

The Polenergia Group

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31ST 2016

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

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– Head of Accounting

Warsaw, February 16th 2017

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1. Consolidated statement of financial position

As at December 31st 2016

ASSETS

	Notes	Dec 31 2016	Dec 31 2015
I. Non-current assets		2,270,868	2,447,691
1. Property, plant and equipment	15	1,999,706	2,192,218
2. Intangible assets	13	39,468	49,469
3. Goodwill related to subordinated entities	14	184,625	184,619
4. Financial assets	17	12,324	5,817
5. Non-current receivables	16	4,840	4,577
6. Deferred tax asset	24	29,855	10,912
7. Prepayments and accrued income		50	79
II. Current assets		703,656	750,679
1. Inventories	18	41,484	47,040
2. Trade receivables	19	149,494	158,513
3. Current tax asset	19	6,079	2,776
4. Other current receivables	19	20,126	64,621
5. Prepayments and accrued income	20	6,068	11,416
6. Current financial assets	21	99,543	104,217
7. Cash and cash equivalents	22	380,862	362,096
Total assets		2,974,524	3,198,370

EQUITY AND LIABILITIES

	Notes	Dec 31 2016	Dec 31 2015
I. Equity		1,267,426	1,397,251
Equity attributable to owners of the parent		1,266,524	1,396,298
1. Share capital	23	90,887	90,887
2. Share premium		765,810	786,134
3. Capital reserve from valuation of options		13,207	13,207
4. Other capital reserves	23	399,659	378,069
5. Retained earnings		107,808	60,350
6. Net profit (loss)		(111,529)	67,370
7. Translation differences		682	281
Non-controlling interests	23	902	953
II. Non-current liabilities		1,015,946	1,302,808
1. Bank and other borrowings	26	820,398	1,026,551
2. Deferred tax liability	24	65,694	66,242
3. Provisions	25	25,625	2,207
4. Accruals and deferred income	28	58,883	63,161
5. Other liabilities	27	45,346	144,647
III. Current liabilities		691,152	498,311
1. Bank and other borrowings	26	296,255	121,336
2. Trade payables	27	156,172	178,347
3. Income tax payable	27	958	6,670
4. Other liabilities	27	219,571	166,301
5. Provisions	25	2,947	4,216
6. Accruals and deferred income	28	15,249	21,441
Total equity and liabilities		2,974,524	3,198,370

2. Consolidated statement of profit or loss

For the year ended December 31st 2016

	Notes	For 12 months ended		unaudited	unaudited
		Dec 31 2016	Dec 31 2015	For 3 months ended Dec 31 2016	Dec 31 2015
Revenue	30	2,996,769	2,772,436	840,515	740,115
Cost of sales	31	(2,857,765)	(2,599,123)	(792,973)	(685,310)
Gross profit		139,004	173,313	47,542	54,805
Other income	32	10,675	8,354	3,782	1,466
Distribution costs	31	(770)	(805)	(232)	(243)
Administrative expenses	31	(30,008)	(34,476)	(6,843)	(10,767)
Other expenses	33	(180,078)	(13,739)	(75,185)	(10,954)
Finance income	34	8,035	7,432	1,049	1,604
Finance costs	35	(65,190)	(49,037)	(17,145)	(14,812)
Profit (loss) before tax		(118,332)	91,042	(47,032)	21,099
Income tax	24	6,752	(23,667)	9,653	(6,461)
Net profit (loss)		(111,580)	67,375	(37,379)	14,638
Net profit (loss) attributable to:		(111,580)	67,375	(37,379)	14,638
Owners of the parent		(111,529)	67,370	(37,371)	14,660
Non-controlling interests		(51)	5	(8)	(22)
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		-2.45	1.48	-0.82	0.32

Consolidated statement of comprehensive income

	For 12 months ended		unaudited	unaudited
	Dec 31 2016	Dec 31 2015	For 3 months ended Dec 31 2016	Dec 31 2015
Net profit (loss) for period	(111,580)	67,375	(37,379)	14,638
Other comprehensive income that may be reclassified to profit or loss once specific conditions are met				
- Cash-flow hedges	4,077	(3,632)	2,156	225
- Translation differences	401	208	226	2
Net other comprehensive income	4,478	(3,424)	2,382	227
COMPREHENSIVE INCOME FOR PERIOD	(107,102)	63,951	(34,997)	14,865
Total comprehensive income for period:	(107,102)	63,951	(34,997)	14,865
Owners of the parent	(107,051)	63,946	(34,989)	14,887
Non-controlling interests	(51)	5	(8)	(22)

3. Additional data

Adjusted EBITDA and adjusted net profit – performance metrics not defined in accounting standards

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 information on the use of adjusted EBITDA, EBITDA and adjusted net profit attributable to owners of the parent, as well as the definitions and purpose of these metrics, see Note 36.

EBITDA AND ADJUSTED EBITDA

	For 12 months ended		For 3 months ended	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
Profit (loss) before tax	(118,332)	91,042	(47,032)	21,099
Finance income	(8,035)	(7,432)	(1,049)	(1,604)
Finance costs	65,190	49,037	17,145	14,812
Depreciation and amortisation	115,356	87,660	29,805	24,486
Impairment loss on development projects	102,438	8,838	(423)	8,838
Impairment loss on wind farm in operation	74,925	-	74,925	-
EBITDA	231,542	229,145	73,371	67,631
Cost of financing	-	176	-	3
Purchase price allocation:				
Valuation of long-term contracts	(2,732)	2,412	(689)	603
Effect of sale of Zakrzów CHP Plant	(813)	-	-	-
Adjusted EBITDA	227,997	231,733	72,682	68,237

ADJUSTED NET PROFIT (LOSS) attributable to owners of the parent

	For 12 months ended		For 3 months ended	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
NET PROFIT (LOSS) attributable to owners of the parent	(111,529)	67,370	(37,371)	14,660
Unrealised foreign exchange gains/losses	1,157	4	663	266
(Income)/costs from valuation of non-current bank borrowings	2,675	1,535	955	140
Cost of financing	-	143	-	3
Impairment loss on development projects	96,094	8,838	(423)	8,838
Impairment loss on wind farm in operation	60,689	-	-	-
Effect of sale of Zakrzów CHP Plant	(5,285)	-	-	-
Purchase price allocation:				
Depreciation and amortisation	10,128	10,124	2,532	2,528
Valuation of long-term contracts	(2,732)	2,412	(689)	603
Tax	(1,404)	(2,387)	(2,457)	(596)
Adjusted NET PROFIT (LOSS) attributable to owners of the parent	49,793	88,039	(36,790)	26,442

4. Consolidated statement of changes in equity

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 differences	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
Total 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 40.

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

The Polenergia Group
Consolidated financial statements for the year ended December 31st 2016
(PLN '000)

For the year ended December 31st 2015

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net profit	Translation differences	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2015	90,887	802,909	13,207	372,427	53,533	-	73	1,333,036	948	1,333,984
Total comprehensive income for the year										
- Net profit for financial year	-	-	-	-	-	67,370	-	67,370	5	67,375
- Other comprehensive income for period	-	-	-	(3,632)	-	-	208	(3,424)	-	(3,424)
Transactions with owners of the parent recognised directly in equity										
- Share issue	-	(684)	-	-	-	-	-	(684)	-	(684)
- Allocation of profit	-	(16,091)	-	9,274	6,817	-	-	-	-	-
As at Dec 31 2015	90,887	786,134	13,207	378,069	60,350	67,370	281	1,396,298	953	1,397,251

PLN 3,632 thousand of other comprehensive income is related to the valuation of cash-flow hedges, discussed in detail in 40.

PLN 16,091 thousand is related to the allocation of the parent's net profit for 2014, discussed in detail in Note 23.4.

5. Consolidated statement of cash flows

For the year ended December 31st 2016

	Notes	For 12 months ended	
		Dec 31 2016	Dec 31 2015
A. Cash flows from operating activities			
I. Profit (loss) before tax		(118,332)	91,042
II. Total adjustments		326,185	134,654
1. Depreciation and amortisation	31	115,356	87,660
2. Foreign exchange losses		1,707	122
3. Interest and profit distributions (dividends)		77,031	37,560
4. Gain (loss) on investing activities		141,492	13,162
5. Income tax		(21,354)	(14,989)
6. Change in provisions	37	(2,357)	1,111
7. Change in inventories	37	5,647	(5,927)
8. Change in receivables	37	49,890	(38,323)
9. Change in current liabilities (net of borrowings)	37	(32,845)	55,045
10. Change in accruals and deferrals	37	(8,585)	(1,000)
11. Other adjustments		203	233
III. Net cash from operating activities (I+/-II)		207,853	225,696
B. Cash flows from investing activities			
I. Cash receipts		5,590	1,569
1. Disposal of intangible assets and property, plant and equipment		1,999	757
2. Proceeds from financial assets, including:		-	812
a) repayment of non-current loans advanced		-	662
b) interest		-	150
3. Cash from disposal of a subsidiary		3,591	-
II. Cash payments		83,542	603,107
1. Acquisition of property, plant and equipment		83,236	602,477
2. Payments for financial assets, including:		306	630
a) acquisition of financial assets		-	144
b) non-current loans advanced		306	486
III. Net cash from investing activities (I-II)		(77,952)	(601,538)
C. Cash flows from financing activities			
I. Cash receipts		93,246	459,647
1. Proceeds from borrowings		93,246	459,647
II. Cash payments		204,388	138,606
1. Dividends and other distributions to owners		22,723	-
2. Repayment of borrowings		125,319	96,411
3. Payment of finance lease liabilities		1,428	1,028
4. Interest		51,858	37,224
5. Other cash payments related to financing activities		3,060	3,943
III. Net cash from financing activities (I-II)		(111,142)	321,041
D. Total net cash flows (A.III+/-B.III+/-C.III)		18,759	(54,801)
E. Net increase/decrease in cash, including:		18,766	(54,713)
- effect of exchange rate fluctuations on cash held		7	88
F. Cash at beginning of period		362,096	416,809
G. Cash at end of period, including:		380,862	362,096
- restricted cash		114,082	129,430

External financing sources - bank borrowings (statement of cash flows)	For 12 months ended	
	Dec 31 2016	Dec 31 2015
item C.I.2 Proceeds from borrowings	93,246	459,647
item C.II.2 Repayment of borrowings	(125,319)	(96,411)
Change in external financing sources, including:	(32,073)	363,236
net increase in investment facilities	(8,209)	356,266
net increase/decrease in VAT financing facility	(32,011)	20,054
net increase/decrease in overdraft facility	8,147	(13,084)

6. General information

The Polenergia 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 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.

6.1. Duration of the Company and other Group companies

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

6.2. Periods covered by the consolidated financial statements

These consolidated financial statements cover the year ended December 31st 2016 and contain comparative data for the year ended December 31st 2015.

As at December 31st 2016, 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

On April 27th 2016, Zbigniew Prokopowicz, Anna Kwarcieńska and Michał Kozłowski resigned from the Company's Management Board.

On April 28th 2016, the Company's Supervisory Board appointed Bartłomiej Dujczyński as Member of the Management Board and delegated Jacek Głowacki to manage the work of the Management Board.

On November 8th 2016, the Company's Supervisory Board appointed Michał Michalski as Member of the Management Board.

As at December 31st 2016, the composition of the parent's Supervisory Board was as follows:

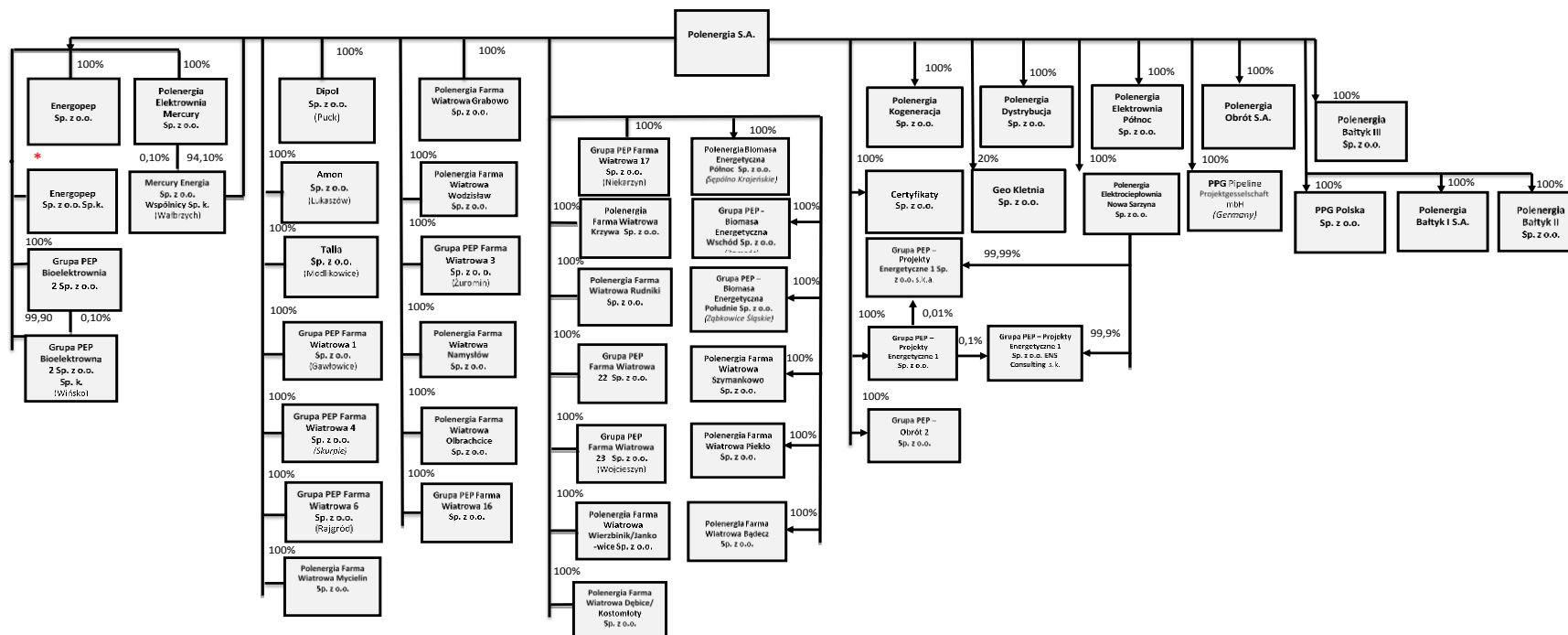
Tomasz Mikołajczak	Chairman of the Supervisory Board
Łukasz Rędziniak	Deputy Chairman of the Supervisory Board
Mariusz Nowak	Member of the Supervisory Board
Arkadiusz Jastrzębski	Member of the Supervisory Board
Brian Bode	Member of the Supervisory Board
Orest Nazaruk	Member of the Supervisory Board
Dawid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

7. 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 end of the reporting period, i.e. December 31st 2016.

8. The Group's organisational structure

The Polenergia Group
Consolidated financial statements for the year ended December 31st 2016
(PLN '000)



* 0.1% held by Energopec Sp. z o.o., 33.9% held by POL-SA, 33% held by POL-D, 33% held by Dipol.

On June 30th 2016, Grupa PEP Finansowanie Projektów 1 Sp. z o.o., Grupa PEP Development Projektów Sp. z o.o. and Grupa PEP Aktywa Finansowe Sp. z o.o. were merged with Grupa PEP Finansowanie Projektów Sp. z o.o. On June 16th 2016, Polenergia EC Zakrzów Sp. z o.o. and Polenergia EC Zakrzów Sp. z o.o. Spółka Komandytowa were sold. On December 29th 2016, Grupa PEP Finansowanie Projektów Sp. z o.o., Grupa PEP Uprawy Energetyczne Sp. z o.o. and Neutron Sp. z o.o. were merged with Polenergia Sp. z o.o. The Group is in the process of streamlining its organisational structure.

9. Authorisation of the financial statements

These consolidated financial statements were authorised for issue by the parent's Management Board on February 16th 2017.

10. 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 2015.

Application of new and amended standards and interpretations

In these consolidated financial statements, the following new and amended standards and interpretations effective as of January 1st 2016 were applied for the first time:

a) Amendments to IAS 19 *Defined Benefit Plans: employee contributions*

Amendments to IAS 19 *Defined Benefit Plans: employee contributions*, issued by the International Accounting Standards Board in November 2013. Pursuant to the amendments, an entity may recognise employee contributions as a reduction in the service cost in the period in which the related service is rendered by an employee rather than allocate such contributions to periods of service, provided that the contribution amount is independent of the number of years of service rendered by the employee.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

b) IFRS Annual Improvements cycle 2010–2012

In December 2013, the International Accounting Standards Board issued 'Annual Improvements to IFRSs cycle 2010–2012', containing amendments to seven standards. The amendments include changes in the presentation, recognition, measurement and terminology, as well as editorial changes.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

c) Amendments to IAS 16 and IAS 41 concerning bearer plants

The amendments require that certain bearer plants, such as grape vines, rubber trees and oil palms (i.e. plants that crop for many years, are not for sale as seedlings and are not harvested), be recognised in accordance with IAS 16 *Property, Plant and Equipment*, as their cultivation is analogous to production. Therefore, pursuant to the amendments, such plants are included in the scope of IAS 16 rather than IAS 41, while their crop remains under IAS 41.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

d) Amendments to IFRS 11 concerning acquisitions of interests in joint operations

Pursuant to the amended IFRS 11, the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles of accounting for business combinations in accordance with IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

e) Amendments to IAS 16 and IAS 38 concerning depreciation and amortisation

The amendments clarify that revenue-based depreciation and amortisation is inappropriate, as revenue generated from operating a business that uses particular assets also reflects factors other than consumption of economic benefits generated by the assets.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

f) IFRS Annual Improvements cycle 2012–2014

In September 2014, the International Accounting Standards Board issued 'Annual Improvements to IFRSs cycle 2012–2014', containing amendments to four standards: IFRS 5, IFRS 7, IAS 19 and IAS 34.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

g) Amendments to IAS 1

In December 2014, as part of its disclosure initiative, the International Accounting Standards Board issued an amendment to IAS 1. The aim of the amendment is to explain the concept of materiality and to clarify that if an entity deems certain information immaterial, such information should not be disclosed even if its disclosure is required under a different IFRS. The amended IAS 1 clarifies that items presented in the statement of financial position and the statement of profit or loss and other comprehensive income may be aggregated or disaggregated depending on materiality. Additional guidelines are also introduced regarding presentation of subtotals in these statements.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

h) Amendments to IAS 27 concerning the equity method in an entity's separate financial statements

IAS 27 permits the use of the equity method as one of optional methods of accounting for investments in subsidiaries, associates and jointly controlled entities in separate financial statements.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

i) Amendments to IFRS 10, IFRS 12 and IAS 28 related to the consolidation exception

The amendment to IFRS 10, IFRS 12 and IAS 28 entitled *Investment entities: applying the consolidation exception* clarifies the requirements applicable to investment entities and facilitates certain other matters.

The standard provides that an entity should measure all investment entity subsidiaries at fair value through profit or loss. The standard also clarifies that where a higher-tier parent prepares and publishes financial statements, the consolidation exception applies irrespective of whether its subsidiaries are consolidated or measured at fair value through profit or loss, in accordance with IFRS 10, as part of the financial statements of a higher-tier or ultimate parent.

It is expected that at the time of initial application, the changes will have no material effect on the Group's financial statements.

New standards and interpretations issued but not yet effective

In these 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 a single model that has only two classification categories for financial assets: measurement at fair value or at amortised cost. 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.

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

The Group does not expect the new standard to have a material effect on its financial statements. Due to the nature of the Group's business and the type of its financial assets, the classification and measurement of the Group's financial assets are not expected to change under IFRS 9.

b) 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 IFRS 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.

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 sold in bundles that are separately identifiable as part of the bundle are to be recognised separately, and any discounts and rebates on the transaction price should be applied 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 in the period in which the contract's benefits are consumed.

The Group does not expect the new standard to have a material effect on its financial statements.

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 IFRS 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 does not expect the new standard to have a material effect on its financial statements.

As at the date of these financial statements, clarifications to IFRS 15 had not been endorsed by the European Union.

e) Amendments to IFRS 10 and IAS 28 concerning 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. The effective date of the amended regulations was not set by the International Accounting Standards Board.

The Group will apply the amended regulations from their effective date set by the International Accounting Standards Board.

The Group does not expect the new standard to have a material effect on its financial statements.

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

f) IFRS 16 Leases

IFRS 16 *Leases*, issued by the International Accounting Standards Board on January 13th 2016, 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 following its endorsement by the European Union.

The Group does not expect the new standard to have a material effect on its financial statements.

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

g) Amendments to IAS 12 related to 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 will be 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 amendments are effective for annual periods beginning on or after January 1st 2017.

The Group will apply the amendments as of January 1st 2017.

The Group does not expect the new standard to have a material effect on its financial statements.

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

h) Amendments to IAS 7 – disclosure initiative

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

The Group will apply the amendments as of January 1st 2017.

The Group does not expect the new standard to have a material effect on its financial statements.

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

i) 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 Group does not expect the new standard to have a material effect on its financial statements.

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

j) 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 Group does not expect the new standard to have a material effect on its financial statements.

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

k) 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 IFR*, 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 of January 1st 2017 (amendments to IFRS 12)/ as of January 1st 2018 (amendments to IFRS 1 and IAS 28).

The Group does not expect the new standard to have a material effect on its financial statements.

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

l) 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 Group does not expect the new standard to have a material effect on its financial statements.

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

m) 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 Group does not expect the new standard to have a material effect on its financial statements.

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

The Group has not elected to early adopt any of the standards, interpretations or amendments that have been issued but are not yet effective.

10.1. Basis of accounting

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 2016 and comparative data for the period from January 1st to December 31st 2015, as well as data for Q4 2016 and Q4 2015. In accordance with the applicable laws, the financial statements for the financial year ended December 31st 2016, including the comparative data for the financial year ended December 31st 2015, were audited by a qualified auditor. The data for Q4 2016 and the comparative data for Q4 2015 was 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 Accountancy 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.

10.2. Significant accounting 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;

- Receivables from sale of wind farms – the date of collecting the receivables depends on the fulfilment of agreement terms.

In the year ended December 31st 2016, 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 19.

10.3. 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 wind farm development projects (Note 33);
- Classification of certificates of origin and emission reduction units (Note 48);
- 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 19),
- Provisions for disputes and unused holiday entitlements (Note 25);
- Financial assets and liabilities under forward contracts (Note 21);
- 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 24);
- 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 2016, 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 the notes referred to above.

10.4. 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 Projektgesellschaft mbH).

10.5. Basis of consolidation

These consolidated financial statements include the financial statements of Polenergia S.A. and the financial statements of its subsidiaries for the year ended December 31st 2016. 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.

10.6. 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.

10.7. 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.

10.8. 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 Group 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 period during which income is expected to be generated from the sale 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.

10.9. 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	20 years
Plant and equipment	2.5–20 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 from 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.

10.10. Property, plant and equipment under construction

Property, plant and equipment under construction are measured at cost or aggregate cost incurred in the course of their production or acquisition, less impairment losses. Investment materials are carried as property, plant and equipment under construction. Property, plant and equipment under construction are not depreciated until completed and placed in service. Wind farm development expenditure is also recognised as property, plant and equipment under construction.

10.11. 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.

10.12. 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 losses on an asset no longer exist 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.

10.13. 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 that have been 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 end of 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.

10.14. 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.

10.15. 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 derivatives designated as hedging instruments are an interest rate swap and a currency forward.

For more information on hedge accounting, see Note 40.

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 with the use of 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 fair values of the derivatives disclosed in the statement of financial position, see Note 39.

10.16. 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.

10.17. 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 10.27.2) and emission reduction units (see Section 10.31) are recognised as inventories.

10.18. Current and non-current receivables

Trade receivables other than lease receivables (for details see Section 10.16) are measured at amounts due less impairment losses.

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 current 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.

10.19. 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 zloty 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 40).

The following exchange rates were used to determine the carrying amounts:

	Dec 31 2016	Dec 31 2015
USD	4.1793	3.9011
EUR	4.4240	4.2615
GBP	5.1445	5.7862

10.20. 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.

10.21. Accruals and deferrals

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

10.22. 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.

10.23. 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.

10.24. Provisions for retirement gratuity and jubilee benefits

In accordance with company remuneration systems, Group employees are entitled to jubilee and retirement gratuity benefits. Jubilee benefits are paid after a specific period of employment, whereas retirement gratuity benefits are one-off benefits, paid out when the employee retires. Amounts of such benefits depend on the length of service and the average remuneration of an employee. The Company recognises a provision for future retirement gratuity and jubilee benefit obligations in order to allocate costs to the periods to which they relate. According to IAS 19, jubilee benefits are classified as other long-term employee benefits, whereas retirement gratuity benefits – as defined post-employment benefit plans. The calculated value of the obligations is 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.

10.25. 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 borrowing.

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.

10.26. Trade and other payables

Current 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.

10.27. 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.

10.27.1 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.

10.27.2 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.

10.27.3 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 10.3 and Note 43), is recognised as revenue 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 as revenue 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.

10.27.4 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).

10.27.5 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 48.

10.27.6 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.

10.27.7 Dividends

Dividends are recognised when the shareholder's right to receive payment is established.

10.27.8 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 concerns 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.

10.28. Taxes**10.28.1 Current income 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.

10.28.2 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 it 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.

10.28.3 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 liabilities, as appropriate.

10.29.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).

10.30.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.

10.31. 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.

10.32. 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.

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,
- Electricity and certificates of origin trading segment.

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.

The Polenergia Group
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(PLN '000)

For 12 months ended Dec 31 2016	Wind power	Conventional energy	Electricity sales and trading	Distribution	Biomass	Development and implementation	Unallocated Group management costs *)	Total
Revenue from sales to external customers	147,993	275,128	2,398,335	121,132	47,100	8	7,073	2,996,769
Gross profit/(loss)	28,323	88,208	12,399	20,948	3,190	(540)	(13,524)	139,004
Administrative expenses	(4,274)	(6,701)	(9,806)	(5,775)	(1,678)	(463)	(1,311)	(30,008)
Interest income/(expense)	(47,213)	(5,469)	(221)	(1,583)	(338)	142	2,889	(51,793)
Finance income/(costs) from unrealised foreign 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)	(4,311)	(118,332)
Income tax	-	-	-	-	-	-	6,752	6,752
Net profit/(loss)	-	-	-	-	-	-	-	(111,580)
EBITDA **)	103,823	100,498	3,379	19,166	6,410	(979)	(755)	231,542
Segment assets	1,446,894	276,203	255,308	128,782	70,965	176,485	2,088	2,356,725
Unallocated assets	-	-	-	-	-	-	617,799	617,799
Total assets	1,446,894	276,203	255,308	128,782	70,965	176,485	619,887	2,974,524

*) Including purchase price allocation and other unallocated items.

**) EBITDA is defined in Note 36.

The Polenergia Group
Consolidated financial statements for the year ended December 31st 2016
(PLN '000)

For 12 months ended Dec 31 2016	Wind power	Conventional energy	Electricity sales and trading	Distribution	Biomass	Development and implementation	Unallocated Group management costs *)	Total
Revenue from sales to external customers	150,921	327,530	2,072,439	155,391	60,466	9	5,680	2,772,436
Gross profit/(loss)	71,951	76,228	16,151	17,692	5,705	(447)	(13,967)	173,313
Administrative expenses	(2,576)	(7,059)	(9,982)	(6,127)	(1,170)	(1,018)	(6,544)	(34,476)
Interest income/(expense)	(28,154)	(7,752)	378	(1,518)	(557)	172	3,636	(33,795)
Finance income/(costs) from unrealised exchange gains/losses	53	(96)	-	-	4	34	-	(5)
Other finance income/(costs)	(4,445)	(598)	(1,790)	(186)	(436)	(82)	(268)	(7,805)
Other income/(expenses)	4,275	(1,221)	255	(295)	563	(9,455)	(312)	(6,190)
Profit (loss) before tax	41,104	59,502	5,012	9,566	4,109	(10,796)	(17,455)	91,042
Income tax	-	-	-	-	-	-	(23,667)	(23,667)
Net profit/(loss)	-	-	-	-	-	-	-	67,375
EBITDA **)	123,213	86,815	6,459	15,138	9,072	(2,072)	(9,480)	229,145
Segment assets	1,268,754	358,427	251,631	140,174	75,289	570,295	-	2,664,570
Unallocated assets	-	-	-	-	-	-	533,800	533,800
Total assets	1,268,754	358,427	251,631	140,174	75,289	570,295	533,800	3,198,370

*) Including purchase price allocation.

**) EBITDA is defined in Note 36.

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 2016	Dec 31 2015
Net profit (loss)	(111,529)	67,370
Weighted average number of ordinary shares	45,443,547	45,443,547
Earnings (loss) per ordinary share (PLN)	(2.45)	1.48

	For 12 months ended	
	Dec 31 2016	Dec 31 2015
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

13. Intangible assets

Dec 31 2016	development work	acquired permits, patents, licences and similar assets, including:	prepayments for intangible assets	intangible assets related to purchase price allocation	total intangible assets	
		software				
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)
- transfer	-	-	(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	-	-	29
- 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

Dec 31 2015	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	3,450	281	-	58,000	62,315
a) increase, including:	-	2,750	6	-	-	2,750
- acquisition	-	102	6	-	-	102
- other	-	2,648	-	-	-	2,648
b) decrease, including:	-	(109)	-	-	-	(109)
- other	-	(109)	-	-	-	(109)
2. Gross intangible assets at end of period	865	6,091	287	-	58,000	64,956
3. Cumulative amortisation at beginning of period	(475)	(1,169)	(269)	-	(3,288)	(4,932)
- amortisation for current period	(84)	(716)	(1)	-	(9,864)	(10,664)
- decrease, including:	-	109	-	-	-	109
- other	-	109	-	-	-	109
4. Cumulative amortisation at end of period	(559)	(1,776)	(270)	-	(13,152)	(15,487)
5. Impairment losses at beginning of period	-	-	-	-	-	-
6. Impairment losses at end of period	-	-	-	-	-	-
7. Net intangible assets at beginning of period	390	2,281	12	-	54,712	57,383
8. Net intangible assets at end of period	306	4,315	17	-	44,848	49,469

14. Goodwill

	Dec 31 2016	Dec 31 2015
- 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	138	132
Total goodwill	184,625	184,619

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 2016, 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, CO₂ 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.

Operating activity

The value of the operating segments was estimated using the income approach, involving determination of the present value of discounted future cash flows for the owners of equity and external capital, and it reflects the value in use.

It has been assumed that until May 2020 the conventional energy segment will operate under the provisions of the LTC Termination Act. After 2020 the segment will earn revenues from sale of heat, as well as from services involving rebuilding of the national power system and ensuring availability of capacity.

The future cash flows in the trading segment were estimated for individual portfolios (trading portfolio, wind farms portfolio, etc.).

The estimates were based on price projections for electricity, certificates of origin, and fuels held by the Group, based on market data.

The main assumptions that were made for the purpose of these tests are presented in the table below.

	Conventional energy	Distribution	Trade
Average annual increase/decrease in EBITDA over the detailed projection period	In the period 2016–2030: - 2016–2019: (12%) - 2019–2035: (8%)	4,4%	In 2017, EBITDA stable at levels close to 2016. In subsequent periods, change resulting from price assumptions.
Cash flow growth rate in the residual period	n.a.	close to 0	n.a.
Detailed projection period ⁽¹⁾	2016–2035	2017–2023	2017–2050
Discount rate ⁽²⁾	8.0%	8.0%	7.5%

⁽¹⁾ – Projection periods have been determined in consideration of the nature of the assets measured. They are based on the Group's long-term operating and business strategies adopted for each segment, the specific nature of the assets and, with respect to the conventional energy segment, changes in the operating activities expected to take place from 2021 onwards following expiry of the long-term contracts.

⁽²⁾ – The discount rate presented in the table takes account of tax, and it served to discount cash flows after tax. This approach is equivalent to applying a pre-tax discount rate to pre-tax cash flows.

Projects under development – offshore sea farms

Offshore wind farm construction projects are measured using the income approach (discounted cash flow method adjusted for discount related to the progress of work).

	Offshore wind farms
Projection period	23 years from the launch of operation
Project launch	January 2022 (600 MW) and January 2026 (600 MW)
Discount rate	11.0%

15. Property, plant and equipment

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.

Dec 31 2015	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	7,468	401,448	926,568	6,436	2,561	500,219	10,364	1,855,064
a) increase, including:	410	92,923	251,229	1,559	73	585,056	76	931,326
- acquisition	-	149	5,357	1,559	71	586,193	76	593,405
- acquisition through merger	-	-	-	-	-	-	-	-
- transfer	410	92,774	245,854	-	-	(1,137)	-	337,901
- other	-	-	18	-	2	-	-	20
b) decrease, including:	(81)	(8,201)	(9,271)	(1,276)	(792)	(357,598)	(1,231)	(378,450)
- sale and retirement	(81)	(432)	(253)	(1,022)	(3)	(24)	-	(1,815)
- other (including finance lease)	-	(7,655)	(8,722)	(254)	(789)	(16,944)	(12)	(34,376)
- transfer	-	(114)	(296)	-	-	(340,630)	(1,219)	(342,259)
2. Gross property, plant and equipment at end of period	7,797	486,170	1,168,526	6,719	1,842	727,677	9,209	2,407,940
3. Cumulative depreciation at beginning of period	-	(30,376)	(112,264)	(2,848)	(548)	(255)	-	(146,291)
- depreciation for current period	-	(20,560)	(54,500)	(1,398)	(538)	-	-	(76,996)
- decrease, including:	-	7,704	8,694	1,143	922	(8)	-	18,455
- sale and retirement	-	49	42	889	5	-	-	985
- other (including finance lease)	-	7,655	8,652	254	917	(8)	-	17,470
4. Cumulative depreciation at end of period	-	(43,232)	(158,070)	(3,103)	(164)	(263)	-	(204,832)
5. Impairment losses at beginning of period	-	(810)	(1,015)	-	-	(228)	-	(2,053)
- increase	-	-	-	-	-	(8,838)	-	(8,838)
6. Impairment losses at end of period	-	(810)	(1,015)	-	-	(9,066)	-	(10,891)
7. Net property, plant and equipment at beginning of period	7,468	370,262	813,289	3,588	2,013	499,736	10,364	1,706,720
8. Net property, plant and equipment at end of period	7,797	442,128	1,009,441	3,616	1,678	718,348	9,209	2,192,218

In the year ended December 31st 2015, the Group incurred borrowing costs qualifying for capitalisation under initial value of property, plant and equipment, totalling PLN 11,776 thousand.

As at December 31st 2015, land and buildings worth PLN 439,512 thousand were encumbered with mortgages securing the repayment of credit facilities.

The carrying amount of vehicles used under lease agreements as at December 31st 2015 was PLN 2,408 thousand.

16. Non-current receivables

	Dec 31 2016	Dec 31 2015
- finance lease	2,854	2,941
- other receivables	1,986	1,636
Non-current receivables, net	4,840	4,577

17. Non-current financial assets

	Dec 31 2016	Dec 31 2015
- shares in non-listed companies	336	516
- loans advanced	469	461
- long-term contracts	11,519	4,840
Total non-current financial assets	12,324	5,817

18. Inventories

	Dec 31 2016	Dec 31 2015
- materials and merchandise	17,478	13,217
- certificates of origin	23,105	32,485
- property rights	489	1,038
- prepaid deliveries	412	300
Total inventories, net	41,484	47,040
inventory write-downs	98	952
Total inventories, gross	41,582	47,992

19. Current receivables

	Dec 31 2016	Dec 31 2015
- trade receivables	149,494	158,513
- to related entities	5,634	8,071
- from other entities	143,860	150,442
- income tax receivable	6,079	2,776
- other receivables	20,126	64,621
- from the state budget	15,071	55,327
- finance lease	308	294
- expenditure on property, plant and equipment under finance lease	-	285
- under settlement of long-term contracts	-	3,679
- other	4,747	5,036
Total current receivables, net	175,699	225,910
- impairment losses on receivables	2,281	7,779
Total current receivables, gross	177,980	233,689

For information on related-party transactions, see Note 42.42

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

As at December 31st 2016, impairment losses on unrecoverable trade receivables were reduced to PLN 2,281 thousand from PLN 7,779 thousand as at December 31st 2015. Changes in impairment losses on trade receivables were as follows:

	Dec 31 2016	Dec 31 2015
At beginning of period	7,779	8,853
- Increase	382	265
- Use	(173)	(1,339)
- Reversal	(5,707)	-
At end of period	2,281	7,779

Below is an analysis of trade receivables that were past due as at December 31st 2016 and December 31st 2015, but not deemed unrecoverable. Other receivables are not past due.

	Total	Not past due	Less than 30 days	Past due but recoverable			Over 120 days
				30–60 days	60–90 days	90–120 days	
Dec 31 2016	149,494	145,445	2,637	251	88	68	1,005
Dec 31 2015	158,513	151,567	5,925	388	174	129	330

20. Current prepayments and accrued income

	Dec 31 2016	Dec 31 2015
- insurance	3,572	3,686
- subscriptions	16	17
- wind turbine maintenance	1,076	1,261
- property tax, perpetual usufruct charges, lease payments	41	13
- accrued income	287	423
- accrued commissions	106	4,770
- other	970	1,246
Total current prepayments and accrued income	6,068	11,416

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.

21. Current financial assets

	Dec 31 2016	Dec 31 2015
- loans advanced	2,919	2,473
- valuation of futures and forward contracts	96,624	101,744
Total current financial assets	99,543	104,217

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 2016	Dec 31 2015
Gain/(loss) on valuation of derivatives	2,017	1,299

	Dec 31 2016	Dec 31 2015
Current assets	96,624	101,744
Non-current assets	11,519	4,840
Total	108,143	106,584

	Dec 31 2016	Dec 31 2015
Current liabilities	85,584	88,171
Non-current liabilities	5,718	3,588
Total	91,302	91,759

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.

Class of financial instrument

Dec 31 2016	Level 2	Total
Current assets	96,624	96,624
Non-current assets	11,519	11,519
Total	108,143	108,143

Dec 31 2016	Level 2	Total
Current liabilities	85,584	85,584
Non-current liabilities	5,718	5,718
Total	91,302	91,302

Net fair value	16,841	16,841
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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 2016	Dec 31 2015
Market price increase +1%	193	296
Market price decrease -1%	(199)	(293)

22. Cash and cash equivalents

	Dec 31 2016	Dec 31 2015
Cash and cash equivalents	380,862	362,096
- cash in hand and at banks	380,862	362,096
Total cash and cash equivalents	380,862	362,096

For more information on restricted cash of PLN 114,082 thousand, see Note 37 (2015: PLN 129,430 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.

23. Share capital and statutory reserve funds/capital reserves

23.1 Share capital

Dec 31 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

Dec 31 2015

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.

23.2 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 SIC AV-SIF**	7,266,122	7,266,122	15.99%
3	ING OFE	2,576,969	2,576,969	5.67%
4	Generali OFE	2,943,731	2,943,731	6.48%
5	Aviva OFE	3,060,872	3,060,872	6.74%
6	Other	6,784,096	6,784,096	14.93%
Total		45,443,547	45,443,547	100%

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

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

23.3 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 40).

23.4 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 allocated for any other purpose. The 2015 loss was covered from statutory reserve funds, i.e. from share premium.

23.5 Non-controlling interests

	Dec 31 2016	Dec 31 2015
At beginning of period	953	948
- share in profit of subsidiaries	(51)	5
At end of period	902	953

23.6 Dividends paid and proposed

On March 24th 2016, the Company's General Meeting resolved to distribute a part of the capital reserve created from the Company's profits earned in prior years (PLN 22,723 thousand) as dividends to the shareholders.

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

24. Income tax

	For 12 months ended	For 3 months ended	
	Dec 31 2016	Dec 31 2016	Dec 31 2015
Current income tax	12,337	6,515	2,088
Current income tax expense	12,894	6,515	2,088
Adjustments to current income tax from previous years	(557)	-	-
Deferred income tax	(19,089)	(16,168)	4,373
Related to temporary differences and their reversal	(19,089)	(16,168)	4,373
Tax expense recognised in profit or loss	(6,752)	(9,653)	6,461

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	Opening balance	Statement of profit or loss	Capital	Closing balance
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 when accounting for the acquisition of the Neutron Group and accelerated tax depreciation/amortisation.

The temporary difference related to liabilities is due mainly to recognition of liabilities when accounting for the acquisition of the Neutron Group.

The earliest date when it may be possible to offset the loss carried forward in respect of which a deferred tax asset of PLN 5,206 thousand has been calculated, is 2017.

The Group did not recognise a deferred tax asset with respect to some of its tax losses, of PLN 4,971 thousand (conservative approach).

	Dec 31 2016	Dec 31 2015
Deferred tax liability		
to be realised after 12 months	107,538	121,426
to be realised within 12 months	(616)	(1,726)
Deferred tax asset		
to be realised after 12 months	56,620	44,665
to be realised within 12 months	14,463	19,705
Deferred tax asset/liability, net	35,839	55,330

EFFECTIVE TAX RATE

	For 12 months ended	
	Dec 31 2016	Dec 31 2015
Tax expense recognised in profit or loss, including:	(6,752)	23,667
Current income tax	12,337	19,720
Deferred tax	(19,089)	3,947
Profit before tax	118,332	91,042
Tax at the effective rate of 19% (2015: 19%)	(22,483)	17,298
Adjustments to current income tax from previous years	(557)	23
Non-tax-deductible costs:	17,920	6,346
- permanent differences	13,264	1,060
- tax assets on account of tax losses in Special Economic Zone	(315)	(597)
- tax asset on account of other tax losses	4,971	5,883
Non-taxable income:	(1,632)	-
- other	(1,632)	-
Tax recognised in profit or loss	(6,752)	23,667

25. Provisions

	Dec 31 2016	Dec 31 2015
Non-current provisions		
- provision for retirement and similar benefits	1,081	1,041
- provision for site restoration	-	1,166
- provisions for litigation	24,544	-
Total non-current provisions	25,625	2,207
Current provisions		
- provision for retirement and similar benefits	17	17
- provision for accrued holiday entitlements	1,208	2,567
- provision for litigation and grid losses	1,722	1,632
Total current provisions	2,947	4,216

Change in non-current and current provisions

	Dec 31 2016	Dec 31 2015
Provisions at beginning of period	6,423	5,115
- provisions recognised	24,660	1,425
- provisions reversed	(2,511)	(117)
Provisions at end of period	28,572	6,423

Using prudent approach, the Company recognised a non-current provision for litigation in connection with court proceedings involving Eolos Sp. z o.o. (for more information, see Note 29.2).

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26. Liabilities under bank and other borrowings

Dec 31 2016

Bank	Borrower	Non-current liability	Current liability	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 Borrower, 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			

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Dec 31 2015

Bank	Borrower	Non-current liability	Current liability	Interest rate	Maturity date	Security
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	85,063	37,977	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.	1,542	883	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.	-	4,800	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 Kogeneracja Sp. z o.o.	-	-	1M WIBOR + margin	Jan 31 2017	Assignment of claims under project contracts
PEKAO S.A.	Polenergia Obrót S.A.	-	-	1M WIBOR + margin	Aug 18 2016	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.	30,811	1,707	3M WIBOR + margin	Nov 20 2018	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.	29,621	6,028	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.
MBANK S.A.	Grupa PEP - Biomasa Energetyczna Południe Sp. z o.o.	1,698	188	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
MBANK S.A.	Grupa PEP - Biomasa Energetyczna Południe Sp. z o.o.	-	849	1M WIBOR + margin	Dec 20 2016	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.	120,094	6,918	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	4,415	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.	6,741	902	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
PEKAO S.A.	Grupa PEP - Biomasa Energetyczna Wschód Sp. z o.o.	-	759	1M WIBOR + margin	Apr 30 2017	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.	158,349	7,784	3M WIBOR + margin	Sep 29 2028	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
BOŚ Bank S.A.	Grupa PEP - Farma Wiatrowa 4 Sp. z o.o.	-	311	1M WIBOR + margin	Jul 29 2016	Pledge over a VAT account, power of attorney over a VAT account, statement on voluntary submission to enforcement
Bank syndicate (EBRD, BOŚ S.A.)	Grupa PEP - Farma Wiatrowa 4 Sp. z o.o.	264,272	9,466	3M WIBOR + margin	Sep 29 2028	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.	82,858	4,304	3M WIBOR + margin	Sep 29 2028	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 Zachodni WBK S.A.	Polenergia Farma Wiatrowa Mycielin Sp. z o.o.	-	31,700	1M WIBOR + margin	Jul 29 2016	Pledge over a VAT account, power of attorney over a VAT account, statement on voluntary submission to enforcement
Bank syndicate (EBRD, BOŚ S.A., Bank of China, ALIOR BANK S.A.)	Polenergia Farma Wiatrowa Mycielin Sp. z o.o.	169,859	2,345	3M WIBOR + margin	Sep 29 2028	Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Total		1,026,551	121,336			

Amon Sp. z o.o. ("Amon") and Talia Sp. z o.o. ("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, 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 dated 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 Facility Agreement. The Companies are currently negotiating possible restructuring of that debt.

Funds held by the Companies (Amon and Talia) (including in the Debt Service Reserve Account) and funds they expect to generate from their operations will allow the debt to be serviced over the next 12 months.

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.

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

Additionally, due to impairment of property, plant and equipment, the Mycielin project failed to meet the Debt to Equity Ratio covenant. Pursuant to the provisions of the credit facility agreement, such default does not trigger reclassification of the facility from long-term to short-term liabilities.

27. Liabilities

CURRENT LIABILITIES

	Dec 31 2016	Dec 31 2015
- bank and other borrowings	296,255	121,336
- trade payables	156,172	178,347
- to related entities	949	2,023
- to other entities, including:	155,223	176,324
- investment commitments	434	16,231
- income tax payable	958	6,670
- other liabilities	219,571	166,301
- to the state budget	13,120	6,771
- other financial liabilities	323	539
- valuation of futures and forward contracts *)	85,584	88,171
- salaries and wages	1,391	1,564
- special accounts	45	53
- risk hedging	-	6,065
- under settlement of long-term contracts **)	83,703	29,218
- other	35,405	33,920
Current liabilities, total	672,956	472,654

OTHER NON-CURRENT LIABILITIES

	Dec 31 2016	Dec 31 2015
- under settlement of long-term contracts **)	29,881	105,334
- valuation of futures and forward contracts *)	5,718	30,856
- risk hedging	7,545	5,618
- investment commitments	1,500	1,500
- other financial liabilities	702	1,339
Total other non-current liabilities	45,346	144,647

*) For more information on the valuation of futures and forward contracts, see Note 21

***) For more information on the liabilities under settlement of long-term contracts, see Note 43.

Trade payables do not bear interest and are typically payable within 14 days.

Other liabilities do not bear interest.

28. Accruals and deferred income

	Dec 31 2016	Dec 31 2015
Non-current accruals and deferred income		
- deferred income - grants	58,883	63,161
Total non-current accruals and deferred income	58,883	63,161
Current accruals and deferred income		
	Dec 31 2016	Dec 31 2015
- future bonuses, salaries and wages	6,287	11,494
- services	3,092	2,987
- unused holiday entitlements	479	724
- deferred income - grants	4,076	4,075
- liabilities	-	415
- expenditure on property, plant and equipment	283	1,141
- other	1,032	605
Total current accruals and deferred income	15,249	21,441

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 2016, 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 2016, 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 the wind farm's useful life.

29. Contingent liabilities

29.1 Guarantees and sureties issued

As at December 31st 2016, the Group did not issue any external guarantees.

29.2 Litigation

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. 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;

This did not result in Amon and Talia being unable to sell the electricity and certificates of origin, because electricity can be sold to a last-resort supplier at a price determined by the President of the Energy Regulatory Office, and green certificates can be sold through the power exchange or otherwise to other parties. However, while the price of electricity sold to a last-resort supplier is slightly higher than the price set in 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 20,222 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, Polenergia Biomasa Energetyczna Północ Sp. z o.o., is seeking a total of approximately PLN 40 thousand from its trading partners as a refund of advance payments. The proceedings are pending. Moreover, the subsidiary is seeking payment of receivables of approximately PLN 420,000. 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 some 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. recognises 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. secured a writ of execution 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.

29.3 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 2016, the Group did not identify any tax risk for which a provision should be recognised.

29.4 Capital expenditure

As at December 31st 2016, the Group planned to spend ca. PLN 60m on property, plant and equipment in 2017. The amount will be mainly applied towards implementation of the investment programme for the distribution segment, and towards development of certain projects, including in the area of off- and on-shore wind power generation.

29.5 Contractual obligationsPolenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o., a subsidiary

On March 20th 1998, Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. ("Company") 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 Company 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 Company entered into an agreement on sale of electricity with GET EnTra Sp. z o.o. Annex No. 10 of January 18th 2017 provides for electricity sales volume of no less than 375,000 MWh annually as of 2016, including no less than 335,000 MWh in the summer period. In accordance with Annex No. 10, the agreement term ends on December 31st 2019.

Under a heat sale agreement of March 25th 1998, the Company agreed to supply heat to Ciech Sarzyna S.A. In the event of failure to supply the agreed heat volumes, the Company 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 Company 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 Company 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 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 Company 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 Company 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 Company renewed the heat supply agreement with Zakład Gospodarki Komunalnej Nowa Sarzyna Sp. z o.o. The agreement expires 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 Company) is not obliged to supply more than 120,000 GJ of heat (Maximum Required Supply Volume) in any contractual year.

30. Revenue

	For 12 months ended		For 3 months ended	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
- revenue from sale and distribution of electricity	2,494,496	2,310,277	691,048	609,243
- revenue from certificates of origin	52,377	120,308	32,310	46,600
- revenue from carbon dioxide emission allowances	2,375	11,210	-	6,179
- revenue from sale of heat	24,199	31,220	5,749	7,844
- revenue from consulting and advisory services	2,944	2,885	612	1,335
- income from lease and operator services	631	212	25	149
- revenue from sale of merchandise	3,968	5,566	1,330	1,882
- revenue from sale of straw	-	1	-	-
- revenue from sale of pellets	43,095	54,872	8,249	13,029
- rental income	1,122	56	16	13
- income from compensation for stranded costs and cost of gas	109,728	152,023	23,623	33,181
- net revenue from sale and distribution of gas	259,785	83,139	76,975	20,557
- other	2,049	667	578	103
Total revenue	2,996,769	2,772,436	840,515	740,115

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 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
- Poland	2,539,403	2,393,865	699,886	631,095
- Czech Republic	68,679	196,550	17,601	47,392
- Luxembourg	4,186	3,643	2,030	612
- Germany	247,957	143,018	74,048	44,170
- Switzerland	9,264	101	2,433	-
- Hungary	2,375	11,211	-	6,180
- United Kingdom	124,905	24,048	44,517	10,666
Total revenue	2,996,769	2,772,436	840,515	740,115

31. Expenses, by nature of expense

	For 12 months ended		For 3 months ended	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
- depreciation and amortisation expense	115,356	87,660	29,805	24,486
- raw materials and consumables used	175,689	248,784	38,828	61,274
- services	52,378	38,438	15,118	10,939
- taxes and charges	17,497	16,169	4,699	4,405
- salaries and wages	35,973	40,787	7,964	11,687
- social security and other benefits	4,741	5,427	959	1,248
- other expenses by nature	3,546	3,762	899	977
Total expenses by nature	405,180	441,027	98,272	115,016
- cost of merchandise and materials sold (+)	2,483,363	2,193,377	701,776	581,304
- distribution costs (-)	(770)	(805)	(232)	(243)
- administrative expenses (-)	(30,008)	(34,476)	(6,843)	(10,767)
Total cost of sales	(2,857,765)	2,599,123	(792,973)	685,310

32. Other income

	For 12 months ended		For 3 months ended	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
- reversal of impairment losses and write-downs, including:	3,310	1,129	2,496	123
- impairment losses on receivables	2,455	60	1,986	-
- inventory write-downs	855	1,069	510	123
- provisions reversed, including:	1,651	1,143	485	-
- provisions for litigation	-	164	-	-
- provision for site restoration	1,166	-	-	-
- other provisions	485	979	485	-
- other, including:	5,714	6,082	801	1,343
- compensation and additional charges	174	631	(71)	157
- settlement of grants	4,279	4,324	1,070	1,069
- revenue from lease of property, plant and equipment	-	710	-	-
- gain on sale of non-financial non-current assets	569	73	35	21
- re-invoicing	-	-	(6)	-
- other	692	344	(227)	96
Total other income	10,675	8,354	3,782	1,466

33. Other expenses

	For 12 months ended		For 3 months ended	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
- impairment losses and write-downs, including:	179,424	10,915	74,942	10,153
- impairment losses on receivables	10,532	265	409	13
- inventory write-downs	115	1,812	115	1,302
- impairment losses on property, plant and equipment	168,777	8,838	74,418	8,838
- other, including:	654	2,824	243	801
- penalties, fines, compensation	4	1,158	3	450
- assigned compensation	-	7	-	6
- other development costs	206	629	38	245
- loss on sale of non-financial non-current assets	26	106	24	-
- other	418	924	178	100
Total other expenses:	180,078	13,739	75,185	10,954

To comply with the Act on Wind Farm Projects (the "Act"), which came into force on July 15th 2016, the Group had to recognise an impairment loss on assets in the form of wind farm projects under development, i.e. wind farm construction projects with respect to which a building permit had not been obtained or building permit procedure had not been initiated. The provisions of the Act regulating the minimum distance between a wind farm and residential buildings make continued development of these projects impossible. Further, in connection with the Act, the Company recognised an impairment

loss on the amount receivable from sale of a wind farm project (with the final instalment payable on obtaining the wind farm operation permit). The Group monitors the changing regulatory environment on an ongoing basis, including changes resulting from the amended Act on Renewable Energy Sources and from secondary legislation thereto, which has not yet been enacted, as well as the effect of those regulations on the Group's operations and its financial results. As at the date of these consolidated financial statements, given the lack of secondary legislation to the Act, it was not possible to comprehensively assess the effect of the new regulations on the Company and to determine whether it would be necessary to recognise further impairment losses. The aggregate amount of these impairment losses of PLN 55m is recognised in other expenses and relates to the Development and Implementation segment.

On October 10th 2016, the Company decided not to have the Company's subsidiary PPG Pipeline Projektgesellschaft mbH ("PPG") exercise the option to buy all the shares in Inwestycyjna Spółka Energetyczna – IRB Sp. z o.o. ("IRB"). Through its subsidiaries ("Project Companies"), IRB holds the right to construct a gas pipeline with a total length of approximately 150km (including 118km in Germany) and a capacity of 5 bcm/year, connecting the Polish and German gas systems ("Project"). The reason for the decision was failure to agree the terms of the Project implementation in Poland, which had been a condition necessary to buy IRB. As a result, on October 10th 2016, the Company's Management Board decided to recognise impairment losses on assets connected with the Project. The aggregate amount of these impairment losses of PLN 48m is recognised in other expenses and relates to the Development and Implementation segment.

On December 7th 2016, the Company's Management Board decided to recognise impairment losses on property, plant and equipment related to wind farms in operation because of persistently low prices of green certificates and uncertain price growth prospects. This situation was attributable, among other things, to the provisions of the Minister of Energy's regulation of October 17th 2016 on changing the quantitative share of total electricity under redeemed certificates of origin confirming electricity generation from renewable energy sources in 2017, under which the requirement to redeem the certificates is 15.4% in 2017, which is insufficient considering the current oversupply of green certificates. Additionally, there is still no information available on auctions for the existing wind farms. The aggregate amount of these impairment losses of PLN 75m is recognised in other expenses and relates to the Wind Power segment.

In line with the adopted definition, the impairment losses are non-cash charges and do not affect EBITDA.

34. Finance income

	For 12 months ended		For 3 months ended	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
- income from interest on deposits and loans	4,540	6,283	957	1,287
- interest on finance leases	150	163	36	40
- foreign exchange gains, including:	99	274	69	(162)
- unrealised	(20)	148	7	(206)
- realised	119	126	62	44
- valuation of financial liabilities*)	4	536	(13)	444
- disposal of shares in a subsidiary**)	3,206	-	-	-
- other	36	176	-	(5)
Total finance income	8,035	7,432	1,049	1,604

*) Related to bank borrowings measured at amortised cost.

**) 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. Detailed data on the transaction:

Gain on sale of property, plant and equipment	729
Income from reversal of provision for site restoration	1,166
Impairment losses on property, plant and equipment related to the Zakrzów CHP Plant project	(1,082)
Income tax (at the 19% rate)	(154)
Gain on disposal of shares in SPVs	3,206
Income tax (at the 19% rate) *)	1,420
Total	5,285
Cash received from project sale	3,591

*) The positive effect of income tax is attributable to the fact that no deferred tax asset had been recognised in past years on account of impairment losses on shares.

35. Finance costs

	For 12 months ended		For 3 months ended	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
- interest expense	56,483	40,241	14,533	11,303
- foreign exchange losses, including:	1,560	251	802	(60)
- unrealised	1,408	153	825	122
- realised	152	98	(23)	(182)
- fees and commissions	3,466	3,597	452	587
- impairment loss on financial assets	-	1,500	-	1,500
- valuation of financial liabilities *)	3,307	2,431	1,166	709
- other	374	1,017	192	773
Total finance costs	65,190	49,037	17,145	14,812

*) Related to bank borrowings measured at amortised cost.

36. Adjusted EBITDA and adjusted net profit

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. In Q2 2016, the Group resolved to change the EBITDA definition applicable as at December 31st 2015, by adding impairment losses on non-financial non-current assets. The change was principally made 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 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 after publication of the forecast.

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),
- Effect of measurement of non-current 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 after publication of the forecast,
- The effect of income tax on the above economic events.

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,
- Costs of financing related to the abandoned bond issue programme (item not taken into account for the purposes of the forecast),
- 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),
- Gain/loss on sale of the Zakrzów CHP Plant,
- Effect of impairment losses relating to development (on adjusted net profit),
- Effect of income tax on the economic events listed above.

37. Cash flows

Restricted cash	For 12 months ended	
	Dec 31 2016	Dec 31 2015
- cash for credit facility repayments	34,309	32,062
- cash for the settlement of compensation for stranded costs	77,681	91,646
- cash for long- and medium-term overhauls	2,054	2,141
- other restricted cash	38	3,581
Total	114,082	129,430

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 2016	Dec 31 2015
- change in provisions in the statement of financial position	22,149	1,111
- deconsolidation of sold subsidiary	38	-
- reclassification from non-current liabilities	(24,544)	-
Change in provisions in the statement of cash flows	(2,357)	1,111

Inventories:	For 12 months ended	
	Dec 31 2016	Dec 31 2015
- change in inventories in the statement of financial position	5,556	(5,927)
- recognition of inventories under non-current assets	200	-
- deconsolidation of sold subsidiary	(109)	-
Change in inventories in the statement of cash flows	5,647	(5,927)

Receivables:	For 12 months ended	
	Dec 31 2016	Dec 31 2015
- change in current and non-current receivables, net in the statement of financial position	53,251	(45,149)
- change in investment receivables	203	-
- deconsolidation of sold subsidiary	(1,710)	-
- change in financial receivables	(1,854)	6,826
Change in receivables in the statement of cash flows	49,890	(38,323)

Liabilities:	For 12 months ended	
	Dec 31 2016	Dec 31 2015
- change in liabilities, net of borrowings, in the statement of financial position	(68,206)	32,369
- change in finance lease payables	1,255	1,032
- change in investment commitments	1,257	17,006
- deconsolidation of sold subsidiary	1,441	-
- change in financial liabilities	6,864	4,638
- reclassification to non-current provisions	24,544	-
Change in liabilities in the statement of cash flows	(32,845)	55,045

Accruals and deferrals:	For 12 months ended	
	Dec 31 2016	Dec 31 2015
- change in accruals and deferrals in the statement of financial position	(5,093)	(9,123)
- commissions on credit facilities	(4,734)	5,823
- deconsolidation of sold subsidiary	65	-
- property, plant and equipment under construction, not invoiced	1,177	3,002
- cost transferred to equity	-	(683)
- other	-	(19)
Change in accruals and deferrals in the statement of cash flows	(8,585)	(1,000)

38. 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 Group's annual profit before tax (in connection with floating-rate liabilities) to reasonably possible movements in interest rates, assuming that other factors remain unchanged. The effect on the Group's equity is not presented.

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

Period ended Dec 31 2015	Increase/decrease (percentage points)	Effect on profit/loss before tax over 12 consecutive months (PLN '000)
1M WIBOR	1%	(9,804)
1M EURIBOR	1%	(360)
1M WIBOR	-1%	9,804
1M EURIBOR	-1%	360

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 2016, the position was valued at EUR 7m. 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 40.

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, with all other factors unchanged.

	Exchange rate increase/decrease	Effect on profit/loss
Dec 31 2016 – EUR	+ 0.01 PLN/EUR	(70)
	- 0.01 PLN/EUR	70
Dec 31 2015 – EUR	+ 0.01 PLN/EUR	(84)
	- 0.01 PLN/EUR	84

In the year ended December 31st 2016, the Group incurred finance costs of PLN 1,408 thousand under unrealised foreign exchange losses.

In the period December 31st 2016–March 31st 2017, 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 2017 will mainly depend on the difference between PLN/EUR exchange rates on December 31st 2016 and March 31st 2017, 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 70 thousand for each PLN 0.01 of the difference relative to the exchange rate as at December 31st 2016 (PLN 4.4240/EUR).

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 2016 and December 31st 2015, based on undiscounted contractual payments.

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	152,168	-	4	-	156,172

Dec 31 2015	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	65,421	100,668	541,029	768,931	1,476,049
Other liabilities	161,393	4,908	39,313	-	205,614
Trade payables	178,344	-	3	-	178,347

39. 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 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
Financial assets					
Futures and forward contracts	Level 2	108,143	106,584	108,143	106,584
Financial liabilities					
Bank borrowings	Level 2	1,116,653	1,147,887	1,116,653	1,147,887
SWAPs	Level 2	7,545	5,618	7,545	5,618
Forward contract	Level 2	-	6,065	-	6,065
Futures and forward contracts	Level 2	91,302	111,027	91,302	111,027

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 current and non-current 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 2016

INTEREST RATE RISK

	<i>Less than 1 year</i>	<i>1-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>Over 5 years</i>	<i>Total</i>
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
Fixed-rate interest							
Cash assets	380,862	-	-	-	-	-	380,862
Finance leases	308	303	318	333	350	1,550	3,162

Dec 31 2015

INTEREST RATE RISK

	<i>Less than 1 year</i>	<i>1-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Floating-rate interest							
PLN bank borrowings	115,308	90,184	94,051	97,509	63,538	651,648	1,112,238
EUR bank borrowings	6,028	6,305	7,353	7,690	8,044	229	35,649
Fixed-rate interest							
Cash assets	362,096	-	-	-	-	-	362,096
Finance leases	294	288	303	318	333	1,405	2,941

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

40. Hedging

Interest rate risk hedging

Maturity date of the hedging instrument	Value of the hedge (PLN '000)	Interest rate hedged	Instrument
Apr 29 2019	67,804.00	4.95%	IRS
Jun 15 2021	141,693.00	3.07%	IRS

209,497.00

The fair value of the hedge as at the reporting date is PLN 7,546 thousand and is 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 upon recognition of the hedging instrument's and the hedged item's effect on the entity's net profit or loss. 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 2016, the Group recognised PLN 4,077 thousand (2015: PLN +3,632 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.

41. 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 2016 and financial year ended December 31st 2015, 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.

	Dec 31 2016	Dec 31 2015
Interest-bearing borrowings	1,116,653	1,147,887
Less cash and cash equivalents	(380,862)	(362,096)
Net debt	735,791	785,791
Equity	1,267,426	1,397,251
Total equity	1,267,426	1,397,251
Equity and net debt	2,003,217	2,183,042
Leverage ratio	37%	36%

42. Significant related-party transactions

As at December 31st 2016, GEO Kletnia Sp. z o.o was an associated entity.

Key transactions with related parties in the year ended December 31st 2016:

Dec 31 2016	Revenue	Costs	Receivables	Liabilities
Kulczyk Investments	-	786	-	167
Kulczyk Holding	-	501	-	-
Krucza Inwestycje KREH 1 Sp. z o.o. S.K.	120	2,706	-	-
Chmielna Inwestycje KREH2 Sp. z o.o. S.K.A.	1,276	-	-	-
Euro Invest Sp. z o.o.	253	-	-	-
Polenergia Holding Sarl	514	-	-	-
Polenergia Usługi Sp. z o.o.	110	-	-	-
Polenergia Biogaz Sp. z o.o.	111	-	190	-
Polskie Biogazownie Energy Żórawina Sp. z o.o.	-	1,424	-	-
Polskie Biogazownie Energy Zalesie Sp. z o.o.	109	1,323	-	-
Ciech Sarzyna S.A.	21,067	2,632	3,703	237
Autostrada Eksploatacja S.A.	1,725	-	-	-
Ramsden Sp. z o.o.	151	-	-	-
Polenergia International Sarl	1,830	-	1,783	-
Total	27,266	9,372	5,676	404

For information on transactions with members of the parent's Management Board and Supervisory Board, see Notes 45 and 46. **Błąd! Nie można odnaleźć źródła odwołania.**

43. 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:

- 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 2016) 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.

For 12 months ended	
Dec 31 2016	
compensation for stranded costs, entered in the books	74,535

In 2016, the Company received the following payments as compensation for stranded costs from Zarządca Rozliczeń S.A.:

	For 12 months ended Dec 31 2016
prepayments for Q1-Q4 2016	22,565
settlement for the previous year	18,875
Total	41,440

Compensation for cost of gas

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 2016
compensation for cost of gas, entered in the books	35,193

In 2016, the Company received the following payments as compensation for cost of gas from Zarządca Rozliczeń S.A.:

	For 12 months ended Dec 31 2016
prepayments for Q1-Q4 2016	39,200
settlement for the previous year	11,800
Total	51,000

44. Workforce

The Group's workforce by type of position, in FTEs as at December 31st 2016 and December 31st 2015:

	Dec 31 2016	Dec 31 2015
Management Board	3	4
Administrative division	65	74
Operating division	160	194
Total headcount	228	272

45. 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 2016 and 2015, remuneration of members of the Management Board of the parent and subsidiaries, as well as of the Supervisory Board was as follows:

	Dec 31 2016	Dec 31 2015
Management Board	10,462	5,772
Supervisory Board	318	197

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 pay a severance benefit 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 Kwarciańska and Mr Michał Kozłowski received appropriate severance benefits.

46. 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 2016, no transactions were entered into with members of the Management and Supervisory Boards, their spouses, siblings, ascendants, descendants, or other closely related parties.

47. 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 2016 and December 31st 2015, by type of service:

Type of service	Dec 31 2016	Dec 31 2015
Review and audit of financial statements	496	483
Other services	30	30

48. Carbon dioxide (CO₂) 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 way 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 (CO₂) 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 2013–2016, as the plant upgrades specified in the National Investment Plan were not completed.

The Nowa Sarzyna CHP Plant was also allocated CO₂ 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, CO₂ emission allowances were measured at fair value and presented as intangible assets.

The reports of CO₂ emissions (obligatory submission of verified 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 2016 the plants produced the following amounts of emissions:

Mercury Power Plant – 31,093 tonnes (planned report verification: February 2017, verifier – Polcargo),

Nowa Sarzyna CHP Plant – 334,626 tonnes, (report verified on January 9th 2017 by DNV).

Since January 1st 2013, all the installations have operated under new CO₂ 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 are obligated to apply for emissions trading permits, which are to replace the 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.

49. 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 Gnieźdźewo 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 March 13th 2014, PPG Polska 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 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 Gawłowiec 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 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 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.

50. Events after the end of the reporting period

As at the date of preparation of these consolidated financial statements, i.e. February 16th 2017, no events had occurred which should have been but were not disclosed in the accounting records for the reporting period.