	**(17 741)**	**5 877**	**1 331 425**	**110**	**-**	**3 819 717**	**-**	**3 819 717**
Net profit for the period		-	-	-	-	(1 881 086)	-	-	(1 881 086)	1 278	(1 879 808)
Total other comprehensive income		-	-	5 800	-	199	-	103	6 102	-	6 102
Total income for the period		**-**	**-**	**5 800**	**-**	**(1 880 887)**	**-**	**103**	**(1 874 984)**	**1 278**	**(1 873 706)**
Distribution of profits from previous years		-	143 661	-	-	(143 661)	-	-	-	-	-
Dividend		-	-	-	-	(60 988)	-	-	(60 988)	-	(60 988)
The effect of the settlement of a put option on the shares of non-controlling interests	*29.3*	-	-	-	-	1 278	-	-	1 278	(1 278)	-
Other changes		-	-	-	-	13	(110)	(103)	(200)	-	(200)
As of 31 December 2015		**101 647**	**2 542 060**	**(11 941)**	**5 877**	**(752 820)**	**-**	**-**	**1 884 823**	**-**	**1 884 823**

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THE RULES (POLICIES) OF ACCOUNTING AND ADDITIONAL EXPLANATORY NOTES

1. General information

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

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

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

The main activities of the Group are:

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

(in zloty thousand)

2. Composition of the Group

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

Entity	*Seat*	*Scope of activities*	*Percentage share of the Group in capital as of*	
			31 December 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	Lignite mining	100,00%	100,00%
„Energoinwest Serwis” sp. z o.o.	62-510 Konin ul. Przemysłowa 75	Repair and construction services	100,00%*	100,00%*
„PAK Kopalnia Węgla Brunatnego Konin” SA	62-540 Kleczew ul. 600-lecia 9	Lignite mining	96,23%*	96,23%
„PAK Kopalnia Węgla Brunatnego Adamów” SA	62-700 Turek ul. Uniejowska 9	Lignite mining	98,41%	98,41%
„Aquakon” sp. z o.o.	62-610 Sompolno Police	Production and sale of mineral waters	92,57%*	92,57%*
„Eko-Surowce” sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Railway transport of lignite, sale of lignite	96,23%*	96,23%*
„PAK-Volt” SA	00-834 Warszawa ul. Pańska 77/79	Sale of electricity	100,00%	100,00%
„EL PAK Serwis” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and service of electric devices and machinery	100,00%*	100,00%*

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

As of 31 December 2016, the share in the general number of votes held by the Group in subsidiaries is equal to the Group's share in capitals of these subsidiaries.

3. Composition of the Management Board of the parent company

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

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

During a meeting on 11 February 2016, the Supervisory Board of the Company adopted a resolution to appoint Mr. Aleksander Grad to the composition of the Management Board of the Company with effect from 18 February 2016 and entrusted him with the position of the Chairman of the Management Board.

During a meeting on 08 April 2016, the Supervisory Board of the Company adopted a resolution to appoint Mr. Adam Kapszta to the composition of the Management Board of the Company and entrust him with the position of the Vice-President of the Management Board. The resolution became effective upon its adoption.

On 17 June 2016 Mr. Aleksander Grad stepped down as the Chairman of the Management Board and a Member of the Company's Board. In connection with this situation, the Supervisory Board of the Company began a procedure of appointing a new Chairperson of the Management Board. Until the completion of that procedure, the Supervisory Board entrusted the management of the Management Board activities to Mr. Adam Kłapszta, the Vice-President of the Management Board of the Company, who posted the position of the President of the Management Board from 17 June 2016.

On 26 October 2016, Mr. Adrian Kaźmierczak stepped down as the Vice-President of the Management Board of the Company. At the same time, during a meeting held on 26 October 2016, the Supervisory Board of the Company appointed Ms. Katarzyna Sobierajska as the Vice-President of the Management Board. The resolution on the appointment became effective upon its adoption.

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

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

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

4. Approval of the financial statement

This consolidated financial statement was approved for issuing by the Management Board on 21 March 2017.

5. Essential values based on professional judgement and estimates

5.1. Professional judgement

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

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

Capitalisation of foreign exchange differences

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

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

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

- ***Classification of lease contracts***

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

- ***Identification of embedded derivatives***

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

5.2. Uncertainty of estimates

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

Loss in fixed assets

As a result of analyses conducted as of 31 December 2016, the Group identified the existence of circumstances, which would indicate possible loss in value of the asset components, in the form of the balance sheet net value of the Group's assets higher than the value of its market capitalisation. In relation to the above fact, the Group conducted value impairment tests of components of fixed assets. On the basis of the conducted tests, it was stated that there is a need to identify the Impairment write-downs against tangible fixed assets. Information about the conducted test is presented in note 19.1.

Evaluation of provisions for employee benefits

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

Estimate was developed on the basis of following main assumptions:

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

Changes of the financial indexes, which are a basis of the estimation, would change the balance of the provisions by the amounts presented in the table below (in thousands zloty).

	(+) increase by 1 percentage point	*(-) decrease by 1 percentage point*
discount rate	(3,315)	3,830
salary increase rates	3,512	(2,805)

Component of deferred tax assets

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

Fair value of financial instruments

The fair value of financial instruments, for which there is no active market, is determined using relevant measurement techniques. When selecting relevant methods and assumptions, the Group is guided by professional judgement. The way of determination of the fair value of particular financial instruments was presented in note 10.10.

Capitalisation of overburden stripping costs in the production phase

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

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

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

Payment in shares

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

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

Note 34 presents the descriptions of essential contingent liabilities and essential law suits, including these concerning compensations for the termination of long-term contracts for the sale of power and electricity.

Revenue recognition

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

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

Depreciation rates

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

Uncertainty associated with tax settlements

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

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

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

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

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

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

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

Receivable impairment write-downs

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

Provision for the liquidation fixed tangible asset components

The group creates provisions for the liquidation of tangible assets in the event of such an obligation or undertaking such a liability by the Group’s management. The provision is created in the amount resulting from the received offers concerning liquidation of components of tangible fixed assets. The Group updates the value of the provision on every balance sheet date. The value of the provision due to liquidation of components of tangible fixed assets is discounted on every balance sheet date. Provisions for the disassembly of the Adamów Power Plant assets is not created due to the lack of a legal obligation. The content of the integrated permit granted to the Adamów Power Plant for conducting the operations does not include a clause on the necessity to create provisions for liquidating the assets. The provision is described in note 31.3.2.

Provisions for the liquidation of ash storage yards

The Group creates the provision for liquidation of ash dumps due to a legal obligation resulting from the integrated approval entries. The basis of estimation are developments, technical and economic analyses developed by the Group, as well as received external offerings for planned directions of reclamation. At the end of each reporting period, the Group updates the value of the provision. The provision is described in note 31.3.2.

Reclamation provisions and other related to mining activity

The Group creates both, the provision for reclamation costs related to current extraction of coal on a given open pit, and the provision for costs of the final excavation. The provision is created on the basis of the estimates of future reclamation costs, as well as assumed start and finish dates of reclamation, on the basis of reports by independent experts estimating reclamation costs on the order of the Management Board, as well as internal estimates of the Group, and is discounted on every balance sheet date. The provisions are described in note 31.3.3.

Valuation of energy certificates

The Group recognises the energy certificates of origin (green certificates) due to the energy production from renewable energy, gas, and peak load co-generation sources according to the fair value at the end of the month, in which they were produced. On the balance sheet date, the Group appraises certificates of origin to the net value possible to achieve – for green certificates on 31 December 2016 to the price of 37.76 zloty /MWh. A write-down against the certificate value is created in case the sale price possible to achieve, diminished by the disposition costs, is lower than the historical production cost.

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

Emissions in the ZE PAK SA Group in 2015 amounted to 12,257,921 tonnes of CO_2.

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

During 2016, the Group successively purchased CO_2 emission allowances. At the same time, in February 2016, the Group received free EUAs for heat for 2016 (Art. 10A of the ETS Directive) in the amount of 101,259 EUAs. Next, in April 2016, the Group received free EUAs due to derogation for 2015 (Art. 10c of the ETS Directive) in the amount of 329,417 EUAs and the Group redeemed CO_2 emissions for 2015 in the amount of 12,257,921 tons of CO_2. Given the above, the status of EUA units in the Group after the write-offs was 5,905,424 EUAs.

In the remaining quarters of 2016, the Group made further purchases for the purposes of 2016, thus, the total purchase of EUAs in the Group, which were added to the account in the EU register in 2016 was 13,390,500 EUAs, and the status of EUAs in the Group after all the above operations, on 31 December 2016, was 13,820,841 EUAs.

As for 31 December 2016, the Group created a provision for the allowances in relation to the actual emission size for the period from 1 January 2016 till 31 December 2016.

Details concerning the provision for liabilities due to the redemption of greenhouse gases emission allowances and certified emission reduction units were presented in note 31.3.1.

Restructuring provision

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

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

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

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

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

As for 31 December 2016, the short-term liabilities of the Group exceeded the current assets by zloty 168,685 thousand. Given the drawn up long-term financial projections indicated the generation of positive cash flows, the consolidated financial statement was developed under the assumption of continuing the activity over a period of at least 12 months after the balance sheet date. On the day of approving this financial statement, it cannot be stated that there are circumstances indicating a threat to the continuation of the activities by the Group's companies, whereas, there are operations regarding the allocation of specified types of activity between the Group's companies. The indicated actions will not impact the limitations of the scope of the business activity conducted by the ZE PAK SA Capital Group. With regard to the information included in note 43, the Management Board of the Company does not recognise the threats to the operational continuation of the companies constituting the Group.

6.1. Statement of compliance

This consolidated financial statement was developed in conformity with the International Financial Reporting Standards ("IFRS"), approved by the EU ("EU IFRS"). At the date of approval of this report for publishing, taking into account the EU's ongoing process of implementation of IFRS standards and the Group's activities in the field of the accounting policies applied by the Group, the IFRS policies differ from the EU IFRS ones. The company used the opportunity, present in the case of the using the International Financial Reporting Standard approved by the EU, to apply amendments to the IFRS 2 and IFRS 3, which are a part of the Amendments resulting from the review of IFRS 2010-2012 from annual periods beginning on 1 January 2016. EU IFRS covers standards and interpretations adopted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

The Group's companies keep their accounting books in accordance with the policy (rules) specified in the Act of 29 September 1994 on accounting ("the Act"), as amended, and the regulations issued therein ("Polish accounting standards"). The consolidated financial statement includes adjustments, which are not included in the accounting books of the Group's units, introduced in order to make their financial statements comply with IFRS.

6.2. Functional currency and financial statements currency

The functional currency of the parent company and other companies included in this consolidated financial statement and the presentation currency of this consolidated financial statement is the Polish zloty (zloty).

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

The accounting (policy) rules applied for the development of this financial statement are coherent with the ones used for the development of the Company's financial statement for the year concluded on 31 December 2015, except the one shown below. The following amendments to the IFRS were applied in this financial statement according to their date of entry into force, however, they did not have a significant impact on the presented and disclosed financial information, did not apply to the transactions concluded by the Group or the Group decided not to use the new valuation options:

- Amendments resulting from the review of IFRS 2010-2012, covering the amendments to IFRS 2 *Share-based Payment*, amendments to IFRS 3 *Business Combinations*, amendments to IFRS 8 *Operating Segments*, amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, amendments to IFRS 13 *Fair Value Measurement* and amendments to IAS 24 *Related Party Disclosures,* amendments do IFRS 7 *Financial Instruments: Disclosures* and amendments do IAS 19 *Employee Benefits*
- Amendments resulting from reviewing IFRS 2012-2014, covering the amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, amendments to IAS 34 Interim Financial Reporting
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception and
- Amendments resulting from reviewing IAS 2012-2014, covering the amendments to IFRS 7 Financial Instruments: Disclosures and amendments to IAS 19 Employee Benefits

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

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

- IFRS 9 Financial Instruments (issued on 24 July 2014) – applicable to annual periods beginning on 1 January 2018 or later,
- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – as per the decision of the European Committee, the approval process for the standard in the preliminary version will not be initiated prior to the standard being issued in the final version – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2016 or later,
- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014), covering the amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) – applicable to the annual periods beginning on 1 January 2018 or later,
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014) – works leading to the approval of these changes were delayed indefinitely by the EU - the effective date was delayed indefinitely by IASB,
- Amendments to IFRS 16 Leases (issued on 13 January 2016) – until the day of approval of this financial statement not approved by the EU - applicable to the annual periods beginning on 1 January 2019 or later,
- Amendments to IFRS 4 Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (issued on 12 September 2016) – until the day of approval of this financial statement not approved by the EU - applicable to the annual periods beginning on 1 January 2018 or later,
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2017 or later,
- Amendments to IAS 7 Disclosure Initiative (issued on 29 January 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2017 or later,
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,
- The amendments resulting from a review of IFRS 2014-2016 (issued on 8 December 2016) – until the day of approval of this financial statement not approved by the EU – Amendments to IFRS 12 are applicable to annual periods beginning on 1 January 2017 or later, while the Amendments to IFRS 1 and IAS 28 are applicable to the annual periods beginning of 1 January 2018 or later,
- Interpretation of IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,

- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016) – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2018 or later,

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

As for 31 December 2016, the Group has not yet obtained reliable estimates of the impact of implementing the a/m IFRSs on the consolidated financial statement. The Group is planning to conduct thorough analyses and calculations in the scope of the implementation of IFRS 9 and IFRS 15 in 2017, and IFRS 16 in 2018.

9. Change of estimates

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

- estimates in the assumptions for the valuation of actuarial provisions,
- estimates in the scope of assumptions regarding the valuation of derivative instruments,
- estimates in the assumptions regarding the calculation of the revenue for compensation,
- estimates in the assumptions regarding the periods of economic usability of the capital work,
- estimates related to realisation of the deferred tax assets,
- estimates in the scope of assumptions regarding the valuation of provisions for ash storage reclamation,
- estimates in the assumptions for the valuation of the provision for the liquidation of components of tangible fixed assets,
- estimates regarding the valuation of long-term contracts,
- estimates in the scope of assumptions regarding the valuation of the reclamation provisions associated with mining activity
- estimates in the scope of fixed asset impairment.

The effect of estimate changes on the value of impairment write-downs for tangible fixed assets was shown in note 19.1

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

In case of the valuation of derivatives (IRS, options), the change in estimates is due to the market changes of risk factors on the interbank market, i.e. the exchange rate and market interest rates. The description of the used protections was included in note 40.3.1.

In the calculation of the revenue due to compensation, the change of estimates relates primarily to changes in the sale prices and purchase of energy on the Commodity Power Exchange and balancing market, the volume of energy production and purchase of energy in order to meet sale plans as well as the interest rate of the 5-year government bonds and the NBP deposit rate, affecting the discount rate. The value of the yearly impairment due to compensations for 2016 is (+) zloty 88.35 million. The principles of recognition of revenue for compensations to cover stranded costs are described in note 10.28.4.

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

In relation to assets for deferred tax, write-downs were prepared for each balance sheet day, which was further described in note 15.3.

The description of the titles of the main recognised provisions and changes of provision items in the current and previous fiscal year was described in note 31.

Note 13.8 shows the values of revenues for construction contracts, taking into account the balance sheet measurement and the expected losses due to these contracts.

10. Significant accounting rules

10.1. Consolidation rules

This consolidated financial statement includes the financial statement of Zespół Elektrowni Pątnów – Adamów – Konin SA as well as financial statements of its subsidiaries, developed each time for the year concluded on 31 December 2016. The financial statements of the entities controlled by it (subsidiaries), after the taking into account the adjustments to ensure compliance with IFRS, are prepared for the same reporting period as the parent company’s statement, using consistent accounting rules, based on uniform accounting policies applied for transactions and economic events of a similar nature. In order to eliminate any differences in the applied accounting methods, adjustments are implemented.

All significant balances and transactions between the Group's entities, including unrealised profits arising from transactions within the Group, were entirely eliminated. Unrealised losses are eliminated, unless they prove the impairment.

Subsidiaries are subject to consolidation from the date on which they are controlled by the Group and cease to be consolidated from the date on which such control ends. The control of the parent company over an entity takes place when:

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

The Company verifies the fact of having control over other entities, if the situation, which indicates a change of one or more of the above-mentioned control conditions, occurred.

If the company has less than a majority of the voting rights of the entity, but the held voting rights are sufficient to unilaterally manage the relevant activities of the entity, it means that it holds power over the entity. When assessing whether the voting rights in a given entity are sufficient to ensure power, the Company analyses all significant circumstances, including:

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

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

10.2. Investments in associates and joint ventures

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

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

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

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

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

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

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

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

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

10.3. Calculation of items denominated in a foreign currency

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

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

(in zloty thousand)

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

	31 December 2016	*31 December 2015*
EUR	4,4240	4,2615
GBP	5,1445	5,7862
USD	4,1793	3,9011

10.4. Tangible fixed assets

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

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

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

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

The final value, useful life and a depreciation method for the asset components are annually verified and, if necessary, adjusted with effect from the beginning of the just ended financial year. Any changes resulting from the conducted review are recognised as a change in estimates.

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

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

10.4.1. Fixed assets intended for sale

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

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

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

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

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

10.5. Investment properties

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

Investment properties are removed from the balance sheet upon their sale or permanent withdrawal of the given investment property from use, when no future benefits of its sale are expected. Any profits or losses arising from removal of the investment property from the balance sheet are recognised in the income statement of the period in which the aforementioned removal took place.

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

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

10.6. Assets concerning stripping and other mining assets

Assets concerning overburden stripping and other mining assets include activated costs incurred in the pre-production phase of the mine, in particular:

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

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

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

10.7. Expenses related to exploration and evaluation of mineral resources

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

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

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

- topographical, geological, geochemical, and geophysical analyses,
- drilling,
- open-pit mining works,
- sampling,
- acquisition of extraction rights.

10.8. Intangible assets

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

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

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

Usufruct periods are verified annually and, if necessary, adjusted with effect from the beginning of the just ended financial year. Any changes resulting from the conducted review are recognised as a change in estimates.

Research and development costs

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

A summary of the policies applied in relation to the Group’s intangible assets is as follows:

	Concessions, patents and licenses	*Computer software*	*Other*
Periods of use	5 years	2 years	5 years

Applied depreciation method	Straight-line method	Straight-line method	Straight-line method
Internally produced or acquired	Acquired	Acquired	Acquired
The value impairment test	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.

Profits or losses resulting from removal of intangible assets from the balance sheet are valued according to the difference between the income from the net sales and the balance sheet value of a given asset component and are recognised in the profit or loss, when they are removed from the balance sheet.

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

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

10.9. Leasing

The Group as a lessee.

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

The principles of depreciation of fixed assets used under financial leasing should be coherent with the principles used for depreciation of the Group's own assets subject to depreciation. In the event of a lack of sufficient certainty that the lessor will obtain a tenure prior to the end of the lease period, fixed assets used under financial lease agreements are depreciated over the shorter of the two periods: the estimated useful life of a fixed asset or the lease term. The lease agreements, under which the lessor substantially retains all the risks and benefits of ownership of the leased asset, are classified as operating lease agreements. Lease payments under the operating lease agreement and subsequent lease instalments are recognised as operating costs in profit or loss on a straight-line basis over the lease term.

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

10.10. Fair value measurement

The Group measures financial instruments such as instruments available for sale, derivative instruments at the fair value, at each balance sheet date. In addition, the fair value of financial instruments measured in accordance with the depreciated cost was included in note 41.

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

- on the main market for a given component of assets or liability,
- in the event of absence of a principal market, in the market, which is most advantageous for the asset or liability.

Both, the main and the most advantageous markets must be available to the Group.

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

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

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

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

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

At each balance sheet date, in the event of assets and liabilities existing per each balance sheet date in the financial statement, the Group evaluates whether there were transfers between levels of the hierarchy through a re-assessment of the classification into different levels, following the materiality of input data from the lowest level, which is essential for the valuation to the fair value treated as a whole.

Summary of essential procedures for the fair value measurement

The Management Board of the Group determines the rules and procedures for both, the systematic valuation of non-listed financial assets at the fair value, as well as one-time valuations, e.g. in case of assets intended for sale within a discontinued activity.

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

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

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

10.11. Loss in value of non-financial fixed assets

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

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

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

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

10.12. Borrowing costs

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

10.13. Financial assets

Financial assets are classified into the following categories:

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

Financial assets maintained until the maturity date,

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

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

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

Financial assets measured at the fair value by the financial result

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

a) it is classified as held for trading. The components of financial assets are classified as held for trading, if they are:
   - principally acquired for the purpose of selling in a short period of time,
   - part of the portfolio of identified financial instruments that are managed together and for which there is a probability to generate profit in a short period of time,
   - derivatives, except for the derivatives that are part of hedge accounting and financial guarantee contracts,

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

The financial assets measured at the fair value by the financial result are measured at the fair value taking into account their market value at the balance sheet date without the sale transaction costs. Changes in the value of these financial instruments are recognised in the income statement as financial revenues or costs. If the contract contains one or more embedded derivatives, the whole contract can be classified as financial assets measured at the fair value by the financial result. It does not apply to cases where the embedded derivative does not significantly influence the cash flows of the contract or it is clear without conducting or after a superficial analysis that if a similar hybrid instrument was firstly considered then separating the embedded derivative would be prohibited. Financial assets at the initial recognition can be classified to the category measured at the fair value by the financial result if the following criteria are met: (i) such classification eliminates or significantly reduces inconsistency in terms of recognition or valuation (accounting mismatch); or (ii) assets are a part of a group of financial assets, which are managed and measured on the basis of the fair value, in accordance with a documented risk management strategy; or (iii) financial assets contain embedded derivatives that should be recognised separately. Neither as of 31 December 2016 nor 31 December 2015, any financial assets were classified to the categories measured at the fair value by the financial result.

Loans and receivables

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

Assets available for sale

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

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

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

In a situation, in which the Group:

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

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

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

10.14. Loss in value of financial assets

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

10.14.1. *Assets recognised in accordance with the depreciated cost*

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

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

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

10.14.2. *Financial assets stated at cost*

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

10.14.3. *Available-for-sale financial assets*

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

10.15. Other non-financial assets

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

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

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

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

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

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

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

10.16. Embedded derivatives

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

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

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

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

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

10.17. Financial derivative instruments and securities

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

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

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

Within the hedge accounting, securities are classified as:

- the fair value hedge securing against the risk of changes in the fair value of a recognised component of assets of liabilities, or

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

Securing the currency risk of the substantiated future liability is settled as the cash flow hedge.

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

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

In addition, the Group secures the cash flow associated with purchasing CO_2 emission allowances in the form of short-term forward contracts.

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

10.17.1. Fair value security

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

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

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

10.17.2. Cash flow security

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

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

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

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

The Group discontinues using the hedge accounting principles when the hedging instrument expires or was sold, its use terminated or it was executed, or the hedge no longer meets the conditions, which allow the application of hedge accounting principles to it. In such a case, the total profit or loss on a hedging instrument, which were recognised in other comprehensive income and accumulated in the equity are still stated in the equity until the forecast transaction takes place.

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

10.18. Inventories

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

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

- production fuel - weighted average method
- spare parts and other materials - weighted average method

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

Certificates of energy origin

Energy origin certificates received free of charge due to the production from renewable, gas, and co-generation sources are shown according to the fair value at the end of the month, in which they were produced. The outgoings of energy origin certificates are measured according to the FIFO method.

10.19. Trade receivables and other receivables

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

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

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

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

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

10.20. Cash and cash equivalents

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

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

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

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

After the initial recognition, the interest credits, loans and debt securities are measured in accordance with the depreciated cost.

While determining the depreciated cost, the costs associated with obtaining a credit or loan as well as discounts or premiums achieved in connection with the liability are taken into account.

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

10.22. Trade liabilities and other financial liabilities

Short-term liabilities for deliveries and services are stated in the payable amount.

Financial liabilities, which are measured at the fair value by the financial result, include financial liabilities intended for trading as well as financial liabilities initially classified to the categories measured to the fair value by the financial result. Financial liabilities are classified as intended for trading if they were acquired for the purpose of selling in the near future. Derivatives, including separated embedded instruments, are also classified as designed for trading unless they are considered effective hedging instruments. Financial liabilities at the initial recognition can be classified in the categories measured at the fair value by the financial result if the following criteria are met: (i) this classification eliminates or significantly reduces inconsistency of treatment when both the valuation and principles of recognising losses or profits are subject to other regulations; or (ii) liabilities are part of the group of financial liabilities, which are managed and measured on the basis of the fair value, in accordance with a documented risk management strategy; or (iii) financial liabilities contain embedded derivatives that should be recognised separately. Neither as of 31 December 2016 nor 31 December 2015, any financial assets were classified to the categories measured at the fair value by the financial result.

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

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

The Group excludes a financial liability from its balance when the liability expires – i.e. when the contractual obligation is fulfilled, redeemed or terminated. Replacing the existing debt instrument with the instrument of essentially different conditions made between the same entities is recognised by the Group as termination of the original financial liability and recognition of a new financial liability. Similarly, significant modifications of the contractual provisions concerning an existing financial liability are recognised by the Group as termination of the original one and recognition of a new financial liability. The difference of reference balance sheet values arising due to the replacement is shown in the profit or loss.

10.23. Other non-financial liabilities

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

10.24. Sharing profits for employee purposes and special funds

In accordance with the Polish economic practice, the stockholders/shareholders of entities can distribute the profits for employee purposes in the form of making a contribution to a social fund or other special funds. In the financial statement, in accordance with IFRS, this part of the profit distribution is recognised as operating costs of the period, in which the profit distribution was approved by a Shareholders Meeting, due to the fact that the Groups Companies are burdened with neither legal nor customary obligation to this type of the profit distribution.

10.25. Share-based payments

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

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

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

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

10.26. Provisions

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

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

In particular, the Group creates the following provisions:

- **provisions for post-employment benefits as well as jubilee awards**

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

- retirement or disability benefits, payable at the time of retirement,
- death benefits for families of deceased employees,
- coal benefits for employees of PAK KWB Konin and PAK KWB Adamów

The amount of benefits depends on the number of years of employment and the average salary of the employee. The Group creates provisions for these future liabilities for the purpose of allocating the costs to the periods that they concern. The current value of these liabilities at each balance sheet date is calculated by an independent actuary. The accumulated liabilities are equal to the discounted payments, which will be made in the future, taking into account the rotation of employment and they relate to the balance sheet date. Demographic information and information about the rotation of employment are based on historical data. Profits and losses of actuarial calculations are recognised in profit or loss.

- **Provision for the liquidation of fixed asset components**

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

- **Provisions for the liquidation of ash storage yards**

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

- **Provision for the submission to the redemption of certificates of origin of energy**

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

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

- **provisions for the liabilities due to the emissions of greenhouse gases and provisions for the redemption of certified emission reductions (EUA)**

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

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

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

- **reclamation provisions and other associated with mining activity**
    - the provision for liquidation of facilities and mining areas

On the basis of the Geological and Mining Law act, the companies conducting extraction activities are obliged to reclaim the areas of extraction works. Due to this, the Group creates a provision both, for the costs of area reclamation related to current coal extraction on a given open pit and for the costs of the final excavation reclamation in the state of advancement of coal extraction in particular open pits on every reporting date.

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

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

- The provision for the costs related to the preparation of exploitation areas

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

10.27. CO_2 emission allowances

The CO_2 emission allowances obtained free of charge are recognised in the financial statement as allowances intended for own needs at a zero value in the intangible assets item. The emission allowances and their equivalents purchased by the Group for own needs are recognised as intangible assets. These allowances are measured at the acquisition price. The provision for liabilities due to the emission of greenhouse gases included in the system of emission allowances is created only when the actual production emission shows a shortage of emission allowances in respect of the allowances granted for the entire reporting period. This provision is created according to the FIFO principle.

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

The provision is created in the amount of:

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

10.28. Revenues

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

10.28.1. Sale of goods and products

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

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

10.28.2. Provision of Services

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

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

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

10.28.3. Contracts for construction services

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

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

The contract performance progress is obtained by determining the share of contract costs, incurred due to the works executed until the valuation date, in the estimated total contract costs.

When the outcome of a contract cannot be estimated reliably:

a) negative revenues should be recognised only to the extent of incurred contract costs, which have a probability of being recovered; and

b) the contract costs are recognised as a cost for the period, in which they were incurred.

When it is probable that the total contract costs will exceed the total contract revenue, the expected loss shall be immediately recognised as an expense.

The gross payable amount from the employers for the works under the contract is recognised in the financial situation statement as assets and the gross amount payable to the employers for the works under the contract - as liabilities.

10.28.4. Revenues from compensation for stranded costs

The Group receives compensation for the coverage of the stranded costs pursuant to the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity. Revenue from compensation is recognised successively with the earned compensation rights at the end of each fiscal year, until the end of their validity period.

Per each revenue recognition moment, the Group determines a factor for estimated stranded costs to the total amount of received, returned, and expected discounted annual advance payments (including the previously received advance payments). The revenue amount for a given fiscal year is the product of the indicator and previously received amounts of advance payments adjusted with annual impairments, decreased by the revenues for compensation recognised in the previous years.

The difference between the total amount of the recognised revenue and the total amount of the received advance payments to the total amount of the stranded costs are recognised by the Group as:

- receivables, in the event of a negative difference between the total amount of received advance payments and the revenue recognised in relation to compensation,
- liabilities, in the event of a positive difference between the total amount of received advance payments and the revenue recognised in relation to compensation.

10.28.5. Government subsidies

In the event of a justified certainty that a grant will be acquired and all the associated requirements will be satisfied, then the government grants are recognised as per their fair value.

If the grant relates to a given cost item, then it is recognised as revenue in a manner commensurate with the costs, the grants is intended to compensate. If the grant relates to an asset component, then its fair value is recognised on the revenue account for future periods and then, gradually, through equal yearly write-downs, recognised in the profit or loss over the estimated period of use of the associated asset component.

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

10.29. Costs

Cost of goods sold

The cost of goods sold includes:

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

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

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

10.30. Other operating income and costs

Other operating income and costs include items mainly related to:

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

10.31. Revenues and financial costs

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

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

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

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

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

10.32. Taxes

10.32.1. Current tax

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

10.32.2. Deferred tax

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

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

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

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

- except for a situation when the assets for the deferred tax associated with negative transition differences as a result from the initial recognition of the assets or liability component for a transaction other than a combination of the entities, and at the time of its conclusion, have no influence on the gross financial result, nor on the taxable income or tax loss, and
- in case of negative temporary differences resulted from the investment in subsidiaries or associates and shares in joint ventures, the assets' component for the deferred tax is recognised in the balance sheet only to the extent that it is probable that in the predictable future, the above mentioned temporary differences will be reversed and the taxable income, which enables the negative temporary differences to be deducted, will be achieved.

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

An unrecognised deferred tax asset is re-assessed as at each balance sheet date, and is recognised at the amount reflecting the likelihood of achieving the future taxable income allows the recovery of this asset component.

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

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

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

10.32.3. Value added tax and excise tax

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

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

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

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

10.33. Net profit per one share

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

10.34. Acquisition under joint control

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

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

10.35. Obligation to purchase non-controlling interests

The Company's obligation to redeem the employee shares is recognised at the date of taking control, and refers to situations in which employees have the option of selling shares. According to the selected policy, non-controlling interests receive the allocation of the result and other total incomes in the subsequent reporting periods. At the end of every reporting period, the adjustment of non-controlling interest takes place, as if they were acquired while simultaneously recognising the liability due to the option to redeem shares. The difference between the value of the non-controlling shares derecognised at the reporting date and the recognised financial liability is included in the position of retained profits.

11. Acquisitions of ventures

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

12. Operating segments

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

Therefore, there are following operating segments:

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

- The Mining Segment covering the extraction of lignite. In the Mining Segment, within the Capital Group ZE PAK SA:
  - "PAK GÓRNICTWO" Sp. z o.o.
  - "PAK Kopalnia Węgla Brunatnego Konin" SA
  - "PAK Kopalnia Węgla Brunatnego Adamów" SA

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

- The Sales Segment performing services of the sale of electricity. The Sales Segment also includes the "PAK – Volt" SA company.

The Group ZE PAK SA also performs other kinds of activities included in the "Other" column. In 2015, there is the Eko – Surowce sp. z o.o. and Aquakon sp. z o.o. companies' activity.

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

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

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

Segments' results for periods concluded on 31 December 2016 and 31 December 2015 are presented below:

(in zloty thousand)

Year ended 31 December 2016

	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sales revenue to external customers	1 742 513	8 103	67 815	878 419	7 861	-	2 704 711
Sales revenue between segments	434 773	823 774	243 879	5	94 635	(1 597 066)	-
Sales revenue	**2 177 286**	**831 877**	**311 694**	**878 424**	**102 496**	**(1 597 066)**	**2 704 711**
Cost of goods sold	(1 875 674)	(695 462)	(297 418)	(869 559)	(103 973)	1 600 733	(2 241 353)
Gross profit / (loss)	**301 612**	**136 415**	**14 276**	**8 865**	**(1 477)**	**3 667**	**463 358**
Other operating income	6 787	18 835	1 237	1	303	(702)	26 461
Selling and distribution expenses	(2 726)	-	-	(470)	(1 164)	-	(4 360)
Administrative expenses	(37 625)	(41 576)	(20 875)	(4 589)	(3 971)	2	(108 634)
Other operating expenses	(1 959)	(2 684)	(769)	(42)	(75)	137	(5 392)
Finance income	5 628	3 389	221	277	6	(404)	9 117
Finance costs	(56 484)	(16 368)	(160)	(2)	(62)	404	(72 672)
Profit before tax	**215 233**	**98 011**	**(6 070)**	**4 040**	**(6 440)**	**3 104**	**307 878**
Income tax expense	(35 607)	(19 333)	(824)	(731)	(507)	(590)	(57 592)
Net profit/loss for the period from continuing operations	**179 626**	**78 678**	**(6 894)**	**3 309**	**(6 947)**	**2 514**	**250 286**
Profit / (loss) from operating activities, without financial operations and income tax	**266 089**	**110 990**	**(6 131)**	**3 765**	**(6 384)**	**3 104**	**371 433**
Depreciation / Amortization	112 206	105 323	6 796	71	1 974	(4 671)	221 699
Change in impairment	-	455	-	-	-	-	455
EBITDA	**378 295**	**216 768**	**665**	**3 836**	**(4 410)**	**(1 567)**	**593 587**

(in zloty thousand)

Year ended 31 December 2015

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

(in zloty thousand)

13. Revenues and costs

13.1. Sales revenue

	year ended 31 December 2016	*year ended 31 December 2015*
Revenues by type		
Electricity	1 611 297	1 604 406
Electricity resold from the market	737 746	906 021
Energy certificates of origin	812	33 901
Construction contracts	59 506	141 398
Compensation related to PPAs termination	207 158	173 435
Heat	60 541	60 874
Other	29 186	30 091
Excise	(1 535)	(2 310)
Total revenues by type	2 704 711	2 947 816

Revenues by territory	*year ended 31 December 2016*	*year ended 31 December 2015*
Poland	2 685 820	2 945 322
UE countries	17 121	1 613
Outside UE	1 770	881
Total revenues by territory	2 704 711	2 947 816

13.2. Other operating revenues

	year ended 31 December 2016	*year ended 31 December 2015*
Compensations received	3 650	997
Tax return on civil law transactions	117	-
Reversal of write-downs against receivables	-	7
Grants received	12 940	11 878
Reversal of provisions for costs and losses and liabilities write-off	7 323	8 002
Other	2 431	9 082
Total other operating income	26 461	29 966

The greatest components of the "Other" item in 2016 are depreciation of fixed assets purchased from the mine liquidation fund in the amount of zloty 348 thousand, return of compensation for occupation of land for mining purposes in the amount of zloty 286 thousand, redemption of the impairment write-down for materials in the amount of zloty 220 thousand, return of court costs in the amount of zloty 100 thousand.

(in zloty thousand)

13.3. Other operating expenses

	year ended 31 December 2016	*year ended 31 December 2015*
Loss on the sale of property, plant and equipment	1 384	519
Creation of provisions	527	998
Impairment write-down against receivables	438	148
Compensations paid	371	84
Loss on liquidation of fixed assets	33	9
Electricity-related damages	160	217
Donations given	229	259
Cost of trade unions	103	188
Cost of shortages and damages	158	663
Other	1 989	3 124
Total other operating expenses	5 392	6 209

The main components of the "Other" item in 2016 are legal and enforcement proceedings costs in the of zloty 565 thousand, property tax for previous years in the amount of zloty 268 thousand, compensatory benefits in the amount of zloty 261 thousand, utilisation costs in the amount of zloty 206 thousand.

13.4. Finance income

	year ended 31 December 2016	*year ended 31 December 2015*
Interest income	4 919	3 522
Dividends	60	49
Foreign exchange gains	-	1 649
Other	296	-
Total Finance income	3 842	1 276
Interest income	9 117	6 496

The main component of the "Other" item in 2016 is the profit from the sale of 25% of the shares in the Verano sp. z o.o. Company by PAK KWB Konin SA in the amount of zloty 2,784 thousand and the revenues from the forward foreign exchange contract in ZE PAK SA in the amount of zloty 1,011 thousand.

(in zloty thousand)

13.5. Finance costs

	year ended 31 December 2016	*year ended 31 December 2015*
Interest expenses	37 667	16 838
Valuation and realization of financial derivatives	7 379	8 426
Foreign exchange losses	12 782	5 893
Power units utilisation provision discount	429	416
Reclamation provision discount	7 682	8 019
Other	6 733	4 317
Total finance costs	72 672	43 909

The “Other” item in 2016 presents mainly fees regarding unused credit and bank guarantees in ZE PAK SA and PAK KWB Konin in the amount of zloty 4,054 thousand and the reversal of the discount of actuarial reserves in PZ KWB Adamów i PAK KWB Konin in the amount of zloty 1,093 thousand as well as the reversal of the discount of the provision for mining damage in PAK KWB Konin in the amount of zloty 372 thousand.

13.6. Costs by type

	year ended 31 December 2016	*year ended 31 December 2015*
Depreciation / Amortisation	221 699	393 705
Impairment write-downs against property, plant and equipment	455	1 896 189
Impairment write-downs against inventories	10 188	12 930
Materials	336 435	435 014
External services	66 041	100 786
Taxes and charges, excluding excise duty	204 688	211 623
Costs of allowances for emission of CO_2	311 328	320 216
Employee benefits	488 005	538 579
Other costs by type	48 354	16 597
Cost of goods for resale and raw materials sold and resale of electricity from the market	747 216	879 147
Total cost by type	2 434 409	4 804 786
Items included in cost of goods sold	2 241 353	4 651 152
Items included in selling and distribution expenses	4 360	4 920
Items included in administrative expenses	108 634	111 323
Change in the stocks of finished goods	77 800	35 557
Cost of goods and services for internal needs	2 262	1 834

(in zloty thousand)

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

	year ended 31 December 2016	*year ended 31 December 2015*
Items included in the cost of manufacture of sold products:		
Fixed assets depreciation	182 044	328 408
Depreciation of mining asset	14 384	42 187
Intangible assets depreciation	875	1 009
Impairment of inventory	11 859	12 839
Impairment of tangible fixed assets and mining assets	(1 338)	1 896 189
Impairment of intangible assets	1 338	-
	209 162	2 280 632
Items included in selling and distribution costs:		
Fixed assets depreciation	85	8
	85	8
Items included in administrative costs		
Fixed assets depreciation	23 878	21 412
Intangible assets depreciation	433	681
Impairment of tangible fixed assets	455	-
	24 766	22 093

13.8. Construction agreements

	year ended 31 December 2016	*year ended 31 December 2015*
Revenues from contracts for construction services recognised in the period	59 506	141 398
Revenues invoiced in the period	48 597	137 931
Balance sheet valuation	10 909	3 467
Costs applied in the period	51 153	140 189
Expected losses due to the contracts recognised in the period	-	15
Release of provision for contract losses	(78)	-
Results due to performance of the contracts included in the period	8 431	1 194

(in zloty thousand)

	year ended 31 December 2016	*year ended 31 December 2015*
Gross amount payable by contracting parties due to works resulting from the contract	8 168	3 349
Gross amount paid to contracting parties due to works resulting from the contract	3 990	10 080

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

14. Components of other comprehensive income

Components of other total revenues present as follows:

	year ended 31 December 2016	*year ended 31 December 2015*
Cash flow securities		
Profits (losses) for the period	7 379	(8 426)
Adjustment resulting from reclassification of profits (loses) included in the profit or the loss	(1 383)	15 586
Gross cash flow securities for the period	**5 996**	**7 160**
Income tax concerning cash flow securities	(1 139)	(1 360)
Net cash flow securities for the period	**4 857**	**5 800**
Actuarial gross profits (losses) concerning provisions for post-employment employee benefits	**4 613**	**246**
Income tax concerning actuarial profits (losses)	(876)	(47)
Actuarial net profits (losses) concerning provisions for post-employment employee benefits	**3 737**	**199**
Gross exchange rate differences from foreign currency conversion	**-**	**-**
Income tax concerning exchange rate differences from foreign currency conversion	-	-
Net exchange rate differences from foreign currency conversion	**-**	**-**
Other	**-**	**103**
Other gross comprehensive income	**10 609**	**7 509**
Income tax concerning other comprehensive income	**(2 015)**	**(1 407)**
Other net comprehensive income	**8 594**	**6 102**

(in zloty thousand)

15. Income tax

15.1. Tax load

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

	year ended 31 December 2016	*year ended 31 December 2015*
Included in the profit or the loss		
Current income tax		
Current income tax load	11 491	7 960
Deferred income tax load		
Related to creation and reversal of temporary differences	45 541	38 390
Other changes	560	223
Tax load in the consolidated profit or loss	**57 592**	**46 573**
Included in the consolidated statement of the comprehensive income		
Net profit (loss) tax due to revaluation of cash flow securities	(1 139)	(1 360)
Actuarial allowance concerning actuarial profits/losses	(876)	(47)
Tax advantage/(tax load) included in comprehensive income	**(2 015)**	**(1 407)**

(in zloty thousand)

15.2. Fixing of an effective tax rate

The agreement of income tax on the gross financial result before taxation according to the statutory tax rate with the income tax calculated according to the effective tax rate of the Group for the year ended on 31 December 2016 and 31 December 2015 is as follows:

	year ended 31 December 2016	*year ended 31 December 2015*
Gross profit before taxation from continuing operations	**307 878**	**(1 833 236)**
Tax at the statutory tax rate applicable in Poland, amounting to 19%	**58 497**	**(348 315)**
Adjustment concerning the current income tax from previous years	1	(268)
Not included tax losses	(4 639)	29 459
Usage of the tax losses not recognised earlier	(22)	-
Permanent differences and temporary differences on which were not recognized the asset and the reserve for deferred tax	4 387	363 139
Revenues permanently not constituting the tax base	(170)	(689)
Change related to the different tax rate in Germany (30%)	168	(66)
Others	(630)	3 313
Tax at an effective tax rate of 18.71% (in 2015 (2.54%)).	**57 592**	**46 573**
Income tax in profit and loss account	**57 592**	**46 573**

(in zloty thousand)

15.3. Deferred income tax

Deferred income tax results from following items:

			Consolidated profit and loss account for the year ended	
	31 December 2016	*31 December 2015*	*31 December 2016*	*31 December 2015*
Deferred tax asset				
Balance sheet provisions	127 581	142 348	(13 890)	1 536
Overburden and other mining assets	7 571	7 129	442	7 149
Interest and exchange rate differences	11 377	10 838	539	(2 584)
Hedging instruments	1 910	3 096	(46)	(55)
Valuation of non-terminated agreements for building services	1 726	3 996	(2 270)	(1 732)
Tax loss from previous years	35 964	12 342	23 622	(41 240)
Impairment write-down against inventories	1 936	1 781	155	196
Impairment write-down against receivables	714	1 465	(751)	(4 731)
Impairment write-downs against fixed assets	-	81	(81)	(45)
Difference between the carrying amount and tax value of fixed assets	3 537	1	3 536	(26)
Settlements with employees	5 139	5 991	(852)	(922)
Other	39 487	43 135	(3 648)	8 031
Total	236 942	232 203	6 756	(34 423)
Provision under deferred income tax				
Difference between the balance sheet value and the tax value of fixed assets	436 426	383 797	52 629	415
Receivables under PPAs	16 787	10 888	5 899	(1 847)
Energy certificates	2 615	12 315	(9 700)	(13 472)
Interest and exchange rate differences	2 531	1 538	993	(359)
Valuation of non-terminated construction agreements	2 247	2 209	38	(1 293)

(in zloty thousand)

Accrued receivables under contractual penalty fees	-	824	(824)	-
Mining asset	-	251	(251)	(597)
Purchased CO_2 allowances	73 632	69 624	4 008	21 460
Other	65	4	61	(339)
Total	534 303	481 450	52 853	3 968

After offsetting the balances at the level of the Group companies, the deferred tax is presented as:

Asset	**90 998**	**102 615**		
Provision	**388 359**	**351 862**		
The total load of deferred tax:			(50 129)	(39 797)
− in correspondence with the total income			(2 015)	(1 407)
− in correspondence with the financial result			(48 114)	(38 390)

In the deferred tax asset item, the main items in 2016 consist of zloty 12,589 thousand of the provision for the liability in relation to the Zarządca Rozliczeń company in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2015, the amount was zloty 13,539 thousand), zloty 8,352 thousand is a valuation of preferential loans in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2015, the amount was zloty 8,629 thousand), zloty 11,954 thousand is the provision for redemption of CO_2 emission allowances in Elektrownia Pątnów II sp. z o.o. (as of 31 December 2015, the amount was zloty 13,728 thousand).

The following is the status of the tax settlements of the Group's companies for tax losses as of 31 December 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 the next five tax years. However, the amount of deduction in any of these years must not exceed 50% of the loss amount.

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

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

As of 31 December 2015, Elektrownia Pątnów II sp. z o.o showed the tax profit in the amount of zloty 19,486 thousand.

As of 31 December 2015, the cumulative amount of unsettled tax losses amounted to zloty 187,402 thousand:

- for the tax year of 2010, the amount of zloty 10,369 thousand;
- for the tax year of 2011, the amount of zloty 177,033 thousand, including zloty 88,517 to be settled in 2016.

As of 31 December 2015, the company analysed opportunities of settlement of tax loses on the basis of the executed and budgeted tax results. In relation with the inability to deduct part of the tax loss for 2010 and the entire tax loss for 2011, the company made an impairment write-down against the deferred tax asset's amount amounting to zloty 24,820 thousand in the books of 2015; the net value of the asset amounted to 0 as of 31 December 2015.

As of 31 December 2016, PAK KWB Konin SA shows the following unsettled tax losses:

- for the tax year of 2012, the amount of zloty 12,679 thousand;
- for the tax year of 2013, the amount of zloty 8,729 thousand;
- for the tax year of 2015, the amount of zloty 919 thousand;

In the current period, PAK KWB Konin SA settled the part of the tax loss for 2012 in the amount of zloty 28,769 thousand, for 2013 in the amount of zloty 8,729 thousand, and for in the amount of zloty 919 thousand. As of 31 December 2016, the deferred income tax asset is zloty 52,786 thousand.

As of 31 December 2016, PAK KWB Adamów SA 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 zloty 4,168 thousand and the tax loss for 2014 in the amount of zloty 47 thousand. The deferred income tax asset is zloty 27,731 thousand.

As of 31 December 2016, ZE PAK SA shows the unsettled tax losses asset for 2013-2014 in the amount of zloty 24,414 thousand and the tax loss asset for 2016 in the amount of zloty 133,230 thousand. On the basis of the forecast positive tax results, deferred tax assets were created in the full amount that, according to the Company, will be settled in subsequent tax years.

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

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

The subsidiaries, PAK KWB Konin, PAK KWB Adamów, El PAK Serwis, EKO-Surowce, PAK-Volt, Energoinwest-Serwis, Aquakon, do not belong to the Intercompany Social Insurance Fund.

(in zloty thousand)

The Group compensated the assets of the Fund with their obligations to the Fund because these assets do not constitute separate assets of the Group. According to the above fact, the net balance as of 31 December 2016 is zloty 6,983 thousand (as of 31 December 2015 – zloty 6,5810 thousand respectively).

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

	31 December 2016	*31 December 2015*
Loans granted to the employees	4 221	6 339
Cash	10 612	9 961
Liabilities due to the Fund	(7 850)	(9 719)
Balance after compensation	6 983	6 581

	year ended *31 December 2016*	*year ended* *31 December 2015*
Write-offs for the Fund in the financial period	9 530	9 217

17. Profit / (loss) per one share

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

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

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

	31 December 2016	*31 December 2015*
Net profit / (loss) on continued activities of the parent company’s shareholders	247 674	(1 881 086)
Profit / (loss) on abandoned activities of the parent company’s shareholders	-	-
Net profit / (loss) of ordinary shareholders used for calculation of diluted profit / (loss) per one share	247 674	(1 881 086)
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547

The below table shows the profit / (loss) per one share in Polish zlotys for the year ended 31 December 2016 and 31 December 2015 presented in the profit and loss account.

(in zloty thousand)

	year ended 31 December 2016	*year ended 31 December 2015*
Basic and diluted profit / (loss) per share for the financial year attributable to equity holders of the parent	4,87	(37,01)
Basic and diluted profit / (loss) per share from continuing operations attributable to equity holders of the parent	4,87	(37,01)

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

18. Paid and proposed for payment dividends

In 2015, the ZE PAK SA Group recorded a net loss. Therefore, in 2016, the ZE PAK Group did not pay the dividend.

In 2015, the dividend for 2014 was paid in the amount of zloty 60,988, which meant that the amount of zloty 1.20 was per one share.

(in zloty thousand)

19. Tangible fixed assets

Year ended 31 December 2016

	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	47	25	1 532	332	703	60 920	63 559
Repairs	-	-	3 155	-	-	58 213	61 368
Transfer from fixed assets under construction	11 750	88 537	894 553	-	205	(995 045)	-
Sale and liquidation	(1 433)	(1 806)	(5 354)	(1 015)	(389)	(17)	(10 014)
Gross value as at 31 December 2016	235 209	2 014 362	4 862 243	69 615	29 082	243 951	7 454 462
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	2 508	53 378	138 718	9 269	2 134	-	206 007
Impairment write-down	-	51 530	634 082	-	-	(686 950)	(1 338)
Sale and liquidation	(7)	(991)	(3 491)	(904)	(380)	-	(5 773)
Depreciation and impairment write-downs as at 31 December 2016	7 932	1 128 103	2 763 323	38 921	20 766	104 171	4 063 216
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 December 2016	227 277	886 259	2 098 920	30 694	8 316	139 780	3 391 246

(in zloty thousand)

Year ended 31 December 2015

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

As of 31 December 2016, the balance sheet value of fixed assets, under financial lease agreements, is zloty 61,365 thousand (as of 31 December 2015 – zloty 74,530 thousand).

Lands and buildings of the balance sheet value of zloty 368,122 thousand (as of 31 December 2015 – zloty 365,536) are covered by a mortgage established to secure bank credits of the Group (note 36).

The value of capitalised external financing costs for the year concluded on 31 December 2016 was zloty 3,211 thousand (in the year concluded on 31 December 2015, it was zloty 11,766 thousand).

Moreover, the Group sold post-mining land of the net value of zloty 21 thousand.

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

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

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

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

The above-mentioned prerequisites were analysed in relation to all centers generating independent cash flows:

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

In distinguishing CGU within the companies of the Group, the independence of generating cash flows in terms of the functioning of the individual companies was analysed.

The parent company of the Group that is ZE PAK SA, 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 as well.

Elektrownia Pątnów II sp. z o.o. – 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.

The brown coal mines, PAK KWB Konin SA and PAK KWB Adamów SA, 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 the following units generating independent cash flows within the ZE PAK SA Capital Group:

- ZE PAK SA
- Elektrownia Pątnów II sp. z o.o.
- PAK KWB Konin SA
- PAK KWB Adamów SA

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

Conducting the value impairment test of fixed assets, the Group based on the financial model for 2014-2047 reflecting strategic priorities of the parent company – ZE PAK SA

The tests were conducted on 31 December 2016, evaluating cash generating units' use value.

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

In ZE PAK SA, one cash-generating unit (CGU) was determined, in which the following generation assets operate:

- the Pątnów I power plant – operation time until 31 December 2030
- the Adamów power plant – 31 December 2018
- the Konin-header power plant – operation time until 30 June 2020
- the Konin biomass unit power plant – operation time until 31 December 2047.

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

- the forecast of the electricity prices with the division into BASE, PEAK and OFFPEAK was adopted on the basis of the Report on the energy market in Poland prepared for ZE PAK SA by an independent external consultant;
- production assumptions result from the adopted investment and a renovation programme of ZE PAK SA. Reduction of electricity generation from brown coal and maintenance of generation for biomass-fired boiler are assumed.
- in the structure of total revenue in 2016-2017, on average, 85% are revenues from own and purchased electricity. From 2018, due to the exclusion of production in the Adamów Power Plant, total revenue will decrease by 40% in relation to 2017. In 2021, another decrease will take place when the units 5 and 6 as well as the boiler part in the Konin Power Plant do not work,
- the Company assumed the use of the free CO_2 emission allowances in the amount resulting from Article 10a of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003,
- the costs of brown coal purchased for generation were specified on the basis of the delivery schedule and the prices agreed with the appropriate schedules in financial projections of the subsidiaries,
- the effects of restructuring costs for the withdrawal of the old units in the Konin and Adamów Power Plants were taken into account,
- the new mechanisms of model changes of the Polish market including the introduction of the capacity market (electricity and power) and/or mechanisms guaranteeing a return on investments (contracts of differences) were not taken into account,
- the weighted average cost of capital after taxation (WACC) in the projection period at the level of 7.37% (in 2015, also 7.22%) was adopted.

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

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

(in zloty thousand)

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

The financial projections for PAK KWB Konin SA and PAK KWB Adamów SA were built taking into account the following parameters:

- the volume of production (extraction of coal) and revenue were determined on the basis of forecasts of the main recipients of coal that is ZE PAK SA and Elektrownia Pątnów II sp. z o.o. and the projected price curve of coal,
- stripping and extraction of coal were developed according to the schedule of utilisation of current and predicted open pits,
- the level of investment expenses enabling to build new open pits ensuring supplying the power plants and maintaining specified production capacities during their operation was accepted,
- the effects of employment restructuring processes were taken into account,
- costs of the following events were included:
    - costs of reclamation of open pits
    - pension provisions
    - costs of compensations due to the group dismissals
    - revenues from sale of the asset after the end of open pit utilisation.
- weighted average cost of capital after taxation (WACC) in the projection period for PAK KWB Adamów SA at 7.5% (in 2015, 7.5%) and for PAK KWB Konin SA at the level of 8.0% (in 2015, 7.9%) was adopted; the higher discount rate reflects the higher risk associated with the operation of PAK KWB Konin SA in the long term (longer perspective of the forecast), in particular in relation to investment activities related to the development of new brown coal deposits.

The tests were conducted as of 31 December 2016.

On the basis of the conducted tests, it was found that there is no need for recognition of impairment write-downs of the tangible fixed assets for the CGU ZE PAK SA, the CGU PAK KWB Adamów SA, and for the CGU PAK KWB Konin SA. Based on the test results, it was also not necessary to recognise the additional impairment write-downs of the CGU ZE PAK SA assets. On the basis of the carried out analysis and test results, an increase in the estimated service potential of fixed assets for CGU ZE PAK SA was not determined, therefore, the reversal of previously recognised impairment write-downs in the amount of zloty 1,880,000 thousands was not conducted. In relation to the information in note 43, the sensitivity analysis of the value impairment tests of tangible fixed assets was conducted at assuming the lack of postponements in the planned schedules of construction and exploitation of coal from the Ościslowo open pit.

As of 31 December 2016	*the tested value*	*stated the impairment of the asset*	*the value after the excerpt*
ZE PAK SA	1 433 913	0	1 433 913
Total	1 433 913	0	1 433 913

Sensitivity analysis

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

(in zloty thousand)

Zespół Elektrowni Pątnów-Adamów-Konin SA	*(+) increase by 1.0 percentage points*	*(-) decrease by 1.0 percentage points*
weighted average cost of capital	(22 m)	23 m
	(+) increase by 1%	(-) decrease by 1%.
change in sales revenues (electricity price)	68 m	(68 m)
	(+) increase by 5%	(-) decrease by 5%.
change in cost of sales (price of 1 EUA)	(52 m)	52 m

PAK KWB Konin SA	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
weighted average cost of capital	(64 m)	73 m
	(+) increase by 1%	(-) decrease by 1%
change in sales revenues	46 m	(46 m)

In the case of a decrease in revenues from sales by 1.2 % in a perspective of the forecast as the other parameters of the recoverable value determination remain unchanged and in case of increase of the weighted average cost of capital by 0.83 percentage points, while the other model parameters are unchanged, the recoverable value of the CGU would be equal to the balance sheet value.

PAK KWB Adamów SA	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
weighted average cost of capital	3 m	(3 m)
	(+) increase by 1%	(-) decrease by 1%
change in sales revenues	2 m	(2 m)

In the case of a decrease in revenues from sales by 4.0% in a perspective of the forecast as the other parameters of the recoverable value determination remain unchanged, and in case of a decrease of the weighted average cost of capital by 1.9 percentage points, while the other model parameters are unchanged, the recoverable value of the CGU would be equal to the balance sheet value.

20. Lease

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

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

As of 31 December 2016, and 31 December 2015, future minimal lease payments due to financial lease agreements and lease agreements with purchase option, as well as current value of minimal net lease payments are as follows:

	as at 31 December 2016		as at 31 December 2015	
	minimum payments	*present value of payments*	*minimum payments*	*present value of payments*

Up to 1 year	7 572	7 189	15 065	14 246
1 to 5 years	4 249	3 962	11 155	11 250
Over 5 years	-	-	-	-
Total minimal lease payments	11 821	11 151	26 220	25 496
Minus finance expenses	(670)	-	(724)	-
Present value of minimal lease payments, including:	11 151	11 151	26 151	25 496
Short-term	7 171	7 189	15 031	14 246
Long-term	3 980	3 962	11 120	11 250

(in zloty thousand)

21. Intangible assets

Long-term intangible assets – year ended 31 December 2016

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2016	12 054	19 558	1 949	395	33 956
Transfer EUA	(14 671)	-	-	-	(14 671)
Increases	-	-	(26)	-	(26)
Decreases	117 120	1 982	75	36	119 213
Gross value as of 31 December 2016	114 503	21 540	1 998	431	138 472
Depreciation and impairment write-downs as at 1 January 2016	-	14 525	1 719	323	16 567
Depreciation write-down for the period	-	1 080	207	21	1 308
Impairment write-down	-	1 338	-	-	1 338
Decreases	-	-	(23)	-	(23)
Depreciation and impairment write-downs as at 31 December 2016	-	16 943	1 903	344	19 190
Net value as at 1 January 2016	12 054	5 033	230	72	17 389
Net value as at 31 December 2016	114 503	4 597	95	87	119 282

In the EUA Transfer, the Group presents transfer of CO_2 allowances between long-term and short-term intangible assets.

(in zloty thousand)

Long-term intangible assets – year ended 31 December 2015

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2015	76 538	18 549	1 847	384	97 318
Transfer EUA	(76 538)	-	-	-	(76 538)
Increases	-	(1)	(200)	-	(201)
Decreases	12 054	1 010	302	11	13 377
Gross value as of 31 December 2015	12 054	19 558	1 949	395	33 956
Depreciation and impairment write-downs as at 1 January 2015	-	13 286	1 475	294	15 055
Depreciation write-down for the period	-	1 239	422	29	1 690
Impairment write-down	-	-	-	-	-
Decreases	-	-	(178)	-	(178)
Depreciation and impairment write-downs as at 31 December 2015	-	14 525	1 719	323	16 567
Net value as at 1 January 2015	76 538	5 263	372	90	82 263
Net value as at 31 December 2015	12 054	5 033	230	72	17 389

In the EUA Transfer, the Group presents transfer of CO2 allowances between long-term and short-term intangible assets. .

(in zloty thousand)

Short-term intangible assets

	31 December 2016	*31 December 2015*
	CO_2 Emission units (EUA)	*CO_2 Emission units (EUA)*
Gross value as of 1 January	354 389	176 957
Purchase of EUA	258 365	275 175
Redemption of EUA	(354 389)	(174 281)
Transfer of EUA	14 671	76 538
Gross value as of 31 December	273 036	354 389
Redemption and impairment as of 1 January	-	-
Impairment write-down of a period	-	-
Depreciation and impairment write-down as of 30 December	-	-
Net value as of 1 January	354 389	176 957
Net value as of 31 December	273 036	354 389

22. Assets for overburden removal and other mining assets

As of 31 December 2016, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets in PAK KWB Konin in the amount of zloty 79,612.

	31 December 2016	*31 December 2015*
Status as of 1 January	94 057	150 457
Increases	-	(16 189)
Decreases	1 306	1 976
Depreciation for the period	(455)	-
Impairment (change)	(14 384)	(42 187)
Status as of 31 December:	80 524	94 057
– long-term	80 524	92 748
– short-term	-	1 309

(in zloty thousand)

23. Other assets

23.1. Other financial assets

	31 December 2016	*31 December 2015*
Deposits for debt service security	76 484	74 789
Investments and deposits	2 540	2 709
Investments and FLZG and FRZG deposits	7 810	7 637
Shares	167	2 451
Other	2 261	3 145
Total other financial assets:	89 262	90 731
– short-term	77 317	76 979
– long-term	11 945	13 752

The main component of the “Other” item in 2016 is the shares of Wielkopolskie Centrum (Wielkopolska Logistics Centre) in PAK Serwis sp. z o.o. in the amount of zloty 418 thousand and loans granted to employees in PAK KWB Konin SA in the amount of zloty 444 thousand.

23.2. Other non-financial assets

	31 December 2016	*31 December 2015*
VAT receivables	22 184	4 031
Insurance	1 561	1 519
Other receivables from the state budget	-	1 783
Other accruals	98	-
Delivery prepayments	3 359	6 235
Prepayments for intangible assets	905	813
Prepayments for assets under construction	187	1 834
Prepayments for tangible assets – land	5 880	5 848
Other	328	461
Total other non-financial assets:	34 502	22 524
– short-term	28 776	12 497
– long-term	5 726	10 027

The greatest components of the item of other prepayments are the settlements related to license fees in the amount of zloty 956 in ZE PAK SA and the settlements of valuation of fixed assets held for sale in the amount of zloty 908 thousand in PAK KWB Konin SA.

(in zloty thousand)

24. Employee benefits

24.1. Pension benefits and other post-employment benefits

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

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

	Provision for pension, retirement, and survival benefits	*Anniversary premiums*	*Subsidies to electricity/coal benefits*	*Total*
as of 1 January 2016	**42 310**	**16 352**	**27 794**	**86 456**
Current service cost	2 103	1 543	-	3 646
Interest costs	1 020	425	723	2 168
Actuarial profits and losses	(2 535)	(299)	(1 823)	(4 657)
Paid benefits	(4 079)	(2 351)	(2 982)	(9 412)
Past service cost	(10 527)	(12 584)	-	(23 111)
Other	-	-	-	-
as of 31 December 2016	**28 292**	**3 086**	**23 712**	**55 090**
Long-term provisions	25 159	2 547	20 881	48 587
Short-term provisions	3 133	539	2 831	6 503

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

The main factor of the decrease in the value of provisions for jubilee awards was an agreement with the trade unions in the Group in terms of liquidation of jubilee awards in the Collective Labour Agreement.

(in zloty thousand)

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

	Year ended 31 December 2016	*Year ended 31 December 2015*
discount rate	3,5%	2,6%
expected inflation rate	2,5%	2,5%
expected remuneration growth rate	depending on company in range from 0 % to 3 %	depending on company in range from 0 % to 3 %

25. Inventories

	31 December 2016	*31 December 2015*
Production fuel	9 161	14 745
Spare parts and other materials	74 608	67 019
Certificates of origin of energy	21 406	75 532
Goods	121	219
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	105 296	157 515

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

As of 31 December 2016, the Group possessed in total, according to entries in the records, 353,874.513 MWh of property rights of green certificates and the produced green energy, which is not yet verified by ERO, of which 134,408.902 MWh are the already obtained property rights, while 186,300.887 MWh are the green power production in July, August, September, October, and November 2016 awaiting for confirmation in the ERO, and 33,164.724 MWh are the production of December 2016 awaiting for submission of an application by the Company. The Company submitted the application for granting property rights for July to PSE SA on 23 August 2016, for August – on 19, for September – on 11 October; for October – on 17 November; for November – on 15 December; for December – on 10 January 2017. In 2016, the Group received the outstanding certificates for 2015 in the number of 115,301.589 MWh for production in the fourth quarter of 2015, and 174,206.391 MWh for production in the first half of 2016. During the current reporting period, the Group performed production from renewable sources and, in the balance sheet, presented the green certificates at prices current at the end of each month.

The impairment write-down against the inventory value as of 31 December 2016 in the amount of zloty 9,845 thousand concerns revaluation of rights in possession of the Company on 31 December 2016 to the unit price in the amount of 37.76 zloty /MWh.

(in zloty thousand)

26. Trade receivables and other receivables

	31 December 2016	*31 December 2015*
Trade receivables	126 793	179 735
Receivables due to compensation related to the termination of the PPAs	88 350	57 307
Receivables due to security of purchase of electricity in the balancing market	8 674	7 826
Other receivables	22 208	23 255
Net receivables	246 025	268 123
Write-down of receivables impairment	41 947	41 840
Gross receivables	287 972	309 963

In the other receivables line, as of 31 December 2016, the Group presents mainly receivables due to the security deposit in the amount of zloty 15,091 thousand.

Terms of transactions with affiliates are presented in the note 37.

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.

As of 31 December 2016, receivables due to supplies and services and other receivables in the amount of zloty 41,947 thousand (as of 31 December 2015: zloty 41,840 thousand) were included in the write-off. Changes in the receivables impairment write-downs were as follows:

	31 December 2016	*31 December 2015*
Impairment write-down as of 1 January	41 840	41 995
Increase	568	857
Use	(315)	(5)
Redemption	(146)	(1 007)
Impairment write-down as of 31 December	41 947	41 840

The following is an analysis of receivables due to supplies and services and other receivables, which, as of 31 December 2016 and 31 December 2015 were expired, but were not considered to be non-collectible and are not included in the write-off.

			Expired, but collectible				
	Total without write-down	*Not expired*	<30 days	30-60 days	60-90 days	90-120 days	>120 days
31 December 2016	246 025	217 297	10 135	6 929	5 246	2 507	3 911
31 December 2015	268 123	238 152	18 515	7 964	1 067	211	2 214

(in zloty thousand)

27. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 31 December 2016 amounts to zloty 350,101 thousand (as of 31 December 2015: zloty 383,354 thousand).

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

Structure of cash

	31 December 2016	*31 December 2015*
Cash in hand and at bank:	229 498	238 019
Short-term deposits	120 603	145 335
Total cash and cash equivalents in the balance sheet	350 101	383 354
Foreign exchange differences	(1 454)	(36)
Total cash and cash equivalents in cash flow statement	348 647	383 318

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

	31 December 2016	*31 December 2015*
Depreciation:		
Depreciation shown in the income statement	221 699	393 705
Settlement of subsidies	(2 877)	(1 786)
Depreciation shown in the cash flow statement	(10 993)	(10 984)
depreciation shown in cash flow statement	207 829	380 935

The settlement of sale-and-lease-back concerns an excess due to sale of assets components and lease them back in PAK KWB Konin. The amount of zloty 10,993 thousand adjusted for depreciation (in 2015, the amount of zloty 10,984 thousand).

(in zloty thousand)

	31 December 2016	*31 December 2015*
Receivables:		
Balance sheet change in trade receivables and other receivables	22 098	(14 146)
Balance sheet change in other long and short-term non-financial assets	(11 978)	42 859
Balance sheet change in amounts due from clients under PPAs	(4 819)	6 698
Change in advances for fixed assets under construction	(1 637)	(17 203)
Other changes	(541)	(2 106)
Change in receivables shown in the cash flow statement	3 123	16 102

	31 December 2016	*31 December 2015*
<u>Liabilities:</u>		
Balance sheet change in trade liabilities and other financial liabilities, long and short-term	(10 524)	(140 688)
Balance sheet change in other non-financial liabilities	(6 123)	(11 461)
Balance sheet change in amounts paid to clients under PPAs	(6 090)	(10 165)
Change in liabilities under investment settlements	57 179	47 704
Purchase of debt securities	5 030	-
New lease agreements and payment of lease liabilities	15 192	6 157
Change in liabilities under purchase of allowances of emission CO_2	(59 951)	-
Other changes	170	19 886
Change in liabilities shown in the cash flow statement	(5 117)	(88 567)

(in zloty thousand)

	31 December 2016	*31 December 2015*
Change in provisions, prepayments and accruals and employee benefits:		
Change in provisions and prepayments	(87 883)	156 683
Change in long and short-term employee benefits	(31 367)	(60 651)
Decrease of provision from redemption EUA	354 389	174 281
Change in actuarial provisions indicated in other comprehensive income	4 613	246
Other changes	(566)	(2 350)
Change in provisions, prepayments and accruals and employee benefits	239 186	268 209

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

28. Share capital and others capitals

28.1. Share capital

Share capital	*31 December 2016*	*31 December 2015*
50 823 547 shares with a nominal values of zloty 2 each	101 647	101 647
	101 647	101 647

28.1.1. Shares nominal value

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

28.1.2. Shareholders rights

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

28.1.3. Shareholders with significant share

	31 December 2016	*31 December 2015*
Elektrim SA		
share in capital	0,39%	0,39%
share in voting right	0,39%	0,39%
Embud sp. z o.o.		
share in capital	1,16%	1,16%
share in voting right	1,16%	1,16%
Trigon XIX Fundusz Inwestycyjny Zamknięty		
share in capital	19,68%	19,68%

(in zloty thousand)

share in voting right	19,68%	19,68%
Argumenol Investment Company Limited		
share in capital	30,32%	12,61%
share in voting right	30,32%	12,61%
Nationale - Nederlanden OFE		
share in capital	9,97%	9,97%
share in voting right	9,97%	9,97%
Towarzystwo Funduszy Inwestycyjnych PZU SA		
share in capital	6,06%	-
share in voting right	6,06%	-
OFE PZU Złota Jesień		
share in capital	5,24%	-
share in voting right	5,24%	-
IPOPEMA 116 Fundusz Inwestycyjny Zamknięty		
share in capital	-	17,71%
share in voting right	-	17,71%
Others		
share in capital	27,18%	38,48%
share in voting right	27,18%	38,48%
	100,00%	100,00%

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

29. Supplementary capital

As of 31 December 2016, the structure of the supplementary capital origin in the amount of zloty 1 028 647 thousand is as follows:

- from the sale of shares above their nominal value 380 030
- created in accordance with the articles of association above the statutory (minimum) value 521 904
- other 126 713

29.1. Other reserve capitals

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

The value of the reserve fund consists of the Privatisation Fund in the amount of zloty 3,472 thousand, which was created from the profit of 1994, on the basis of a resolution of the Extraordinary General Meeting of the newly established Company, and the values related to the redemption of own shares in the amount of zloty 2,405 thousand. Due to the negative result of ZE PAK SA for 2015 in the amount of zloty 1,515,851 thousand, the General Meeting of the Company, on 28 June 2016, adopted a resolution no. 5 on covering the Company’s loss for 2015. According to the resolution, the General Meeting allocated the amount of zloty 2,405 thousand from the reserve capital. The total value of other reserve capitals, as of 31 December 2016, is zloty 3,472 thousand.

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

(in zloty thousand)

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

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

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

In the Group, as of 31 December 2016, the full amount of non-divided profit (including the equivalent of reserve and supplementary capitals created within the division of profits in the previous years) is subject to the restriction on payment of dividend. The following conditions are the basis of such an assumption:

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

As of 31 December 2016, there are no other restrictions on the payment of the dividend.

29.3. Non-controlling interest

	Year ended 31 December 2016	*Year ended 31 December 2015*
At the beginning of the period	-	-
Acquisition - defining non-controlling interest at the acquisition date	30 971	30 971
Employee share program - correction of the original settlement	(955)	(955)
The result of subsidiaries in a given year - attribution to non-controlling interests	2 612	1 278
Settlement PUT options - the recognition of the commitment to purchase employee shares	(30 971)	(30 971)
Settlement PUT option - recognition of the difference between the value of non-controlling interest and obligation at end of period	(1 657)	(323)
Total	-	-

Allocation of the result to the non-controlling interests

In the consolidated financial statement, 15% of the PAK KWB Adamów's result and 15% of the PAK KWB Konin's result for the 19 July 2012 – 31 December 2013 period and for the 1 January 2014 – 31 December 2014 period were allocated as a profit of non-controlling shareholders. In 2015 and 2016, in connection with the ongoing employee shares redemption, the profit for non-controlling shareholders was allocated in proportion to the shares volume of non-controlling shareholders.

Recognition of the ZE PAK SA's obligation to purchase the remaining shares in PAK KWB Konin SA and PAK KWB Adamów SA

In accordance with the IFRS, ZE PAK SA recognised the obligation to purchase the shares of PAK KWB Konin SA and PAK KWB Adamów SA possessed by the non-controlling interest on the day of the acquisition of control.

In the shares sale agreement of KWB Konin SA and KWB Adamów SA concluded between ZE PAK SA and the State Treasury on 28 May 2012 (hereinafter "Shares Sale Agreement"), ZE PAK SA submitted an irrevocable offer of purchasing the remaining shares of both mines to the State Treasury, under the terms set forth in this agreement, which will not be acquired from the State Treasury by the entitled employees and their legal successors on the basis of the Act of 30 August 1996 on the commercialisation and certain powers of employees. In accordance with the provisions of this act, the entitled employees of KWB Konin SA and KWB Adamów SA are entitled to acquire free of charge up to 15% of the shares of the company covered by the State Treasury on the date of entering a given company into the register. In accordance with the Shares Sale Agreement, ZE PAK SA's purchase of the remaining mines' shares from the State Treasury, not covered by the entitled employees or by their legal successors, will take place at a price per share equal to, respectively, the price of one share of KWB Konin SA and KWB Adamów SA in the transaction of sale of 85% of KWB Konin SA and KWB Adamów SA's shares of Konin to ZE PAK SA by the State Treasury, index-linked by the consumption products and services price indicator announced by the CSO President. In accordance with the Shares Sale Agreement, the offer of purchasing the remaining shares of KWB Konin SA and KWB Adamów SA are submitted by ZE PAK SA to the State Treasury, which is referred to above, is binding until 28 February 2017.

In addition, in accordance with the Shares Sale Agreement, ZE PAK SA obliged to, under the terms as provided for in this agreement, submit to the entitled employees of KWB Konin SA and KWB Adamów SA, who acquired free of charge the shares from the State Treasury on the basis of the Act of 30 August 1996 on the commercialisation and certain powers of employees, the offer to purchase these shares at a prices equal to, respectively, the price of one share of KWB Konin SA and KWB Adamów SA in the transaction of sale of 85% of KWB Konin SA and KWB Adamów SA's shares of Konin to ZE PAK SA by the State Treasury. In the implementation of this obligation, after the expiry of the prohibition on trading the employee shares specified in article 38 paragraph 3 of the Act of 30 August 1996 on the commercialisation and certain powers of employees, ZE PAK SA began the process of employee share redemption, within which ZE PAK SA offered the people, who expressed the interest in disposal of PAK KWB Konin SA and PAK KWB Adamów SA's shares, to redeem them under terms set forth in the Shares Sale Agreement. By the end of 2016, as a result of that redemption process, most employee shares of PAK KWB Konin SA and PAK KWB Adamów SA were acquired. ZE PAK SA still plans to purchase the employee shares of PAK KWB Konin SA and PAK KWB Adamów SA and continues the redemption process at the currently offered price.

As of 31 December 2016, the remaining amount on the purchase of PAK KWB Konin SA and PAK KWB Adamów SA amounted to zloty 6,061 thousand.

(in zloty thousand)

30. Interest-bearing loans and borrowings

Short term	*Maturity*	*31 December 2016*	*31 December 2015*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	142 567	136 548
Overdraft facility at BRE Bank in the amount of zloty 9 700 thousand; interest rate at WIBOR 1M + bank margin	21.04.2016	-	9 580
Overdraft facility at BZ WBK in the amount of zloty 65 000 thousand; interest rate at WIBOR 1M + bank margin	30.06.2017	28 670	64 385
Investment loan from BZ WBK SA in the amount of zloty 46 463 thousand; interest rate at WIBOR 1M + bank margin	31.12.2016	-	12 438
Credit services agreement in mBank SA to amount of zloty 61 590 thousand – discounting of bills of exchange, interest rate at WIBOR 1M + bank margin	30.06.2016	-	3 851
Bank BPH SA – loan agreement in the amount of zloty 67 000 thousand	31.05.2017	63 061	50 884
Overdraft facility at Millennium Bank in the amount of zloty 76 500 thousand; interest rate at WIBOR 3M + bank margin	31.12.2017	28 765	28 765
Syndicated investment loan in amount of zloty 577 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.03.2020	146 260	67 642
Syndicated overdraft facility in amount of zloty 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.03.2020	12 369	12 300
Overdraft facility in amount up to 1 000 thousand zloty 30.05.2017	31.05.2017	266	150
TOTAL		**421 958**	**386 543**

Long term	*Maturity*	*31 December 2016*	*31 December 2015*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	244 556	360 627
Overdraft facility at Millennium Bank in the amount of zloty 76 500 thousand; interest rate at WIBOR 3M + bank margin	31.12.2017	-	28 765

(in zloty thousand)

Syndicated investment loan in amount of zloty 577 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.03.2020	283 045	465 400
Syndicated overdraft facility in amount of zloty 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.03.2020	60 250	69 727
TOTAL		**587 851**	**924 519**

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

31. Provisions and accruals

31.1. Accruals

	31 December 2016	*31 December 2015*
Bonus and holiday leave provision	29 371	35 624
Insurance company compensations	16	41
Audit of the financial statement	570	393
Others	1 886	1 717
Total	31 843	37 775
short-term	31 843	37 775
long-term	-	-

(in zloty thousand)

31.2. Change in provisions

	Provision for EUA redemption	*Provision for the fixed assets liquidation costs*	*Provision for the reclamation of ash storage yards*	*Provision for the long-term contract loss*	*Provision for the certificates of origin of energy redemption*	*Reclamation provisions and other provisions related to mining activities*	*Other*	*Total*
as of 1 January 2016	354 389	16 419	1 698	148	9 449	330 561	53 487	766 151
increase	313 105	429	-	86	7 838	1 676	1 500	324 634
decrease	(354 389)	-	(693)	(221)	(9 449)	(24 400)	(17 435)	(406 587)
as of 31 December 2016	313 105	16 848	1 005	13	7 838	307 837	37 552	684 198
long term	-	16 848	755	-	-	287 966	6 684	312 253
short term	313 105	-	250	13	7 838	19 871	30 868	371 945
as of 1 January 2015	176 957	14 671	4 025	98	6 056	343 828	66 357	611 992
increase	351 713	1 748	-	64	9 449	10 718	4 509	378 201
decrease	(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

31.3. Description of significant titles of provisions

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

The Group recognises the provision for the redemption of greenhouse gases emission allowances and certified emission reductions (EUA).

Since 1 January 2013, the next reporting period of 2013 – 2020 concerning emission allowances has been applicable. This period's assumption is granting the Group the free EUA allowances resulting from the production of heat. Although, power engineering was additionally covered by opportunity of derogation. Derogation resulting from Article 10c of the ETS Directive is based on granting additional free allowances, provided that declared investment expenses for investments reported to the National Investment Plan are paid. The ZE PAK SA submits to the Ministry of the Environment the annual material and financial statements from investment expenses paid for tasks reported to the National Investment Plan, applying for granting free EUAs for the subsequent reporting years at the same time.

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

In 2015, the emission in the ZE PAK SA Group amounted to 12,257,921 tonnes of CO_2.

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

At the same time, in February 2016, the Group received free EUAs for heat for 2016 (acc. to Art. 10A of the ETS Directive) in the amount of 101,259 EUAs. Then, in April 2016, the Group received free EUAs for derogation of 2015 (Art. 10C of the ETS Directive) in the number of 329,417 EUA and redeemed the CO_2 emission for 2015 in the number of 12,257,921 tonnes of CO_2.

Throughout 2016, the Group was successively purchasing the CO_2 emission allowances for the needs of 2016, thus the total purchase of EUAs in the Group, which were credited to the account on the European Union register in 2016, was 13,390,500 EUAs, and the stock of EUAs in the Group after all the above described operations as of 31 December 2016 was 13,820,841 EUAs.

The provision for the burden of core operating activities for the purchased CO_2 emission allowances, which the Group wants to present for the redemption for 2016, is being created. As the actual redemption of allowances happens, the provision created earlier will be used.

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

The Group creates the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the "Integrated Permits." The basis of estimation of the provision size are specialised studies and technical and economical expert reports developed by domestic services or external experts. The value of the provision is estimated and verified on every balance sheet date on the basis of current cost estimates and a discount. As of 31 December 2016, the created provision amounted to zloty 1,005 thousand.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group creates the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 31 December 2016, the provision due to this amounted to zloty 16,848 thousand.

31.3.3. Reclamation provisions and other provisions related to mining activities

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

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

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

The provision for the liquidation of facilities and reclamation of mining areas, and due to preparation of exploration areas in PAK KWB Konin and PAK KWB Adamów according to the status as of 31 December 2016 amounted to zloty 307,837 thousand and decreased in comparison with the year concluded on 31 December 2015 by zloty 22,724 thousand. While calculating the provision, the Group accepted the following assumptions: the discount rate at the level of 3.5%, inflation at the level of 2.5%.

31.3.4. Provision for redemption of energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation. As of 31 December 2016, the provision due to this amounted to zloty 7,838 thousand.

31.3.5. Other provisions

In PAK KWB Konin, the main items of other reserves as of 31 December 2015 are: provisions for mining damage in the amount of zloty 12,980 thousand, the provisions for pending legal proceedings in the amount of zloty 425 thousand. In PAK KWB Adamów: provisions for permanent taking out of production for the final reservoir of the Adamów open pit in the amount of zloty 15,828 thousand, the provision for mining damage in the amount of zloty 3,881 thousand, the provisions for legal proceedings in the amount of zloty 684 thousand. In addition, in El PAK and PAK SERWIS, the provisions for warranty repairs in the amount of zloty 2,237 thousand.

32. CO2 emission allowances

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

In December 2013, the Ministry of Environment issued the sample of a material and financial statement, which is sent annually by the ZE PAK SA Capital Group to the Ministry in the scope of incurred investment expenses for investment tasks reported to the National Investment Plan in order to use derogation for power engineering within Article 10c of the ETS Directive. For the incurred investment expenses from 1 July 2014 to 30 June 2015, the Group submitted the material and received 329,417 free EUAs that the Group were credited to the Group's account in April 2016 and were used for redemption of the emission for 2015.

Since 2015, there has been a change in the way of the publication of information on free CO_2 emission allowances. According to the new Act of 12 June 2015 on the CO2 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 by 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 SA Group will receive 329,417 of EUAs for 2015 acc. to the Art. 10c (derogation) and 101,259 EUAs for 2016 acc. to Art. 10A of the Directive for heat production.

For the Elektrownia Pątnów II sp. z o.o.'s system, a specified number of CO_2 emission allowances was allocated. However, for this system, any investment task that would cover receivables for CO_2 emission allowances were not reported to the National Investment Plan, so allocation of free EUA units for this system depends on expenses for tasks conducted for the systems of ZE PAK SA.

(in zloty thousand)

It should be also noted that in 2014, the purchase of ERUs under the current settlement period, which were then used by the Company for redemption for 2014, and at the same time, the Company used the opportunity to purchase 11% EUAs in order to exchange them for cheaper CERs or ERUs (10% from the period of 2008 – 2012, and 1% from the period of 2013 – 2020), and at the same time, it finished the exchange of EUAs to CERs or ERUs in the period of 2013 – 2020.

In 2015, the emission in the ZE PAK SA Group amounted to 12,257,921 tonnes of CO_2.

As of 1 January 2016, the Group possessed the purchased EUAs in the number of 12,257,586 tonnes. In February 2016, the Group received free EUAs for heat for 2016 (acc. to Art. 10a) in the amount of 101,259 EUAs. Then, on 22 April 2016, the Group received 329,417 free EUAs pursuant to Art. 10c for 2015.

Also in April 2016, the Group, in the period from 1 to 25 April this year, redeemed the CO_2 emission for 2015. ZE PAK SA redeemed 9,907,506 EUAs for 2015, while Elektrownia Pątnów II sp. z o.o. redeemed 2,535,415 EUAs.

After the redemption, 5,905,424 EUAs purchased in the period from January to April 2016 and the part of old inventory, which was transferred to the redemption of the emission for 2016, remained in the Group.

In the remaining quarters of 2016, the Group was further purchasing for the needs of 2016, thus the total purchase of EUAs in the Group, which were credited to the account on the European Union register in 2016, was 13,390,500 EUAs, and the stock of EUAs in the Group after all the above described operations as of 31 December 2016 was 13,820,841 EUAs.

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

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

CO2 emission allowances in the year ended 31 December 2016

(in tons)		*Zespół Elektrowni Pątnów-Adamów-Konin SA*	*„Elektrownia Pątnów II" sp. z o.o.*
	Emission of CO_2	9 428 262	2 027 836
EUA	Balance at the beginning of the period	9 689 990	2 567 596
	Purchased	12 687 500	703 000
	Free of charge	430 676	-
	Redemption*	(9 907 506)	(2 350 415)
	Sale	-	-
	Exchange	-	-
	Balance at the end of the period	12 900 660	920 181

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

(in zloty thousand)

CO2 emission allowances in the year ended 31 December 2015

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

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

33. Trade liabilities, other liabilities and accruals

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

	31 December 2016	*31 December 2015*
Trade liabilities	186 493	111 622
Liabilities due to the put option	6 061	6 061
Investment liabilities	12 814	68 882
Liabilities to employees due to salaries	15 325	18 234
other	81 969	32 706
total	302 662	237 505

In the other liabilities line as of 31 December 2016, the Group presents mainly liabilities due to financial lease in the amount of zloty 7,189 thousand (zloty 14,435 thousand in 2015), liabilities due to financial lease in the other liabilities item amounted to zloty 18,033 thousand, liabilities related to settlement of adjustment of PPA for 2008, on the basis of the judgement of the Court of Appeal in Warsaw of 4 November 2014 and an agreement on 2 October 2014 concluded between the Pątnów Power Plant II and Zarządca Rozliczeń (Claims Manager) in the amount of zloty 66,573 thousand (zloty 4,964 thousand). The remaining amount in the other liabilities item as of 31 December 2016 concerns mostly settlements with employees and deductions from the pay roll amounting to zloty 5,315 thousand (zloty 3,023 in 2015) and settlements due to security amounting to zloty 1,579 thousand (zloty 435 thousand in 2015).

Liabilities due to the put option concern obligation of ZE PAK to redeem the employee shares pursuant to the PAK KWB Konin and PAK KWB Adamów's shares sale agreement, in case when employees request for re-sale. The agreement's provisions determine the price and term of redemption. In accordance with IFSR, ZE PAK recognised the obligation to redeem shares owned by non-controlling interests on the day of the acquisition of control. In relation with the ongoing process of the employee shares redemption, as of 31 December 2016, the remaining liability amount is zloty 6,061 thousand.

(in zloty thousand)

Principles and terms of payment of above financial liabilities:

Terms of transactions with affiliates are presented in the note 37 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.

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

	31 December 2016	*31 December 2015*
Liability due to financial lease	3 962	11 909
Short-term liabilities to other entities – over 12 months	483	1 375
Other	624	67 467
Total	5 069	80 751

33.3. Other non-financial liabilities

	31 December 2016	*31 December 2015*
VAT tax liabilities	13 637	20 551
Liabilities due to environmental charges	48 650	53 893
Liabilities due to the excise tax	543	701
Liabilities due to social insurance	24 373	26 964
Personal income tax	6 200	6 797
Other budget liabilities	7 405	89
Advanced payments for deliveries	4 299	265
Service charge	10 771	12 768
Other	553	525
Total	116 431	122 553

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

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

(in zloty thousand)

33.4. Derivative financial instruments

	31 December 2016	*31 December 2015*
Instruments securing floating interest rates (SWAP)	10 053	16 292
Other currency options	-	-
Total	10 053	16 292
short-term	5 759	7 349
long-term	4 294	8 943

In the balance sheet assets, in the item of financial derivatives, there is the contract of a forward type, which protects of the EUR exchange rate related to the purchase of CO2 allowances. The face amount of the hedged transaction is EUR 3,000. The current net market value of the contract as of 31 December 2016 is zloty 296 thousand..

33.5. Grants and deferred income (long-term)

	31 December 2016	*31 December 2015*
Long-term settlement of sale-and-lease-back	-	5 163
Long-term grants	43 006	45 600
Other	296	305
Total	43 302	51 068

33.6. Grants and deferred income (short-term)

	31 December 2016	*31December 2015*
Short-term preferential loans	5 163	10 984
Short-term settlement of sale-and-lease-back	1 502	1 786
Short-term grants	5	4
Other	6 670	12 774

34. Contingent liabilities and description of significant judicial cases

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

34.1. Court proceedings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The proceedings are not completed.

Proceedings in case of the excise tax excess payment

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

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

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

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

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

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

Proceedings on determining the amount of the annual adjustment of stranded costs for 2015

On 29 March 2016, the President of the Energy Regulatory Office initiated ex officio administrative proceedings in order to determine the amount of the annual adjustment of stranded costs for 2015 for Elektrownia Pątnów II sp. z o.o. On 28 July 2016, the ERO President issued a decision, according to which it determined a positive adjustment of stranded costs in the amount of zloty 57,310 thousand for Elektrownia Pątnów II sp. z o.o.

On 30 September 2016, Zarządca Rozliczeń SA paid the amount resulting from the ERO President's decision to Eletrownia Pątnów II sp. z o.o.

The proceedings are completed.

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

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

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

The proceedings are completed.

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

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

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

The proceedings are in progress.

Dispute between PAK KWB Konin SA and FUGO SA concerning liquidated damages and unjust enrichment

Until now, PAK KWB Konin SA has not obtained the copy of the above-mentioned suit, because of which it must be assumed that any claims of FUGO SA will be a basis to use the institution of limitation of claims.

On 26 June 2008, the Agreement for "Disassembly, transport, assembly of two SRs 1800-type bucket wheel excavators from the mine in liquidation "As Pontes" Endesa Generacion SA (Spain)" was concluded between PAK KWB Konin SA and FUGO SA (Leader) consortium and SKW Biuro Projektowo -Techniczne Sapkowski, Kanczewski, Wocka General Partnership pursuant to the Public Procurement Law.

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 – until 31 January 2010, was then 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.

At the request of PAK KWB Konin SA of 29 July 2010, the Guarantor, HDI-Gerling Polska Towarzystwo Ubezpieczeń SA, on the basis of paragraph 5 of the Proper Performance of the Contract Guarantee No. 3018763/8402 of 23 November 2009, paid to PAK KWB Konin SA the amount of zloty 762 thousand due to failure to execute within the term by obliged FUGO SA – Consortium Leader, in the composition of: FUGO SA and SKW Biuro Projektowo -Techniczne Sapkowski, Kanczewski, Wocka General Partnership, the Agreement of 26 June 2008, included in the guarantee in the scope of the first excavator.

Furthermore, at the request of PAK KWB Konin SA of 20 October 2010, the Guarantor, HDI-Gerling Polska Towarzystwo Ubezpieczeń SA, paid to PAK KWB Konin SA the amount of zloty 2,349 thousand due to liquidated damages for the period from 16 September 2010 to 25 October 2010 due to delay of the execution by obliged FUGO SA, Consortium Leader, in the composition of: FUGO SA and SKW Biuro Projektowo-Techniczne Sapkowski, Kanczewski, Wocka General Partnership, the Agreement of 26 June 2008, included in the guarantee – in the scope of the first excavator.

Then, PAK KWB Konin SA, on the basis of the debit note of 26 May 2011 in the amount of zloty 2,762 thousand, burdened FUGO SA with remaining liquidated damages of the Agreement of 26 June 2008. Due to the lack of payment of the above-mentioned receivables, PAK KWB Konin SA deducted from remuneration entitled to FUGO SA 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 SA company submitted to the District Court in Konin a summons for a conciliatory hearing for the amount of zloty 12,896 thousand. The amount consists of the following claims:

- the amount of 5,872 thousand due to unjust enrichment,

• the amount of 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 KWB Konin SA refused to reach a conciliatory settlement and considered the claims unjustified. In this situation, the proceedings of the summons were 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, PAK KWB Konin SA cannot exclude the FUGO SA submission to the common court of law with the claim for payment of indicated amounts.

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

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

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

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

34.2. Tax settlements

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

Tax settlements may be subject to inspection for a period of five years, starting from the end of the year of the tax payment. As a result of the conducted inspections, the current tax settlements of the Group may be increased by additional tax liabilities. In the Group's opinion, as of 31 December 2016 and 31 December 2015, appropriate provisions for the recognised and calculable tax risk were created.

(in zloty thousand)

35. Liability repayment securities

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

As of 31 December 2016 and 31 December 2015, the Group had liabilities protected with its assets and other protections of payment of liabilities:

Liabilities secured with the entity's assets

	31 December 2016		*31 December 2015*	
Kind of liabilities, guarantees, and sureties	*Security amount*	*Currency*	*Security amount*	*Currency*
EL PAK SERWIS sp. z o.o.				
1. Payment-bid security				
1.1. Agreement with PAK KWB KONIN SA electrical services	3	zloty	3	zloty
"Elektrownia Pątnów II" sp. z o.o.				
1. Registered and financial pledges				
1.1. Registered and financial pledges on rights of bank account agreements of Elektrownia Pątnów II sp. z o.o. in PEKAO and mBank banks	400,000	EUR	400,000	EUR
1.2. Registered and financial pledges on rights of bank account agreements of Elektrownia Pątnów II sp. z o.o. in PEKAO and mBank banks	339,750	zloty	339,750	zloty
2. Mortgage				
2.1. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 for mBank SA	400,000	EUR	400,000	EUR
2.2. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 for mBank SA	339,750	zloty	339,750	zloty
3. Registered pledge				
3.1. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	400,000	EUR	400,000	EUR
3.2. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	339,750	zloty	339,750	zloty
"PAK – HOLDCO" sp. z o.o.				
1. Registered and financial pledges on shares in affiliates				
1.1. Registered and financial pledges on shares held by PAK Holdco in Elektrownia Pątnów II sp. z o.o. for mBank SA	400,000	EUR	400,000	EUR
1.2. Registered and financial pledges on shares held by PAK Holdco in Elektrownia Pątnów II sp. z o.o. for mBank SA	339,750	zloty	339,750	zloty
2. Registered pledge				
2.1. Registered pledge on a group of items and rights of PAK Holdco sp. z o.o.	400,000	EUR	400,000	EUR
2.2. Registered pledge on a group of items and rights of PAK Holdco sp. z o.o.	339,750	zloty	339,750	zloty
"PAK Infrastruktura" sp. z o.o.				

1. Registered pledge				
1.1. Registered pledge on a group of items and rights of PAK Infrastruktura sp. z o.o.	400,000	EUR	400,000	EUR
1.2. Registered pledge on a group of items and rights of PAK Infrastruktura sp. z o.o.	339,750	zloty	339,750	zloty
PAK Kopalnia Węgla Brunatnego Konin SA				
1. Registered and financial pledges				
1.1. Registered pledge on machines and devices, including assignment of insurance policy	100,500	zloty	100,500	zloty
1.2. Registered pledge on receivables of agreements of lignite sales to Elektrownia Pątnów II Sp. z o.o. (Millennium Bank)	122,400	zloty	122,400	zloty
1.3. Transfer of title to one excavator, including assignment of insurance policy	-	zloty	46,942	zloty
2. Mortgage				
2.1. Mortgage on the right of perpetual usufruct	100,500	zloty	100,500	zloty
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Bank deposit				
1.1. Bank deposit above the guaranteed amount	672	zloty	1,013	zloty
2. Payment-bid security				
2.1. Cash-transfer	255	zloty	8	zloty
Zespół Elektrowni Pątnów-Adamów-Konin SA				
1. Registered and financial pledges				
1.1. Financial pledge on cash on bank accounts of ZE PAK SA in banks: mBank, BGK, PEKAO SA, PKO BP, Millennium due to the credit of zloty 667 million of 13.03.2014	2,040,000	zloty	2,040,000	zloty
2. Registered and financial pledges on shares in affiliates				
2.1. Registered and financial pledges on shares held by ZE PAK SA in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO Sp. z o.o. for mBank SA (ZE PAK as a guarantor of the "Pątnów II"project)	339,750	zloty	339,750	zloty
2.2. Registered and financial pledges on shares held by ZE PAK SA in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO Sp. z o.o. for mBank SA (ZE PAK as a guarantor of the "Pątnów II"project)	400,000	EUR	400,000	EUR
3. Mortgage				
3.1. Contractual joint ceiling mortgage established on real estate in Konin consisting of plots of lands with nos. 89/20, 89/53, 89/57, 89/55, 89/56 and 89/21, and on a real estate in the Municipality of Kazimierz Biskupi consisting of plots of lands nos. 148/26, 148,28 and 148/34, for which the District Court in Konin keeps land and mortgage registers with nos. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272	2,040,000	zloty	2,040,000	zloty
4. Registered pledges				
4.1. Registered pledge on a group of items and rights of ZE PAK (power units no. 1-4 in the Pątnów Power Plant) for the mBANK bank due to the credit of zloty 667 million of 13.03.2014	2,040,000	zloty	2,040,000	zloty
4.2. Registered pledge on bank accounts of ZE PAK SA established for the mBank bank due to the credit of zloty 667 million of 13.03.2014	2,040,000	zloty	2,040,000	zloty

Other securities of liabilities

	31 December 2016	*31 December 2015*

(in zloty thousand)

Kind of liabilities, guarantees, and sureties	*Security amount*	*Currency*	*Security amount*	*Currency*
"Elektrownia Pątnów II" sp. z o.o.				
1. Assignment				
1.1. Assignment from the Framework Electricity Sales Agreement no. TPE/HOU/2009/0082 concluded on 30.04.2009 between EPII and TAURON Polska Energia SA including Transaction Agreements for 2015 concluded in 2014	-	zloty	236,716	zloty
1.2. Assignment from the Framework Electricity Sales Agreement no. SPOT/127/EPII/Inter Energia/2009 concluded on 9.12.2009 between EPII and Inter Energia SA including Transaction Agreements for 2015 concluded in 2014	-	zloty	66,251	zloty
1.3. Assignment from the Framework Electricity Sales Agreement no. TPE/HOU/2009/0082 concluded on 30.04.2009 between EPII and TAURON Polska Energia SA including Transaction Agreements for 2016	121,381	zloty	-	zloty
1.4. Assignment from the Framework Electricity Sales Agreement no. SPOT/127/EPII/Inter Energia/2009 concluded on 9.12.2009 between EPII and Inter Energia SA including Transaction Agreement for 2016	62,024	zloty	-	zloty
1.5. Assignment from the insurance policy no. 908200170153/908200174148	-	EUR	658,705	EUR
1.6. Assignment from the insurance policy no. 908200170155/908200174154	659,763	EUR	-	EUR
PAK Kopalnia Węgla Brunatnego Konin SA				
1. Guarantees				
1.1. Guarantee of Bank Przemysłowo Handlowy SA	4,000	zloty	4,000	zloty
1.2. Guarantee of Bank Przemysłowo Handlowy SA	-	zloty	4,800	zloty
2. Sureties				
2.1. Zakład opieki zdrowotnej i Medycyny Pracy "MED._ALKO" [in Polish: the Health Care and Occupational Medicine Facility MED ALKO]	-	zloty	800	zloty
2.2. Surety of the credit amounting to zloty 1 million for AQUAKON sp. z o .o.	1,000	zloty	1,000	zloty
2.3. Surety of the credit amounting to zloty 1 million for Eko-Surowce sp. z o .o.	1,000	zloty	1,000	zloty
3. Assignment				
3.1. Assignment of receivables of 1.6 million monthly of the value of monthly ordered lignite supplies to ZE PAK resulting from the agreement (mBANK bank)	-	zloty	19,200	zloty
3.2. Assignment of receivables of 3 million monthly of the value of monthly ordered lignite supplies to ZE PAK resulting from the agreement (mBANK bank)	-	zloty	36,000	zloty
3.3. Assignment of receivables of 120 million annually of the value of monthly ordered lignite supplies to ZE PAK (BPH bank)	120,000	zloty	120,000	zloty
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Guarantees				
1.1. Performance Bond	6,590	zloty	12,133	zloty
1.2. Retention Bond	279	EUR	781	EUR
1.3. Retention Bond	4,264	zloty	3,246	zloty
1.4. Payment Guarantee	11	zloty	4	zloty
1.5. Performance Bond	195	EUR	-	EUR

(in zloty thousand)

1.6. Advance Payment Guarantee	5,658	zloty	134	zloty
2. Sureties				
2.1. Surety for ENERGOINWEST SERWIS in Bank Millennium SA	-	zloty	4,800	zloty
2.2. Surety for ENERGOINWEST SERWIS in Bank BGŻ BNP PARIBAS SA	-	zloty	1,500	zloty
3. Bills of exchange				
3.1. Blank bill of exchange for PAK KWB KONIN SA	148	zloty	148	zloty
4. Assignment				
4.1. Debt assignment agreement for repair and maintenance services from ZE PAK SA	273,602	zloty	-	zloty
4.2. Debt assignment agreement on UM140076 agreement from ZE PAK SA	3,209	zloty	-	zloty
4.3. Debt assignment agreement on UM160041 and UM160043 agreements from ZE PAK SA	630	zloty	-	zloty
4.4. Debt assignment agreement on UM160010, UM160012 and UM160036 agreements from Elektrownia Pątnów II sp. z o.o.	2,089	zloty	-	zloty
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Guarantees				
1.1. Insurance Performance Bonds	3,407	zloty	5,388	zloty
1.2. Insurance Bid Security Payment Guarantee	120	zloty	560	zloty
1.3. Insurance Receivables Payment Guarantee due to use of fleet cards of PKN ORLEN SA	-	zloty	33	zloty
2. Other				
2.1. Transfer of title to fixed assets securing the insurance guarantee	-	zloty	702	zloty
Zespół Elektrowni Pątnów-Adamów-Konin SA				
1. Sureties				
1.1. Surety of ZE PAK for PAK KWB Konin due to the investment credit in the BZ WBK bank in the amount of zloty 46,463 thousand	-	zloty	23,839	zloty
1.2. Surety of ZE PAK for PAK KWB Konin due to the overdraft facility in the BZ WBK bank in the amount of zloty 56,700 thousand	65,000	zloty	65,000	zloty
1.3. Surety of ZE PAK for PAK KWB Konin due to the working capital facility in the Millennium bank in the amount of zloty 76,500 thousand	76,500	zloty	76,500	zloty
1.4. Surety of ZE PAK for PAK KWB Adamów due to the overdraft facility in the BZ WBK bank in the amount of zloty 10,000 thousand	-	zloty	10,000	zloty
2. Assignment				
2.1. Assignment from the insurance agreement of property of the Pątnów Power Plant and assignment from insurance of the investment entitled "Modernisation of Units 1-4 in the Pątnów Power Plant" due to the credit of zloty 667 million of 13.03.2014 for the mBANK bank	1,200,000	zloty	1,200,000	zloty
2.2. Assignment from electricity sales agreements with ENERGA Obrót, PAK-Volt, RWE Polska, Tauron and PSE Operator due to the credit of zloty 667 million of 13.03.2014 for the mBANK bank	-	zloty	1 200 000	zloty
2.3. due to the credit of ENEA Trading, ENERGA Obrót, PAK-Volt, GET En Tra, RWE Polska and PSE Operator due to the credit of zloty 667 million of 13.03.2014 for the mBANK bank	1,200,000	zloty	-	zloty
3. Other				
3.1. Power of attorney to bank accounts of ZE PAK SA in mBANK, PEKAO SA, BGK, PKO BP and Millennium banks due to the credit of zloty 667 million of 13.03.2014	1,200,000	zloty	1,200,000	zloty

(in zloty thousand)

3.2. Statement on submission to enforcement in the PEKAO SA bank due to the overdraft facility in the amount of zloty 40.0 million of 20.12.2005	60,000	zloty	-	zloty
3.3. Power of attorney to the bank account of ZE PAK SA in the PEKAO SA bank due to the overdraft facility in the amount of zloty 40.0 million of 20.12.2005	40,000	zloty	80,000	zloty
3.4. Statement on submission to enforcement due to the credit of zloty 667 million of 13.03.2014	2,040,000	zloty	2,040,000	zloty
3.5. Statement on submission to enforcement in the PKO BP bank due to the overdraft facility in the amount of zloty 90.0 million of 25.08.2006	135,000	zloty	-	zloty
Energoinwest Serwis sp. z o.o.				
1. Guarantees				
1.1. Performance and Retention Bonds of PZU SA	389	zloty	-	zloty

36. Obtained guarantees and sureties

Kind of liabilities, guarantees, and sureties	*31 December 2016 Obtained in zloty*	*31 December 2016 Obtained in EUR*	*31 December 2015 Obtained in zloty*	*31 December 2015 Obtained in EUR*
"Elektrownia Pątnów II" sp. z o.o.				
1. Guarantees				
1.1. Payment guarantees	10,158	-	10,891	-
1.2. Performance bonds	4,144	-	3,425	-
1.3. Advanced Payment Refund Guarantees	291	-	-	-
"PAK Infrastruktura" sp. z o.o.				
1. Guarantees				
1.1. Performance bonds	-	34	-	-
PAK - Volt SA				
1. Guarantees				
1.1. Alpiq Energy - bank guarantee securing the payment valid until 26.01.2017	19,482	-	-	-
1.2. Polenergia - bank guarantee securing the payment valid until 25.01.2017	9,321	-	-	-
Energoinwest Serwis sp. z o.o.				
1. Guarantees				
1.1. Performance and Retention Bonds of PZU SA	389	-	620	-
2. Sureties				
2.1. Multi-product limit agreement in Bank BGŻ secured by Pak Serwis	-	-	4,800	-
2.2. Overdraft facility in the Millennium bank secured by Pak Serwis	-	-	1,500	-
PAK Kopalnia Węgla Brunatnego Konin SA				
1. Sureties				
1.1. Surety of ZE PAK SA	76,500	-	76,500 65,000	-
1.2. Surety of ZE PAK SA	65,000	-	-	-
1.3. Surety of ZE PAK SA	-	-	26,223	-
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Bills of exchange				

(in zloty thousand)

1.1. Blank bill of exchange from Fabryka Wentylatorów FAWENT SA	338	-	169	-
2. Guarantees				
2.1. Retention Bonds	2,889	-	2,519	40
2.2. Performance Bonds	1,736	-	1,212	-
2.3. Advanced Payment Refund Guarantee	738	-	-	-
Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektr. EL PAK sp. z o.o.				
1. Guarantees				
1.1. Performance and retention bonds (cash payment)	181	-	409	-
1.2. Insurance and bank performance bonds	1,017	-	2,656	-
Zespół Elektrowni Pątnów-Adamów-Konin SA				
1. Bills of exchange				
1.1. Bills of exchange	2,525	363	27,500	363
2. Guarantees				
2.1. Payment guarantees	8,551	-	49,774	351
2.2. Performance bonds	36,958	-	5,692	-
2.3. Advanced Payment Refund Guarantees	5,929	-	-	-
3. Sureties				
3.1. Sureties*	-	-	211,143	17,550
EKO Surowce sp. z o.o.				
1. Sureties				
1.1 Overdraft facility in Bank BPH SA secured by PAK KWB Konin SA in the amount of zloty 1 million	1,000	-	-	-
AQUAKON sp. z o.o.				
1. Sureties				
1.1 Overdraft facility in Bank BPH SA secured by PAK KWB Konin SA in the amount of zloty 1 million	1,000	-	-	-

*sureties in the amount of zloty 211,143 thousand concern the agreement No. 1/2009 of 30 July 2009 with Foster Wheeler Energia Polska sp. z o.o.

37. Information about related entities

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

Related entity		*Sales to related entities*	*Purchase from related entities*	*Receivables from related entities*	*Liabilities towards related entities*
Elektrim SA	2016	-	121	-	-
	2015	-	120	-	-
Megadex Serwis Sp. z o.o.	2016	1	47 182	210	5 432
	2015	13	118 668	509	7 859
Polkomtel sp. z o.o.	2016	120 642	4 530	15 400	891
	2015	48 939	3 841	7 891	1 532
Laris Investments sp. z o.o.	2016	501	974	217	22

(in zloty thousand)

	2015	405	970	211	-
Total	**2016**	**121 144**	**52 807**	**15 827**	**6 345**
	2015	**49 357**	**123 599**	**8 611**	**9 391**

37.1. Loan granted to a member of the Management Board

Both in the financial year ended 31 December 2016 and in the one ended 31 December 2015, the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff.

37.2. Other transactions involving members of the Management Board

Both in the financial year ended 31 December 2016 and in the one ended 31 December 2015, there were no transactions with members of management and supervisory staff.

37.3. Remuneration of chief executive staff of the Group

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

	Year ended *31 December 2016*	Year ended *31 December 2015*
Management Board of the parent company		
Short-term employee benefits	2 989	2 737
Benefits for termination of the contract of employment	28	1 394
Supervisory Board of the parent company		
Short-term employee benefits	1 095	1 040
Management Boards of subsidiaries		
Short-term employee benefits	5 453	6 179
Long-service bonuses	-	406
Post-employment benefits	-	18
Benefits for termination of the contract of employment	-	18
Supervisory Board of subsidiaries		
Short-term employee benefits	14	7
Post-employment benefits	-	1
Total	9 579	11 800

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

	Year ended *31 December 2016*	Year ended *31 December 2015*
Short-term employee benefits	15 389	16 533
Long-service bonuses	96	1 404
Post-employment benefits	7	27

(in zloty thousand)

Benefits for termination of the contract of employment	247	63
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	15 739	18 027

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

The following table presents the remuneration of an entity entitled to audit accounts paid or due to the year ended 31 December 2016, and for the year ended 31 December 2015, divided into types of services:

	Year ended *31 December 2016*	Year ended *31 December 2015*
Mandatory audit of the consolidated financial statement	212	215
Other attestation services	104	102
Total	316	317

39. Goals and rules of financial risk management

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

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

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

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

39.1. Interest rate risk

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

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

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

Interest rate risk – the sensitivity gap

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

(in zloty thousand)

Classes of financial instruments	**31 December 2016**		**Interest rate risk sensitivity study as of 31 December 2016**							
			WIBOR				***EURIBOR***			
			WIBOR + 62		***WIBOR - 62***		***EURIBOR + 18,92***		***EURIBOR - 18,92***	
	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	89 262	86 834	68	-	(68)	-	143	-	(143)	-
Trade and other receivables	246 025	-	-	-	-	-	-	-	-	-
Derivative financial instruments	296	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	350 101	350 101	1 399	-	(1 399)	-	235	-	(235)	-
Interest-bearing loans and borrowings	(1 009 809)	(1 009 809)	(3 861)	-	3 861	-	(732)	-	732	-
Trade payables and other financial liabilities	(307 731)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(10 053)	(10 053)	-	-	-	-	-	587	-	(587)
Total	**(641 909)**	**(582 927)**	**(2 394)**	-	**2 394**	**-**	**(354)**	**587**	**354**	**(587)**

(in zloty thousand)

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

39.2. Currency risk

The Group is exposed to the currency risk due to concluded transactions. Such risk also concerns credit and loan liabilities. In 2016, the Group's companies did not apply the instruments to mitigate the risk arising from changes in exchange rates, except for ZE PAK SA, which secured the EUR exchange rate for part of the flows related to the purchase of CO_2 emission allowances. In order to secure the exchange rate, the forward transactions with the settlement date in December 2016 and January 2017 were applied.

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

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

(in zloty thousand)

	31 December 2016		**Analysis of sensitivity to interest rate risk as of 31 December 2016**			
			EUR/PLN			
Classes of financial instruments			**EUR/PLN + 7,75%**		**EUR/PLN - 7,75%**	
			4,7669		**4,0811**	
	Carrying amount	***Value at risk***	***Profit / loss***	***Other comprehensive income***	***Profit / loss***	***Other comprehensive income***
Other financial assets	89 262	75 813	5 875	-	(5 875)	-
Trade and other receivables	246 025	3 754	291	-	(291)	-
Derivative financial instruments	296	-	-	-	-	-
Cash and cash equivalents	350 101	124 422	9 643	-	(9 643)	-
Interest-bearing loans and borrowings	(1 009 809)	(387 123)	(30 002)	-	30 002	-
Trade payables and other financial liabilities	(307 731)	(60 927)	(4 722)	-	4 722	-
Derivative financial instruments	(10 053)	-	-	-	-	-
Total	**(641 909)**	**(244 061)**	**(18 915)**	**-**	**18 915**	**-**

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

39.3. Commodity prices risk

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

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

	2016		2015	
	Volume (tonnes)	*Consumption cost (in zloty thousand)*	*Volume (tonnes)*	*Consumption cost (in zloty thousand)*
Fuel				
Lignite	12 549 649	755 463	12 510 143	760 747
Forestry biomass	367 137	51 962	349 015	75 073
Agricultural biomass	94 785	22 876	136 336	48 665
Heating oil	13 963	19 473	12 886	19 885
Sorbent	235 717	17 643	177 289	14 889

39.4. Credit risk

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

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

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

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

39.5. Liquidity risk

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

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

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

(in zloty thousand)

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

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
	283 114	**351 481**	**883 968**	**235 309**	**1 753 872**

(in zloty thousand)

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

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

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

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 interbank rates	**-**	**(1 981)**	**(5 368)**	**(8 943)**	**-**	**(16 292)**

(in zloty thousand)

40. Financial instruments

40.1. Fair values of particular classes of financial instruments

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

Financial assets	Category according to IAS 39	*31 December 2016*	*31 December 2015*	*31 December 2016*	*31 December 2015*	*Level of the fair value hierarchy for needs of disclosures*
Other financial assets	PiN	89 262	90 731	89 262	90 731	2
Trade receivables and other receivables	PiN	246 025	268 123	246 025	268 123	2
Derivative financial instruments	WwWGpWF	296	-	296	-	2
Cash and cash equivalents	UdtW	350 101	383 354	350 101	383 354	1
Financial liabilities						
Interest-bearing bank credits and loans, including:		1 009 809	1 311 062	1 009 809	1 311 062	3
long term	PZFwgZK	587 851	924 519	587 851	924 519	
short term	PZFwgZK	421 958	386 543	421 958	386 543	
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	307 731	318 256	307 731	318 256	2
Derivative financial instruments	WwWGpWF	10 053	16 292	10 053	16 292	2

Used abbreviations:

UdtW – Financial assets maintained to the maturity date,
WwWGpWF – Financial assets/liabilities evaluated in the fair value by the financial result,
PiN – Loans and receivables
DDS – Financial assets available for sale,
PZFwgZK – Other financial liabilities evaluated according to the depreciated cost.

(in zloty thousand)

As of 31 December 2016 and 31 December 2015, the Group had following financial instruments evaluated in the fair value:

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

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

In the period ended 31 December 2016 and the one 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

(in zloty thousand)

40.2. Items of revenue, costs, profits and losses included in the income statement, divided into categories of financial instruments

Year ended 31 December 2016

	Revenues /(costs) due to interests (including effect of valuation with depreciated cost)	*Profits / (losses) due to exchange rate differences*	*Redemption / (creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	4 724	1 355	-	-	-	6 079
Other short-term financial assets	11	2 753	1	-	(33)	2 732
Deliveries and services receivables	113	(34)	(113)	-	-	(34)
Other receivables	72	49	-	-	45	166
Derivative instrument	-	-	-	1 306	-	1 306
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(34 703)	(16 607)	-	-	(4 049)	(55 359)
Deliveries and services liabilities	(80)	(296)	-	-	-	(376)
Other financial liabilities (without instruments)	(632)	-	-	-	-	(632)
Derivative instruments	-	-	-	(7 379)	-	(7 379)
Other liabilities	(2 250)	(3)	(9 650)	-	(1 047)	(12 950)
Total	(32 745)	(12 783)	(9 762)	(6 073)	(5 084)	(66 447)

The increase in liabilities on credits and loans (long- and short-term) on 31 December 2016 in relation to the value on 31 December 2016 results from recognition since January 2016 of interest on the ZE PAK SA corporate credit of 14 March 2014 in the income statement, while in 2015, the interest was capitalised in the investment value. The second cause of the increase in this item in 2016 included foreign exchange differences, which significantly increased in Elektrownia Pątnów II [Pątnów II Power Plant] due to the corporate credit valuation of EUR 240 million from 2011 in accordance with the higher exchange rate of EUR/PLN.

(in zloty thousand)

Year ended 31 December 2015

	Revenues /(costs) due to interests (including effect of valuation with depreciated cost)	*Profits / (losses) due to exchange rate differences*	*Redemption / (creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	4 066	(2 048)	-	-	-	2 018
Other short-term financial assets	(771)	619	2	-	(312)	(462)
Deliveries and services receivables	4	20	(78)	-	-	(54)
Other receivables	245	-	-	-	-	245
Derivative instrument	-	-	-	-	-	-
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(13 332)	(1 956)	-	-	(712)	(16 000)
Deliveries and services liabilities	(318)	(880)	-	-	2	(1 196)
Other financial liabilities (without instruments)	(1 000)	-	-	-	-	(1 000)
Derivative instruments	-	-	-	(8 426)	-	(8 426)
Other liabilities	(2 189)	-	(6 203)	-	(1 108)	(9 500)
Total	(13 295)	(4 245)	(6 279)	(8 426)	(2 130)	(34 375)

(in zloty thousand)

40.3. Interest rate risk

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

	Type of interest rate	*Carrying amount as of 31 December 2016*	*Carrying amount as of 31 December 2015*
Financial assets at interest rate risk – zloty	Fixed	-	-
	Variable	236 701	362 966
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	200 708	105 523
Financial liabilities at interest rate risk – zloty	Fixed	-	-
	Variable	622 686	813 887
Financial liabilities at interest rate risk – Other currencies	Fixed	193 703	248 947
	Variable	193 420	248 228
Net exposure – zloty	Fixed	-	-
	Variable	(385 985)	(450 921)
Net exposure – Other currencies	Fixed	(193 703)	(248 947)
	Variable	6 815	(142 705)

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

40.3.1. Hedging

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

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

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

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

Instrument type	*Nominal value in the transaction currency [euro]**	*Fair value in zloty*	*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:

	Year ended 31 December 2016	*Year ended 31 December 2015*
Opening balance	(14 742)	(21 902)
Effective part of profits / losses on a security instrument	(1 278)	(1 217)
Amounts charged to the income statement, including:	(7 274)	(8 377)
– adjustment of costs of interest	(7 274)	(8 377)
– adjustment under ineffective hedging	-	-
Closing balance	(8 746)	(14 742)
Deferred tax assets – recognized in the revaluation reserve	1 662	2 801
Closing balance including deferred tax	(7 084)	(11 941)

In 2016, the Group's companies did not apply the instruments to limit the risk arising from changes in exchange rates, with the exception of ZE PAK SA, which secured the EUR exchange rate for part of the flows related to the purchase of CO_2 emission allowances. In order to secure the exchange rate, the forward transactions with the settlement date in January 2017 were applied. The below table presents a summary of the active forward transactions as of the balance sheet date for the purchase of EUR currency.

Type of concluded transactions	*Currency cross*	*Transaction amount (nominal value in euro thousand) 31 December 2016*	*Net market value (fair value in zloty thousand) 31 December 2016*	*Maturity*
Purchase of EUR transaction (forward)	(EUR/PLN)	3 000	296	January 2017

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

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions*	*Currency of transactions*	*Maturity*
Forward transaction	3 997 000	30 180	EUR	Up to 1 year

(in zloty thousand)

41. Capital management

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

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. In year, ended 31 December 2016 and 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.

	31 December 2016	*31 December 2015*
Interest-bearing credits and loans	1 009 809	1 311 062
Derivative financial instruments (liabilities)	10 053	16 292
Trade liabilities and other financial liabilities	307 731	318 256
Minus cash and its equivalents	350 101	383 354
Net debt	977 492	1 262 256
Equity	2 143 658	1 884 823
Capitals from revaluation of security instruments	(7 084)	(11 941)
Total capital	2 150 742	1 896 764
Net capital and debt	**3 128 234**	**3 159 020**
Leverage ratio	31,25%	39,96%

42. Employment structure

The average employment in the Group for the years ended 31 December 2016 and 31 December 2015 was developing as follows:

	Year ended 31 December 2016	*Year ended 31 December 2015*
Management Board of the parent company	5	4
Management Board's of the Group's entities	23	25
Administration	377	338
Sales department	62	61
Production division	5 278	5 872
Other	616	730
Total	6 361	7 030

(in zloty thousand)

43. Significant events after the balance sheet date

Discussions between the Management Board and the social party

On 8 February 2016, trade unions acting in ZE PAK SA 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 of the Company refused to execute the trade unions' requests. The Company's Management Board considered unacceptable the trade unions' requests on introducing new components to the remuneration system, according to Article 4 paragraph 2 of the Act on resolution of collective disputes. The consequence of a failure to take into account the requests includes the occurrence of a collective dispute between ZE PAK SA, as an employer, and trade unions, as representation of employees, since 8 February 2016. So far, no agreement on the collective dispute related to the letter of the trade unions of 8 February 2016 has been concluded.

On 12 May 2016, the Company's Management Board decided to liquidate the Employee Pension Fund ("EPF"), which was one of the topics of the talks conducted with the social party. The fund will be liquidated with a 12-month notice period. In relation to the EPF termination, the Company submitted a request to the PFSA for deleting the fund from the employee pension funds. Currently, the administrative proceedings on deleting the fund is in progress.

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

Decision of the Regional Director of Environmental Protection on the Ościsłowo open pit

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director of Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017 refusing to determine the environmental conditions for the project titled: „Wydobycie węgla brunatnego i kopalin towarzyszących z Odkrywki Ościsłowo" ["Extraction of brown coal and associated minerals from the Ościsłowo Open Pit"]. The decision of RDOŚ in Poznań is not final. The decision is subject to the appeal to the Chief Director of Environmental Protection brought via RDOŚ in Poznań within 14 days from the receipt date. PAK KWB Konin SA will appeal against the issued decision in an appropriate manner. According to the assessment of the Company's Management Board, there are real premises to expect that the appeal of PAK KWB Konin SA will be considered positively. According to the Company, the issued decision is devoid of substantive arguments and has not been supported by the expert's reports confirming the negative impact on the environment in case of applying the solutions proposed by PAK KWB Konin SA.

As of the date of this statement development, in the Company's Management Board opinion, the risk of not meeting the construction schedule and the commencement of exploitation of the Ościsłowo open pit is negligible; if, however, that risk materialises, the changes concerning the production plans of the Group in future years would be relevant, including a situation, in which they would have an effect on estimates of future expected cash flows generated by the Group's generation assets.

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