Polenergia Group

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31ST 2017

WITH THE AUDITOR'S OPINION

Jacek Głowacki – Vice President of the Management Board

Bartłomiej Dujczyński – Member of the Management Board

Michał Michalski – Member of the Management Board

Agnieszka Grzeszczak – Head of Accounting

Warsaw, February 20th 2018

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1. Consolidated statement of financial position

As at December 31st 2017

ASSETS

	Note	Dec 31 2017	Dec 31 2016
I. Non-current assets		**2,049,507**	**2,270,868**
1. Property, plant and equipment	16	1,790,851	1,999,706
2. Intangible assets	13	30,146	39,468
3. Goodwill related to subordinated entities	14	184,613	184,625
4. Financial assets	18	14,609	12,324
5. Long-term receivables	17	4,489	4,840
6. Deferred tax assets	25	24,756	29,855
7. Prepayments and accrued income		43	50
II. Current assets		**614,757**	**703,656**
1. Inventories	19	26,214	41,484
2. Property rights	20	123,091	149,494
3. Derivative financial instruments	20	1,319	6,079
4. Trade and other receivables	20	39,995	20,126
5. Cash and cash equivalents	21	6,939	6,068
6. Other financial assets	22	119,301	99,543
7. Total current assets	23	297,898	380,862
Total assets		**2,664,264**	**2,974,524**

(PLN '000)

EQUITY AND LIABILITIES

	Note	Dec 31 2017	Dec 31 2016
I. Equity		**1,181,988**	**1,267,426**
Equity attributable to owners of the parent		**1,181,062**	**1,266,524**
1. Share capital	24.1	90,887	90,887
2. Share premium		680,777	765,810
3. Capital reserve from valuation of options		13,207	13,207
4. Other capital reserves		401,970	399,659
5. Retained earnings		81,312	107,808
6. Net loss		(87,726)	(111,529)
7. Translation reserve		635	682
Non-controlling interests		**926**	**902**
II. Non-current liabilities		**894,846**	**1,015,946**
1. Borrowings	27	705,504	820,398
2. Deferred tax liability	25	73,973	65,694
3. Provisions	26	22,907	25,625
4. Accruals and deferred income	29	56,565	58,883
5. Other liabilities	28	35,897	45,346
III. Current liabilities		**587,430**	**691,152**
1. Borrowings	27	298,013	296,255
2. Trade payables	28	129,613	156,172
3. Income tax payable	28	290	958
4. Other liabilities	28	139,972	219,571
5. Provisions	26	3,656	2,947
6. Accruals and deferred income	29	15,886	15,249
Total equity and liabilities		**2,664,264**	**2,974,524**

(PLN '000)

2. Consolidated statement of profit or loss

For the year ended December 31st 2017

	Note	For 12 months ended Dec 31 2017	For 12 months ended Dec 31 2016	For 3 months ended Dec 31 2017 (unaudited)	For 3 months ended Dec 31 2016 (unaudited)
Revenue	31	2,762,378	2,996,769	751,455	840,515
Cost of sales	32	(2,647,064)	(2,854,845)	(716,973)	(791,421)
Gross profit		**115,314**	**141,924**	**34,482**	**49,094**
Other income	33	10,755	10,675	1,313	3,782
Distribution costs	32	(452)	(770)	53	(232)
Administrative expenses	32	(35,953)	(32,928)	(12,136)	(8,395)
Other expenses	34	(102,584)	(180,078)	(2,680)	(75,185)
Finance income	35	6,398	8,035	1,846	1,049
Finance costs	36	(60,763)	(65,190)	(14,970)	(17,145)
Profit/(loss) before tax		**(67,285)**	**(118,332)**	**7908**	**(47,032)**
Income tax	25	(20,417)	6,752	(11,371)	9,653
Net profit/(loss)		**(87,702)**	**(111,580)**	**(3,463)**	**(37,379)**
Net profit (loss) attributable to:		**(87,702)**	**(111,580)**	**(3,463)**	**(37,379)**
Owners of the parent		(87,726)	(111,529)	(3,463)	(37,371)
Non-controlling interests		24	(51)	-	(8)
Earnings (loss) per share:					
Weighted average number of ordinary shares		45,443,547	45,443,547	45,443,547	45,443,547
- basic/diluted earnings (loss) for period attributable to owners of the parent		-1.93	-2.45	-0.08	-0.82

Consolidated statement of comprehensive income

	For 12 months ended Dec 31 2017	For 12 months ended Dec 31 2016	For 3 months ended Dec 31 2017 (unaudited)	For 3 months ended Dec 31 2016 (unaudited)
Net loss for period	**(87,702)**	**(111,580)**	**(3,463)**	**(37,379)**
Other comprehensive income that may be reclassified to profit or loss once specific conditions are met				
- Cash-flow hedges	2,311	4,077	1,123	2,156
- Translation differences	(47)	401	(15)	226
Net other comprehensive income	**2,264**	**4,478**	**1,108**	**2,382**
COMPREHENSIVE INCOME FOR THE PERIOD	**(85,438)**	**(107,102)**	**(2,355)**	**(34,997)**
Comprehensive income for period:	(85,438)	(107,102)	(2,355)	(34,997)
Owners of the parent	(85,462)	(107,051)	(2,355)	(34,989)
Non-controlling interests	24	(51)	-	(8)

(PLN '000)

3. Consolidated statement of changes in equity

For the year ended December 31st 2017

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net loss	Translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2017	**90,887**	**765,810**	**13,207**	**399,659**	**(3,721)**	**-**	**682**	**1,266,524**	**902**	**1,267,426**
Comprehensive income for period										
- Net profit (loss) for period	-	-	-	-	-	(87,726)	-	(87,726)	24	(87,702)
- Other comprehensive income for period	-	-	-	2,311	-	-	(47)	2,264	-	2,264
Transactions with owners of the parent recognised directly in equity										
- Allocation of profit	-	(85,033)	-	-	85,033	-	-	-	-	-
As at December 31st 2017	**90,887**	**680,777**	**13,207**	**401,970**	**81,312**	**(87,726)**	**635**	**1,181,062**	**926**	**1,181,988**

PLN 2,311 thousand of other comprehensive income is related to the valuation of cash-flow hedges, discussed in detail in Note 41.

PLN 85,033 thousand is related to the allocation of the parent's net profit for 2016, discussed in detail in Note 23.4.

(PLN '000)

For the year ended December 31st 2016

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net (loss)	Translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2016	**90,887**	**786,134**	**13,207**	**378,069**	**127,720**	**-**	**281**	**1,396,298**	**953**	**1,397,251**
Comprehensive income for period										
- Net profit for reporting period	-	-	-	-	-	(111,529)	-	(111,529)	(51)	(111,580)
- Other comprehensive income for period	-	-	-	4,077	-	-	401	4,478	-	4,478
Transactions with owners of the parent recognised directly in equity										
- Allocation of profit	-	(20,324)	-	40,236	(19,912)	-	-	-	-	-
- Payment of dividends	-	-	-	(22,723)	-	-	-	(22,723)	-	(22,723)
As at Dec 31 2016	**90,887**	**765,810**	**13,207**	**399,659**	**107,808**	**(111,529)**	**682**	**1,266,524**	**902**	**1,267,426**

PLN 4,077 thousand of other comprehensive income is related to the valuation of cash-flow hedges, discussed in detail in Note 41.

PLN 20,889 thousand is related to the allocation of the parent's net profit for 2015, discussed in detail in Note 23.4.

(PLN '000)

4. Consolidated statement of cash flows

For the year ended December 31st 2017

			Note	For 12 months ended Dec 31 2017	Dec 31 2016
A.	**Cash flows from operating activities**				
	I.	**Profit/(loss) before tax**		**(67,285)**	**(118,332)**
	II.	**Total adjustments**		**178,874**	**326,185**
		1. Depreciation and amortisation	32	97,080	115,356
		2.Foreign exchange (gains) losses		(1,797)	1,707
		3.Interest and profit distributions (dividends)		56,340	77,031
		4.(Gain) loss on investing activities		112,194	141,492
		5.Income tax		(3,479)	(21,354)
		6.Change in provisions	37	(2,009)	(2,357)
		7.Change in inventories	37	15,543	5,647
		8.Change in receivables	37	(15,375)	49,890
		9.Change in current liabilities (net of borrowings)	37	(77,409)	(32,845)
		10.Change in accruals and deferrals	37	(2,641)	(8,585)
		11.Other adjustments		427	203
	II.	**Net cash from operating activities (I+/-II)**		**111,589**	**207,853**
B.	**Cash flows from investing activities**				
	I.	**Cash receipts**		**7,437**	**5,590**
		1.Disposal of intangible assets and property, plant and equipment		398	1,999
		2.Proceeds from financial assets, including:		156	-
		a) repayment of long-term loans advanced		156	-
		3.Cash from disposal of a subsidiary		-	3,591
		4.Other cash provided by investing activities		6,883	-
	II.	**Cash payments**		**32,259**	**83,542**
		1.Acquisition of property, plant and equipment		32,207	83,236
		2.Payments for financial assets, including:		52	306
		a) acquisition of financial assets		52	-
		b) long-term loans advanced		-	306
	III.	**Net cash from investing activities (I-II)**		**(24,822)**	**(77 952)**
C.	**Cash flows from financing activities**				
	I.	**Cash receipts**		**12,148**	**93,246**
		1.Proceeds from borrowings		12,148	93,246
	II.	**Cash payments**		**181,978**	**204,388**
		1.Dividends and other distributions to owners		-	22,723
		2.Repayment of borrowings		126,369	125,319
		3.Payment of finance lease liabilities		732	1,428
		4.Interest		52,931	51,858
		5.Other cash payments related to financing activities		1,946	3,060
	III.	**Net cash from financing activities (I-II)**		**(169,830)**	**(111,142)**
D.	**Total net cash flows (A.III +/- B.III +/- C.III)**			**(83,063)**	**18,759**
E.	**Net increase/decrease in cash, including:**			**(82,964)**	**18,766**
	- effect of exchange rate fluctuations on cash held			99	7
F.	**Cash at beginning of period**			**380,862**	**362,096**
G.	**Cash at end of period, including:**			**297,898**	**380,862**
	- restricted cash		37	42,363	114,082

External financing sources – bank borrowings (statement of cash flows)	For 12 months ended Dec 31 2017	Dec 31 2016
item C.I.1 Proceeds from borrowings	12,148	93,246
item C.II.1 Repayment of borrowings	(126,369)	(125,319)
Change in external financing sources, including:	**(114,221)**	**(32,073)**
net increase in investment facilities	(105,353)	(8,209)
net increase/decrease in VAT financing facility	-	(32,011)
net increase/decrease in overdraft facility	(8,868)	8,147

(PLN '000)

5. General information

The Polenergia S.A. Group (the "Group") comprises Polenergia S.A. (formerly Polish Energy Partners S.A., with the company name change entered in the National Court Register on September 11th 2014) (the "Company", the "parent") and its subsidiaries. The Company was established under a notary deed of July 17th 1997. The Company is entered in the National Court Register maintained by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, under KRS No. 0000026545. The Company's Industry Identification Number (REGON) is 012693488. The Company's registered office, entered in the relevant register on November 20th 2013, is at ul. Krucza 24/26 in Warsaw.

Polenergia shares are listed on the Warsaw Stock Exchange.

According to the entry in the National Court Register, the Company's business comprises:

- production and distribution of electricity (PKD 40.10),
- production and distribution of heat (steam and hot water) (PKD 40.30),
- construction and civil engineering (PKD 45.21),
- construction installation activities (PKD 45.3),
- other credit granting, excluding licensed activities and activities reserved for banks (PKD 65.22),
- research and development of natural sciences and engineering (PKD 73.10),
- development and sale of own real estate (PKD 70.11),
- operating of real estate on a fee or contract basis (PKD 70.32),
- accounting and bookkeeping activities (PKD 74.12),
- construction and process design, urban planning (PKD 74.20),
- business and management consultancy activities (PKD 74.14),
- other commercial activities n.e.c. (PKD 74.84),
- other education n.e.c. (PKD 80.42),
- wholesale of solid, liquid and gaseous fuels and related products (PKD 51.51).

The scope of activities of the subsidiaries is related to the operations of the parent.

a. Duration

The Company and all Group companies have been established for an indefinite period.

b. Periods covered by these consolidated financial statements

These consolidated financial statements cover the year ended December 31st 2017 and contain comparative data for the year ended December 31st 2016.As at December 31st 2017, the composition of the parent's Management Board was as follows:

Jacek Głowacki	First Vice President of the Management Board
Bartłomiej Dujczyński	Member of the Management Board
Michał Michalski	Member of the Management Board

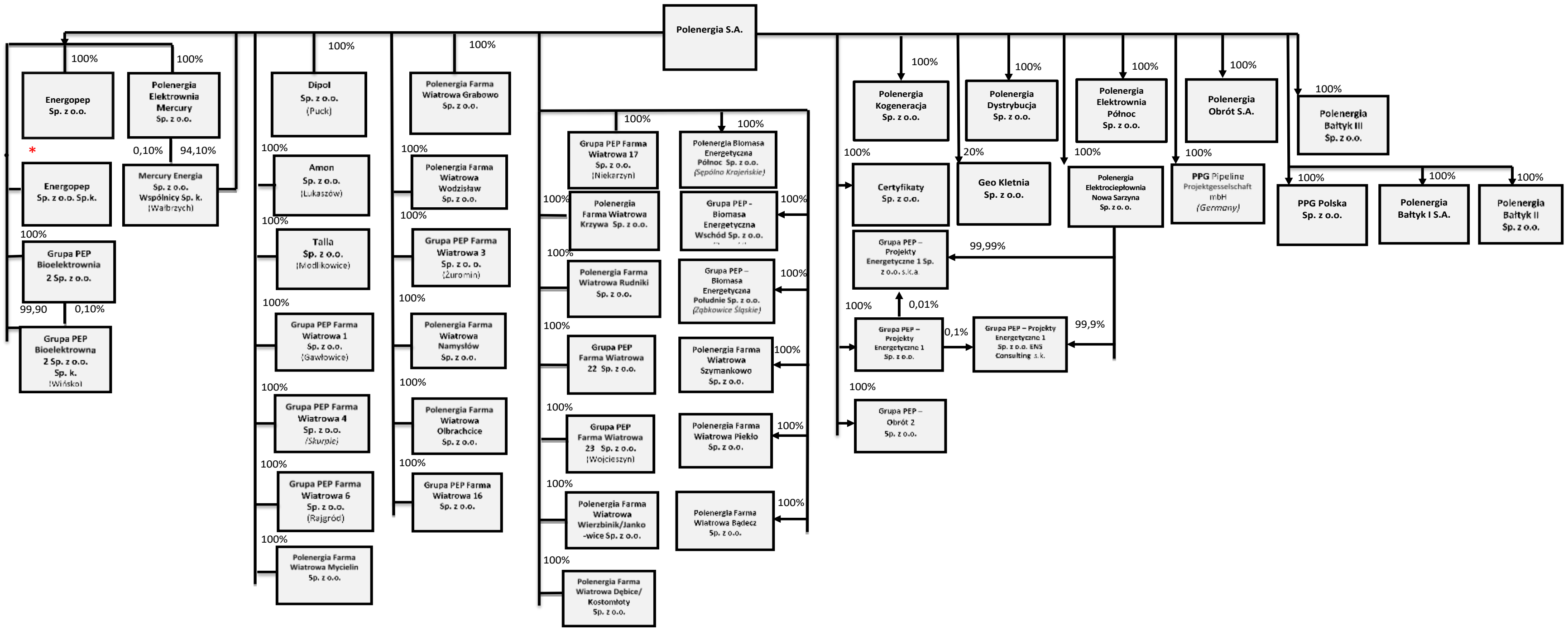
As at December 31st 2017, the composition of the parent's Supervisory Board was as follows:

Tomasz Mikołajczak	Chairman of the Supervisory Board
Łukasz Rędziniak	Deputy Chairman of the Supervisory Board
Mariusz Nowak	Member of the Supervisory Board
Arkadiusz Jastrzębski	Member of the Supervisory Board
Brian Bode	Member of the Supervisory Board
Orest Nazaruk	Member of the Supervisory Board
Dawid Jakubowicz	Member of the Supervisory Board
Dominik Libicki	Member of the Supervisory Board
Dagmara Gorzelana	Member of the Supervisory Board

6. Going concern

These consolidated financial statements have been prepared on the assumption that the Company and the Group will continue as going concerns in the foreseeable future, that is for at least 12 months after the reporting period, i.e. December 31st 2017.

7. The Group's organisational structure



*0,1% przysługuje spółce Energopep Sp. z o.o., 33,9 % POL-SA, 33% POL-D, 33% Dipol;

* 0.1% is owned by Energopep Sp. z o.o., 33.9% by POL-SA, 33% by POL-D and 33% by Dipol.

(PLN '000)

8. Authorisation of the financial statements for issue

These consolidated financial statements were authorised for issue by the parent's Management Board on February 20th 2018.

9. Applied accounting policies

The accounting policies applied in preparing these financial statements are consistent with the policies applied in preparing the Company's full-year financial statements for the year ended December 31st 2016.

In the period ended December 31st 2017, the presentation of expenses in the statement of profit or loss was changed to ensure data comparability. The change had no impact on the profit or loss, the statement of financial position or the statement of cash flows in the comparative period.

	Before change Dec 31 2016	Change	After change Dec 31 2016
Cost of sales	(2,857,765)	(2,920)	(2,854,845)
Administrative expenses	(30,008)	2,920	(32,928)

The following amended standards effective as of January 1st 2017 were applied for the first time in these consolidated financial statements:

a) Amendments to IAS 7: d*isclosure initiative*

The amendments to IAS 7 are effective for annual periods beginning on or after January 1st 2017 and require entities to disclose a reconciliation of changes in liabilities arising from financing activities.

The disclosure is made in Note 38.

b) Amendments to IAS 12 related to the recognition of deferred tax assets for unrealised losses

The amendments to IAS 12 clarify the requirements concerning recognition of a deferred tax asset for unrealised losses on debt instruments. An entity is required to recognise a deferred tax asset for unrealised losses if they result from discounting cash flows related to debt instruments using a market interest rate, also if it intends to hold such debt instruments to maturity and the collection of the principal does not trigger any tax payments. The economic benefit embodied in the related deferred tax asset results from the ability of the holder of the debt instruments to achieve future gains (by unwinding the discount) without paying taxes on those gains.

The application of the above amendments did not affect these consolidated financial statements.

Standards and interpretations in issue that are not yet effective and have not been early adopted by the Group

In these consolidated financial statements, the Group resolved not to early adopt the following issued standards, interpretations or amendments to existing standards prior to their effective date:

a) IFRS 9 *Financial Instruments*

IFRS 9 is intended to replace IAS 39. The standard is effective for annual periods beginning on or after January 1st 2018.

The standard introduces the following categories for financial assets: measured at amortised cost and measured at fair value through profit or loss or at fair value through other comprehensive income. Assets are classified on initial recognition depending on an entity's financial instrument management model and the characteristics of contractual cash flows from such instruments.

IFRS 9 introduces a new impairment recognition model based on expected credit losses.

The majority of requirements under IAS 39 concerning classification and measurement of financial liabilities were incorporated into IFRS 9 unchanged. The key change is the new requirement that entities present in other comprehensive income changes in their own credit risk related to financial liabilities designated to be measured at fair value through profit or loss and the requirement that the effects of renegotiation of credit facility agreements that do not result in derecognition of the liabilities be recognised immediately in profit or loss.

Changes were also made to the hedge accounting model to factor in risk management.

The Group will apply IFRS 9 as of January 1st 2018, without restating comparative data.

The Group performed an impact assessment of IFRS 9 in Q4 2017 and determined that the standard will have no major impact on its consolidated financial statements. The items for which possible adjustments need to be calculated are the following:

1. Receivables – applying an expected loss impairment model

Under the previous impairment model, an entity was required to assess whether objective evidence of impairment existed and (where such evidence was found) to estimate impairment based on expected cash flows. A description of the previously applied accounting policies and information on credit risk, past due receivables and impairment of trade receivables are provided in Notes 9.18, 20 and 39.

IFRS 9 requires that expected losses be estimated regardless of whether there is evidence of impairment. The standard provides for a three-stage approach to accounting for impairment of financial assets: (1) Stage 1 – where credit risk has not increased significantly since initial recognition and where entities are required to recognise 12 month ECL; (2) Stage 2 – where credit risk has increased significantly since initial recognition and where entities are required to recognise lifetime ECL; (3) Stage 3 – where a financial asset is credit impaired. The standard permits the use of a simplified approach to short-term receivables whereby they are classified as Stage 2.

- Homogenous/smaller-balance trade receivables that have been classified as unimpaired based on a portfolio analysis (Stages 1 and 2) – impairment will be determined using a provision matrix based on historical data adjusted for forward-looking estimates.
- Trade receivables with individually significant entities (customers purchasing large volumes of products in a given category, cooperation under long-term contracts) – impairment will be estimated on the basis of an analysis of receivables from each individual customer.

  Based on performed calculations, cooperation history and credit risk assessment, the Group determined any impairment would be immaterial and its amount would be close to PLN 0.00.

2. Credit facility renegotiation

- Bank borrowings – the effects of renegotiating a credit facility agreement (see Note 27), previously recognised by adjusting the effective interest rate on the liabilities to account for the difference between the carrying amount of the liabilities and the discounted value of modified future payments over the expected financing period, are recognised immediately in profit or loss in accordance with IFRS 9. It was determined that amortised cost had to be adjusted using the effective interest rate determined as at the date of the credit facility agreement due to modifications made to the credit facility agreement.

Based on performed calculations, the Group established that the adjustments would increase finance costs by a total of PLN 216.7 thousand.

No other items that would require alignment with IFRS 9 were identified. However, as a result of the changes discussed above, the Group will need to modify its accounting policies, adapt its recordkeeping systems and procedures, develop new disclosures and calculate deferred tax on the identified adjustments.

b) Amendments to IFRS 9: p*repayment features with negative compensation*

The amendments to IFRS 9 are effective for annual periods beginning on or after January 1st 2019, with an early adoption option. The amended IFRS 9 allows entities to measure financial assets with negative compensation prepayment features at amortised cost or fair value through other comprehensive income if a specified condition is met – instead of at fair value through profit or loss.

The Group will apply the amendments as of January 1st 2019.

The application of the above amendments will not have a significant impact on the consolidated financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

c) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1st 2018.

The provisions of IFRS 15 will apply to all contracts giving rise to revenue. The fundamental rule provided for in the new standard is that revenue is to be recognised upon transfer of goods or services to a customer at a transaction price. Any goods or services that are sold in bundles and are distinct within the bundle should be recognised separately, and any discounts and rebates on the transaction price should be allocated to specific bundle items. Where a contract contains elements of variable consideration, under the new standard such variable consideration is recognised as revenue only if it is highly probable that the revenue will not be reversed in the future as a result of revaluation. Furthermore, in accordance with IFRS 15, the cost of obtaining and securing a contract with a customer should be capitalised and amortised over the period in which the contract's benefits are consumed.

The Group will apply IFRS 15 as of January 1st 2018, without restating comparative data.

The Group performed an impact assessment of IFRS 15 in Q4 2017 and determined that the standard would have no major impact on its consolidated financial statements, except with respect to revenue from distribution activities related to the settlement of grid connection fees.

Revenue from grid connection fees

Until December 31st 2017, the Group recognised revenue from grid connection fees when it was earned (upon completion of connection). There is no settled market practice as to how grid connection fees should be recognised under IFRS 15, although an approach whereby the fees would be recognised over time (over the useful lives of assets) is being considered. According to the Group's estimates, a change to accounting policies reflecting this approach would have reduced retained earnings by PLN 6.8m and increased deferred income by a corresponding amount of PLN 6.8m in the consolidated financial statements prepared as at December 31st 2017.

d) Clarifications to IFRS 15 *Revenue from Contracts with Customers*

Clarifications to IFRS 15 *Revenue from Contracts with Customers* were issued on April 12th 2016 and apply to financial statements prepared after January 1st 2018.

The clarifications to IFRS 15 provide additional information and explanations concerning the main points of MSSF 15, such as identification of individual performance obligations in the contract, determination whether the entity is an agent or a principal under the contract, or accounting for revenue from licences.

Besides additional clarifications, also exemptions and simplifications for first-time adopters were introduced.

The Group will apply the clarifications to IFRS 15 as of January 1st 2018.

The application of the above standard will not have a significant impact on the consolidated financial statements.

e) IFRS 16 *Leases*

IFRS 16 *Leases* is effective for annual periods beginning on or after January 1st 2019.

The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. Upon commencement of any lease, a lessee is required to recognise a right-of-use asset and a lease liability. Thus, IFRS 16 abolishes the operating and finance lease classification under IFRS 17 and provides a single lessee accounting model requiring lessees to recognise (a) assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value and (b) amortisation of the leased asset separately from interest on lease liability in the statement of profit or loss.

IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. Lessors continue to classify leases as operating or finance, with each of them subject to different accounting treatment.

The Group will apply IFRS 16 as of January 1st 2019.

The Group has carried out a preliminary impact assessment of IFRS 16. No exact amounts of adjustments have been established yet, but it is possible that the standard will have an impact on the consolidated financial statements, particularly with regard to lease agreements.

f) IFRS 17 *Insurance Contracts*

IFRS 17 *Insurance Contracts*, issued by the International Accounting Standards Board on May 18th 2017, is effective for annual periods beginning on or after January 1st 2021.

New IFRS 17 will replace existing IFRS 4, which allows for a variety of practice in accounting for insurance contracts. IFRS 17 will substantially change the accounting of all entities that deal with insurance contracts and investment agreements.

The Group will apply IFRS 17 following its endorsement by the European Union.

The application of the above standard will not have a significant impact on the consolidated financial statements.

g) Amendments to IFRS 2: *classification and measurement of share-based payment transactions*

The amendments to IFRS 2 are effective for annual periods beginning on or after January 1st 2018. The amendments provide guidance on measurement at fair value of a liability under cash-settled share-based payment transactions, reclassification from cash-settled share-based payment transactions to equity-settled share-based payment transactions, and recognition of an employee's tax liability under share-based transactions.

The Group will apply the amendments as of January 1st 2018.

The application of the above standard will not have a significant impact on the consolidated financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

h) Amendments to IFRS 4: *applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments to IFRS 4 *Insurance Contracts* address concerns about issues arising from implementing IFRS 9 *Financial Instruments*. The released amendments to IFRS 4 complement the options already existing in the standards and seek to prevent temporary fluctuations in insurance companies' results caused by adoption of IFRS 9.

The Group will apply the amendments as of January 1st 2018.

The application of the above standard will not have a significant impact on the consolidated financial statements.

i) IFRS Annual Improvements cycle 2014−2016

In December 2016, the International Accounting Standards Board issued 'Annual Improvements to IFRSs cycle 2014−2016', containing amendments to three standards: IFRS 12 *Disclosure of Interest in Other Entities*, IFRS 1 *First-time Adoption of IFRS*, and IAS 28 *Investments in Associates and Joint Ventures*.

The improvements contain clarifications and changes to the scope of the standards, recognition and measurement, as well as terminological and editorial changes.

The Group will apply the amendments {as and when endorsed by the European Union (amendments to IFRS 12)/ as of January 1st 2018 (amendments to IFRS 1 and IAS 28)}.

The application of the above standard will not have a significant impact on the consolidated financial statements.

As at the date of these consolidated financial statements, the amendments had not been endorsed by the European Union.

j) Amendments to IAS 40: *transfers of investment property*

Amendments to IAS 40 clarify the requirements for transfers to and from investment properties. The amendments are effective for annual periods beginning on or after January 1st 2018.

The Group will apply the amendments as of January 1st 2018.

The application of the above standard will not have a significant impact on the consolidated financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

k) Amendments to IAS 28 *Investments in Associates and Joint Ventures*

The amendments are effective for annual periods beginning on or after January 1st 2019. Amendments to IAS 28 *Investments in Associates and Joint Ventures* clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which it does not apply the equity method. The Board has also published an example illustrating the application of IFRS 9 and IAS 28 to long-term interests in an associate or joint venture.

The Group will apply the amendments as of January 1st 2019.

The application of the above standard will not have a significant impact on the consolidated financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

l) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 provides guidance applicable when an entity receives or pays consideration in advance in a foreign currency. The guidelines are effective for annual periods beginning on or after January 1st 2018.

The Group will apply the amendments as of January 1st 2018.

The application of the above standard will not have a significant impact on the consolidated financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

m) IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The guidelines are effective for annual periods beginning on or after January 1st 2019.

The Group will apply the amendments as of January 1st 2019.

The application of the above standard will not have a significant impact on the consolidated financial statements.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

n) IFRS 14 *Regulatory Deferral Accounts*

The standard permits an entity which is a first-time adopter of the IFRSs (on or after January 1st 2016) to continue to account for rate-regulated activities in accordance with its previous accounting policies. To ensure better comparability with entities which already use the IFRSs and do not account for such activities, in accordance with the issued IFRS 14, amounts from rate-regulated activities should be presented as a separate item in the statement of financial position, statement of profit or loss, and statement of comprehensive income.

Under the European Union's decision, IFRS 14 will not be endorsed.

o) Amendments to IFRS 10 and IAS 28: *sale or contribution of assets between an investor and its associate or joint venture*

The amendments address the current inconsistency between IFRS 10 and IAS 28. The accounting approach depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business.

Full gain or loss is recognised by the investor if the non-monetary assets constitute a business. If the assets do not meet the definition of a business, the investor recognises a partial gain or loss, excluding the part corresponding to other investors' interests.

The amendments were issued on September 11th 2014, with no effective date set by the International Accounting Standards Board.

As at the date of these consolidated financial statements, endorsement of the amendments had been postponed by the European Union.

9.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with the EU-endorsed International Accounting Standards / International Financial Reporting Standards (IAS/IFRS) and include data for the 12 months from January 1st to December 31st 2017 and comparative data for the period from January 1st to December 31st 2016, as well as data for Q4 2017 and Q4 2016. In accordance with the applicable laws, the financial statements for the financial year ended December 31st 2017, including the comparative data for the financial year ended December 31st 2016, were audited by a qualified auditor. The data for Q4 2017 and the comparative data for Q4 2016 were not audited by a qualified auditor.

These consolidated financial statements have been prepared on the historical cost basis, except with respect to the following material items of the statement of financial position:

- financial derivatives, measured at fair value,

The International Financial Reporting Standards comprise standards and interpretations approved by the International Accounting Standards Board („IASB") and the International Financial Reporting Interpretations Committee („IFRIC").

Some of the Group companies keep their accounts in accordance with the accounting policies defined in the Polish Accounting Act of September 29th 1994, as amended (the "Act"), and secondary legislation issued thereunder (the "Polish Accounting Standards"). In these consolidated financial statements certain adjustments have been made to bring the financial statements of these companies into conformity with the IFRS, which are not disclosed in their books of account.

9.2 Significant judgements

Certain information presented in these consolidated financial statements is based on the Group's estimates and professional judgement. The amounts determined in that manner will often differ from actual results. The judgements and estimates with the largest impact on the valuation and recognition of assets and liabilities include:

- Classification and valuation of leases – the Group as the lessor – the Group classifies its lease agreements as finance leases or operating leases based on the assessment of the extent to which substantially all the risks and benefits incidental to ownership of the leased asset have been transferred from the lessor to the lessee. Such assessment is in each case based on the economic substance of a given transaction;

In the year ended December 31st 2017, the Group made no changes in its method of making judgements affecting the information presented in the consolidated financial statements. The amounts arrived at using professional judgement are presented in Note 20.

9.3 Significant estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period which carry a significant risk of a material adjustment being required to the carrying amounts of assets and liabilities in the next financial year are discussed below:

- Impairment losses on non-financial non-current assets (Note 15);
- Classification of certificates of origin and emission reduction units (Note 49);
- Depreciation/amortisation rates – depreciation/amortisation rates are set based on the anticipated useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates;
- Impairment losses on receivables (Note 20);
- Provisions for disputes and unused holiday entitlements (Note 26);

- Financial assets and liabilities under forward contracts (Note 22);
- Compensation for stranded costs and compensation for the cost of consumption of collected natural gas and of uncollected natural gas ("cost of gas") – the Company's future operations are significantly influenced by the Agreement Terminating the Long-Term Electricity Supply Contract ("LTC") with PGE Polska Grupa Energetyczna S.A. (previously Polskie Sieci Elektroenergetyczne S.A.), signed by the Management Board of Elektrociepłownia Nowa Sarzyna Sp. z o.o. on December 28th 2007 pursuant to the Act on Rules of Compensating for Costs Incurred by Energy Producers Due to Early Termination of Long-term Capacity and Electricity Purchase Contracts ("LTC Termination Act"), passed by the lower chamber of the Polish Parliament (the Sejm) on June 29th 2007. Under the Termination Agreement, the Company's LCT was terminated on March 31st 2008 in exchange for compensation intended to cover stranded costs and the cost of gas. Under the LTC Termination Act, the maximum compensation payable to the Company is PLN 777.5m – to cover stranded costs, and PLN 340.7m – to cover the cost of gas. The Company calculates the amount of stranded costs and compensation for the cost of gas based on the formulas specified in Art. 30, 31, 45 and 46 of the LTC Termination Act. Due to the length of the period covered by the calculations, the estimated amounts may change (as described in more detail in Note 43). The amounts disclosed as at the end of the reporting period have been estimated based on the Company's best knowledge and data available on that date;
- Deferred tax – the Group recognises a deferred tax asset if it is assumed that taxable income will be generated in the future against which the asset can be utilised. If taxable income deteriorates in the future, this assumption may prove invalid (Note 25);
- Impairment of assets – the Group carried out tests for impairment of non-current assets. This required an estimation of the value in use of the cash-generating unit to which these non-current assets belong. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows.

In the period ended December 31st 2017, the Group made no changes in its method of making estimates affecting the information presented in the consolidated financial statements, and the estimated amounts were presented in notes referred to above.

9.4 Measurement currency and reporting currency of the consolidated financial statements

The functional currency of the parent and other companies covered by these consolidated financial statements and the reporting currency of these consolidated financial statements is the Polish złoty (PLN) or the euro (EUR) (in the case of PPG Pipeline Projektgesselschaft GmbH).

9.5 Basis of consolidation

These consolidated financial statements incorporate the financial statements of Polenergia S.A. and the financial statements of its subsidiaries for the year ended December 31st 2017. Subject to adjustments made to ensure compliance with IFRS, the financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, using uniform accounting policies, and with accounting policies consistently applied to economic events and transactions of a similar nature. Adjustments are made in order to eliminate any discrepancies in the accounting principles applied by the companies.

Subsidiaries are fully consolidated starting from the date when the parent obtains control and cease to be consolidated when that control is lost. The parent controls a subsidiary when it is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The Group ceases to consolidate a subsidiary once it ceases to control the subsidiary.

Acquisition of control of an entity representing a business within the meaning of IFRS 3 is accounted for with the acquisition method. As at the date of inclusion of a subsidiary in the consolidated financial statements, its identifiable assets and liabilities are recognised at fair value. The difference between the fair value of such assets and liabilities and the purchase price, also determined at fair value, non-controlling interests and the fair value of previously held interests, is recognised as goodwill under a separate item of the consolidated statement of financial position.

Any balances and transactions of significant value between Group companies, including unrealised gains from intra-Group transactions, are fully eliminated. Unrealised losses are eliminated unless they are indicative of impairment.

9.6 Investments in associates

Shares in associates are accounted for with the equity method. Associates are those entities over which the parent has significant influence, either directly or indirectly through its subsidiaries, but which are neither its subsidiaries nor joint ventures. The financial statements of associates serve as the basis for equity method valuation of the interests held by the parent. The financial year of associates and of the parent is the same.

Investments in associates are recognised in the statement of financial position at cost, increased by subsequent changes in the parent's share in net assets of the entities, less impairment losses, if any. The parent's share in profits or losses of associates is reflected in the statement of profit or loss. An adjustment to the carrying amount may also be necessary in the case of a change in the proportion of the interest held in an associate following changes in the associate's other comprehensive income. Investments in associates are tested for impairment whenever there is indication of impairment or indication that any previously recognised impairment is no longer required.

If a change is recognised directly in the equity of an associate, the parent recognises its share in each change and, if applicable, discloses it in the statement of changes in equity.

9.7 Goodwill

Goodwill arising on acquisition is initially recognised at cost, equal to the excess of:

- the consideration transferred,
- the amount of any non-controlling interest in the acquiree, and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree,

over net identifiable assets acquired and liabilities assumed as at the acquisition date.
Following the initial recognition, goodwill is carried at cost less cumulative impairment losses. Goodwill is tested for impairment annually, or more frequently if there is any indication of impairment. Goodwill is not amortised.
As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the business combination. Each unit or set of units to which goodwill has been allocated:

- corresponds to the lowest level at which goodwill is monitored for internal management purposes, and
- is not greater than a single operating segment, determined in accordance with IFRS 8 *Operating Segments*.

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the Group recognises an impairment loss. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the cash-generating unit's business, the goodwill pertaining to the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on disposal of the part of business. In such a case goodwill disposed of is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

9.8 Intangible assets

Intangible assets which are separately acquired or produced (if they meet the criteria for being recognised as development expenditure) are initially recognised at cost. Cost of intangible assets acquired in a business combination is equivalent to their fair value as at the date of the combination. Following initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses, if any. With the exception of capitalised development expenditure, expenditure on intangible assets produced by the Company is not capitalised and is charged to expenses in the period in which it was incurred.

The Group determines whether intangible assets have definite or indefinite useful lives. Intangible assets with definite useful lives are amortised over their useful lives and tested for impairment each time there is an indication of impairment. The amortisation period and the amortisation method for an intangible asset with a definite useful life are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are disclosed by changing the amortisation period or amortisation method, as appropriate, and are accounted for as changes in accounting estimates. Amortisation charges on intangible assets with definite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

Intangible assets with indefinite useful lives and those that are not used are tested for impairment annually at the level of the separate asset or the relevant cash generating unit.

Expected useful lives of intangible assets are as follows:

Patents, licences	1 year
Software	2–5 years
Other intangible assets	5 years

Expenditure on research activities is charged to the statement of profit or loss as incurred. Costs of development work performed with respect to a given project are carried forward if they are expected to be recovered in the future. After initial recognition of expenditure on development work, the historical cost model is applied, which requires that assets be disclosed at cost less accumulated depreciation/amortisation and impairment. Any expenditure carried forward is amortised over the expected period of generating revenue from sales of a given project.

The carrying amount of development costs is reviewed for impairment annually if the asset is not yet in use, or more frequently if an indication of impairment has been identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

Gains or losses from derecognition of an intangible asset are measured as the difference between net proceeds from the sale of the asset and its carrying amount, and are recognised in the statement of profit or loss upon derecognition of the asset.

9.9 Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

The initial value of an item of property, plant and equipment is represented by its cost, which includes all costs directly related to its acquisition and bringing it to working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred if relevant recognition criteria are fulfilled. Costs incurred after an item of property, plant and equipment has been placed in service, such as costs of maintenance or repair, are charged to profit or loss when incurred.

Upon acquisition, property, plant and equipment are divided into components of material value which can be assigned different economic useful lives. The cost of overhauls is also deemed a component.

Property, plant and equipment, other than land, are depreciated using the straight-line method over their estimated useful lives.

Buildings and structures	25 years
Plant and equipment	2.5−25 years
Vehicles	2.5−5 years
Other property, plant and equipment	5−7 years

Residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed annually and, if necessary, adjusted with effect as of the beginning of the next financial year.

Each item of property, plant and equipment is accounted for separately and depreciated over its useful life.

An item of property, plant and equipment can be derecognised on disposal or when no future economic benefits are expected from its further use. Any gains or losses on derecognition of an asset from the statement of financial position (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are disclosed in profit or loss of the period of derecognition.

9.10 Property, plant and equipment under construction

Items of property, plant and equipment under construction are measured at the amount of aggregate costs directly attributable to their acquisition or production, less impairment losses, if any. Investment materials are carried as property, plant and equipment under construction. Property, plant and equipment under construction is not depreciated until completed and placed in service. Wind farm development expenditure is also recognised as property, plant and equipment under construction.

9.11 Borrowing costs

The costs of bank and other borrowings which may be directly attributed to an acquisition, construction or production of a qualifying asset are capitalised as part of the cost of such asset. Borrowing costs comprise interest and foreign exchange gains or losses up to an amount equal to the adjustment to interest expense.

9.12 Impairment losses on non-financial non-current assets

An assessment is made at the end of each reporting period to determine whether there is any indication that any of non-financial non-current assets may be impaired. If the Group finds that there is such indication, or if the Group is required to perform annual impairment tests, it estimates the recoverable amount of a given asset or the cash-generating unit to which a given asset belongs.

The recoverable amount of an asset or cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for individual assets, unless a given asset does not generate separate cash flows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the value of the asset is impaired and an impairment loss is recognised, reducing the asset's carrying amount to the established recoverable amount. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

The Group assesses at the end of each reporting period whether there is any indication that previously recognised impairment of an asset no longer exists or should be reduced. If such indication exists, the Group estimates the asset's recoverable amount. A recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased up to its recoverable amount. The increased value may not exceed the carrying amount of the asset that would have been determined (after accumulated amortisation/depreciation) if no impairment losses had been recognised on that asset in the previous years. Reversal of an impairment loss is immediately recognised as income in profit or loss. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to a given asset is adjusted so that its revised carrying amount, less residual value, can be regularly written off over the remaining useful life of the asset.

9.13 Financial assets

Financial assets are classified into the following categories:

- Financial assets held to maturity,
- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity, other than:

- Financial assets designated at fair value through profit or loss upon initial recognition,
- Financial assets designated as available for sale,
- Financial assets that qualify as loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest rate method. Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the reporting period.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) it is classified as held for trading. Financial assets are classified as held for trading if they:

- have been acquired principally for the purpose of being sold in the near future,

- are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
- are derivative instruments (except for those which are part of hedge accounting or financial guarantee contracts),

b) it has been assigned to this category on initial recognition, in accordance with IAS 39.

An entire contract can be designated as financial asset at fair value through profit or loss if it contains one or more embedded derivative instruments. This does not apply to situations where an embedded derivative does not materially affect the cash flows of the contract or its separation is prohibited. Financial assets may be designated as financial assets at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, (ii) the assets are part of a group of financial assets that are managed and measured based on fair value, according to a documented risk management strategy, or (iii) the financial assets contain embedded derivative instruments which should be presented separately.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets if their maturity does not exceed 12 months after the end of the reporting period. Loans and receivables with maturities exceeding 12 months from the end of the reporting period are classified as non-current assets.

Financial assets available for sale are non-derivative financial assets which have been classified as available for sale, or which do not belong to any of the previous three categories. Financial assets available for sale are recognised at fair value (without deducting the sale transaction costs), determined by reference to their market value as at the reporting date. If quoted market prices from an active market are not available and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost less impairment losses, if any. The positive or negative difference between the fair value of available-for-sale financial assets (if they have a market price derived from an active market or their fair value can be otherwise established in a reliable manner) and their cost is recognised net of deferred tax in other comprehensive income. Impairment losses on available-for-sale financial assets are recognised in other expenses.

Any purchase or sale of financial assets is recognised at the transaction date. On initial recognition, financial assets are recognised at fair value plus – in the case of financial assets other than those at fair value through profit or loss – transaction costs directly attributable to the purchase.

A financial asset is derecognised from the statement of financial position upon expiry or transfer of contractual rights to cash flows from the asset following a transaction whereby the Group transferred substantially all risks and rewards related to that financial asset, which usually takes place upon sale of the instrument or where all cash flows attributable to the instrument are transferred to a third party.

9.14 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that the value of loans and receivables measured at amortised cost has been impaired, an impairment loss is recognised in the amount equal to the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses relating to irrecoverable receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. the interest rate used at the time of initial recognition). The carrying amount of the asset is reduced directly or by recognising an impairment loss, which is charged to profit or loss.

The Group first determines whether there exists an objective indication of impairment with respect to each financial asset that is deemed material, and with respect to financial assets that are not deemed material individually. If the analysis shows that there is no objective evidence of impairment for an individually assessed financial asset, regardless of whether it is significant or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively tests them for impairment. Assets that are individually tested for impairment and for which an impairment loss has been recognised or it has been concluded that the previously recognised impairment loss will not change, are not taken into account in collective testing of assets for impairment.

If an impairment loss decreases in a subsequent period, and the decrease may be objectively associated with an event that occurred after the impairment loss recognition, the recognised impairment loss is reversed. Reversal of an impairment loss is recognised in profit or loss in so far as the carrying amount of the asset does not exceed its amortised cost as at the reversal date.

Financial assets carried at cost

If there exists an objective indication of impairment of a non-traded equity instrument which is not carried at fair value since such value cannot be reliably determined, or of a related derivative instrument which must be settled by delivery of such non-traded equity instrument, the amount of impairment loss is established as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted with the market rate applicable to similar financial assets prevailing at a given time.

Financial assets available for sale

If there exists an objective indication of impairment of a financial asset available for sale, the amount of the difference between the cost of that asset (less any principal payments) and its current fair value, reduced by any impairment losses previously recognised in profit or loss, is removed from equity and taken to profit or loss. Reversals of impairment losses on equity instruments classified as available for sale may not be recognised in the statement of profit or loss. If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively attributed to an event that occurred after the impairment loss was recognised in profit or loss, the impairment loss is reversed and the reversal amount is recognised in profit or loss.

9.15 Hedge accounting

The Group hedges cash flows against interest rate movements related to future loan repayments (by exchanging the floating interest rate under a loan agreement for a fixed interest rate) and against exchange rate movements related to foreign-currency loan repayments. The derivates designated as hedging instruments are an interest rate swap and a currency forward.

For more information on hedge accounting, see Note 41.

In 2016, in accordance with its adopted 'Hedge Accounting Guidelines', the Group measured hedge effectiveness both ex-post (retrospectively) and ex-ante (prospectively), using the dollar offset method.

For accounting purposes, effectiveness is measured using the 'hypothetical derivative' method. The method compares the change in fair value of an Interest Rate Swap (IRS) designated as a hedging instrument and the change in fair value of a hypothetical IRS on a cumulative basis from the inception of the hedging relationship. The hypothetical IRS has terms identical to those of the hedged item, and its fair value at the inception of the hedging relationship is nil.

Hedge ineffectiveness is calculated by comparing the cumulative change in fair value of the IRS designated as a hedging instrument and the cumulative change in fair value of the 'ideal' hypothetical IRS, in each case starting from the inception of the hedging relationship.

Subsequent to the inception of the hedging relationship, gains or losses arising on remeasurement of fair value of the hedging instrument are recorded based on determination what portion of the change in its carrying amount reflects the effective portion of the hedge. The determination is made as at each date of preparation of financial statements/reporting date on a cumulative basis from the inception of the hedging relationship until that date. The Company determines the effective and ineffective portion of the hedge taking into account changes in its clean fair value, which is its fair value less unrealised interest accruals.

The effective portion of the change in fair value of the hedging instrument is recognised in other comprehensive income, while the ineffective portion is recognised in profit or loss.

For information on the fair value of the derivatives disclosed in the statement of financial position, see Note 40.

9.16 Leases

The Group as a lessee

Finance leases, which transfer substantially all the risks and rewards incidental to the ownership of the leased asset to the Group, are recognised in the statement of financial position at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance charge is taken directly to profit or loss.

Property, plant and equipment used under finance leases are depreciated over the shorter of their estimated useful life and the lease term.

Leases under which the lessor retains substantially all risks and rewards resulting from the ownership of the leased asset are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss over the lease term on a straight-line basis.

The Group as a lessor

Assets leased out under a finance lease are presented as receivables in an amount equal to the net investment in the lease. Lease payments are apportioned between the finance income and the reduction of the lease receivable. The finance charge and finance income are taken directly to profit or loss.

9.17 Inventories

Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing materials inventories to their present location and condition are included in the cost of the inventories and measured at cost determined using the weighted average cost formula.

Net realisable value is the selling price realisable as at the reporting date, net of VAT and excise duty, less any rebates, discounts and other similar items, and less estimated costs to complete and costs to sell.

Being assets held for sale in the course of core operations, certificates of origin (see Section 9.27.2) and emission reduction units (see Section 0) are recognised as inventories.

9.18 Short-term and long-term receivables

Trade receivables other than lease receivables (for details see Section 0) are measured at amounts due less impairment losses.

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Receivables are remeasured to account for the probability of their payment and impairment losses are recognised where necessary. Impairment losses on receivables are charged to other expenses or finance costs, depending on the nature of the receivables.

Receivables which have been cancelled, have become time-barred or unrecoverable, for which no impairment losses have been recognised (or where recognised impairment losses do not cover the full amount receivable), are posted to other expenses or finance costs, as appropriate.

Receivables from the state budget are presented as other short-term receivables, except for corporate income tax receivable, disclosed as a separate item of the statement of financial position.

If the effect of the time value of money is material, the receivable is measured by discounting expected future cash flows to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money. If the discount method is applied, any increase in the amount of the receivables reflecting the passage of time is recognised as finance income.

9.19 Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the rate of exchange prevailing on the transaction date.

Cash, bank borrowings and other monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency as at the reporting date at the exchange rate prevailing on the transaction date (for entities having the Polish złoty as their functional currency, the mid rate quoted by the NBP is used). Foreign exchange differences on translation and settlement of positions are recognised in finance income or costs, as appropriate. Changes in the fair value of derivatives designated as hedging instruments for hedge accounting purposes are recognised in accordance with applicable hedge accounting policies (see Note 41).

The following exchange rates were used for fair value measurement:

	Dec 31 2017	Dec 31 2016
USD	3.4813	4.1793
EUR	4.1709	4.4240
GBP	4.7001	5.1445

9.20 Cash and cash equivalents

Cash and cash equivalents disclosed in the consolidated statement of cash flows comprise cash in hand, bank deposits maturing in up to three months, and treasury bills and bonds not classified as investing activities.

9.21 Prepayments and accruals

The Group recognises prepayments where costs relate to future reporting periods. Accrued expenses are recognised at probable amounts of current-period liabilities.

9.22 Share capital

Share capital is disclosed at its amount defined in the parent's Articles of Association and entered in the national court register. Any difference between the fair value of consideration received and the par value of shares is recognised in statutory reserve funds under share premium account. Amounts paid for share repurchases are charged to equity and disclosed in the statement of financial position as treasury shares.

9.23 Provisions

Provisions are recognised if Group companies have a legal or constructive obligation resulting from a past event and when it is certain or highly probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where expenditure required to settle the obligation is expected to be reimbursed by another party (e.g. under an insurance agreement), the reimbursement is recognised as a separate asset when, and only when, it is virtually certain that it will be actually received. Cost related to a given provision is recognised in profit or loss net of any recoveries. If the effect of the time value of money is material, the amount of a provision is determined by discounting the projected future cash flows to their present value, using a pre-tax discount rate reflecting the current market estimates of the time value of money, as well as any risk associated with a given obligation. If the discount method is applied, an increase in the provision as a result of the passage of time is recognised as finance costs.

9.24 Provision for severance payments and length-of-service awards

In accordance with company remuneration systems, the Group employees are entitled to length-of-service awards and severance benefits. Length-of-service awards are paid after a specific period of employment. Severance payments are one-off benefits, paid out when an employee retires. Amounts of such benefits depend on the length of service and the average remuneration of the employee. The Company recognises a provision for future length-of-service award and severance payment obligations in order to allocate costs to the periods to which they relate. According to IAS 19, length-of-service awards are classified as other long-term employee benefits, whereas severance payments are classified as defined post-employment benefit plans. Accrued obligations are equal to the amount of discounted future payments, taking into account employee turnover, and relate to the period ending on the reporting date. Information on demographics and employee turnover is based on historical data.

9.25 Interest-bearing borrowings and other debt instruments

All borrowings and other debt instruments are initially recognised at fair value net of transaction costs associated with the borrowings.

After initial recognition, interest-bearing borrowings and other debt instruments are measured at amortised cost using the effective interest rate method.

Amortised cost includes the cost of obtaining the funding as well as any discounts or premiums obtained in connection with the liability.

Any gains or losses are taken to profit or loss when the liability is derecognised or accounted for using the effective interest rate method.

9.26 Trade and other payables

Short-term trade payables are reported at nominal amounts payable. Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities initially designated as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they have been acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded derivatives, are also classified as held for trading, unless they are considered as effective hedges. Financial liabilities may be designated as financial liabilities at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, (ii) the liabilities are part of a group of financial liabilities that are managed and measured based on fair value, according to a documented risk management strategy, or (iii) the financial liabilities contain embedded derivative instruments which should be presented separately.

Financial liabilities other than financial instruments at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

The Group derecognises a financial liability when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires. When a debt instrument between the same parties is replaced by another instrument whose terms are substantially different, the Group treats such replacement as if the former financial liability was extinguished and recognises a new liability. Similarly, material modifications to the terms of a contract concerning an existing financial liability are presented as extinguishment of the former and recognition of a new financial liability. Any differences in the respective carrying amounts arising in connection with the replacement are charged to profit or loss.

Other non-financial liabilities include in particular value added tax payable to tax authorities and liabilities under prepayments received, to be settled by supplying merchandise or property, plant and equipment or by rendering of services. Other non-financial liabilities are recognised at amounts due.

9.27 Recognition of revenue

Revenue is recognised to the extent it is probable that the Company will receive economic benefits which can be reliably measured. Revenue is recognised at fair value of the consideration received or receivable, net of value added tax (VAT), excise tax and discounts. Revenue recognition is also subject to the criteria presented below.

9.27.1 Sale of merchandise and products

Revenue from sale of products and merchandise, including electricity, heat and pellets, is recognised when significant risks and rewards incidental to the ownership of merchandise or products have been transferred to the customer, and if the revenue amount can be reliably estimated.

9.27.2 Certificates of origin

Due to the short operating cycle and high turnover, green certificates of origin and yellow certificates of origin for energy produced by high-efficiency gas-fired cogeneration sources are measured at fair value and recognised as operating income and current assets (inventories) when energy is generated, to the extent it is probable that the Group will receive the related economic benefits.

9.27.3 Recognition of compensation for stranded costs and cost of gas

Compensation for stranded costs, which the Group is entitled to receive under the LTC Termination Act (for details, see Note 9.3 and Note 44), is recognised in correspondence with revenue from sale of products on a systematic basis over the accounting period pro rata to estimated operating profit or loss from sale of electricity, capacity and ancillary services, net of accumulated depreciation/amortisation of non-current assets used in these operations.

In any given accounting period the revenue may not exceed the lower of: (a) cumulative compensation receivable, estimated in accordance with the rules of final settlement set out in Art. 31.1 of the LTC Termination Act, and (b) the maximum amount of compensation that the entity may receive in accordance with Schedule 2 to the LTC Termination Act.

In a corresponding entry, compensation for stranded costs is recognised as a receivable from Zarządca Rozliczeń S.A. Prepayments of compensation for stranded costs, made in equal quarterly instalments in cash, are recognised as a decrease in receivables disclosed in prior periods. The balance shown in the settlement account of Zarządca Rozliczeń S.A. as at each reporting date is the best estimate of net receivables owed to or net payables due from the Company, reflecting the amounts of compensation actually received.

Compensation for the costs referred to in Art. 44 of the LTC Termination Act that are incurred by gas-fired units ("cost of gas") is recognised in correspondence with revenue from sale of products on a systematic basis over the accounting period, based on actual quantities of electricity and costs of gas and coal. If actual data is not available as at the reporting date, the most up-to-date estimates are used instead. The other policies for recognising and accounting for compensation for cost of gas are the same as those applied to compensation for stranded costs.

9.27.4 Futures and forward contracts

Futures and forward contracts to buy or sell electricity (including physical-delivery contracts) entered into by the subsidiary Polenergia Obrót are classified as derivatives and accounted for in accordance with standards applicable to derivative instruments, as electricity traded under the contracts is readily convertible into cash.

Contracts to buy and sell electricity entered into by the other Group companies fall outside the scope of IAS 39 based on the 'own use' exemption.

Accordingly, such contracts are measured at fair value, with changes in fair value recognised in profit or loss. Gains and losses on the valuation of outstanding contracts as at the reporting date are recognised on a net basis under revenue or cost of sales, as appropriate. Valuation gains and losses are recognised on a net basis under revenue or cost of sales, as appropriate. Valuation is performed with respect to the outstanding part of the contracts, which is broken down into current portion (to be settled within 12 months from the reporting date), and non-current portion (to be settled in subsequent years).

Typically, the contracts are settled on a gross basis through physical delivery of electricity.

Transactions under electricity sale contracts which are settled during the year through physical delivery of electricity are disclosed as revenue at amounts receivable under the contracts (on contract settlement, revenue is adjusted for the previously recognised gains and losses from revaluation of electricity sale derivatives).

Cost of electricity purchase contracts which are settled during the year through physical purchase of electricity is presented under cost of sales at the purchase price (on contract settlement, cost of sales is adjusted for the previously recognised gains and losses from revaluation of electricity purchase derivatives).

9.27.5 Recognition of carbon emission allowances

Free carbon emission allowances were not recognised in the statement of financial position when they were allotted or in the subsequent periods.

Revenue from sale of allowances acquired for resale is recognised as revenue, and the cost of allowances sold is recognised as cost of sales (raw materials and consumables used). If emission allowances held by the Group as at end of the reporting period do not fully cover its actual CO2 emissions in a given year, the Group recognises a provision for the costs of covering the deficit.

For more information on CO2 emission allowances, see Note 49.

9.27.6 Interest

Interest income is recognised gradually as it accrues (using the effective interest rate method, the effective interest rate being one that discounts future cash flows over the estimated life of the financial instrument) relative to the net carrying amount of a given financial asset.

9.27.7 Dividends

Dividends are recognised when the shareholders' rights to receive payment are established.

9.27.8 Grants

If there is reasonable certainty that a grant will be received and that all related conditions will be fulfilled, grants are recognised at fair value.

If a grant relates to a cost item, it is recognised as income in matching with the expenses it is to compensate for. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset in equal annual instalments.

9.28 Taxes

9.28.1 Current tax

Current tax asset and income tax payable for the current period and for previous periods are measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and tax legislation that have been enacted or substantively enacted at the end of the reporting period.

9.28.2 Deferred tax

For the purposes of financial reporting, the Company calculates deferred tax using the balance-sheet liability method in relation to temporary differences existing as at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts as disclosed in the financial statements.

A deferred tax liability is recognised for all taxable temporary differences:

- Except where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- In the case of taxable temporary differences associated with investments in subsidiaries or associates and interests in joint ventures, except where the timing of the reversal of the

temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences, as well as unused tax credits and unused tax losses brought forward, to the extent it is probable that taxable income will be available against which the deductible temporary differences, tax credits and tax losses can be utilised:

- Except to the extent that the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit before tax nor taxable income (tax loss), and
- in the case of deductible temporary differences associated with investments in subsidiaries or associates and interests in joint ventures, deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed as at the end of each reporting period and is reduced to the extent it is no longer probable that sufficient taxable income will be generated to allow the deferred tax asset to be realised in full or in part. As at the end of each reporting period, any unrecognised deferred tax asset is reassessed and recognised to the extent that it is probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax asset and deferred tax liability are calculated using tax rates expected to be effective at the time of realisation of the asset or liability, based on tax rates (and tax legislation) effective at the end of the reporting period or tax rates (and tax legislation) which at the reporting date are certain to be effective in the future.

Income tax on items posted directly to equity is recognised in equity rather than in profit or loss.

Deferred tax asset and deferred tax liability are offset by the Group if and only if has a legally enforceable right to offset current tax asset and income tax payable, and the deferred tax relates to the same tax payer and the same taxation authority.

9.28.3 Value added tax

Revenue, expenses, assets and liabilities are recognised net of VAT, except in the following cases:

- Where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities; in such a case it is recognised in the cost of a given asset or as part of the cost item, and
- in the case of receivables and payables which are recognised inclusive of the VAT.

The net amount of the value added tax which is recoverable from or payable to tax authorities is carried in the statement of financial position under receivables or payables, as appropriate.

9.29 Earnings per share

Earnings per share for a reporting period are calculated by dividing the net profit attributable to owners of the parent for the period by the weighted average number of shares outstanding in the period.

Diluted earnings per share for a period are calculated as the quotient of net profit adjusted for changes in net profit attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) and the weighted average number of ordinary shares outstanding in the period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares, including warrants under the management stock option plan).

9.30 Contingent assets and liabilities

A contingent liability is understood as an obligation to make a payment or provide a service which may arise upon the occurrence or non-occurrence of certain future events. Contingent liabilities are not recognised in the statement of financial position, however information on contingent liabilities is disclosed, unless the likelihood of the outflow of resources embodying economic benefits is negligible.

A contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity;

b) a present obligation that arises from past events but is not recognised in the financial statements because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent receivables are not recognised in the statement of financial position, but information on them is disclosed if the inflow of resources embodying economic benefits is likely to occur.

9.31 Emission allowances

The Group recognises a provision for emission allowances if it has a deficit of allowances. A surplus of allowances received free of charge over actual emissions, if any, is recognised as an off-balance-sheet item.

9.32 Seasonality and cyclical nature of operations

The Group operates on the industrial power outsourcing market. Its key customers use the heat and electricity supplied by the Group mainly for production purposes at their industrial facilities, and this business is not subject to seasonal fluctuations. Wind conditions, which determine the output of wind farms, are uneven during the year: in autumn and winter they are significantly better than in spring and summer. The wind farm sites were selected by the Group based on professional wind measurements confirmed by independent and reputable specialists. That said, there can be no assurance that the actual wind conditions will not be different than those used in the Group’s models for specific investment projects.

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10. Adjusted EBITDA and adjusted net profit

EBITDA, adjusted EBITDA and adjusted net profit attributable to owners of the parent are not defined in the IFRSs and may be computed differently by other entities.

	For 12 months ended		For 3 months ended unaudited	unaudited
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
Profit/(loss) before tax	(67,285)	(118,332)	7,908	(47,032)
Finance income	(6,398)	(8,035)	(1,846)	(1,049)
Finance costs	60,763	65,190	14,970	17,145
Depreciation and amortisation	97,080	115,356	24,010	29,805
Impairment loss on development projects	90,594	102,438	1,307	(423)
Impairment loss on wind farm in operation	-	74,925	-	74,925
Impairment loss related to biomass business	9,547	-	(226)	-
EBITDA	**184,301**	**231,542**	**46,123**	**73,371**
Purchase price allocation:				
Valuation of long-term contracts	(2,724)	(2,732)	(681)	(689)
Effect of sale of Zakrzów CHP plant	-	(813)	-	-
Adjusted EBITDA	**181,577**	**227,997**	**45,442**	**72,682**

	For 12 months ended		For 3 months ended unaudited	unaudited
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
NET PROFIT (LOSS) attributable to owners of the parent	**(87,726)**	**(111,529)**	**(3,463)**	**(37,371)**
Unrealised foreign exchange (gains)/losses	(1,033)	1,157	(293)	663
(Income)/costs from valuation of long-term bank borrowings	2,725	2,675	664	955
Impairment loss on development projects	90,594	96,094	1,307	(423)
Impairment loss on wind farm in operation	-	60,689	-	60,689
Impairment loss related to biomass business	9,547	-	(226)	-
Effect of sale of Zakrzów CHP plant	-	(5,285)	-	-
Purchase price allocation:				
Depreciation and amortisation	10,128	10,128	2,532	2,532
Valuation of long-term contracts	(2,724)	(2,732)	(681)	(689)
Tax	(1,404)	(1,404)	(351)	(351)
Adjusted NET PROFIT (LOSS) attributable to owners of the parent	**20,107**	**49,793**	**(511)**	**26,005**

EBITDA, adjusted EBITDA and adjusted net profit attributable to owners of the parent – performance metrics not defined in accounting standards

The Group presents its EBITDA, adjusted EBITDA and adjusted net profit attributable to owners of the parent in order to show its performance without the effect of factors that are unrelated to the Group's core operations and that lead to no cash flows in the reporting period.

EBITDA, adjusted EBITDA and adjusted net profit attributable to owners of the parent are not defined in the IFRSs and may be computed differently by other entities.

The Group defines EBITDA as profit before tax less finance income plus finance costs, plus depreciation and amortisation, plus impairment losses on non-financial non-current assets. The definition is principally to ensure comparability of the metric which is the key performance measure used in the industry in which the Company and its Group operate.

Adjusted EBITDA is determined by eliminating from EBITDA the effects of economic events that have no effect on the Group's core operations and that lead to no cash flows in the reporting period. These eliminations relate particularly to:

- Accounting for the cost of acquisition as at the acquisition date (elimination of the gain recognised as at the acquisition date in connection with previously existing relations, elimination of the costs / income recognised in connection with accounting for futures and forward contracts recognised at fair value as at the acquisition date),
- Costs of financing other than debt financing at project companies,
- Operating result generated due to a change in the Group's strategy.

The Group defines adjusted net profit attributable to owners of the parent as net profit clear of the effects of the following economic events:

- Accounting for the cost of acquisition as at the acquisition date (elimination of depreciation/amortisation of adjustments made in connection with fair value measurement of acquired non-current assets, elimination of the gain recognised as at the acquisition date in connection with previously existing relations, elimination of the costs / income recognised in connection with accounting for futures and forward contracts recognised at fair value as at the acquisition date, including the effect of deferred tax on the above items),
- Impairment losses on non-financial non-current assets
- Effect of measurement of long-term receivables under wind farm sale transactions (discount),
- Net finance income/costs related to measurement of borrowings using the amortised cost method (the spreading over time of historically incurred commissions on financing obtained),
- Unrealised foreign exchange differences (this item was not taken into account for the purposes of the forecast),
- Costs of financing other than debt financing at project companies,
- Operating result generated due to a change in the Group's strategy,
- Effect of income tax on the economic events listed above.

In the current financial year, when determining adjusted EBITDA and adjusted net profit, the Group eliminated the following transactions/ events:

- Effect of accounting for the cost of acquisition in connection with contribution of the Neutron Group assets in Q3 2014,
- Net finance income/costs related to measurement of borrowings using the amortised cost method (the spreading over time of historically incurred commissions on financing obtained) at the following companies: Amon Sp. z o.o., Talia Sp. z o.o., Grupa PEP Farma Wiatrowa 1 Sp. z o.o., Grupa PEP Farma Wiatrowa 4 Sp. z o.o., Grupa PEP Farma Wiatrowa 6 Sp. z o.o., Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. and Polenergia Dystrybucja Sp. z o.o.,
- Unrealised foreign exchange differences (item not taken into account for the purposes of the forecast),
- Effect of impairment losses on non-financial non-current assets,
- Effect of income tax on the economic events listed above.

11. Operating segments

For management purposes, the Group performed an analysis to identify operating segments, as a result of which it identified the following operating segments, corresponding to the reportable segments:

- Conventional Energy segment comprising the generation of electricity and heat,
- Development and Implementation segment comprising the development and construction of wind farms, a conventional power plant and a gas pipeline,
- Wind Power segment comprising the generation of electricity,
- Biomass segment responsible for the production of pellets from energy crops,
- Distribution segment comprising the distribution and sale of electricity to commercial, industrial and household customers,
- Trading segment, comprising trading in electricity and certificates of origin.

The Management Board monitors the respective segments' operating performance to make decisions on the allocation of resources, and evaluate the results of the allocation and the segments' operating performance. The basis for the evaluation is operating profit or loss before depreciation/amortisation, which is to a certain extent measured differently than the operating profit or loss in the consolidated financial statements, as indicated in the table below. Income tax is monitored at the Group level and is not allocated to the operating segments. Unallocated assets comprise the Company's cash.

Prices used in transactions between the operating segments are determined on arm's length basis, as in the case of transactions with unrelated parties. All consolidation adjustments are allocated to the relevant segments.
Izba Rozliczeniowa Giełd Towarowych S.A. (the Warsaw Commodity Clearing House) is the only customer whose transactions with the Group have reached or exceeded 10% of the Group's total revenue. 99.9% of the segments' assets are located in Poland.

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For 12 months ended Dec 31 2017	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development and Implementation	Unallocated Group management costs *)	Purchase price allocation	Total
Revenue from sales to external customers	142,848	271,811	2,225,855	86,398	30,349	7	2,386	2,724	2,762,378
Total revenue	142,848	271,811	2,225,855	86,398	30,349	7	2,386	2,724	2,762,378
Gross profit/(loss)	**28,223**	**57,843**	**23,420**	**17,054**	**(2,050)**	**(423)**	**(1,349)**	**(7,404)**	**115,314**
Administrative expenses	(4,054)	(6,131)	(10,842)	(6,823)	(1,362)	(489)	(6,252)	-	(35,953)
Interest income/(expense)	(47,728)	(1,808)	(1,434)	(1,699)	(219)	61	3,006	-	(49,821)
Finance income/(costs) from unrealised exchange gains/losses	1,545	(69)	(181)	-	(1)	(19)	-	-	1,275
Other finance income/(costs)	(5,422)	(404)	(1,498)	(146)	(218)	(75)	1,944	-	(5,819)
Other income/(expenses)	5,058	(497)	529	1,858	(8,628)	(90,630)	29	-	(92,281)
Profit/(loss) before tax	**(22,378)**	**48,934**	**9,994**	**10,244**	**(12,478)**	**(91,575)**	**(2,622)**	**(7,404)**	**(67,285)**
Income tax	-	-	-	-	-	-	(21,821)	1,404	(20,417)
Net profit/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**(87,702)**
EBITDA **)	86,122	72,729	13,143	16,371	872	(948)	(6,712)	2,724	184,301
Segment assets	1,345,017	304,651	253,967	130,229	55,446	201,361	-	-	2,290,671
Unallocated assets	-	-	-	-	-	-	354,152	19,441	373,593
Total assets	1,345,017	304,651	253,967	130,229	55,446	201,361	354,152	19,441	2,664,264
Segment liabilities	1,006,894	131,022	222,623	67,741	9,558	1,982	-	-	1,439,820
Unallocated liabilities	-	-	-	-	-	-	4,287	38,169	42,456
Total liabilities	**1,006,894**	**131,022**	**222,623**	**67,741**	**9,558**	**1,982**	**4,287**	**38,169**	**1,482,276**
Depreciation and amortisation	56,895	21,514	36	4,282	3,365	-	860	10,128	97,080

*) Head office costs unallocated to other segments.
**) EBITDA is defined on page 38.

In the period to December 31st 2017, the main non-cash items were impairment losses on non-financial non-current assets related to the Development and Implementation segment, of PLN 90,594 thousand, and to the Biomass segment, of PLN 9,547 thousand.

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For 12 months ended Dec 31 2016	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development and Implementation	Unallocated Group management costs *)	Purchase price allocation	Total
Revenue from sales to external customers	147,993	275,128	2,398,335	121,132	47,100	8	4,341	2,732	2,996,769
Total revenue	147,993	275,128	2,398,335	121,132	47,100	8	4,341	2,732	2,996,769
Gross profit/(loss)	**28,323**	**88,208**	**12,399**	**20,948**	**3,190**	**(540)**	**(3,208)**	**(7,396)**	**141,924**
Administrative expenses	(4,274)	(6,701)	(9,806)	(5,775)	(1,678)	(463)	(4,231)	-	(32,928)
Interest income/(expense)	(47,213)	(5,469)	(221)	(1,583)	(338)	142	2,889	-	(51,793)
Finance income/(costs) from unrealised exchange gains/losses	(1,303)	(41)	-	-	3	(87)	-	-	(1,428)
Other finance income/(costs)	(6,728)	(444)	(1,185)	(121)	(404)	(79)	5,027	-	(3,934)
Other income/(expenses)	(70,684)	(1,211)	749	(167)	946	(102,414)	2,608		(170,173)
Profit/(loss) before tax	**(101,879)**	**74,342**	**1,936**	**13,302**	**1,719**	**(103,441)**	**3,085**	**(7,396)**	**(118,332)**
Income tax	-	-	-	-	-	-	5,348	1,404	6,752
Net profit/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(111,580)**
EBITDA **)	103,823	100,498	3,379	19,166	6,410	(979)	6,641	(7,396)	231,542
Segment assets	1,446,894	276,203	255,308	128,782	70,965	176,485	-	-	2,354,637
Unallocated assets	-	-	-	-	-	-	590,049	29,838	619,887
Total assets	**1,446,894**	**276,203**	**255,308**	**128,782**	**70,965**	**176,485**	**590,049**	**29,838**	**2,974,524**
Segment liabilities	1,078,823	246,591	208,595	74,093	14,413	33,325	-	-	1,655,840
Unallocated liabilities	-	-	-	-	-	-	15,305	35,953	51,258
Total assets	**1,078,823**	**246,591**	**208,595**	**74,093**	**14,413**	**33,325**	**15,305**	**35,953**	**1,707,098**
Depreciation and amortisation	75,533	20,377	37	4,160	3,952	-	1,169	10,128	**115,356**

*) Head office costs unallocated to other segments.
**) EBITDA is defined on page 38.

In the period to December 31st 2016, the main non-cash items were impairment losses on non-financial non-current assets related to the Development and Implementation segment, of PLN 102,438 thousand, and to the Wind Power segment, of PLN 74,925 thousand.

(PLN '000)

12. Earnings per share

Basic earnings per share are calculated as the quotient of net profit attributable to holders of ordinary shares in the Group and the weighted average number of ordinary shares outstanding in the period.

Diluted earnings per share are calculated as the quotient of net profit attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) and the weighted average number of ordinary shares outstanding in the period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares, including warrants under the management stock option plan).

Presented below is data on the net profit and shares used to calculate basic and diluted earnings per share:

	For 12 months ended	
	Dec 31 2017	Dec 31 2016
Net loss	(87,726)	(111,529)
Weighted average number of ordinary shares	45,443,547	45,443,547
Loss per ordinary share (PLN)	(1.93)	(2.45)

	For 12 months ended	
	Dec 31 2017	Dec 31 2016
Weighted average number of ordinary shares	45,443,547	45,443,547
Dilutive effect	-	-
Diluted weighted average number of ordinary shares	45,443,547	45,443,547

(PLN '000)

13. Intangible assets

Dec 31 2017	Development work	Acquired permits, patents, licences and similar assets, including:	software	Prepayments for intangible assets	Intangible assets related to purchase price allocation	Total intangible assets
1. Gross intangible assets at beginning of period	**865**	**6,805**	**97**	**1**	**58,000**	**65,671**
a) increase, including:	-	1,553	631	39	-	1,592
- acquisition	-	103	19	39	-	142
- other	-	1,450	612	-	-	1,450
b) decrease, including:	-	(9)	-	(40)	-	(49)
- sale and retirement	-	(9)	-	-	-	(9)
- transfers	-	-	-	(40)	-	(40)
2. Gross intangible assets at end of period	**865**	**8,349**	**728**	**-**	**58,000**	**67,214**
3. Cumulative amortisation at beginning of period	**(640)**	**(2,547)**	**84**	**-**	**(23,016)**	**(26,203)**
- amortisation for current period	(87)	(924)	(60)	-	(9,864)	(10,875)
- decrease, including:	-	10	-	-	-	10
- sale and retirement	-	10	-	-	-	10
4. Cumulative amortisation at end of period	**(727)**	**(3,461)**	**24**	**-**	**(32,880)**	**(37,068)**
5. Impairment losses at beginning of period	**-**	**-**	**-**	**-**	**-**	**-**
- increase	-	-	-	-	-	-
- decrease	-	-	-	-	-	-
6. Impairment losses at end of period	**-**	**-**	**-**	**-**	**-**	**-**
7. Net intangible assets at beginning of period	**225**	**4,258**	**181**	**1**	**34,984**	**39,468**
8. Net intangible assets at end of period	**138**	**4,888**	**752**	**-**	**25,120**	**30,146**

Dec 31 2016	Development work	Acquired permits, patents, licences and similar assets, including:	software	Prepayments for intangible assets	Intangible assets related to purchase price allocation	Total intangible assets
1. Gross intangible assets at beginning of period	**865**	**6,091**	**287**	**-**	**58,000**	**64,956**
a) increase, including:	-	743	-	30	-	773
- acquisition	-	280	-	30	-	310
- other	-	463	-	-	-	463
b) decrease, including:	-	(29)	(190)	(29)	-	(58)
- sale and retirement	-	(29)	(19)	-	-	(29)
- transfers	-	-	(171)	(29)		(29)
2. Gross intangible assets at end of period	**865**	**6,805**	**97**	**1**	**58,000**	**65,671**
3. Cumulative amortisation at beginning of period	**(559)**	**(1,776)**	**(270)**	**-**	**(13,152)**	**(15,487)**
- amortisation for current period	(85)	(800)	(1)	-	(9,864)	(10,749)
- decrease, including:	2	29	187	-	-	31
- sale and retirement	-	29	19	-	-	29
- transfer	2	-	168	-		2
4. Cumulative amortisation at end of period	**(640)**	**(2,547)**	**84**	**-**	**(23,016)**	**(26,203)**
5. Impairment losses at beginning of period	**-**	**-**	**-**	**-**	**-**	**-**
- increase	-	-	-	-	-	-
- decrease	-	-	-	-	-	-
6. Impairment losses at end of period	**-**	**-**	**-**	**-**	**-**	**-**
7. Net intangible assets at beginning of period	**306**	**4,315**	**17**	**-**	**44,848**	**49,469**
8. Net intangible assets at end of period	**225**	**4,258**	**181**	**1**	**34,984**	**39,468**

(PLN '000)

14. Goodwill

GOODWILL

	Dec 31 2017	Dec 31 2016
- Dipol Sp. z o.o.	132	132
- Mercury Energia Sp. z o.o. i Wspólnicy, Sp. Komandytowa	437	437
- Amon Sp. z o.o.	85	85
- Talia Sp. z o.o.	56	56
- Neutron Group	183,777	183,777
- Other	126	138
Total goodwill	**184,613**	**184,625**

GOODWILL

	Dec 31 2017	Dec 31 2016
- Consolidation goodwill at beginning of period	**184,625**	**184,662**
- Increase (decrease) in consolidation goodwill	(12)	(37)
Total goodwill	**184,613**	**184,625**

Goodwill related to subordinated entities, recognised in 2014 as a result of the contribution of the Neutron Group assets to the Group, is attributable to the difference between the purchase price and the fair value of net assets acquired.

Goodwill following from the abovementioned transaction amounted to PLN 184m and was attributable to the following cash-generating units (segments):
(i) PLN 75m – Development segment – comprising Polenergia Bałtyk I, Polenergia Bałtyk II and Polenergia Bałtyk III;
(ii) PLN 40m – Conventional Energy segment − comprising Polenergia Elektrociepłownia Nowa Sarzyna;
(iii) PLN 25m – Distribution segment – comprising Polenergia Dystrybucja and Polenergia Kogeneracja;
(iv) PLN 44m − Trading segment − comprising Polenergia Obrót.

As at December 31st 2017, goodwill was tested for impairment and the results did not indicate any impairment of the asset.

The valuation was based on long-term financial forecasts prepared for each tested asset individually, and on cost of capital commensurate with the risk related to each of the entities being valued.

The future cash flows were estimated based on assumptions regarding market prices of coal, natural gas, CO_2 emission allowances, electricity, and certificates of origin for electricity generated from renewable sources ("green certificates") and high-efficiency cogeneration ("yellow certificates") held by the Group, which are consistent with the long-term projections used by the Group and which were made based on market assumptions.

The test covered property, plant and equipment and intangible assets increased by goodwill in the individual operating segments. The recoverable amount of each cash-generating unit was measured at its value in use.

(PLN '000)

The test was carried out using the present value of estimated future cash flows, with calculations based on detailed forecasts over the life of a company. Macroeconomic and segment assumptions adopted for the forecasts are updated whenever there is any indication on the market that they should be changed. The forecasts also factor in regulatory changes known as at the date of the test.
The applied discount rate is based on the weighted average cost of capital (WACC), reflecting a risk-free rate equivalent to the yield on 10-year Treasury bonds of 3.43% and the market risk premium of 5.5%.

Goodwill impairment test as at December 31st 2017

Key assumptions with an impact on the calculation of value in use and discount rates used in the test as at December 31st 2017 and for the individual segments:

– Energy prices: wholesale energy prices until 2020 are based on the prices of futures/forward contracts. After 2020, we expect the prices to change, relying on the available forecasts of an independent business advisor and the Group's in-house analysis.
– Gas prices: for 2018 and 2019 the prices are based on contracts traded on the Polish Power Exchange (an average annual increase of 3.9% on the 2017 prices) and for 2020–2030 we have assumed an average annual growth of 1.4%.
– Prices of CO2 emission allowances: given the ongoing climate policy reform, we forecast a further increase in prices to EUR 10/tonne in 2021 and an average annual growth of approximately 6.8% from 2022 onwards.

Segment goodwill	Key assumptions	Discount rate adopted for testing as at December 31st 2017	Discount rate adopted for testing as at December 31st 2016
Conventional Energy	It was assumed that ENS would operate until 2040: – up to and including May 2020, the CHP plant would operate based on a support system providing for compensation for stranded costs and gas compensation, which would be supplemented by revenue from heat sales and high-efficiency cogeneration support, – from June 2020 – it would operate based on capacity market revenue (from 2021), heat sales and ancillary services. It was assumed the existing cogeneration support regulations would continue in force in 2018. A new support system, based on a surcharge on the electricity sales price, was assumed for 2019. Heat sales revenue projections are based on tariff-based revenue that would cover reasonable costs and generate an acceptable rate of return on capital employed. Heat volumes were assumed to decrease annually by 5% in 2017–2020 and to remain stable after 2020. Electricity production volumes were assumed to remain at the 2017 levels until 2019 and to decrease by 50% from 2020 onwards. The cost of capital was assumed at a level typical of a regulated business. Guided by market practice and the fact that, due to the	Cash flows until 2020: 8.00% (cost of equity); Cash flows after 2020: 5.20% (WACC)	Cash flows until 2020: 8.00% (cost of equity); Cash flows after 2020: 5.20% (WACC)

(PLN '000)

	nature of the tested assets, long-term projections are more reliable (compared with the residual value model), the Company's management has adopted a forecast period exceeding five years. For the Conventional Energy segment, detailed projections cover the years from 2018 to 2040.		
Distribution	The RAV adopted for the projections takes into account historical expenditures. The weighted average cost of capital was adopted at the regulatory WACC level published by the Energy Regulatory Office (URE). For subsequent years, a gradual increase in WACC was assumed, reflecting the expected increase in interest rates. The average real margins on sales of energy were assumed at historical levels. Guided by market practice and the fact that, due to the nature of the tested assets, long-term projections are more reliable (compared with the residual value model), the Company's management has adopted a forecast period exceeding five years. For the Distribution segment, detailed projections cover the years from 2018 to 2040.	5.7%	8.0%
Trading	The Company plans to gradually upscale its business and achieve a steady increase in margins in its core business segments in the coming years. In order drive sustained growth, the Company plans to expand into other European markets. Guided by market practice and the fact that, due to the nature of the tested assets, long-term projections are more reliable (compared with the residual value model), the Company's management has adopted a forecast period exceeding five years. For the Trading segment, detailed projections cover the years from 2018 to 2040.	9.2%	7.5%
Development (Bałtyk I, Bałtyk II and Bałtyk III)	Guided by market practice and the fact that, due to the nature of the tested assets, long-term projections are more reliable (compared with the residual value model), the Company's management has adopted a forecast period exceeding five years. It was assumed the offshore projects would operate for 23 years from the start of commercial operations in January 2022 (BŚ III) and January 2026 (BŚ II). The launch of operations would be preceded by a two-year construction phase. The combined installed capacity (BŚ II and BŚ III) was assumed at 1,200 MW. The Group continues the development of two offshore wind farm projects (Polenergia Bałtyk II and Polenergia Bałtyk III) in the Baltic Sea with a combined capacity of up to 1,200 MW. The Group also plans to implement a third project, Polenergia Bałtyk I, but this subject to obtaining grid connection conditions. During the investment decision-making process, the cost of capital was assumed at a level estimated by investors in the European offshore wind farm sector. Risks related to the projects being in an early stage of development were reflected by applying a stage-of-completion discount in project valuation. The discount rate was the same as that used during the test carried out as at the end of 2016.	11%	11%

The recoverable amount of the business segments listed above was in each case higher than the carrying amount of their assets. The goodwill impairment test performed as at December 31st 2017 identified no impairment of goodwill in the segments. The Company believes that a change in key assumptions adopted by management to determine the recoverable amounts of the cash-generating units that would cause the carrying amount of a cash-generating unit to exceed its recoverable amount, is not reasonably possible.

15. Impairment of non-financial non-current assets

The Group monitors the financial condition of its projects on an ongoing basis, focusing on the macroeconomic environment and the legal and market status of the cash-generating units, and analyses their recoverable amounts. In line with the applied policy, the Group recognised impairment losses discussed below.

Impairment loss recognised during the year in the Biomass segment

As announced in Current Report No. 11/2017 of October 18th 2017, the Group resolved to discontinue the operations of Grupa PEP Biomasa Południe Sp. z o.o. ("Biomasa Południe"), which consisted of biomass pellet production. The decision led to the recognition of a PLN 9.8m impairment loss. The impairment loss was a non-cash charge. In line with the adopted policy, it was charged to other expenses against the Group's operating profit but had no impact on EBITDA.

The decision was related to Biomasa Południe's unsuccessful attempts to sign new contracts for the sale of pellets (which would ensure the profitability of the business), with the existing long-term contract for the sale of pellets having expired. The Management Board believes that these developments were an effect of slow demand and falling prices of pellets produced from agricultural biomass, mainly reflecting the lack of secondary legislation under the Act on Renewable Energy Sources, which governs firing and co-firing of biomass. Having made the decision to discontinue Biomasa Południe's operations, the Group will take formal and legal steps to liquidate or sell the company. Should market conditions improve, the decision to discontinue Biomasa Południe's operations could be reversed.

Biomasa Południe forms part of the Biomass segment and is a cash-generating unit, with its recoverable amount, calculated as its fair value less costs to sell, being PLN 2m as at December 31st 2017. The fair value was determined based on a valuation prepared by an independent appraiser. The purpose of the valuation was to determine the market value of the land developed with a complex of production buildings. During valuation, the features of the property with the largest impact on its market price were taken into account. The value of the property determined by the appraiser is within the range of market prices of similar properties. The figure reflects the conditions on the local market for this type of property rights and corresponds to the expected price that could be obtained for the property with appropriate advertising.

Impairment losses recognised during the year in the Development and Implementation segment

As announced in Current Report No. 10/2017 of October 18th 2017, the Group recognised a PLN 81m impairment loss on property, plant and equipment associated with the Elektrownia Północ project (the "Project"), which is executed by the subsidiary Polenergia Elektrownia Północ Sp. z o.o. ("EP"). The impairment loss was a non-cash charge. In line with the adopted policy, it was charged to other expenses against the Group's operating profit but had no impact on EBITDA.

When making the decision to recognise the loss, the Management Board took into account market and economic considerations. With a view to divesting rights in the Project or an interest in EP, the Group will continue to maintain an appropriate development status of the project, particularly with respect to required approvals, in each case taking into account the economic viability of its actions.

EP forms part of the Development and Implementation segment and is a cash-generating unit, with its recoverable amount, calculated as its fair value less costs to sell, being PLN 0 as at December

31st 2017. The figure reflects the effects of negotiations with an investor and plans announced by the Ministry of Energy regarding the development of this type of projects in Poland.

As reported in Current Report No. 9/2017 of September 26th 2017, the Group decided to abandon the construction of a wind farm in Grabowo ("Grabowo Project"), developed by the subsidiary Polenergia Farma Wiatrowa Grabowo Sp. z o. o ("Grabowo WF"). The decision led to the recognition of a PLN 8.2m impairment loss. The impairment loss was a non-cash charge. In line with the adopted policy, it was charged to other expenses against the Group's operating profit but had no impact on EBITDA.

The decision to abandon the Grabowo Project was made after Grabowo WF reached an agreement on termination of the grid connection agreement, under which the company recovered a substantial part of the grid connection fee already paid and was released from the obligation to make further fee payments. At the same time, the Grabowo Wind Farm's attempts to reduce the project's maintenance costs (including lease payments) failed. Considering the relatively high costs of implementation of the Grabowo Project and potential cost savings from its abandonment, the Group determined that the implementation of the Grabowo Project was not economically viable. Accordingly, the Group found it necessary and justified to abandon the Grabowo Project and recognise an impairment loss.

The Grabowo Project forms part of the Development and Implementation segment and is a cash-generating unit, with its recoverable amount, calculated as its fair value less costs to sell, being PLN 0 as at December 31st 2017.

Asset impairment test as at December 31st 2017

Subject to the information presented above, following an asset impairment test made as at December 31st 2017, in the year ended December 31st 2017, the Group did not recognise any additional impairment losses and did not reverse any previously recognised impairment losses on property, plant and equipment.

The Group identified no external or internal indicators that would warrant recognition or reversal of impairment losses. The Group believes that the changes in the regulatory environment and market conditions which occurred in 2017 will not materially change the Group's long-term forecasts. Nevertheless, the Group carried out tests for impairment of property, plant and equipment and intangible assets of individual cash-generating units. The results of those tests are presented below. The impairment tests conducted for the cash-generating units where goodwill was recognised following the transfer of the Neutron Group's assets to the Group are discussed earlier in these consolidated financial statements.

The test carried out as at December 31st 2017 required estimation of the value in use of the cash-generating units based on their future cash flows, which were subsequently discounted to their present value using a discount rate.
Tests for impairment of property, plant and equipment were conducted at the level of individual cash-generating units.

The test was carried out using the present value of estimated future cash flows, with calculations based on detailed forecasts for the duration of the companies' operations. Macroeconomic and segment assumptions used in the forecasts are revised whenever there is an indication in the market that such revision is required. The forecasts also factor in regulatory changes known as at the date of the test.
The applied discount rate is based on the weighted average cost of capital (WACC), reflecting a risk-free rate equivalent to the yield on 10-year Treasury bonds of 3.43% and the market risk premium of 5.5%.

Key assumptions adopted for the test as at December 31st 2017:

(PLN '000)

Wind Power segment

- Wholesale energy prices until 2020 are based on the prices of futures/forward contracts. After 2020, we expect the prices to change, relying on the available forecasts of an independent business consultant and the Group's in-house analysis.
- Given the regulatory uncertainty, the price path for green certificates adopted for the test assumes that prices will remain unchanged.
- The volumes of green and black energy production resulting from the production capacities and efficiency assumed on the basis of historical data and wind intensity reports.
- In the case of green energy, support periods were taken into account in accordance with the Act on Renewable Energy Sources (the "RES Act"). The period of support was restricted to 15 years from the first supply to the distribution network of electricity for which a certificate of origin was issued.
- It was assumed that the existing non-current assets' production capacities would be maintained following the execution of replacement investments.
- Guided by market practice and the fact that, due to the nature of the tested assets, long-term projections are more reliable (compared with the residual value model), the Company's management has adopted a forecast period exceeding five years. It was assumed that wind farms would operate for 25 years from their launch.

Biomass segment

- Guided by market practice and the fact that, due to the nature of the tested assets, long-term projections are more reliable (compared with the residual value model), the Company's management has adopted a forecast period exceeding five years. It was assumed that the plants of the Biomass segment would operate until 2032.
- The Biomass segment's capacity utilisation was assumed to continue at a stable level.
- An inflationary increase in pellet prices and biomass production costs was assumed.

The following cash-generating units were tested for impairment on December 31st 2017:

CGU	Company	Discount rate used in tests as at Dec 31 2017	Discount rate used in tests as at Dec 31 2016
Wind farms	Dipol Sp. z o.o.	5.8%	6.8%
	Amon Sp. z o.o.	6.8%	6.8%
	Talia Sp. z o.o.	6.8%	6.8%
	GRUPA PEP – Farma Wiatrowa 1 Sp. z o.o.	6.8%	6.8%
	GRUPA PEP – Farma Wiatrowa 4 Sp. z o.o.	6.8%	6.8%
	GRUPA PEP – Farma Wiatrowa 6 Sp. z o.o.	6.8%	6.8%
	Polenergia Farma Wiatrowa Mycielin Sp. z o.o.	6.8%	6.8%
Biomass	Polenergia Biomasa Energetyczna Północ Sp. z o.o.	6.3%	7.0%
	Polenergia Biomasa Energetyczna Wschód Sp. z o.o.	6.3%	7.0%

The recoverable amount of all of the above assets is higher than their carrying amount.

The Company believes that it is not reasonably possible to change the key assumptions for the Biomass segment used by the Management Board to determine the recoverable amounts of the segment's cash-generating units which would result in the carrying amount of a cash-generating unit exceeding its recoverable amount.

Considering that the Wind Power segment is particularly sensitive to changes in key parameters, the sensitivity analysis results for this segment are presented below. The analysis found that the value in use of the tested assets was primarily affected by changes in electricity prices in the forecast period as well as changes in the discount rate (WACC).
Below are presented the estimated changes in the valuation of the Wind Farm segment's assets, based on a change in key assumptions.

Parameter	Change	Effect on valuation of assets (PLNm)	
		Decrease in valuation	Increase in valuation
Change in electricity prices in the forecast period	- 1%	13.74	
	+ 1%		13.74
Change in WACC	+ 0.1pp	9.03	
	- 0.1pp		13.67

(PLN '000)

16. Property, plant and equipment

Dec 31 2017	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Prepayments for property, plant and equipment under construction	Total property, plant and equipment
1. Gross property, plant and equipment at beginning of period	**7,797**	**587,606**	**1,402,300**	**5,202**	**1,114**	**442,656**	**13,146**	**2,459,821**
a) increase, including:	**-**	**4,938**	**10,400**	**574**	**18**	**37,589**	**-**	**53,519**
- acquisition	-	623	4,081	574	9	30,061	-	35,348
- transfer	-	4,315	6,319	-	9	7,528	-	18,171
b) decrease, including:	**-**	**(2,862)**	**(15,045)**	**(947)**	**(673)**	**(48,779)**	**(12,520)**	**(80,826)**
- sale and retirement	-	(325)	(14,500)	(815)	(94)	-	-	(15,734)
- other	-	-	100	(132)	(524)	(38,207)	(4,050)	(42,813)
- transfer	-	(2,537)	(645)	-	(55)	(10,572)	(8,470)	(22,279)
2. Gross property, plant and equipment at end of period	**7,797**	**589,682**	**1,397,655**	**4,829**	**459**	**431,466**	**626**	**2,432,514**
3. Cumulative depreciation at beginning of period	**-**	**(71,470)**	**(223,287)**	**(2,991)**	**134**	**(107)**	**-**	**(297,721)**
- depreciation for current period	-	(22,693)	(62,534)	(890)	(89)	1	-	(86,205)
- decrease, including:	-	26	2,560	846	302	-	-	3,734
- sale and retirement	-	26	2,560	762	73	-	-	3,421
- other	-	-	-	84	-	-	-	84
- transfer	-	-	-	-	229	-	-	229
4. Cumulative depreciation at end of period	**-**	**(94,137)**	**(283,261)**	**(3,035)**	**347**	**(106)**	**-**	**(380,192)**
5. Impairment losses at beginning of period	**-**	**(20,062)**	**(55,207)**	**-**	**-**	**(87,126)**	**-**	**(162,395)**
- increase	-	(4,709)	(4,710)	(24)	(11)	(90,825)	-	(100,279)
- decrease	-	-	1,202	-	-	-	-	1,202
6. Impairment losses at end of period	**-**	**(24,771)**	**(58,715)**	**(24)**	**(11)**	**(177,951)**	**-**	**(261,472)**
7. Net property, plant and equipment at beginning of period	**7,797**	**496,074**	**1,123,806**	**2,211**	**1,248**	**355,423**	**13,146**	**1,999,706**
8. Net property, plant and equipment at end of period	**7,797**	**470,774**	**1,055,679**	**1,770**	**795**	**253,409**	**626**	**1,790,851**

In the year ended December 31st 2017, the Group incurred borrowing costs qualifying for capitalisation under initial value of property, plant and equipment, totalling PLN 100 thousand.
As at December 31st 2017, land and buildings worth PLN 471,070 thousand were encumbered with mortgages securing the repayment of credit facilities.

(PLN '000)

The carrying amount of vehicles used under lease agreements as at December 31st 2017 was PLN 1,130 thousand.
In the year ended December 31st 2017, the Group decided to extend, to 25 years, the useful lives of property, plant and equipment related to wind farms. The decision was made following the analysis of the current degree of wear and tear of the property, plant and equipment related to wind farms, the opinion expressed by market experts (including the manufacturer and maintenance staff of the turbines used by the Group).

Dec 31 2016	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Prepayments for property, plant and equipment under construction	Total property, plant and equipment
1. Gross property, plant and equipment at beginning of period	**7,797**	**486,170**	**1,168,526**	**6,719**	**1,842**	**727,677**	**9,209**	**2,407,940**
a) increase, including:	**-**	**109,095**	**239,325**	**564**	**99**	**28,492**	**4,071**	**381,646**
- acquisition	-	2,618	46,495	500	27	31,203	2,891	83,734
- transfer	-	106,477	192,830	64	72	(2,711)	1,180	297,912
b) decrease, including:	**-**	**(7,659)**	**(5,551)**	**(2,081)**	**(827)**	**(313,513)**	**(134)**	**(329,765)**
- sale and retirement	-	(7,411)	(4,379)	(1,617)	(186)	(14,873)	-	(28,466)
- other	-	(248)	(140)	(464)	(635)	(53)	-	(1,540)
- transfer	-	-	(1,032)	-	(6)	(298,587)	(134)	(299,759)
2. Gross property, plant and equipment at end of period	**7,797**	**587,606**	**1,402,300**	**5,202**	**1,114**	**442,656**	**13,146**	**2,459,821**
3. Cumulative depreciation at beginning of period	**-**	**(43,232)**	**(158,070)**	**(3,103)**	**(164)**	**(263)**	**-**	**(204,832)**
- depreciation for current period	-	(27,523)	(75,595)	(1,356)	(133)	-	-	(104,607)
- decrease, including:	-	(715)	10,378	1,468	431	156	-	11,718
- sale and retirement	-	5,198	3,361	1,008	186	-	-	9,753
- other	-	248	-	464	234	-	-	946
- transfer	-	(6,161)	7,017	(4)	11	156	-	1,019
4. Cumulative depreciation at end of period	**-**	**(71,470)**	**(223,287)**	**(2,991)**	**134**	**(107)**	**-**	**(297,721)**
5. Impairment losses at beginning of period	**-**	**(810)**	**(1,015)**	**-**	**-**	**(9,066)**	**-**	**(10,891)**
- increase	-	(19,718)	(55,207)	-	-	(78,288)	-	(153,213)
- decrease	-	466	1,015	-	-	228	-	1,709
6. Impairment losses at end of period	**-**	**(20,062)**	**(55,207)**	**-**	**-**	**(87,126)**	**-**	**(162,395)**
7. Net property, plant and equipment at beginning of period	**7,797**	**442,128**	**1,009,441**	**3,616**	**1,678**	**718,348**	**9,209**	**2,192,218**
8. Net property, plant and equipment at end of period	**7,797**	**496,074**	**1,123,806**	**2,211**	**1,248**	**355,423**	**13,146**	**1,999,706**

In the year ended December 31st 2016, the Group incurred borrowing costs qualifying for capitalisation under initial value of property, plant and equipment, totalling PLN 1,908 thousand.
As at December 31st 2016, land and buildings worth PLN 490,762 thousand were encumbered with mortgages securing the repayment of credit facilities.
The carrying amount of vehicles used under lease agreements as at December 31st 2016 was PLN 1,500 thousand.

(PLN '000)

17 Long-term receivables

	Dec 31 2017	Dec 31 2016
- finance lease	2,503	2,854
- other receivables	1,986	1,986
Long-term receivables, net	**4,489**	**4,840**

18 Non-current financial assets

	Dec 31 2017	Dec 31 2016
- in other entities	14,609	12,324
- shares in non-listed companies	147	336
- loans advanced	3,367	469
- long-term contracts	11,095	11,519
Total non-current financial assets	**14,609**	**12,324**

19 Inventories

	Dec 31 2017	Dec 31 2016
- materials and merchandise	8,827	17,478
- certificates of origin	17,345	23,105
- property rights	-	489
- prepaid deliveries	42	412
Total inventories, net	**26,214**	**41,484**
- inventory write-downs	148	98
Total inventories, gross	**26,362**	**41,582**

20 Short-term receivables

	Dec 31 2017	Dec 31 2016
- trade receivables	123,091	149,494
- from related entities	4,781	5,634
- from other entities	118,310	143,860
- income tax receivable	1,319	6,079
- other receivables	39,995	20,126
- from the state budget	19,429	15,071
- finance lease	347	308
- other	20,219	4,747
Total short-term receivables, net	**164,405**	**175,699**
- impairment losses on receivables	2,340	2,281
Total short-term receivables, gross	**166,745**	**177,980**

(PLN '000)

For information on related-party transactions, see Note 43.

Trade receivables bear no interest and are typically payable within 7–45 days.

As at December 31st 2017, impairment losses on unrecoverable trade receivables were increased to PLN 2,340 thousand from PLN 2,281 thousand as at December 31st 2016. Changes in impairment losses on trade receivables were as follows:

	Dec 31 2017	Dec 31 2016
At beginning of period	**2,281**	**7,779**
- increase	259	382
- use	(150)	(173)
- reversal	(50)	(5,707)
At end of period	**2,340**	**2,281**

Below is an analysis of trade receivables that were past due as at December 31st 2017 and December 31st 2016, but not deemed unrecoverable. Other receivables are not past due.

	Total	not past due	past due but recoverable less than 30 days	30–60 days	60–90 days	90–120 days	over 120 days
Dec 31 2017	123,091	120,139	2,427	131	51	56	287
Dec 31 2016	149,494	145,445	2,637	251	88	68	1,005

21 Short-term prepayments and accrued income

	Dec 31 2017	Dec 31 2016
- insurance	3,649	3,572
- subscriptions	39	16
- wind turbine maintenance	981	1,076
- property tax, perpetual usufruct charges, lease payments	85	41
- accrued income	772	287
- accrued commissions	169	106
- other	1,244	970
Total prepayments and accrued income	**6,939**	**6,068**

Accrued commissions relate to investment credit facilities in the case of which the full amount of the facility has not yet been drawn down, and therefore the facilities have not yet been valued at amortised cost.

(PLN '000)

22 Current financial assets

	Dec 31 2017	Dec 31 2016
- loans advanced	-	2,919
- valuation of futures and forward contracts	119,301	96,624
Total current financial assets	**119,301**	**99,543**

Futures and forward contracts to buy or sell electricity entered into by Polenergia Obrót S.A., a subsidiary, are classified as derivatives and are accounted for in accordance with standards applicable to derivative instruments. Accordingly, such contracts are measured at fair value, with changes in fair value recognised in profit or loss. Valuation gains and losses are presented on a net basis and recognised under revenue or cost of sales, as appropriate. Valuation is performed with respect to the outstanding part of the contracts, which is broken down into current portion (to be settled within 12 months from the reporting date), and non-current portion (to be settled in subsequent years).

	For 12 months ended	
	Dec 31 2017	Dec 31 2016
Gain/(loss) on valuation of derivatives	(5,373)	2,017

	Dec 31 2017	Dec 31 2016
Current assets	119,301	96,624
Non-current assets	11,095	11,519
Total	**130,396**	**108,143**

	Dec 31 2017	Dec 31 2016
Current liabilities	111,293	85,584
Non-current liabilities	7,645	5,718
Total	**118,938**	**91,302**

The table below includes information on financial assets and liabilities which the Group measures at fair value and classifies at specific levels of the fair value hierarchy:

- Level 1 – quoted prices in active markets for identical assets or liabilities (not adjusted),
- Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability in active markets,
- Level 3 – unobservable inputs for the asset or liability.

Derivatives are pairs of futures or forward contracts (long and short positions) entered into on stock exchanges for speculative purposes. They are measured on the basis of a model using market parameters, i.e. the market price of the instrument discounted using interest rates (Level 2). The effect of unobservable inputs, if any, on the valuation of derivatives was negligible.

(PLN '000)

Class of financial instrument

Dec 31 2017	Level 2	Total
Current assets	119,301	119,301
Non-current assets	11,095	11,095
Total	**130,396**	**130,396**

Dec 31 2017	Level 2	Total
Current liabilities	111,293	111,293
Non-current liabilities	7,645	7,645
Total	**118,938**	**118,938**
Net fair value	**11,458**	**11,458**

The table below presents the sensitivity of profit/loss to potential movements in market prices of electricity and gas. The calculation was performed with respect to futures and forward contracts to buy or sell electricity, classified as derivatives measured at fair value.

Effect on profit/loss	Dec 31 2017	Dec 31 2016
Market price increase +1%	(165)	193
Market price decrease -1%	172	(199)

23 Cash and cash equivalents

	Dec 31 2017	Dec 31 2016
Cash and cash equivalents	297,898	380,862
- cash in hand and at banks	297,898	380,862
Total cash and cash equivalents	**297,898**	**380,862**

For more information on restricted cash of PLN 42,363 thousand, see Note 37 (2016: PLN 114,082 thousand).

Cash at banks earns interest at floating rates linked to interest rates for overnight deposits. Current deposits are placed for various periods, from one day to one month, depending on the Group's immediate cash requirement, and earn interest at agreed interest rates.

(PLN ‘000)

24 Share capital and statutory reserve funds/capital reserves

24.1 Share capital

December 31st 2017

Series/issue	Type of shares	Number of shares	Par value of series/issue
A	bearer	2,213,904	4,428
B	bearer	2,304,960	4,610
C	bearer	515,256	1,031
D	bearer	566,064	1,132
E	bearer	1,338,960	2,678
F	bearer	544,800	1,090
G	bearer	683,376	1,367
H	bearer	288,000	576
I	bearer	856,704	1,713
J	bearer	3,835,056	7,670
K	bearer	1,640,688	3,281
L	bearer	3,144,624	6,289
M	bearer	182,359	365
N	bearer	69,922	140
O	bearer	70,908	142
P	bearer	89,500	179
R	bearer	37,560	75
S	bearer	147,026	294
U	bearer	125,300	251
W	bearer	143,200	286
T	bearer	945,800	1,891
Y	bearer	1,570,000	3,140
Z	bearer	24,129,580	48,259
Total number of shares		**45,443,547**	
Total share capital			90,887
Par value per share (PLN)			2

(PLN '000)

December 31st 2016

Series/issue	Type of shares	Number of shares	Par value of series/issue
A	bearer	2,213,904	4,428
B	bearer	2,304,960	4,610
C	bearer	515,256	1,031
D	bearer	566,064	1,132
E	bearer	1,338,960	2,678
F	bearer	544,800	1,090
G	bearer	683,376	1,367
H	bearer	288,000	576
I	bearer	856,704	1,713
J	bearer	3,835,056	7,670
K	bearer	1,640,688	3,281
L	bearer	3,144,624	6,289
M	bearer	182,359	365
N	bearer	69,922	140
O	bearer	70,908	142
P	bearer	89,500	179
R	bearer	37,560	75
S	bearer	147,026	294
U	bearer	125,300	251
W	bearer	143,200	286
T	bearer	945,800	1,891
Y	bearer	1,570,000	3,140
Z	bearer	24,129,580	48,259
Total number of shares		**45,443,547**	
Total share capital			90,887
Par value per share (PLN)			2

Shares of all series carry equal rights and are fully paid.

24.2 Significant shareholders

Shareholders holding 5% or more of the total number of shares:

No.	Shareholder	Number of shares	Number of voting rights	% interest
1	Kulczyk Investment S.A.*	22,811,757	22,811,757	50.20%
2	China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF**	7,266,122	7,266,122	15.99%
3	Nationale-Nederlanden	2,576,969	2,576,969	5.67%
4	Generali OFE	2,943,731	2,943,731	6.48%
5	Aviva OFE	3,560,000	3,560,000	7.83%
6	Other	6,284,968	6,284,968	13.83%
	Total	**45,443,547**	**45,443,547**	**100.00%**

* Through Mansa Investments Sp. z o.o., a subsidiary.

** Through Capedia Holdings Limited of Nicosia, Cyprus, a subsidiary.

(PLN '000)

24.3 Other capital reserves

Other capital reserves have been accumulated through contributions from profits generated in previous financial years and recognition of an upward revaluation of derivatives hedging future cash flows (for further information on the hedges, see Note 41).

24.4 Undistributed profit and limitations on dividend payment

Under the Polish Commercial Companies Code, the parent is required to create statutory reserve funds to cover losses. After each financial year, at least 8% of net profit disclosed in the separate financial statements of the parent should be contributed to statutory reserve funds, until the funds reach at least one-third of the parent's share capital. While it is the General Meeting that resolves how to use statutory reserve funds and capital reserves, a part of statutory reserve funds equal to one-third of the share capital, i.e. PLN 30,296 thousand, may be used exclusively to cover a loss disclosed in separate financial statements and may not be used for any other purposes. The 2016 loss was covered from statutory reserve funds, i.e. from share premium.

24.5 Non-controlling interests

	Dec 31 2017	Dec 31 2016
At beginning of period	**902**	**953**
- share in profit of subsidiaries	24	(51)
At end of period	**926**	**902**

24.6 Dividends paid and proposed

No dividends were paid by the parent in 2017. No dividends are expected to be paid by the parent in 2018.

25 Income tax

	For 12 months ended		For 3 months ended	
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
Current income tax	7,580	12,337	5,330	6,515
Current income tax expense	7,580	12,894	5,325	6,515
Adjustments to current income tax from previous years	-	(557)	5	-
Deferred income tax	12,837	(19,089)	6,041	(16,168)
Related to temporary differences and their reversal	12,837	(19,089)	6,041	(16,168)
Tax expense recognised in profit or loss	20,417	(6,752)	11,371	(9,653)

(PLN '000)

Deferred income tax	Statement of financial position Jan 1 2017	Statement of profit or loss	Capital	Statement of financial position Dec 31 2017
Deferred tax liability				
Property, plant and equipment	86,586	336	-	86,922
Intangible assets	7,272	(1,874)	-	5,398
Receivables	14,135	(2,533)	-	11,602
Cash	(605)	(99)	-	(704)
Borrowings	(813)	(301)	-	(1,114)
Lease receivables	358	(60)	-	298
Liabilities	(3,412)	130	-	(3,282)
Other	2,830	(1,329)	-	1,501
Inventories	571	(264)	-	307
Gross deferred tax liability	**106,922**	**(5,994)**	**-**	**100,928**
Offset				**(26,955)**
Deferred tax liability				**73,973**
Deferred tax asset				
Property, plant and equipment	16,063	863	-	16,926
Inventories	36	(30)	-	6
Receivables	1,074	(1)	-	1,073
Loans	(3,120)	(687)	-	(3,807)
Liabilities	24,541	(14,819)	(541)	9,181
Provisions	2,810	352	-	3,162
Lease assets	3	5	-	8
Retained deficit	19,136	(4,161)	-	14,975
Prepayments and accrued income	10,540	(353)	-	10,187
Gross deferred tax asset	**71,083**	**(18,831)**	**(541)**	**51,711**
Offset				**(26,955)**
Deferred tax asset				**24,756**
Deferred tax expense		**12,837**		
Net deferred tax (asset)/liability	**35,839**		**541**	**49,217**

(PLN '000)

	Statement of financial position	Statement of profit or loss	Capital	Statement of financial position
Deferred income tax	**Jan 1 2016**			**Dec 31 2016**
Deferred tax liability				
Property, plant and equipment	89,824	(3,238)	-	86,586
Intangible assets	9,146	(1,874)	-	7,272
Receivables	13,412	723	-	14,135
Cash	(498)	(107)	-	(605)
Borrowings	3,200	(4,013)	-	(813)
Lease receivables	372	(14)	-	358
Liabilities	(3,302)	(110)	-	(3,412)
Other	2,074	756	-	2,830
Inventories	-	571	-	571
Gross deferred tax liability	**114,228**	**(7,306)**	**-**	**106,922**
Offset				**(41,228)**
Deferred tax liability				**65,694**
Deferred tax asset				
Property, plant and equipment	2,093	13,970	-	16,063
Inventories	3	33	-	36
Receivables	1,189	(115)	-	1,074
Loans	1,430	(4,550)	-	(3,120)
Liabilities	29,051	(4,912)	402	24,541
Provisions	7,211	(4,401)	-	2,810
Lease assets	4	(1)	-	3
Retained deficit	6,619	12,517	-	19,136
Prepayments and accrued income	11,298	(758)	-	10,540
Gross deferred tax asset	**58,898**	**11,783**	**402**	**71,083**
Offset				**(41,228)**
Deferred tax asset				**29,855**
Deferred tax expense		**(19,089)**		
Net deferred tax (asset)/liability	**55,330**		**(402)**	**35,839**

The temporary difference related to property, plant and equipment and intangible assets follows from remeasurement of the assets at fair value and accelerated tax depreciation/amortisation.

	Dec 31 2017	Dec 31 2016
Deferred tax liability		
to be realised after 12 months	103,106	113,010
to be realised within 12 months	(2,178)	8,259
Deferred tax assets		
to be realised after 12 months	37,275	70,966
to be realised within 12 months	14,436	14,464
Deferred tax asset/liability, net	**49,217**	**35,839**

(PLN '000)

EFFECTIVE TAX RATE

	For 12 months ended Dec 31 2017	Dec 31 2016
Tax expense recognised in profit or loss, including:	**20,417**	**(6,752)**
Current income tax	7,579	12,337
Deferred tax	12,838	(19,089)
Loss before tax	**(67,285)**	**(118,332)**
Tax expense at the effective rate of 19%	(12,784)	(22,483)
Adjustments to current income tax from previous years	-	(557)
Non-tax-deductible costs:	**33,218**	**17,920**
- permanent differences	768	405
- tax assets on account of tax losses in Special Economic Zone	280	(315)
- tax asset on account of other tax losses*)	32,170	17,830
Non-taxable income:	**(17)**	**(1,632)**
- other	(17)	(1,632)
Tax recognised in profit or loss	**20,417**	**(6,752)**

*) Mainly concerns non-recognition of a deferred tax asset related to impairment losses on non-financial non-current assets in the amount of PLN 19,027 thousand and non-recognition of a deferred tax asset for the risk of the deducting of losses in the future in the amount of PLN 12,905 thousand.

26 Provisions

	Dec 31 2017	Dec 31 2016
Long-term provisions		
- provision for retirement and similar benefits	1,087	1,087
- provision for litigation	21,820	24,544
Total long-term provisions	**22,907**	**25,625**

Short-term provisions		
- provision for retirement and similar benefits	514	17
- provision for accrued holiday entitlements	1,349	1,208
- provision for litigation and grid losses	1,793	1,722
Total short-term provisions	**3,656**	**2,947**

Change in long- and short-term provisions

	Dec 31 2017	Dec 31 2016
Provisions at beginning of period	**28,572**	**6,423**
- provisions recognised	**782**	**24,660**
- provisions reversed	**(2 791)**	**(2 511)**
Provisions at end of period	**26,563**	**28,572**

Using prudent approach, the Company recognised a long-term provision for litigation in connection with court proceedings involving Eolos Sp. z o.o. (for more information, see Note 30.2).

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27 Liabilities under borrowings

December 31st 2017

Dec 31 2017

Bank	Company	Non-current liabilities	Current liabilities	Interest rate	Maturity date	Security
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	11,449	36,847	3M WIBOR + margin	Apr 2019	Mortgage over property, pledge over assets, pledge over shares in the borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	-	660	3M WIBOR + margin	Jul 2018	Mortgage over property, pledge over assets, pledge over shares in the borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	-	1,100	3M WIBOR + margin	Jul 29 2017	Mortgage over property, pledge over assets, pledge over shares in the borrower, statement on voluntary submission to enforcement
PEKAO S.A.	Polenergia Obrót S.A.	-	4,088	1M WIBOR + margin	Aug 31 2017	Assignment of claims under sale agreements, powers of attorney over bank accounts, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Polenergia Dystrybucja Sp. z o.o.	39,394	2,203	3M WIBOR + margin	Nov 20 2024	Pledge over assets, pledge over shares in the borrower, statement on voluntary submission to enforcement
Raiffeisen Bank Polska S.A.	Dipol Sp. z o.o.	18,698	4,272	1M EURIBOR + margin	Dec 31 2021	Mortgage over property, registered pledge over assets, pledge over shares in the borrower, powers of attorney over bank accounts, assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,338 thousand issued by Polenergia S.A. EUR denominated facility
Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Amon Sp. z o.o.	-	112,431	3M WIBOR + margin	Dec 31 2026	Registered pledge over assets, pledge over shares in the borrower and Talia Sp. z o.o., conditional assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Talia Sp. z o.o.), mutual surety of up to PLN 312,739.5 thousand issued by Talia Sp. z o.o., subordination of Polenergia S.A.'s claims to Lender's claims, statement on voluntary submission to enforcement
Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Talia Sp. z o.o.	-	70,736	3M WIBOR + margin	Dec 31 2026	Registered pledge over assets, pledge over shares in the borrower and Amon Sp. z o.o., conditional assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Amon Sp. z o.o.), mutual surety of up to PLN 227,440.50 thousand issued by Amon Sp. z o.o., subordination of Polenergia S.A.'s claims to Lender's claims, statement on voluntary submission to enforcement
PEKAO S.A.	Grupa PEP – Biomasa Energetyczna Wschód Sp. z o.o.	4,714	1,142	1M WIBOR + margin	Sep 30 2022	Mortgage over property, registered pledge over assets, pledge over shares in the borrower, assignment of claims under project contracts, powers of attorney over bank accounts, statement on voluntary submission to enforcement
European Bank for Reconstruction and Development	Grupa PEP – Farma Wiatrowa 1 Sp. z o.o.	131,493	22,966	3M WIBOR + margin	Jun 29 2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Bank syndicate (EBRD, BOŚ S.A.)	Grupa PEP – Farma Wiatrowa 4 Sp. z o.o.	235,243	19,729	3M WIBOR + margin	Jun 29 2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
European Bank for Reconstruction and Development	Grupa PEP – Farma Wiatrowa 6 Sp. z o.o.	70,788	8,772	3M WIBOR + margin	Jun 29 2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Bank syndicate (EBRD, BOŚ S.A., Bank of China, ALIOR BANK S.A.)	Polenergia Farma Wiatrowa Mycielin Sp. z o.o.	193,725	13,067	3M WIBOR + margin	Sep 15 2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Total		**705,504**	**298,013**			

(PLN '000)

December 31st 2016

Bank	Company	Non-current liabilities	Current liabilities	Interest rate	Maturity date	Security
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	48,297	36,767	3M WIBOR + margin	Apr 2019	Mortgage over property, pledge over assets, pledge over shares in the borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	660	882	3M WIBOR + margin	Jul 2018	Mortgage over property, pledge over assets, pledge over shares in the borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	-	12,104	3M WIBOR + margin	Jul 29 2017	Mortgage over property, pledge over assets, pledge over shares in the borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Polenergia Dystrybucja Sp. z o.o.	34,702	1,707	3M WIBOR + margin	Nov 20 2024	Pledge over assets, pledge over shares in the borrower, statement on voluntary submission to enforcement
Raiffeisen Bank Polska S.A.	Dipol Sp. z o.o.	24,214	6,547	1M EURIBOR + margin	Dec 31 2021	Mortgage over property, registered pledge over assets, pledge over shares in the borrower, powers of attorney over bank accounts, assignment of claims under project contracts, block on funds in the special-purpose reserve account EUR denominated facility
MBANK S.A.	Grupa PEP – Biomasa Energetyczna Południe Sp. z o.o.	849	849	1M WIBOR + margin	Dec 20 2018	Mortgage over property, registered pledge over assets, pledge over shares in the borrower, assignment of claims under project contracts, subordination of Polenergia S.A.'s claims to Lender's claims, block on funds in the special-purpose reserve account, surety of up to PLN 7,800 thousand issued by Polenergia S.A., statement on voluntary submission to enforcement
Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Amon Sp. z o.o.	-	120,095	3M WIBOR + margin	Dec 31 2026	Registered pledge over assets, pledge over shares in the borrower and Talia Sp. z o.o., conditional assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Talia Sp. z o.o.), mutual surety of up to PLN 312,739.5 thousand issued by Talia Sp. z o.o., subordination of Polenergia S.A.'s claims to Lender's claims, statement on voluntary submission to enforcement
Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Talia Sp. z o.o.	-	75,643	3M WIBOR + margin	Dec 31 2026	Registered pledge over assets, pledge over shares in the borrower and Amon Sp. z o.o., conditional assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Amon Sp. z o.o.), mutual surety of up to PLN 227,440.50 thousand issued by Amon Sp. z o.o., subordination of Polenergia S.A.'s claims to Lender's claims, statement on voluntary submission to enforcement
PEKAO S.A.	Grupa PEP – Biomasa Energetyczna Wschód Sp. z o.o.	5,766	975	1M WIBOR + margin	Sep 30 2022	Mortgage over property, registered pledge over assets, pledge over shares in the borrower, assignment of claims under project contracts, powers of attorney over bank accounts, statement on voluntary submission to enforcement
European Bank for Reconstruction and Development	Grupa PEP – Farma Wiatrowa 1 Sp. z o.o.	160,259	9,257	3M WIBOR + margin	Jun 29 2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Bank syndicate (EBRD, BOŚ S.A.)	Grupa PEP – Farma Wiatrowa 4 Sp. z o.o.	256,503	13,768	3M WIBOR + margin	Jun 29 2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
European Bank for Reconstruction and Development	Grupa PEP – Farma Wiatrowa 6 Sp. z o.o.	82,387	4,818	3M WIBOR + margin	Jun 29 2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Bank syndicate (EBRD, BOŚ S.A., Bank of China, ALIOR BANK S.A.)	Polenergia Farma Wiatrowa Mycielin Sp. z o.o.	206,761	12,843	3M WIBOR + margin	Sep 15 2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Total		**820,398**	**296,255**			

Amon Sp. z o.o. ("Amon") and ("Talia", jointly the "Companies") are parties – as sellers – to the following agreements:

1. Agreements on sale of electricity generated in a renewable energy source, dated December 23rd 2009 (the "PPA Agreements"), and
2. Agreements on sale of property rights incorporated in certificates of origin for electricity generated in a renewable energy source, dated December 23rd 2009 (the "CPA Agreements"),

under which Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. w likwidacji (in liquidation) ("PKH") is the other party (the buyer).

PKH took certain steps with a view to discontinuing the performance of the CPA Agreements and PPA Agreements. Specifically, on March 18th 2015, PKH submitted notices of termination with respect to the CPA Agreements and the PPA Agreements, and ceased to perform the agreements. In the Companies' opinion, the notices have no legal effect and thus the CPA Agreements and PPA Agreements should continue to be performed. Therefore, they took steps available under law to protect their interests and to reinstate the full force and effect of the agreements, and also to obtain compensation for the losses they have suffered.

In connection with the now completed projects consisting in construction of the Łukaszów Wind Farm and the Modlikowice Wind Farm, the Companies are parties (as borrowers) to the Credit Facilities Agreement dated June 1st 2010 (the "Credit Facilities Agreement"). Since currently PKH is not performing the PPA Agreements and the CPA Agreements, the Companies failed to comply with the contractual financial covenants as at the end of 2016 and 2017, which is an event of default under the Credit Facilities Agreement.

The credit facilities were disclosed in current liabilities, given the conservative provisions of IAS 1, stipulating that if, as at the reporting date, an entity does not have an unconditional right to defer a liability for at least 12 months as of the reporting date, such liability is to be classified as current. Such classification does not mean that the credit facility has to be repaid within 12 months. As at the date of these financial statements, the syndicate refrained from exercising any of the rights available to it in the case of occurrence of an event of default under the Credit Facilities Agreement.

Under Annex No. 5 to the Credit Facilities Agreement of November 20th 2015, the Companies and the syndicate agreed to enter into negotiations in good faith with a view to making long-term arrangements that would comprehensively govern the mutual relations between the Companies and the syndicate in connection with the non-performance of the PPA Agreements and the CPA Agreements by PKH, which will ultimately lead to executing a relevant annex to the Credit Facilities Agreement. The Companies are currently negotiating possible restructuring of that debt. At the time of preparing the company's financial statements, the sponsor and the syndicate signed the Summary of Key Agreed Business Issues which will make it possible to re-profile the debt, thus remedying the continuing event of default under the Credit Facilities Agreement.

The situation discussed above has no direct effect on any other credit facility agreement to which any of the Polenergia Group companies are party; in particular, it does not trigger an event of default under any other credit facility agreement.

The Companies' control of the funds is restricted in favour of the Banks, in accordance with the provisions of the Credit Facilities Agreement.

As at the time of preparing these financial statements, the companies agreed with the banks key conditions for debt re-profiling. The amended credit facilities agreement is expected to be signed towards the end of Q1 or beginning of Q2 2018.

The Polenergia S.A. issued no surety for Amon's and Talia's liabilities under the Credit Facilities Agreement, save for a surety limited to approximately PLN 6.7m. The Company's Management Board is uncertain about the enforceability of the surety. However, as no explicit decision had been issued in that matter, it found it prudent to consider the Company potentially liable.

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Due to the market situation, the Mycielin project did not generate the assumed levels of financial ratios. The financing banks waived the covenant relating to the financial ratios for the company running the project; therefore, the failure to meet them does not necessitate reclassification of this facility from non-current to current liabilities.

In addition, due to the deterioration of the market situation, the Biomasa Wschód project failed to comply with the debt coverage ratio covenant in the period ended December 31th 2017. The non-compliance was accepted by the bank; therefore, the it was not considered an event of default under the credit facility agreement.

In the fourth quarter of 2017, the re-profiling of the Dipol Wind Farm having been completed, the credit facility agreement was amended. Under the amendment, the facility service schedule provides for lower total payments, which has contributed to the improvement of the Group’s cash flows. Under the amended documentation, Polenergia S.A.’s surety of up to PLN 6.3m was maintained, but in the same documentation Polenergia S.A. noted that the sponsor believes the surety to be invalid.

28 Liabilities

CURRENT LIABILITIES

	Dec 31 2017	Dec 31 2016
- borrowings	298,013	296,255
- trade payables	129,613	156,172
- to related entities	576	949
- to other entities, including:	129,037	155,223
- income tax payable	290	958
- other liabilities	139,972	219,571
- to the state budget	7,746	13,120
- prepaid deliveries	226	-
- other financial liabilities	339	323
- valuation of futures and forward contracts *)	111,293	85,584
- salaries and wages payable	1,414	1,391
- special accounts	43	45
- settlement of long-term contracts**)	16,436	83,703
- other	2,474	35,405
Total current liabilities	**567,888**	**672,956**

OTHER NON-CURRENT LIABILITIES

	Dec 31 2017	Dec 31 2016
- settlement of long-term contracts**)	21,776	29,881
- valuation of futures and forward contracts *)	7,645	5,718
- risk hedging	4,543	7,545
– investment commitments	1,500	1,500
- other financial liabilities	433	702
Total other non-current liabilities	**35,897**	**45,346**

*) For more information on the valuation of futures and forward contracts, see Note 22

**) For more information on liabilities under settlement of long-term contracts, see Note 44.

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Trade payables do not bear interest and are typically paid within 14 days. Other liabilities do not bear interest.

29 Accruals and deferred income

	Dec 31 2017	Dec 31 2016
Long-term accruals and deferred income		
- deferred income - grants	56,565	58,883
Total long-term accruals and deferred income	**56,565**	**58,883**

Short-term accruals and deferred income

	Dec 31 2017	Dec 31 2016
- future bonuses, salaries and wages	8,690	6,287
- services	2,767	3,092
- unused holiday entitlements	481	479
- deferred income – grants	3,197	4,076
- expenditure on property, plant and equipment	284	283
- other	467	1,032
Total short-term accruals and deferred income	**15,886**	**15,249**

The Group has received three grants. The first grant of PLN 5,900 thousand was given in 2005 as additional funding for the '22 MW Puck wind power plant' project. The power plant was launched at the end of 2006, and the grant amount recognised as deferred income is being written off over the power plant's useful life.

The second grant of PLN 40,000 thousand was given in 2010 as additional funding for the 'Łukaszów Wind Farm construction' project. As at December 31st 2017, the Group received PLN 39,887 thousand under the grant. The wind farm was launched at the end of 2011, and the grant amount recognised as deferred income is being written off over the wind farm's useful life.

The third grant of PLN 40,000 thousand was given in 2010 as additional funding for the 'Modlikowice Wind Farm construction' project. As at December 31st 2017, the Group received PLN 39,771 thousand under the grant. The wind farm was launched at the end of 2011, and the grant amount recognised as deferred income is being written off over its useful life.

30 Contingent liabilities

30.1 Guarantees and sureties issued

As at December 31st 2017, the Group did not issue any external guarantees, other than sureties under credit facilities contracted by subsidiaries, as described in Note 29.1 to the Company's separate financial statements.

30.2 Litigation

a) Proceedings relating to liabilities or receivables of the Company or its subsidiary with a value equal to at least 10% of the Company's equity, including information on the subject matter of the proceedings and the Company's position

There were no proceedings relating to liabilities or receivables of the Company or its subsidiary with a value equal to at least 10% of the Company's equity.

b) Information on two or more proceedings relating to liabilities or receivables with a total value of 10% or more of the issuer's equity, specifying the total value of all proceedings involving receivables and all proceedings involving liabilities, together with the issuer's position and – for the proceeding relating to liabilities and receivables of the highest value – their subject matter, value, date of commencement, and parties to the proceedings

There were no proceedings relating to liabilities or receivables with a total value equal to at least 10% of the Company's equity.

c) other proceedings

The Company's subsidiaries Amon Sp. z o.o. and Talia Sp. z o.o. brought court action to declare invalid the termination notices issued by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. (a Tauron Group company) under:

1) the agreement on sale of property rights incorporated in certificates of origin for electricity generated in a renewable energy source − the Łukaszów Wind Farm of December 23rd 2009, and the agreement on sale of electricity generated in a renewable energy source − the Łukaszów Wind Farm of December 23rd 2009, in respect of Amon;
2) the agreement on sale of property rights incorporated in certificates of origin for electricity generated in a renewable energy source − the Modlikowice Wind Farm of December 23rd 2009, and the agreement on sale of electricity generated in a renewable energy source − the Modlikowice Wind Farm of December 23rd 2009, in respect of Talia;

Subsequently, Amon Sp. z o.o. and Talia Sp. z o.o. changed their actions in such a way that, in addition to the initial action, they brought a new one, requesting payment of compensation for non-performance or improper performance of the abovementioned agreements, and then extended this request to cover subsequent periods of Polska Energia – Pierwszy Kompania Handlowa Sp. z o.o.'s non-performance of the agreements. Thus Amon Sp. z o.o. and Talia Sp. z o.o are currently claiming payment of PLN 40,478 thousand and PLN 26,769 thousand, respectively. Another similar extension is envisaged, as further claims arise covering subsequent periods under the agreements.

The above did not result in Amon and Talia being unable to sell the electricity and certificates of origin, because electricity can be sold to an obliged supplier at a price determined by the President of URE, and green certificates can be sold through the power exchange or otherwise to other parties. While the price of electricity sold to an obliged supplier is slightly higher than the price paid under contracts with Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. w likwidacji, the current market price of green certificates is significantly lower than the price paid by Polska Energia. Also, market prices may be volatile. As it is not possible to foresee future market prices, the consequences of the change of the customer for electricity and green certificates sold by Talia and Amon cannot be reliably predicted. The proceedings are pending.

Eolos Polska Sp. z o.o. filed for joint and several payment by the Company's subsidiaries, Certyfikaty Sp. z o.o. and Polenergia Obrót S.A., of contractual penalties and amounts due totalling PLN 27,895 thousand under alleged breach of contracts which expired on January 5th 2016. It should be noted that in the statement of claim the plaintiff indicated that its claim could be higher due to the fact that the claimed contractual penalties would increase in subsequent years. The subsidiaries denied the claim in its entirety. Moreover, Polenergia Obrót S.A. maintains that the allegation of Polenergia Obrót’s joint responsibility for Certyfikaty Sp. z o.o.’s liabilities is groundless.

The Company’s subsidiary, Grupa PEP – Biomasa Energetyczna Północ Sp. z o.o., is seeking receivables of approximately PLN 420 thousand. The above amount is not reflected in the company’s statement of financial position.

Due to the nature of its business which involves supplying electricity to end consumers, the Company’s subsidiary Polenergia Dystrybucja Sp. z o.o. is enforcing claims against a number of customers in relation to sale and distribution of electricity, for a total amount of approximately PLN 360 thousand. The above amount is not reflected in the company’s statement of financial position. Furthermore, Polenergia Dystrybucja Sp. z o.o. filed a claim against one of its electricity suppliers, demanding a refund of overpayments for delivered electricity. The amount of the claim is approximately PLN 550 thousand. The defendant recognised the claim, but also filed for a set-off of receivables for energy supplied in a different period. Polenergia Dystrybucja Sp. z o.o. regards the defendant’s counterclaim as groundless and believes to have paid the supplier all amounts due from it for the energy supplied.

The Company’s subsidiary Polenergia Obrót S.A. has secured an enforceable title against one customer for the amount of PLN 5,000 thousand, with respect to which enforcement proceedings are pending. The above amount is not reflected in the company’s statement of financial position.

Moreover, the Company’s subsidiary Elektrownia Północ Sp. z o.o. is in dispute with the other party to a preliminary property sale agreement, seeking to oblige that party to execute the final sale agreement. Elektrownia Północ Sp. z o.o. also initiated proceedings against the same person for payment of a penalty for breach of contract. The amount in dispute is PLN 100 thousand.

On August 1st 2017, two hearings were held before the Supreme Administrative Court connected with the cassation complaints of Dariusz Mantaj (II OSK 3042/15) and Andrzej Bator (II OSK 2943/15) against the judgments of the Provincial Administrative Court in Poznań of August 27th 2015 (II SA/Po 188/15 and II SA/Po 189/15) concerning environmental decisions issued on January 24th 2014 by the Mayor of Wysoka Town and Municipality for:

1) Bądecz I WF project consisting in the construction of a wind farm (up to 11 turbines) with internal auxiliary infrastructure in the municipality of Wysoka, in the area of Bądecz, Gmurowo, Nowa Rudna, Rudna, Sędziniec and Stare;

2) Bądecz II WF project consisting in the construction of a wind farm (up to 3 turbines) with internal auxiliary infrastructure in the municipality of Wysoka, in the area of Tłukomy and Czajcze;

The Supreme Administrative Court examined the appeals on their merits, citing Art. 188 of the Law on Proceedings Before Administrative Courts, and reversed the environmental decisions issued by the Mayor of Wysoka Town and Municipality.

Since the environmental decisions for the abovementioned projects, both of which are implemented by the Company’s subsidiary, Polenergia – Farma Wiatrowa Bądecz Sp. z o.o., were reversed, the final building permits for the projects may be challenged. The Company will take measures provided for by law to maintain the building permits. However, if these efforts fail, the projects may not be able to join the auction. Currently, implementation of the project depends on the entry into force of an amendment to the Act on Wind Farm Projects, as envisaged in the draft amending act. The amendment provides for the possibility of obtaining a replacement building permit and new environmental decisions without having to meet the 10h condition and obtain new connection conditions for the project from Enea. An analysis of the feasibility of a favourable resolution of the case, performed in cooperation with a law office, showed no indication of impairment. The expenditure incurred on the project is approximately PLN 15m.

The Group is a party to court proceedings related to the determination of the property tax. For more detailed information, see the part of the Directors’ Report on the Group’s operations describing the consequences of the entry into force of the Act on Wind Farm Projects.

30.3 Tax settlements

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by administrative bodies, which are authorised to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within public administration bodies and between those bodies and businesses, leading to uncertainty and conflicts. Consequently, tax risk in Poland is substantially higher than in countries with more mature tax systems.

Tax settlements may be subject to inspection for a period of five years from the end of the calendar year in which the tax payment was made. Such inspections may result in additional tax liabilities for the Group companies. As at December 31st 2017, the Group did not identify any tax risk for which a provision should be recognised.

Given the very unclear wording of the applicable regulations, uncertainty arose as to the calculation of wind farm property tax. Although, according to expert reports held by the Group, the Act should not affect the amount of property tax paid by the Group companies, nevertheless most Group companies received adverse interpretations confirming that the property tax base had increased since the beginning of 2017. The cases will be resolved by the Supreme Administrative Court. The administrative courts' adverse decisions (if any) in these cases may have an adverse effect on the business of the Group companies operating wind farms. The annual effect on the consolidated financial statements is estimated as additional expenses of approximately PLN 6.3m.

30.4 Capital expenditure

As at December 31st 2017, the Company plans the Group's capital expenditure on property, plant and equipment to total PLN 60m in 2018. The amount will largely be allocated to an investment programme in the Distribution segment and on project development, including in offshore and onshore wind power generation.

30.5 Contractual obligations

Polenergia Elekrociepłownia Nowa Sarzyna Sp. z o.o., a subsidiary

On March 20th 1998, Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. entered into a long-term agreement with PGNiG S.A., under which it is obliged to order contractual gas volumes of no less than 180 mcm annually and no more than 210 mcm annually. In each contractual year, the subsidiiary is required to pay for the minimum annual gas volume, equal to 90% of the ordered annual gas volume. The agreement expires on December 24th 2019.

On March 21st 2008, the sunsidiary entered into an agreement on sale of electricity with GET EnTra Sp. z o.o. Annex No. 11 of December 6th 2017 provides for electricity sales volumes of no less than 732,000 MWh annually as of 2017, including no less than 335,000 MWh in the summer period. The agreement term ends on December 31st 2019.

Under a heat sale agreement of March 25th 1998, the subsidiary agreed to supply heat to Ciech Sarzyna S.A. In the event of failure to supply the agreed heat volumes, the subsidiary is required to compensate for losses incurred and documented by the customer, up to USD 2m annually (the amount has been indexed to CPI since 1996). Under the agreement amended under Annex 10 of January 24th 2017, the subsidiary is obliged to supply and Ciech Sarzyna S.A. is obliged to collect 370,000 GJ of energy annually (Minimum Required Purchase Volume).

On January 24th 2017, the subsidiary and Ciech Sarzyna S.A. executed an agreement under which the company undertook to supply heat to Ciech Sarzyna S.A. in the period from June 4th 2020 to

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November 30th 2030, starting after the expiry of the agreement of March 25th 1998 referred to above. In the event of failure to supply the agreed heat volumes, the subsidiary is required to compensate for losses incurred and documented by the customer, up to USD 8m over the entire term of the agreement. The agreement does not provide for any minimum required purchase volume.

On January 24th 2017, the subsidiary and Ciech Sarzyna S.A. executed an agreement under which Ciech Sarzyna S.A. undertook to provide local services in the period from June 4th 2020 to November 30th 2030. The services covered by the agreement include supplies of water and steam condensate, collection of wastewater and access to a railway siding; the company uses these services in its operations connected with electricity and heat generation.

On October 30th 2013, the subsidiary renewed the heat supply agreement with Zakład Gospodarki Komunalnej Nowa Sarzyna Sp. z o.o. The agreement term ends on June 3rd 2020. Under the agreement, in each contractual year the customer is obliged to collect and pay for, and the supplier is obliged to supply, at least 55,000 GJ of heat (minimum required purchase volume), with the proviso that the customer may change the minimum required purchase volume starting from the fourth contractual year. Additionally, the supplier (the subsidiary) is not obliged to supply more than 120,000 GJ of heat (maximum required supply volume) in any contractual year.

31 Revenue

	For 12 months ended		For 3 months ended	
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
- revenue from sale and distribution of electricity	2,224,098	2,494,496	588,167	691,048
- revenue from certificates of origin	62,173	52,377	20,656	32,310
- revenue from carbon dioxide emission allowances	23,025	2,375	22,707	-
- revenue from sale of heat	20,267	24,199	5,416	5,749
- revenue from consulting and advisory services	2,155	2,944	27	612
- income from lease and operator services	1,986	631	688	25
- revenue from sale of merchandise	3,955	3,968	1,108	1,330
- revenue from sale of pellets	26,368	43,095	6,086	8,249
- rental income	224	1,122	46	16
- income from compensation for stranded costs and cost of gas	109,086	109,728	20,198	23,623
- net revenue from sale and distribution of gas	277,238	259,785	81,008	76,975
- other	11,803	2,049	5,348	578
Total revenue	**2,762,378**	**2,996,769**	**751,455**	**840,515**

Revenue from sale and distribution of electricity includes gains from revaluation of electricity sale derivatives.

	For 12 months ended		For 3 months ended	
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
- Poland	2,405,623	2,539,403	655,869	699,886
- Czech Republic	66,198	68,679	19,259	17,601
- Luxembourg	9,296	4,186	1,896	2,030
- Germany	183,795	247,957	38,100	74,048
- Switzerland	1,746	9,264	601	2,433
- Hungary	-	2,375	-	-
- United Kingdom	82,971	124,905	27,740	44,517
- Spain	2,119	-	190	-
- Slovakia	4,003	-	1,444	-
- Slovenia	6,627	-	6,356	-
Total revenue	**2,762,378**	**2,996,769**	**751,455**	**840,515**

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32 Expenses, by nature of expense

	For 12 months ended		For 3 months ended	
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
- depreciation and amortisation expense	97,080	115,356	24,010	29,805
- raw materials and consumables used	188,501	171,410	48,606	38,828
- services	56,113	56,657	14,770	15,118
- taxes and charges	29,757	17,497	9,839	4,699
- salaries and wages	32,807	35,973	8,968	7,964
- social security and other benefits	4,744	4,741	1,174	959
- other costs	3,304	3,546	921	899
Total expenses by nature	**412,306**	**405,180**	**108,288**	**98,272**
- cost of merchandise and materials sold (+)	2,271,163	2,483,363	620,768	701,776
- distribution costs (-)	(452)	(770)	53	(232)
- administrative expenses (-)	(35,953)	(32,928)	(12,136)	(8,395)
Total cost of sales	**2,647,064**	**2,854,845**	**716,973**	**791,421**

33 Other income

	For 12 months ended		For 3 months ended	
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
- reversal of impairment losses and write-downs, including:	590	3,310	519	2,496
- impairment losses on receivables	329	2,455	258	1,986
- inventory write-downs	115	855	115	510
- impairment losses on property, plant and equipment	146	-	146	-
- provisions reversed, including:	129	1,651	57	485
- provisions for litigation	50	-	50	-
- provision for site restoration	-	1,166	-	-
- other provisions	79	485	7	485
- other, including:	10,036	5,714	737	801
- compensation and additional charges	4,016	174	(332)	(71)
- settlement of grants	3,257	4,279	808	1,070
- gain on disposal of non-financial non-current assets	504	569	42	35
- reinvoicing	6	-	-	(6)
- other	2,253	692	219	(227)
Total other income	**10,755**	**10,675**	**1,313**	**3,782**

34 Other expenses

	For 12 months ended		For 3 months ended	
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
- impairment losses and write-downs, including:	100,599	179,424	1,513	74,942
- impairment losses on receivables	166	10,532	154	409
- inventory write-downs	146	115	(94)	115
- impairment losses on property, plant and equipment	100,287	168,777	1,453	74,418
- other, including:	1,985	654	1,167	243
- penalties, fines, compensation	15	4	13	3
- other development costs	193	206	64	38
- loss on disposal of non-financial non-current assets	766	26	306	24
- other	1,011	418	784	178
Total other income	**102,584**	**180,078**	**2,680**	**75,185**

For a more detailed description of impairment losses on property, plant and equipment, see Note 15.

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35 Finance income

	For 12 months ended		For 3 months ended	
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
- income from interest on deposits and loans	4,543	4,540	1,014	957
- interest on finance leases	136	150	32	36
- foreign exchange gains, including:	1,673	99	787	69
- unrealised	1,569	(20)	726	7
- realised	104	119	61	62
- valuation of financial liabilities	1	4	-	(13)
- disposal of shares in a subsidiary	-	3,206	-	-
- other	45	36	13	-
Total finance income	**6,398**	**8,035**	**1,846**	**1,049**

On June 16th 2016, the parent finalised the sale of the Zakrzów project, i.e. of power generation assets comprising the Zakrzów CHP plant and two SPVs. The project was purchased by DP System Sp. z o.o. of Łódź.

36 Finance costs

	For 12 months ended		For 3 months ended	
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
- interest expense	54,500	56,483	13,235	14,533
- foreign exchange losses, including:	771	1,560	345	802
- unrealised	294	1,408	365	825
- realised	477	152	(20)	(23)
- fees and commissions	1,851	3,466	408	452
- valuation of financial liabilities *)	3,365	3,307	820	1,166
- other	276	374	162	192
Total finance income	**60,763**	**65,190**	**14,970**	**17,145**

*) Related to bank borrowings measured at amortised cost.

37 Cash flows

Restricted cash	For 12 months ended	
	Dec 31 2017	Dec 31 2016
- cash for credit facility repayments	24,189	34,309
- cash for the settlement of compensation for stranded costs	14,604	77,681
- cash for long- and medium-term overhauls	3,533	2,054
- other restricted cash	37	38
Total	**42,363**	**114,082**

(PLN '000)

Explanation of differences between changes in certain items in the statement of financial position and changes in the statement of cash flows

Provisions:	For 12 months ended Dec 31 2017	Dec 31 2016
- change in provisions in the statement of financial position	(2,009)	22,149
- deconsolidation of sold subsidiary	-	38
- reclassification from non-current liabilities	-	(24,544)
Change in provisions in the statement of cash flows	**(2,009)**	**(2,357)**

Inventories:	For 12 months ended Dec 31 2017	Dec 31 2016
- change in inventories in the statement of financial position	15,270	5,556
- recognition of inventories under non-current assets	273	200
- deconsolidation of sold subsidiary	-	(109)
Change in inventories in the statement of cash flows	**15,543**	**5,647**

Receivables:	For 12 months ended Dec 31 2017	Dec 31 2016
- change in short-term and long-term receivables, net, in the statement of financial position	6,885	53,251
- change in lease receivables	-	203
- deconsolidation of sold subsidiary	-	(1,710)
- change in financial receivables	(22,260)	(1,854)
Change in receivables in the statement of cash flows	**(15,375)**	**49,890**

Liabilities:	For 12 months ended Dec 31 2017	Dec 31 2016
- change in liabilities, net of borrowings, in the statement of financial position	(115,607)	(68,206)
- change in finance lease liabilities	582	1,255
- change in investment commitments	34,717	1,257
- deconsolidation of sold subsidiary	-	1,441
- change in financial liabilities	2,899	6,864
- reclassification to long-term provisions	-	24,544
Change in liabilities in the statement of cash flows	**(77,409)**	**(32,845)**

Accruals and deferrals:	For 12 months ended Dec 31 2017	Dec 31 2016
- change in accruals and deferrals in the statement of financial position	(2,545)	(5,093)
- commissions on bank borrowings	(96)	(4,734)
- deconsolidation of sold subsidiary	-	65
- property, plant and equipment under construction, not invoiced	-	1,177
Change in accruals and deferrals in the statement of cash flows	**(2,641)**	**(8,585)**

(PLN '000)

38 Reconciliation of changes in liabilities arising from financing activities

Dec 31 2017	Bank borrowings	Finance leases	Total
At beginning of period	**1,115,309**	**1,187**	**1,116,496**
Increase in debt	12,148	372	12,520
financing received	12,148	372	12,520
Interest accrued	52,152	66	52,218
Debt-related payments	(177,405)	(750)	(178,155)
principal repayments	(124,624)	(684)	(125,308)
interest payments	(52,781)	(66)	(52,847)
Exchange differences on debt in foreign currencies	(1,652)	-	(1,652)
Valuation	2,965	-	2,965
At end of period	**1,003,517**	**875**	**1,004,392**

39 Objectives and policies of financial risk management

Apart from derivatives, the key financial instruments used by the Group include credit facilities, cash, and short-term deposits, the primary purpose of which is to secure financial resources to finance the Group's operations. The Group also holds other financial instruments, such as trade payables and receivables arising in connection with its activities.

The Group enters into transactions involving derivative instruments, primarily forward contracts to hedge its currency and market price risks. The purpose of these transactions is to manage the currency risk and the risk of market prices (in particular in electricity trading) which arise in the course of the Group's operations and in connection with the sources of funding it uses.

The key risks connected with the Group's financial instruments are: interest rate risk, liquidity risk, currency risk, and credit risk. The Management Board verifies and establishes rules for managing each of these types of risk; the rules are briefly discussed below. The Group also monitors the risk of market prices with respect to the financial instruments it holds.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its non-current financial liabilities.

It is the Group's policy to manage its interest expense by using debt financing based on floating rates. To hedge interest payments under its borrowings, the Group uses financial derivatives.

The table below presents sensitivity of the Company's full-year profit before tax (in connection with floating-rate liabilities) to reasonably possible movements in interest rates, all other factors being equal. The effect on the Group's equity is not presented.

Period ended Dec 31 2017	Increase/decrease (percentage points)	Effect on profit/loss before tax over 12 consecutive months (PLN ‘000)
1M WIBOR	1%	(7,964)
1M EURIBOR	1%	(214)
1M WIBOR	-1%	7,964
1M EURIBOR	-1%	214

Period ended Dec 31 2016	Increase/decrease (percentage points)	Effect on profit/loss before tax over 12 consecutive months (PLN ‘000)
1M WIBOR	1%	(9,436)
1M EURIBOR	1%	(310)
1M WIBOR	-1%	9,436
1M EURIBOR	-1%	310

Currency risk

The Group’s currency risk involves primarily the risk of changes in the euro exchange rate with respect to its short currency position under bank deposits, investment commitments, and investment credit facilities. As at December 31st 2017, the position was valued at EUR 5.6m. It is not hedged against changes in currency exchange rates.

Except in the case of the above unhedged currency position, when negotiating the terms of hedging derivatives, the Group seeks to match those terms with the terms of the hedged item, thus ensuring the maximum effectiveness of hedging; for more detailed information, see Note 41.

The table below presents the sensitivity of the Group’s profit/loss before tax (due to changes in the fair value of monetary assets and liabilities) to reasonably possible movements in the euro exchange rate, all other factors being equal.

	Exchange rate increase/decrease	Effect on profit/loss
Dec 31 2017 – EUR	+ PLN 0.01/EUR	(56)
	- PLN 0.01/EUR	56
Dec 31 2016 – EUR	+ PLN 0.01/EUR	(70)
	- PLN 0.01/EUR	70

In the year ended December 31st 2017, the Group recorded finance income of PLN 1,275 thousand from unrealised foreign exchange gains.

In the period December 31st 2017–March 31st 2018, movements in the PLN/EUR exchange rate may affect the amount of unrealised exchange gains/losses. Net result on unrealised exchange differences as at March 31st 2018 will mainly depend on the difference between PLN/EUR exchange rates on December 31st 2017 and March 31st 2018, with the appreciation/depreciation of the Polish złoty against the euro having a positive/negative effect on the net profit at a rate of ca. PLN 56 thousand for each PLN 0.01 of the difference relative to the exchange rate as at December 31st 2017 (EUR 1= PLN 4.1709).

(PLN ‘000)

Credit risk

The Group executes transactions only with reputable companies enjoying sound credit standing. Each customer who wishes to trade on credit terms is subject to credit verification procedures. Moreover, thanks to ongoing monitoring of receivable balances, the Group’s exposure to the risk of unrecoverable receivables is insignificant.

With respect to the Group’s other financial assets, such as cash and cash equivalents, financial assets available for sale and certain derivative instruments, credit risk is related to the counterparty’s inability to pay, and the maximum exposure to this risk is equal to the carrying amount of such instruments.

As the Group’s investment projects rely to a large extent on external financing, there is significant debt concentration at the Group. The contracted credit facilities provide for a number of financial covenants which have to be met by individual projects.

Given the current market environment, possible consequences of the Act on Wind Farm Projects and situation prevailing on the market of green certificates, there is a risk that the Group may default on the covenants with respect to certain project.

The Group monitors the debt levels and compliance with covenants at individual companies, remaining in contact with the financing institutions.

Cash at banks is held with well-rated banks.

Trade receivables are owed mainly by customers having good credit ratings with whom the Group maintains continued business relations.

Liquidity risk

The Group monitors the risk of its funds being insufficient to pay liabilities as they fall due using periodic liquidity planning. This planning takes into consideration maturities of investments and financial assets (e.g. receivables, other financial assets) and forecast cash flows from operating activities.

The Group aims to balance financing continuity and flexibility by using different financing sources, including account overdrafts, credit facilities, finance lease agreements and lease agreements with a purchase option.

The table below presents the Group’s financial liabilities by maturity as at December 31st 2017 and December 31st 2016, based on undiscounted contractual payments.

Dec 31 2017	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	64,384	432,656	405,121	505,731	**1,407,892**
Other liabilities	139,587	386	14,120	-	**154,093**
Trade payables	129,613	-	-	-	**129,613**

Dec 31 2016	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	50,206	361,658	467,558	618,887	**1,498,309**
Other liabilities	226,290	1,284	7,462	-	**235,036**
Trade payables	156,168	-	4	-	**156,172**

(PLN '000)

40 Financial instruments

Fair values of individual financial instrument classes

The table below compares carrying amounts and fair values of all of the Group's financial instruments, by classes and categories of assets and liabilities.

	Category (IAS 39)	Carrying amount		Fair value	
		Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
Financial assets					
Futures and forward contracts	Level 2	130,404	108,143	130,404	108,143
Financial liabilities					
Bank borrowings	Level 2	1,003,517	1,116,653	1,003,517	1,116,653
SWAPs	Level 2	4,544	7,545	4,544	7,545
Futures and forward contracts	Level 2	118,938	91,302	118,938	91,302

Level 2: The fair value is measured based on other inputs that are observable for the asset or liability either directly or indirectly. As similar contracts are traded in an active market, the prices reflect results of actual transactions in similar derivative instruments. The fair value of borrowings is determined using their amortised cost, i.e. an analysis of future cash flows discounted using the effective interest rate.

The fair values of short-term and long-term receivables and liabilities approximate their carrying amounts.

Interest rate risk

The table below presents the carrying amounts of the Group's financial instruments exposed to the interest rate risk, by maturity. Their classification into individual years reflects the dates when the borrowings mature.

Dec 31 2017

INTEREST RATE RISK

Floating-rate interest	*< 1 year*	*1–2 years*	*2–3 years*	*3–4 years*	*4–5 years*	*Over 5 years*	*Total*
PLN bank borrowings	293,741	61,248	53,410	88,811	56,838	426,500	980,548
EUR bank borrowings	4,271	4,326	4,764	9,608	-	-	22,969

Fixed-rate interest	*< 1 year*	*1–2 years*	*2–3 years*	*3–4 years*	*4–5 years*	*Over 5 years*	*Total*
Cash assets	297,898	-	-	-	-	-	297,898
Finance leases	303	318	333	350	367	1,135	2,806

Dec 31 2016

INTEREST RATE RISK

	< 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
Floating-rate interest							
PLN bank borrowings	289,707	84,117	60,782	82,523	53,876	514,886	1,085,891
EUR bank borrowings	6,548	7,636	7,985	8,352	241	-	30,762
	< 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
Fixed-rate interest							
Cash assets	380,862	-	-	-	-	-	380,862
Finance leases	308	303	318	333	350	1,550	3,162

Interest rates for financial instruments earning interest at floating rates are updated in periods of less than one year.

41 Hedging

Maturity date of the hedging instrument	Value of the hedge (PLN '000)	Interest rate hedged	Instrument
Apr 29 2019	38,456.00	4.95%	IRS
Jun 15 2021	133,572.60	3.07%	IRS
	172,028.60		

The fair value of the hedge as at the reporting date was PLN 4,543 thousand, disclosed in non-current liabilities.

The purpose of the hedging transactions is to mitigate the effect of interest rate movements on the value of future highly probable loan repayments.

Hedge accounting seeks to eliminate the risk of an accounting mismatch between the time when gains or losses on a hedging instrument and those on the hedged item are recognised. The result of the hedging transaction will be taken to the statement of profit or loss on exercise of the hedge.

As at December 31st 2017, the Group recognised PLN 2,311 thousand (2016: PLN +4,077 thousand) in other comprehensive income being a component of equity, on account of the effective portion of the hedging instrument's fair value as at the reporting date.

42 Capital management

The primary objective behind the Group's capital management is to maintain good credit rating and safe capital ratios, in order to support the Group's operations and build shareholder value.

The Group manages its capital structure and modifies it in response to changes in the economic environment. To maintain or adjust its capital structure, the Group may introduce changes regarding dividend distribution, return capital to the shareholders, or issue new shares. In the year ended December 31st 2017 and financial year ended December 31st 2016, there were no changes in the capital structure management objectives, policies and processes.

The Group monitors its capital position using the leverage ratio, calculated as the ratio of net debt to the sum of total equity and net debt. The Group's net debt includes interest-bearing borrowings less cash and cash equivalents.

(PLN '000)

	Dec 31 2017	Dec 31 2016
Interest-bearing borrowings	1,003,517	1,116,653
Less cash and cash equivalents	(297,898)	(380,862)
Net debt	**705,619**	**735,791**
Equity	1,181,988	1,267,426
Total equity	**1,181,988**	**1,267,426**
Equity and net debt	**1,887,607**	**2,003,217**
Leverage ratio	37%	37%

43 Significant related-party transactions

As at December 31st 2017, GEO Kletnia Sp. z o.o was an associated entity.

Key transactions with related parties in the year ended December 31st 2017:

Dec 31 2017	Revenue	Costs	Receivables	Liabilities
Kulczyk Investments	-	432	-	136
Kulczyk Holding	-	600	-	281
Krucza Inwestycje KREH 1 Sp. z.o.o. S.K.	112	2,254	-	3
Chmielna Inwestycje KREH2 Sp. z o.o. S.K.A.	1,236	-	-	-
Euro Invest Sp. z o.o.	242	-	-	-
Polenergia Holding Sarl	363	-	-	20
Polenergia Usługi Sp. z o.o.	126	-	-	-
Ciech Sarzyna S.A.	19,954	1,936	3,592	169
Autostrada Eksploatacja S.A.	2,024	-	7	-
Ramsden Sp. z o.o.	248	-	-	-
Polenergia International Sarl	1,365	-	1,181	-
Beyond.pl Sp. z o.o.	892	168	115	-
Total	**26,562**	**5,390**	**4,895**	**609**

For information on transactions with members of the parent's Management Board and Supervisory Board, see Notes 46 and 47.

Polenergia Holding Sarl with its registered office in Luxembourg is a higher-tier parent consolidating the Group, and Kulczyk Investments is the ultimate parent.

The related entities with which the Group entered into transactions are Kulczyk Investments Group companies; none of them, except for Kulczyk Investments and Polenergia Holding, controls any Group company. The transactions are not secured and will be settled in cash.

44 Compensation for stranded costs and cost of gas

Compensation for stranded costs

ENS Sp. z o.o., a subsidiary, calculates stranded costs for the period April 2008–May 2020 ("adjustment period") using formulas specified in Art. 30 and Art. 31 of the LTC Termination Act. The estimate is based on the following items:

(PLN '000)

- revised net carrying amount of power generating property, plant and equipment as at January 1st 2007,
- depreciation of power generating property, plant and equipment for the purposes of corporate income tax in the period January 1st 2007−March 31st 2008,
- operating profit or loss in the adjustment period, calculated based on realised and forecast revenue from sale of electricity and operating expenses related to sales of electricity, adjusted for depreciation and amortisation for the purposes of corporate income tax,
- net carrying amount of power generating property, plant and equipment after the end of the adjustment period.

The maximum amount of stranded costs calculated as described above is allocated to individual years (including 2017) according to the Company's allocation method (based on operating profit or loss for a given year).

Due to the length of the period covered by the calculations, the estimated amounts may change; the amounts disclosed as at the end of the reporting period have been estimated based on the Company's best knowledge and data available on that date.

	Dec 31 2017
compensation for stranded costs, entered in the books	57,242

	For 12 months ended Dec 31 2017
settlement for the previous year	7,750
Total	**7,750**

The amount of compensation for the cost of gas is estimated as the product of gross electricity generated by the Company in the period using gas fuel covered by the 'minimum take' clause, the difference between the Company's average cost of gas and the average cost of coal in coal-fired centrally dispatched generating units, and the adjustment coefficient referred to in the LTC Termination Act.

	For 12 months ended Dec 31 2017
compensation for cost of gas, entered in the books	51,844

	For 12 months ended Dec 31 2017
prepayments for Q1–Q4 2017	40,000
settlement for the previous year	1,464
Total	**41,464**

(PLN '000)

45 Workforce

The Group's workforce by type of position, in FTEs as at December 31st 2017 and December 31st 2016:

	Dec 31 2017	Dec 31 2016
Parent's Management Board	3	3
Parent's employees	49	57
Subsidiaries' employees	150	168
Total headcount	**202**	**228**

The data includes employees on maternity leaves.

46 Information on the total amount of remuneration and awards (in cash or in kind) paid or payable to members of the Management and Supervisory Boards of the parent

In 2017 and 2016, remuneration of members of the Management Board of the parent and subsidiaries, as well as of the Supervisory Board was as follows:

	Dec 31 2017	Dec 31 2016
Jacek Głowacki	1,970	2,126
Bartłomiej Dujczyński	1,293	656
Michał Michalski	792	114
Zbigniew Prokopowicz	-	3,987
Anna Kwarcińska	-	1,745
Michał Kozłowski	-	1,834
Total	**4,055**	**10,462**

Certain Management Board members are party to a mutual agreement on termination of employment within the next 3–12 months. If a Management Board member being a party to such agreement resigns, the Company is required to make a severance payment equal to 100% of the remuneration received by such Management Board member over the last 12 months. Following their resignation as members of the Management Board, Mr Zbigniew Prokopowicz, Ms Anna Kwarcińska and Mr Michał Kozłowski received appropriate severance payments.

(PLN '000)

	Dec 31 2017	Dec 31 2016
Tomasz Mikołajczak	54	54
Mariusz Nowak	36	36
Łukasz Rędziniak	36	36
Dawid Jakubowicz	36	36
Dominik Libicki	36	28
Orest Nazaruk	36	36
Arkadiusz Jastrzębski	36	36
Brian Bode	36	28
Dagmara Gorzelana	36	28
Total	**342**	**318**

47 Transactions with members of the Group's Management and Supervisory Boards, their spouses, siblings, ascendants, descendants, or other closely related persons

In the year ended December 31st 2017, no transactions were entered into with members of the Management and Supervisory Boards, their spouses, siblings, ascendants, descendants, or other closely connected persons.

48 Fees paid or payable to the auditor or auditing firm

The table below presents fees paid or payable to qualified auditors of financial statements for the year ended December 31st 2017 and December 31st 2016, by type of service:

Type of service	Dec 31 2017	Dec 31 2016
Review and audit of financial statements	496	496
Other services	30	30

49 Carbon dioxide (CO_2) emission allowances

Trade in emission allowances is an environmental policy instrument designed to reduce pollutant emissions. Both EU membership and the Kyoto protocol require Poland to participate in the emissions trading scheme. The emissions trading mechanism was introduced on January 1st 2005 upon the entry into force of Directive 2003/87/EC of the European Parliament and of the Council, transposed into Polish legislation by virtue of the Act on Trading in Allowances for Emissions of Greenhouse Gases and Other Substances of December 22nd 2004. The Act was superseded by the Act on Trading in Greenhouse Gas Emission Allowances, dated April 28th 2011. The trading period 2013–2020 is regulated by the Act on Trading in Greenhouse Gas Emission Allowances of June 12th 2015.

The facilities owned by the Polenergia Group: Mercury Power Plant (number in the National Allocation Plan of Carbon Dioxide (CO_2) Emission Allowances: KPRU No.: PL 0879 05) and Nowa Sarzyna CHP Plant (KPRU No. PL 0472 05) are combustion installations with a rated thermal input in excess of 20 MW, participating in the EU emissions trading scheme.

In the current trading period 2013–2020, pursuant to Directive 2003/87/EC of the European Parliament and of the Council, amended by Directive 2009/29/EC of the European Parliament and of the Council of April 23rd 2009:

Pursuant to Art. 10c, by way of derogation, the Mercury Power Plant, as an electricity producer and an installation included in the list of the National Investment Plan, received emission allowance allocations, which, in line with the EC Decision, will be reduced to 0 in 2020. The Mercury Power Plant was not allocated emission allowances for 2013–2017, as the plant upgrades specified in the National Investment Plan were not completed.

The Nowa Sarzyna CHP Plant was also allocated CO_2 emission allowances under Art. 10c. However, as no investments by the CHP were included in the National Investment Plan, the allowances were not transferred to the operator’s account.

The Nowa Sarzyna CHP Plant was allocated free emission allowances under Art. 10a for 2013–2020 for CO2 emission volumes of 34,256 EUA in 2013 to 22,495 EUA in 2020.

As at the day of the transaction, CO_2 emission allowances were measured at fair value and presented as intangible assets.

The reports of CO_2 emissions (obligatory submission of audited annual reports to the National Centre for Emissions Balancing and Management („KOBIZE”) by March 31st each year for the preceding year) for the Mercury Power Plant and the Nowa Sarzyna CHP Plant indicate that in 2017 the plants produced the following amounts of emissions:

Mercury Power Plant – 33,849 tonnes (planned report verification: February 2018, verifier – Polcargo),

Nowa Sarzyna CHP Plant – 334,999 tonnes (the report is verified by DNV, a provider of independent verification services).

Since January 1st 2013, both installations have operated under new CO_2 emission monitoring plans, approved by the competent authorities, which are compliant with the requirements of: Commission Regulation (EU) No. 601/2012 of June 21st 2012 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council and Commission Regulation (EU) No 600/2012 of 21 June 2012 on the verification of greenhouse gas emission reports and tonne-kilometre reports and the accreditation of verifiers pursuant to Directive 2003/87/EC of the European Parliament and of the Council.

Pursuant to the Act on Trading in Greenhouse Gas Emission Allowances of June 12th 2015, the plants covered by the system were obligated to apply for emissions trading permits, which were to replace the then existing permits and monitoring plans, within 12 months from the effective date of the Act (September 9th 2016). On November 3rd 2016, the Nowa Sarzyna CHP Plant obtained a decision of the Leżajsk County Governor granting a new permit for greenhouse gas emissions. For the Mercury Power Plant, the decision was issued by the Mayor of Wałbrzych on May 30th 2016.

Allocation of free CO2 emission allowances to be used by 2020: Nowa Sarzyna CHP Plant − 128,417 EUA.

50 Licences

On October 4th 2001, Polenergia Obrót S.A. received a decision of the President the Energy Regulatory Office on grant of a licence for trade in electricity from October 10th 2001 to October 10th 2021. The licence holder is authorised to conduct, for profit and on its own behalf, commercial business activity consisting in sale of electricity to customers in Poland in an organised and continuous manner.

On January 8th 2007, Dipol Sp. z o.o. received a decision of the President of the Energy Regulatory Office on grant of a licence for electricity production from January 10th 2007 to January 10th 2022. The activity permitted under the licence consists in electricity production at the Gnieżdżewo Wind Farm, a 22,000 MW renewable energy source.

On December 22nd 2008, Polenergia Dystrybucja Sp. z o.o. received a decision of the President of the Energy Regulatory Office on grant of a licence for trade in electricity from December 29th 2008 to December 31st 2025.

On February 27th 2009, Polenergia Kogeneracja Sp. z o.o. received a decision of the President of the Energy Regulatory Office on grant of a licence for trade in gaseous fuels from March 1st 2009 to December 31st 2025. The licence holder is authorised to conduct business consisting in sale of natural gas to customers in the town and municipality of Tomaszów Mazowiecki. On October 14th 2015, Polenergia Kogeneracja Sp. z o.o. received a decision of the President of the Energy Regulatory Office on amendment to the licence allowing the company to extend its business activity to the territory of Poland.

On February 27th 2009, Polenergia Kogeneracja Sp. z o.o. received a decision of the President of the Energy Regulatory Office on grant of a licence for distribution of gaseous fuels from March 1st 2009 to December 31st 2025. The licence holder is authorised to conduct business consisting in distribution of gaseous fuels to customers in the town and municipality of Tomaszów Mazowiecki over medium-pressure and high-pressure networks.

On July 20th 2009, Polenergia Dystrybucja Sp. z o.o received a decision of the President of the Energy Regulatory Office on grant of a licence for distribution of electricity from July 20th 2009 to December 31st 2025.

On February 1st 2012, Amon Sp. z o.o. received a decision of the President of the Energy Regulatory Office on grant of a licence for electricity production from February 1st 2012 to December 31st 2030. The activity permitted under the licence consists in electricity production at the Łukaszów Wind Farm, a 34,000 MW renewable energy source.

On February 1st 2012, Talia Sp. z o.o. received a decision of the President of the Energy Regulatory Office on grant of a licence for electricity production from February 1st 2012 to December 31st 2030. The activity permitted under the licence consists in electricity production at the Modlikowice Wind Farm, a 24,000 MW renewable energy source.

On February 13th 2014, Polenergia Obrót S.A. received a decision of the President of the Energy Regulatory Office on grant of a licence for trade in gaseous fuels from February 17th 2014 to December 31st 2030. Under the licence, the licence holder conducts business consisting in sale in gaseous fuels to customers in Poland.

On May 27th 2014, Polenergia Obrót S.A. received a decision of the President of the Energy Regulatory Office on grant of a licence for trade in natural gas with foreign partners from June 1st 2014 to December 31st 2030. Under the licence, the licence holder conducts business consisting in trade in natural gas with foreign partners.

On October 21st 2014, Grupa PEP – Farma Wiatrowa 6 Sp. z o.o. received a decision of the President of the Energy Regulatory Office on grant of a licence for electricity production from October 21st 2014 to December 31st 2030. The activity permitted under the licence consists in electricity production at the Rajgród Wind Farm, a 25,300 MW renewable energy source.

On December 12th 2014, Grupa PEP - Farma Wiatrowa 1 Sp. z o.o. received a decision of the President of the Energy Regulatory Office on grant of a licence for electricity production from December 12th 2014 to December 31st 2030. The activity permitted under the licence consists in electricity production at the Gawłowice Wind Farm, a 41,400 MW renewable energy source. On January 12th 2016, Grupa PEP – Farma Wiatrowa 1 Sp. z o.o. received a decision of the President of the Energy Regulatory Office on amendment to the licence allowing the company to increase the installed capacity to 48,300 MW.

On August 31st 2015, Grupa PEP - Farma Wiatrowa 4 Sp. z o.o. received a decision of the President of the Energy Regulatory Office on grant of a licence for electricity production from August 31st 2015 to December 31st 2030. The activity permitted under the licence consists in electricity production at the Skurpie Wind Farm, a 36,800 MW renewable energy source. On December 17th 2015, Grupa PEP – Farma Wiatrowa 4 Sp. z o.o. received a decision of the President of the Energy Regulatory

Office on amendment to the licence allowing the company to increase the installed capacity to 43,700 MW.

On February 12th 2016, Polenergia Farma Wiatrowa Mycielin Sp. z o.o. received a decision of the President of the Energy Regulatory Office on grant of a licence for electricity production from February 12th 2016 to December 31st 2030. The activity permitted under the licence consists in electricity production at the Mycielin Wind Farm, a 48,000 MW renewable energy source.

51 Events after the reporting period

As at the date of preparation of these consolidated financial statements, i.e. February 20th 2018, no events had occurred which should have been but were not disclosed in the accounting records for the reporting period.