Consolidated financial statements of the Enea Group for the financial year ended 31 December 2016

Poznań, 29 March 2017

(all amounts in PLN '000, unless specified otherwise)

Index to the consolidated financial statements

(all amounts in PLN '000, unless specified otherwise)

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards as approved by the European Union and were accepted by the Management Board of Enea S.A.

Members of the Management Board

President of the Management Board	**Mirosław Kowalik**	....
Member of the Management Board	**Piotr Adamczak**	....
Member of the Management Board	**Mikołaj Franzkowiak**	....
Member of the Management Board	**Wiesław Piosik**	....

Poznań, 29 March 2017

Enea Centrum Sp. z o.o.
The entity responsible for keeping the accounting records
and the preparation of financial statements ....
Enea Centrum Sp. z o.o. ul. Górecka 1, 60-201 Poznań
KRS 0000477231, NIP 777-000-28-43, REGON 630770227

(all amounts in PLN '000, unless specified otherwise)

Consolidated Statement of Financial Position

	Note	As at 31.12.2016	As at 31.12.2015
ASSETS			
Non-current assets			
Property, plant and equipment	7	18 382 498	17 074 978
Perpetual usufruct of land	8	74 899	74 160
Intangible assets	9	370 638	272 116
Investment property	11	28 020	20 624
Investments in subsidiaries and jointly-controlled entities	12	2 518	748
Deferred tax assets	30	403 257	616 795
Financial assets available for sale	15, 48	42 482	23 982
Financial assets measured at fair value through profit or loss	22	112	-
Derivatives		40 267	844
Trade and other receivables	16	30 690	28 323
Cash deposits at Mine Closure Fund		111 218	90 872
		19 486 599	**18 203 442**
Current assets			
CO2 emission rights	18	417 073	307 521
Inventories	19	448 941	649 509
Trade and other receivables	16	1 824 488	1 732 744
Current income tax assets		9 541	31 956
Financial assets held to maturity	15	478	479
Financial assets measured at fair value through profit or loss	22	4 852	222 011
Cash and cash equivalents	21	2 340 217	1 822 094
Non-current assets classified as held for sale	14	4 330	19 240
		5 049 920	**4 785 554**
Total assets		**24 536 519**	**22 988 996**

(all amounts in PLN '000, unless specified otherwise)

	Note	As at 31.12.2016	31.12.2015
EQUITY AND LIABILITIES			
Equity			
Equity attributable to shareholders of the Parent			
Share capital		588 018	588 018
Share premium		3 632 464	3 632 464
Financial instruments revaluation reserve		744	814
Other capital		(25 652)	(45 883)
Reserve capital from valuation of hedging instruments		33 826	3 980
Retained earnings		7 946 612	7 158 352
		12 176 012	**11 337 745**
Non-controlling interests	13	835 717	784 858
Total equity	23	**13 011 729**	**12 122 603**
LIABILITIES			
Non-current liabilities			
Loans, borrowings and debt securities	25	6 275 644	5 933 360
Trade and other liabilities	24	48 373	16 527
Finance lease liabilities	28	2 997	992
Deferred income due to subsidies, connection fees and other	26	660 032	674 682
Deferred tax liability	30	191 798	388 117
Liabilities due to employee benefits	31	792 156	818 772
Financial liabilities measured at fair value through profit or loss	29	269	-
Provisions for other liabilities and charges	32	635 488	625 388
		8 606 757	**8 457 838**
Current liabilities			
Loans, borrowings and debt securities	25	448 902	43 399
Trade and other liabilities	24	1 141 600	1 223 320
Finance lease liabilities	28	2 141	1 025
Deferred income due to subsidies, connection fees and other	26	84 150	83 666
Current income tax liabilities		32 071	87 022
Liabilities due to employee benefits	31	416 937	397 986
Liabilities due to an equivalent of the right to acquire shares free of charge		281	281
Financial liabilities measured at fair value through profit or loss		2 233	-
Provisions for other liabilities and charges	32	789 718	567 556
Liabilities related to non-current assets held for sale	14	-	4 300
		2 918 033	**2 408 555**
Total liabilities		**11 524 790**	**10 866 393**
Total equity and liabilities		**24 536 519**	**22 988 996**

(all amounts in PLN '000, unless specified otherwise)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	12 months ended 31.12.2016	12 months ended 31.12.2015
Sales revenue		11 513 305	10 081 083
Excise tax		(257 627)	(232 691)
Net sales revenue	33	**11 255 678**	**9 848 392**
Other operating revenue	36	144 038	99 102
Depreciation	34	(1 110 350)	(790 375)
Costs of employee benefits	35	(1 490 752)	(989 489)
Consumption of materials and supplies and costs of goods sold	34	(1 361 884)	(1 791 115)
Energy and gas purchase for sale	34	(4 074 797)	(3 282 923)
Transmission services	34	(860 991)	(769 503)
Other external services	34	(664 644)	(423 204)
Taxes and charges	34	(326 537)	(290 201)
Loss on sale and liquidation of property, plant and equipment		(30 662)	(9 148)
Impairment loss on non-financial non-current assets	6	(98 160)	(1 501 621)
Other operating expenses	36	(261 625)	(262 040)
Operating profit/(loss)		**1 119 314**	**(162 125)**
Financial expenses	38	(127 010)	(81 751)
Financial revenue	37	76 350	84 497
Impairment loss on goodwill		-	(251 432)
Dividend income		148	1 833
Profit/(loss) before tax		**1 068 802**	**(408 978)**
Income tax	39	(219 889)	10 100
Net profit/(loss) for the reporting period		**848 913**	**(398 878)**
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
- change in fair value of financial assets available for sale		-	(21 048)
- available-for-sale financial assets - reclassified to profit or loss		-	(12 854)
- valuation of hedging instruments		36 847	4 914
- other		(70)	(61)
- income tax		(7 001)	(934)
Items that will not be reclassified to profit or loss:			
- remeasurement of defined benefit plan		9 431	(1 034)
- income tax		(1 793)	187
Net other comprehensive income		**37 414**	**(30 830)**
Total comprehensive income for the reporting period		**886 327**	**(429 708)**
Including net profit/(loss):			
attributable to Parent's shareholders		784 393	(434 857)
attributable to non-controlling interests		64 520	35 979
Including comprehensive income:			
attributable to Parent's shareholders		823 949	(464 270)
attributable to non-controlling interests		62 378	34 562
Net profit/(loss) attributable to shareholders of the Parent		784 393	(434 857)
Weighted average number of ordinary shares		441 442 578	441 442 578
Basic earnings per share (in PLN per share)	41	**1.78**	**(0.99)**
Diluted earnings per share (in PLN per share)		**1.78**	**(0.99)**

(all amounts in PLN '000, unless specified otherwise)

Consolidated Statement of Changes in Equity:

(a) 2016

	Note	Share capital (face value)	Revaluation of share capital	**Total share capital**	**Share premium**	**Financial instruments revaluation reserve**	**Other capital**	**Reserve capital from valuation of hedging instruments**	**Retained earnings**	**Capital attributable to non-controlling interests**	**Total equity**
Balance as at 01.01.2016		441 443	146 575	**588 018**	**3 632 464**	**814**	**(45 883)**	**3 980**	**7 158 352**	**784 858**	**12 122 603**
Net profit for the reporting period									784 393	64 520	848 913
Net other comprehensive income						(70)		29 846	9 780	(2 142)	37 414
Total comprehensive income for the period						**(70)**		**29 846**	**794 173**	**62 378**	**886 327**
Redemption of non-controlling interests in subsidiaries							20 231			(11 519)	8 712
Other									(5 913)		(5 913)
Balance as at 31.12.2016		441 443	146 575	**588 018**	**3 632 464**	**744**	**(25 652)**	**33 826**	**7 946 612**	**835 717**	**13 011 729**

(all amounts in PLN '000, unless specified otherwise)

(b) 2015

	Note	Share capital (face value)	Revaluation of share capital	Total share capital	Share premium	Financial instruments revaluation reserve	Other capital	Reserve capital from valuation of hedging instruments	Retained earnings	Capital attributable to non-controlling interests	Total equity
Balance as at 01.01.2015		441 443	146 575	**588 018**	**3 632 464**	**34 777**	**(45 883)**	**-**	**7 804 989**	**49 648**	**12 064 013**
Net (loss)/profit for the reporting period									(434 857)	35 979	(398 878)
Net other comprehensive income						(33 963)		3 980	(847)		(30 830)
Total comprehensive income for the period						**(33 963)**		**3 980**	**(435 704)**	**35 979**	**(429 708)**
Dividends	40								(207 478)	(5)	(207 483)
Acquisition of subsidiary										699 236	699 236
Other									(3 455)		(3 455)
Balance as at 31.12.2015		441 443	146 575	**588 018**	**3 632 464**	**814**	**(45 883)**	**3 980**	**7 158 352**	**784 858**	**12 122 603**

(all amounts in PLN '000, unless specified otherwise)

Consolidated Statement of Cash Flows

	Note	12 months ended 31.12.2016	12 months ended 31.12.2015
Cash flows from operating activities			
Net profit/ (loss) for the reporting period		848 913	(398 878)
Adjustments:			
Income tax in profit or loss	39	219 889	(10 100)
Depreciation	34	1 110 350	790 375
Loss on sale and liquidation of tangible fixed assets		30 662	9 148
Impairment loss on non-financial non-current assets	6	98 160	1 501 621
Impairment loss on goodwill		-	251 432
Loss on sale of financial assets		1 941	3 342
Interest income		(9 591)	(9 823)
Dividend income		(148)	(1 833)
Interest expense		84 144	53 672
Gain on measurement of financial instruments		(7 370)	(7 788)
Settlement of pre-existing relationship related to acquisition	36	-	94 000
Other adjustments		(24 766)	(5 614)
		1 503 271	**2 668 432**
Income tax paid		(270 365)	(302 048)
Changes in working capital			
CO2 emission rights		(99 228)	(96 767)
Inventories		202 145	(27 421)
Trade and other receivables		(186 484)	333 985
Trade and other liabilities		190 495	(189 771)
Liabilities due to employee benefits		4 470	(40 043)
Deferred income due to subsidies, connection fees and other		(14 375)	45 431
Non-current assets held for sale and related liabilities		(636)	(1 222)
Provisions for other liabilities and charges		246 239	214 718
		342 626	**238 910**
Net cash flows from operating activities		**2 424 445**	**2 206 416**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(2 688 358)	(2 847 396)
Proceeds from disposal of property, plant and equipment and intangible assets		6 143	9 944
Acquisition of financial assets		(18 500)	(23 402)
Proceeds from disposal of financial assets		216 689	366 506
Acquisition of subsidiaries adjusted by acquired cash		(10 187)	(1 259 591)
Disposal of investments in subsidiaries and associates		11 600	8 031
Dividends received		148	1 833
Outflows related to cash deposits at Mine Closure Fund		(20 346)	-
Interests received		11 720	8 781
Other proceeds from investing activities		511	10 630
Net cash flows from investing activities		**(2 490 580)**	**(3 724 664)**
Cash flows from financing activities			
Loans and borrowings received		124 888	481 007
Bond issue		750 000	2 581 000
Loans and borrowings repaid		(13 329)	(82 146)
Bonds redemption		(100 000)	-
Dividend paid to shareholders of the Parent		(1 053)	(208 313)
Payment of finance lease liabilities		(1 463)	(1 761)
Expenses related to future issue of bonds		(4 536)	(9 434)
Interests paid		(151 295)	(82 266)
Other payments from financing activities		(18 954)	(25 061)
Net cash flows from financing activities		**584 258**	**2 653 026**
Net increase/ (decrease) in cash		**518 123**	**1 134 778**
Opening balance of cash	21	1 822 094	687 316
Closing balance of cash	21	**2 340 217**	**1 822 094**

(all amounts in PLN '000, unless specified otherwise)

Notes to the consolidated financial statements

1. General information

1.1. General information about Enea S.A. and the Enea Group

Name (business name):	Enea Spółka Akcyjna
Legal form:	joint-stock company
Country:	Poland
Registered office:	Poznań
Address:	Górecka 1, 60-201 Poznań
NUMBER IN NATIONAL COURT REGISTER (KRS):	0000012483
Telephone:	(+48 61) 884 55 44
Fax:	(+48 61) 884 59 59
E-mail:	enea@enea.pl
Website:	www.enea.pl
Statistical number (REGON):	630139960
Tax identification number (NIP):	777-00-20-640

The main activities of the Enea Group ("Group") are:

- production of electricity and heat (Enea Wytwarzanie Sp. z o.o., Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Oborniki, Miejska Energetyka Cieplna Piła Sp. z o.o., Miejskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Białystok);
- electricity trade (Enea S.A., Enea Trading Sp. z o.o.);
- distribution of electricity (Enea Operator Sp. z o.o.);
- distribution of heat (Enea Wytwarzanie Sp. z o.o., Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Oborniki, Miejska Energetyka Cieplna Piła Sp. z o.o., Miejskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Białystok);
- mining and agglomeration of hard coal (Lubelski Węgiel „Bogdanka" S.A. Group).

As at 31 December 2016 the shareholding structure of the Parent Entity was the following: the State Treasury of the Republic of Poland – 51.5% of shares, PZU TFI 5.2% and other shareholders – 43.3%.

As at 31 December 2016 the statutory share capital of Enea S.A. equaled PLN 441 443 thousand (PLN 588 018 thousand upon adoption of IFRS-EU and considering hyperinflation and other adjustments) and was divided into 441 442 578 shares.

(all amounts in PLN '000, unless specified otherwise)

As at 31 December 2016 Enea Group consisted of the parent entity ("the Company", "Parent Entity"), 12 subsidiaries, 9 indirect subsidiaries and 1 jointly-controlled entity.

The financial statements have been prepared under assumption that the Group will be able to continue as a going concern in the foreseeable future. No circumstances occur that would indicate a threat to the Group's operation as a going concern.

1.2. Composition of the Management Board and the Supervisory Board

Management Board

	31.12.2016	31.12.2015
President of the Management Board	Mirosław Kowalik	Acting President of the Management Board Wiesław Piosik
Member of the Management Board responsible for Financial Affairs	Mikołaj Franzkowiak	Dalida Gepfert
Member of the Management Board responsible for Commercial Affairs	Piotr Adamczak	Grzegorz Kinelski
Member of the Management Board responsible for Corporate Affairs	Wiesław Piosik	--

On 21 January 2016, the Supervisory Board adopted a resolution to appoint Mr. Piotr Adamczak to the position of the Member of the Management Board responsible for Commercial Affairs and Mr. Mikołaj Franzkowiak to the position of the Member of the Management Board responsible for Financial Affairs, effective from 15 February 2016.

On 30 December 2015, the Supervisory Board of Enea S.A. adopted a resolution to dismiss Mrs. Dalida Gepfert - Member of the Company's Management Board responsible for Financial Affairs and Mr. Grzegorz Kinelski - Member of the Company's Management Board responsible for Commercial Affairs from the Management Board of Enea S.A., and adopted a resolution to revoke the delegation of the Supervisory Board Member, Mr. Wiesław Piosik, to temporary perform the duties of the President of the Company's Management Board of Enea S.A., effective from 7 January 2016.

On 30 December 2015, the Supervisory Board of Enea S.A. also adopted a resolution to appoint Mr. Mirosław Kowalik to the position of the President of the Company's Management Board and Mr. Wiesław Piosik to the position of the Member of the Company's Management Board responsible for Corporate Affairs of Enea S.A. for the next term which commenced on 7 January 2016. Furthermore, the Supervisory Board of Enea S.A. adopted a resolution to delegate Mr. Sławomir Brzeziński to temporary perform the duties of the Member of the Company's Management Board responsible for Commercial Affairs of Enea S.A. till the appointment of the Member of the Management Board responsible for Commercial Affairs.

(all amounts in PLN '000, unless specified otherwise)

Supervisory Board

	31.12.2016	31.12.2015
Chairman of the Supervisory Board	Małgorzata Niezgoda	Małgorzata Niezgoda
Vice-chairman of the Supervisory Board	Piotr Kossak	Tomasz Gołębiowski
Secretary of the Supervisory Board	Rafał Szymański	Sandra Malinowska
Member of the Supervisory Board	Rafał Bargiel	Radosław Winiarski
Member of the Supervisory Board	Piotr Mirkowski	Wiesław Piosik
Member of the Supervisory Board	Sławomir Brzeziński	Sławomir Brzeziński
Member of the Supervisory Board	Wojciech Klimowicz	Wojciech Klimowicz
Member of the Supervisory Board	Tadeusz Mikłosz	Tadeusz Mikłosz
Member of the Supervisory Board	Roman Stryjski	Rafał Szymański
Member of the Supervisory Board	Paweł Skopiński	----

On 30 December 2015, the Supervisory Board of Enea S.A. adopted a resolution to delegate as of 7 January 2016 Mr. Sławomir Brzeziński to temporary perform the duties of the Member of the Company's Management Board responsible for Commercial Affairs of Enea S.A. till the appointment of the Member of the Management Board responsible for Commercial Affairs.

On 7 January 2016 the entity received Mr. Wiesław Piosik's resignation from the position of the Member of the Supervisory Board of Enea S.A., effective from 7 January 2016. The resignation was connected with the appointment to the Management Board on 7 January 2016.

On 15 January 2016 the Extraordinary Shareholders' Meeting of Enea S.A. dismissed the following Members: Mrs. Sandra Malinowska, Mr. Radosław Winiarski and Mr. Tomasz Gołębiewski - an independent member from the Supervisory Board.

On 15 January 2016 the Extraordinary Shareholders' Meeting of Enea S.A. appointed four new Members: Mr. Piotr Kossak as an independent member, Mr. Rafał Bargiel, Mr. Roman Stryjski and Mr. Piotr Mirkowski to the Supervisory Board of Enea S.A.

On 5 September 2016, based on the statement of the Minister of Energy, appointed Mr. Paweł Skopiński to the Supervisory Board of Enea S.A.

2. Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS EU") and were approved by the Management Board of Enea S.A.

The Management Board of the Parent Entity has used its best knowledge as to the application of standards and interpretations as well as measurement methods and principles applicable to the individual items of the consolidated financial statements of the Enea Group in accordance with IFRS-EU as at 31 December 2016. The presented statements and explanations have been prepared using due diligence. These consolidated financial statements were audited by a certified auditor.

3. Material estimates and assumptions

The preparation of these consolidated financial statements in accordance with IFRS-EU requires that the Management Board makes certain estimates and assumptions that affect the adopted accounting policies and the amounts disclosed in the consolidated financial statements and notes thereto. The adopted assumptions and estimates are based on the Management Board's best knowledge of the current and future activities and events. The actual figures, however, can be different from those assumed. The key areas in which the estimates made by the Management Board have a material impact on the consolidated financial statements include:

- **employment and post-employment benefits –** the provisions for employee benefits are measured using a method which involves determination of the balance of liabilities due to expected future benefit payments as at the end of the reporting period, calculated in line with actuarial methods; a change in the discount rate and a long-term salaries and wages increase rate impact the accuracy of the estimate made (Note 31),
- **periods of depreciation of tangible and intangible fixed assets -** the amount of depreciation is determined on basis of the estimated economic useful life of property, plant and equipment or intangible assets. Economic periods are reviewed at least once a year. Depreciation periods are presented in Notes 55.5, 55.6, 55.7 and 55.12 of these consolidated financial statements,
- **trade and other receivables allowance** – allowance is determined as the difference between the carrying amount and the present value of estimated future cash flows, discounted using the original interest rate; a change in estimated future cash flows shall cause a change in estimated allowance on receivables (Note 16),
- **uninvoiced sales revenue at the end of a financial year** – the amount of uninvoiced energy sales is estimated based on the estimated consumption of electricity in the period from the last meter reading date until the end of the financial period (Note 16),
- **compensation for non-contractual use of land** – estimation includes the potential payment of compensation for the so called non-contractual use of land and rental fee (Note 32, 47.5),
- **provision for land reclamation** – the Group, having filled or closed a slag and ash dump, is obliged to reclaim the land. As the Group has large unfilled dumps, land reclamation is planned for 2060. Future estimated costs of land reclamation were discounted to their current value as at 31 December 2016 , using a discount rate of 3.20 % (Note 32),
- **recoverable amount of tangible and intangible fixed assets** – impairment tests of cash generating units are based on a number of significant assumptions, some of which are outside the control of the Group. Significant changes to the assumptions impact the results of impairment test and consequently the financial position and performance of the Group (Note 6),
- **provision for purchasing CO_2 emissions rights** – the assumptions concern the allocation of free of charge CO_2 emission rights for 2016 (Note 32),

- **estimating the useful life of mines and coal resources –** the useful life of a mine (LWB) is estimated based on operating resources of coal covered by the concession rights and estimated production capacity for the year 2043. The actual date of mine liquidation may differ from estimated by the Group. This results from taking into account in the calculation of the estimated useful life of mines, only recoverable reserves of coal. In 2014 Enea Group received a mining license for K-3 area. The Group also tries to obtain further mining, which may result in a substantial extension of useful life of mines,
- **estimating the provision for mine liquidation** – Enea Group creates a provision for mines liquidation costs, which is imposed by existing law. Key assumptions used in determining the cost of the liquidation of mines include assumptions regarding the useful life of mines, the expected inflation and long-term discount rates. Any change in these assumptions affect the carrying value of provisions (Note 32).
- **provision for the difference from the valuation of shares in Eco-Power Sp. z o.o.** – the Group estimated the value of shares in Eco-Power Sp. z o.o. and created provision for the difference between the amount resulting from share purchase agreement, which amounts to PLN 286 500 000,00 and value estimated in the model by Enea S.A. (Note 54).

(all amounts in PLN '000, unless specified otherwise)

4. Composition of the Group - list of subsidiaries and jointly controlled entities

	Name and address of the Company	Share of Enea S.A. in the total numer of votes in % 31.12.2016	Share of Enea S.A. in the total numer of votes in % 31.12.2015
1.	**Enea Operator Sp. z o.o.** Poznań, Strzeszyńska 58	100	100
2.	**Enea Wytwarzanie Sp. z o.o.** Świerże Górne, commune Kozienice, Kozienice 1	100	100
3.	**Enea Oświetlenie Sp. z o.o.** [4] Szczecin, Ku Słońcu 34	100	100
4.	**Enea Trading Sp. z o.o.** Świerże Górne, commune Kozienice, Kozienice 1	100	100
5.	**Szpital Uzdrowiskowy ENERGETYK Sp. z o.o.** Inowrocław, Wilkońskiego 2	-[6]	100
6.	**Enea Logistyka Sp. z o.o.** Poznań, Strzeszyńska 58	100	100
7.	**Enea Serwis Sp. z o.o.** Lipno, Gronówko 30	100	100
8.	**Enea Centrum Sp. z o.o.** Poznań, Górecka 1	100	100
9.	**Enea Pomiary Sp. z o.o.** Poznań, Strzeszyńska 58	100	100
10.	**ENERGO-TOUR Sp. z o.o. in liquidation** Poznań, ul. Strzeszyńska 58	100[5]	100[5]
11.	**Enea Innovation Sp. z o.o.** Warszawa, Jana Pawła II 25	100	100
12.	**Lubelski Węgiel BOGDANKA S. A.** Bogdanka, Puchaczów	65.99	65.99
13.	**Annacond Enterprises Sp. z o.o.** Warszawa, Jana Pawła II 25	61	61
14.	**Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.** Oborniki, Wybudowanie 56	99.93[1]	99.91[1]
15.	**Miejskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.** Białystok, Warszawska 27	91.02[1]	86.36[1]
16.	**Miejska Energetyka Cieplna Piła Sp. z o.o.** Piła, Kaczorska 20	71.11[1]	71.11[1]
17.	**Przedsiębiorstwo Energetyki Cieplnej Zachód Sp. z o.o.** Białystok, Starosielce 2/1	100[1]	100[1]
18.	**Centralny System Wymiany Informacji Sp. z o.o.** [7] Poznań, Strzeszyńska 58	100[3]	100[3]
19.	**EkoTRANS Bogdanka Sp. z o.o.** Bogdanka, Puchaczów	65.99[2]	65.99[2]
20.	**RG Bogdanka Sp. z o.o.** Bogdanka, Puchaczów	65.99[2]	65.99[2]
21.	**MR Bogdanka Sp. z o.o.** Bogdanka, Puchaczów	65.99[2]	65.99[2]
22.	**Łęczyńska Energetyka Sp. z o.o.** Bogdanka, Puchaczów	58.53[2]	58.53[2]
23.	**ElectroMobility Poland S.A.** Warszawa, Mysia 2	25[8]	-

[1] – A indirect subsidiary held through shares in Enea Wytwarzanie Sp. z o.o.
On 29 November 2016, the Extraordinary Meeting of Shareholders of Przedsiębiorstwo Energetyki Cieplnej w Obornikach spółka z ograniczoną odpowiedzialnością decided to increase the share capital of the company by PLN 1 400 thousand by creating 2 800 shares of nominal value of PLN 500 each. All the new shares in the share capital of the company were offered for acquisition to Enea Wytwarzanie sp. z o.o., which shall pay them up in cash; the amount was paid on 2 December 2016. The entry into the National Court Register (Krajowy Rejestr Sądowy) was made on 21 December 2016.
On 17 September 2015, by Resolution no. 547/2015 adopted by the Management Board of Enea Wytwarzanie Sp. z o.o., a project titled "Purchase of employee shares of MPEC sp. z o.o. in Białystok" was launched. On 17 November 2015, by Resolution no. 661/2015, powers of attorney were granted in terms of concluding of the preliminary contracts and final contracts. The number of shares available for purchase is 75 thousand. The concluding of the Preliminary Contracts was

planned for the period between 7 December 2015 and 27 January 2016. The Final Contracts shall be concluded after 16 September 2016. By the end of December 2015, Preliminary Contracts on Sale of shares worth in total PLN 747 thousand were concluded. In 2016, Enea Wytwarzanie sp. z o.o. purchased 67 209 shares of MPEC sp. z o.o. in Białystok for the amount of PLN 7 688 thousand, and as at the end of the year it owns 91.02% of shares in share capital.

[2] – an indirect subsidiary held through shares in Lubelski Węgiel BOGDANKA S.A.

[3] – an indirect subsidiary held through shares in Enea Operator Sp. z o.o.

[4] – on 16 June 2016 Extraordinary Shareholder's Meeting of Enea Oświetlenie Sp z o.o changed the company's Deed by changing the company's address to Szczecin 71-080, Ku Słońcu 34. The change of Deed was registered in the National Court Register on 6 July 2016.

[5] – On 30 March 2015, the Extraordinary General Meeting of Shareholders of the company adopted a resolution concerning the dissolution of the company, after conducting a liquidation proceeding. The resolution entered into force on 1 April 2015. An application for removing the company from the register was submitted to the National Court Register on 5 November 2015.

[6] – On 5 September 2016, an agreement concerning the sales of shares in Szpital Uzdrowiskowy ENERGETYK Sp. z o.o. was concluded, on 2 December 2016 there has been a transfer of company's shares to the investor.

[7] – the company that is an indirect subsidiary held througt shares in Enea Operator Sp. z o.o. The company was established on 18 September 2015. 95% of shares were acquired by Enea Operator Sp. z o.o., 5% of shares were acquired by Enea Pomiary Sp. z o.o., on 10 November 2015 Enea Operator Sp. z o.o. purchased from Enea Pomiary Sp. z o.o. 1 share of Centralny System Wymiany Informacji Sp. z o.o. (CSWI), which resulted in Enea Operator sp. z o.o. becoming owner of 100% shares in CSWI.

On 9 December 2015, an agreement concerning the sales of shares was concluded by and between Enea Operator Sp. z o.o. and 4 distribution companies (RWE STOEN, ENERGA – OPERATOR, PGE Dystrybucja, Tauron Dystrybucja). As a result of the transaction, the entities will own 20% shares in the share capital each. The transfer of shares will proceed after obtaining consent from the President of the Office for Consumer and Competition Protection

On 23 June 2016, annex 1 to the aforementioned shares disposal agreement was concluded. Pursuant to the amended contractual provisions, the transfer of ownership rights to the shares would be performed on 31 December 2016 at the earliest.

On 8 December 2016, annex 2 to the aforementioned shares disposal agreement was concluded. Pursuant to the amended contractual provisions, the transfer of ownership rights to the shares would be performed on 30 June 2017 at the earliest.

[8] – On 19 October 2016, PGE Polska Grupa Energetyczna, ENERGA, Enea and Tauron Polska Energia appointed ElectroMobility Poland. The activity of the new company is to contribute to the development of an electric mobility system in Poland. On 7 December 2016, the company was registered in the National Court Register.

(all amounts in PLN '000, unless specified otherwise)

5. Segment reporting

The management of the Company's activities is conducted by division of operations into segments, which are separated based on types of products and services offered. The Group has five operating segments:

- trade – purchase and sale of electricity,
- distribution – electricity transmission services,
- production – electricity and heat production,
- mining - production and sale of coal, companies supporting the activities of the mine,
- other activities - maintenance and modernization of road lighting equipment, transport, construction services, travel services, health care services.

Segment revenue is generated from sales to external clients and transactions with other segments, which are directly attributable to a given segment. In 2016 in the mining segment, customers whose share in sales exceeded 10% of the total revenue was ENGIE Energia Polska (22%). Segment costs include costs of goods sold to external clients and costs of transactions with other Group segments, which result from operations of a given segment and may be directly allocated to a given segment.

Market prices are used in inter-segment transactions, which allow individual units to earn a margin sufficient to carry out independent operations in the market. EBITDA is defined as operating loss/profit decreased by depreciation and impairment loss on non-financial non-current assets.

Information about geographical areas

The Group's operations were conducted during 2016 and 2015 in one geographical area i.e. on the territory of Poland.

(all amounts in PLN '000, unless specified otherwise)

Financial Results by Segments:

(a) Segment reporting for the period from 1 January to 31 December 2016:

	Trade	Distribution	Production	Mining	All other activities	Eliminations	Total
Net sales revenue	6 248 669	3 031 528	843 330	965 990	166 161	-	11 255 678
Inter-segment sales	930 097	52 350	2 466 984	819 991	367 740	(4 637 162)	-
Total net sales revenue	**7 178 766**	**3 083 878**	**3 310 314**	**1 785 981**	**533 901**	**(4 637 162)**	**11 255 678**
Total expenses	(7 025 563)	(2 452 271)	(3 131 563)	(1 544 792)	(534 648)	4 605 677	(10 083 160)
Segment profit/loss	**153 203**	**631 607**	**178 751**	**241 189**	**(747)**	**(31 485)**	**1 172 518**
Depreciation	(793)	(479 720)	(247 931)	(363 238)	(28 260)		
Impairment loss on non-financial non-current assets	-	-	(90 808)	(7 352)	-		
EBITDA	**153 996**	**1 111 327**	**517 490**	**611 779**	**27 513**		
% of net sales revenue	**2.2%**	**36.0%**	**15.6%**	**34.3 %**	**5.2%**		
Unassigned Group costs (general and administrative expenses)							(53 204)
Operating profit							**1 119 314**
Finance cost							(127 010)
Finance income							76 350
Dividend income							148
Income tax							(219 889)
Net profit							**848 913**
Share of non-controlling interests							64 520

(all amounts in PLN '000, unless specified otherwise)

Financial Results by Segments:

(b) Segment reporting for the period from 1 January to 31 December 2015:

	Trade	Distribution	Production	Mining	All other activities	Eliminations	Total
Net sales revenue	5 300 931	3 000 392	1 127 204	226 676	193 189	-	9 848 392
Inter-segment sales	631 119	69 089	2 404 255	135 904	355 967	(3 596 334)	-
Total net sales revenue	**5 932 050**	**3 069 481**	**3 531 459**	**362 580**	**549 156**	**(3 596 334)**	**9 848 392**
Total expenses	(5 806 738)	(2 367 422)	(4 436 926)	(246 914)	(549 497)	3 538 719	(9 868 778)
Segment profit/loss	**125 312**	**702 059**	**(905 467)**	**115 666**	**(341)**	**(57 615)**	**(20 386)**
Depreciation	(783)	(436 823)	(299 255)	(40 441)	(19 593)		
Impairment loss on non-financial non-current assets	-	-	(1 501 621)	-	-		
EBITDA	**126 095**	**1 138 882**	**895 409**	**156 107**	**19 252**		
% of net sales revenue	**2.1%**	**37.1%**	**25.4%**	**43.1 %**	**3.5%**		
Unassigned Group costs (general and administrative expenses)							(47 739)
Settlement of pre-existing relationship related to acquisition							(94 000)
Operating loss							**(162 125)**
Finance cost							(81 751)
Finance income							84 497
Impairment loss on goodwill*							(251 432)
Dividend income							1 833
Income tax							10 100
Net loss							**(398 878)**
Share of non-controlling interests							35 979

* Impairment loss on goodwill relates to the production and mine segment

(all amounts in PLN '000, unless specified otherwise)

Other segment reporting information as at 31 December 2016 and for the 12-month period ended as at that date:

	Trade	Distribution	Production	Mining	All other activities	Eliminations	Total
Property, plant and equipment	15 762	7 886 676	7 802 643	2 760 196	313 404	(409 966)	18 368 715
Trade and other receivables	983 072	505 957	486 950	242 258	115 628	(548 538)	1 785 327
Total	998 834	8 392 633	8 289 593	3 002 454	429 032	(958 504)	20 154 042
ASSETS excluded from segmentation							4 382 477
- including property, plant and equipment							13 783
- including trade and other receivables							69 851
TOTAL: ASSETS							**24 536 519**
Trade and other liabilities	390 417	347 056	346 744	273 016	206 956	(458 739)	1 105 450
Equity and liabilities excluded from segmentation							23 431 069
- including trade and other liabilities							84 523
TOTAL: EQUITY AND LIABILITIES							**24 536 519**
for the 12-month period ended 31 December 2016							
Capital expenditure for tangible and intangible fixed assets	1 212	923 929	1 382 682	306 620	71 552	(27 013)	2 658 982
Capital expenditure for tangible and intangible fixed assets excluded from segmentation							-
Depreciation and amortization	793	479 720	247 931	363 238	28 260	(11 402)	1 108 540
Depreciation and amortization excluded from segmentation							1 810
Recognition/(derecognition/utilization) of receivables allowance	3 534	3 198	1 876	5 090	(1 121)	745	13 322

(all amounts in PLN '000, unless specified otherwise)

Other segment reporting information as at 31 December 2015 and for the 12-month period ended as at that date:

	Trade	Distribution	Production	Mining	All other activities	Eliminations	Total
Property, plant and equipment	18 521	7 486 881	6 766 080	2 889 367	289 240	(387 861)	17 062 228
Trade and other receivables	911 560	453 446	401 867	232 143	105 722	(474 767)	1 629 971
Total	930 081	7 940 327	7 167 947	3 121 510	394 962	(862 628)	18 692 199
ASSETS excluded from segmentation							4 296 797
- including property, plant and equipment							12 750
- including trade and other receivables							131 096
TOTAL: ASSETS							**22 988 996**
Trade and other liabilities	229 234	429 474	473 841	197 420	209 924	(429 126)	1 110 767
Equity and liabilities excluded from segmentation							21 878 229
- including trade and other liabilities							129 080
TOTAL: EQUITY AND LIABILITIES							**22 988 996**
for the 12-month period ended 31 December 2015							
Capital expenditure for tangible and intangible fixed assets	2 079	925 146	1 953 791	49 244	55 416	(34 740)	2 950 936
Capital expenditure for tangible and intangible fixed assets excluded from segmentation							-
Depreciation and amortization	783	436 823	299 255	40 441	19 593	(10 439)	786 456
Depreciation and amortization excluded from segmentation							3 919
Recognition/(derecognition/utilization) of receivables allowance	(1 537)	1 975	(6 555)	1 439	(1 596)	(4)	(6 278)

(all amounts in PLN '000, unless specified otherwise)

6. Impairment test (property, plant and equipment)

In the fourth quarter of 2016, due to the information and analyses possessed regarding, among others, change in the market prices of electricity, energy origin certificates, and a modification of forecasts of macroeconomic ratios, the Group carried out impairment tests on non-current assets in energy production. As a result of the tests, the Group recognized an impairment loss on assets in cash generating units (CGU) tested. The Group performed impairment tests on the following CGUs: Major Power Plant (production assets of Enea Wytwarzanie Sp. z o.o. located in Świerże Górne), Białystok (production assets of Enea Wytwarzanie Sp. z o.o. located in Białystok including assets of its subsidiaries: MPEC and PEC Zachód, in the same location, determined as one CGU due to close economic relations), Wind (wind farms of Enea Wytwarzanie Sp. z o.o.), Water (hydroelectric power plants of Enea Wytwarzanie Sp. z o.o.) and Biogas (biogas plants of Enea Wytwarzanie Sp. z o.o.).

The recoverable amount of individual CGUs was determined at the value in use based on the discounted cash flows resulting from financial projections. Periods of projection for each cash generating unit:

- CGU Major Power Plant – till 2039,
- CGU Białystok – till 2039,
- CGU Wind:
  - Wind Farm Darżyno till 2035,
  - Wind Farm Bardy till 2036,
  - Wind Farm Baczyna till 2039,
- CGU Water – till 2039,
- CGU Biogas – till 2023.

According to the Group, the key assumptions are consistent with the general indicators from external sources of information, considering the specific product offer of the Group, the current experiences and actual events and business activities.

The main assumptions adopted for impairment tests are presented below:

- assets were tested as five cash generating units (i.e. CGU Major Power Plant , CGU Białystok, CGU Wind, CGU Water and CGU Biogas),
- price trends, based on forecasts prepared by Enea Trading (the company acting as a competence center in Enea Group in wholesale of electricity and fuels), considering the specific product offer and knowledge of concluded contracts:
- wholesale electricity prices for 2017-2039, which are anticipated to rise,
- prices of energy origin certificates from renewable sources and cogeneration, the existence of a support system for RES beyond 2025 as well as the existence of a support system for high-efficiency cogeneration till 2018,
- prices of CO2 emission rights, which are anticipated to rise,
- coal prices, which are anticipated to rise in the entire period of forecast,
- adoption of free-of-charge rights to CO2 emissions received for 2015-2020 according to the application for the grant of free-of-charge emission rights (pursuant to art 10c sec. 5 of Directive 2003/87/EC of the European Parliament and of the Council),

- consideration of the capital investment regarding the construction of power unit No. 11 at the CGU Major Power Plant,
- consideration of regulatory changes in terms of revenues related to introduction of capacity market as of 2022. As of the date of the financial statements, work on a Capacity Market in Poland is underway, traders performed an analysis and adopted the above assumptions according to the best knowledge. Adoption of such assumption seems justified due to its electricity prices and the necessary changes in the regulatory environment. There is a risk that the final effective term and regulatory mechanism can be significantly different from that assumed by the Group,
- consideration of a specific risk premium for the CGU Major Power Plant at 1.5% (risk associated with the estimates of Capacity Market), for CGU Białystok at 1.5% (in relation to the assumptions regarding the support for new units replacing existing ones),
- adoption of assumptions regarding inflation, considering the inflation target at maximum level of 2.5%.

	Białystok	Biogas	Wind	Water	Major Power Plant
Financal projections	Nominal	Nominal	Nominal	Nominal	Nominal
Discount rate (after tax)	6.82%	6.09%	6.09%	6.09%	6.82%
Growth rate in residual period	0.0%	0.0%	0.0%	0.0%	0.0%

In the comparative period (2015) the following discount rates and growth rates in the residual period were assumed:

	Białystok	Wind	Water	Major Power Plant
Financal projections	Real	Real	Real	Nominal
Discount rate (after tax)	7.2%	6.8%	6.4%	7.1%
Growth rate in residual period	0.0%	0.0%	0.0%	2.0%

The results of the tests carried out were as follows:

CGU [PLN thousand]	Recoverable amount	Impairment loss
CGU Major Power Plant	6 139 896	none
CGU Białystok	671 627	none
CGU Wind	274 353	(48 985)
CGU Water	176 184	none
CGU Biogas	0	none*

* due to non-material value of this CGUs assets (PLN 1 134 thousand) and taking under consideration restructuring the impairment loss has not to been recognized

(all amounts in PLN '000, unless specified otherwise)

Sensitivity analysis

The sensitivity analysis performed indicates that the key assumptions affecting the determination of value in use of cash generating units include, among others: discount rates, inflation, electricity prices and Capacity Market. Future financial results and, consequently, the value in use of cash generating units will be also affected by the levels of prices of energy origin certificates, CO2 emissions rights and coal prices.

The impact of key assumptions on recoverable amount is presented below:

Impact of change in discount rate

Change in assumptions	-0.5 p.p.	*Initial amount*	+0.5 p.p.
Change in recoverable amount	**625 190**	**7 262 060**	**(479 881)**

Impact of change in inflation from 2020 (initial 2.5%)

Change in assumptions	-0.5 p.p.	*Initial amount*	+0.5 p.p.
Change in recoverable amount	**(551 494)**	**7 262 060**	**671 483**

Impact of change in energy prices

Change in assumptions	-1.0 p.p.	*Initial amount*	+1.0 p.p.
Change in recoverable amount	**(515 721)**	**7 262 060**	**589 964**

The impact of changes revenue from Capacity Market

Change in assumptions	-10.0 p.p.	*Initial amount*	+10.0 p.p.
Change in recoverable amount	**(401 604)**	**7 262 060**	**407 081**

(all amounts in PLN '000, unless specified otherwise)

7. Property, plant and equipment

(a) 2016

	Land	Buildings and structures	including excavation	Technical equipment and machines	Vehicles	Other fixed assets	Fixed assets under construction	Total
Balance as at 1 January 2016								
Cost	92 573	12 020 514	1 042 951	8 404 091	252 460	545 665	4 745 900	26 061 203
Accumulated depreciation		(3 908 052)	(12 498)	(3 121 598)	(86 859)	(333 670)	(2 656)	(7 452 835)
Impairment loss	(1 703)	(269 775)	-	(467 430)	(1 099)	(2 587)	(790 796)	(1 533 390)
Net carrying amount	**90 870**	**7 842 687**	**1 030 453**	**4 815 063**	**164 502**	**209 408**	**3 952 448**	**17 074 978**
Changes in the 12 months ended 31 December 2016								
Reclassifications	5 437	968 405	141 415	637 835	25 363	36 579	(1 722 682)	(49 063)
Acquisition	-	4 944	-	1 866	4 693	1 638	2 567 616	2 580 757
Disposal (cost)	(861)	(3 738)	-	(1 900)	(4 313)	(260)	(89)	(11 161)
Disposal (accumulated depreciation)	-	2 924	-	1 273	4 117	276	-	8 590
Depreciation	-	(596 391)	(184 986)	(426 114)	(21 594)	(41 500)	-	(1 085 599)
Impairment loss (-)*	(502)	(57 380)	-	(91 083)	7	(122)	52 443	(96 637)
Reclassifications to non-current assets held for sale (cost)	-	(13)	-	(896)	(21)	-	-	(930)
Reclassifications to investment property (cost)	(40)	(3 432)	-	(107)	-	(149)	(4 646)	(8 374)
Reclassifications to investment property (accumulated depreciation)	-	102	-	4	-	6	-	112
Liquidation (cost)	(122)	(107 967)	(23 701)	(30 529)	(1 798)	(915)	-	(141 331)
Liquidation (accumulated depreciation)	-	77 785	7 962	25 878	1 634	895	-	106 192
Other (cost)	(9)	1 406	(304)	1 386	560	(5)	(5 569)	(2 231)
Other (accumulated depreciation)	-	6 810	-	782	(13)	(384)	-	7 195
Balance as at 31 December 2016								
Cost	96 978	12 880 119	1 160 361	9 011 746	276 944	582 553	5 580 530	28 428 870
Accumulated depreciation	-	(4 416 822)	(189 522)	(3 519 775)	(102 715)	(374 377)	(2 656)	(8 416 345)
Impairment loss	(2 205)	(327 155)	-	(558 513)	(1 092)	(2 709)	(738 353)	(1 630 027)
Net carrying amount	**94 773**	**8 136 142**	**970 839**	**4 933 458**	**173 137**	**205 467**	**4 839 521**	**18 382 498**

* Information on the results of impairment tests conducted in Q4 2016 and on the respective impairment losses is shown in Note 6. The impairment loss on property, plant and equipment was disclosed under "Impairment loss on non-financial non-current assets" line in the profit or loss.

(all amounts in PLN '000, unless specified otherwise)

(b) 2015

	Land	Buildings and structures	including excavation	Technical equipment and machines	Vehicles	Other fixed assets	Fixed assets under construction	Total
Balance as at 1 January 2015								
Cost	83 645	9 719 323	-	6 707 142	190 298	493 535	3 242 313	20 436 256
Accumulated depreciation	(1 073)	(3 547 257)	-	(2 820 499)	(85 719)	(304 197)	(2 656)	(6 761 401)
Impairment loss	(265)	(37 968)	-	(12 010)	(8)	(199)	(6 463)	(56 913)
Net carrying amount	**82 307**	**6 134 098**	**-**	**3 874 633**	**104 571**	**189 139**	**3 233 194**	**13 617 942**
Changes in the 12 months ended 31 December 2015								
Reclassifications	2 795	795 039	21 484	774 946	31 943	46 694	(1 729 487)	(78 070)
Acquisition	-	1 509	-	31 443	2 884	2 073	2 892 207	2 930 116
Disposal (cost)	(114)	(2 361)	-	(4 533)	(6 311)	(2 040)	(129)	(15 488)
Disposal (accumulated depreciation)	-	1 141	-	4 000	4 871	1 607	-	11 619
Depreciation	-	(395 145)	(15 525)	(321 820)	(13 397)	(33 672)	-	(764 034)
Impairment loss (-)	(1 438)	(231 807)	-	(455 420)	(1 091)	(2 388)	(784 333)	(1 476 477)
Discontinued investments	-	-	-	-	-	-	(8 569)	(8 569)
Acquisition of subsidiaries	5 820	1 554 048	1 025 713	914 193	40 928	9 023	354 024	2 878 036
Reclassifications to non-current assets held for sale (cost)	-	(22 474)	-	(3 122)	(137)	(2 274)	(296)	(28 303)
Reclassifications to non-current assets held for sale (accumulated depreciation)	-	3 012	-	1 861	137	1 878	-	6 888
Reclassifications to investment property (cost)	-	(1 635)	-	-	-	-	-	(1 635)
Reclassifications to investment property (accumulated depreciation)	-	251	-	-	-	-	-	251
Liquidation (cost)	(501)	(44 589)	(4 246)	(19 837)	(7 185)	(1 293)	-	(73 405)
Liquidation (accumulated depreciation)	-	35 064	3 027	18 136	7 074	1 476	-	61 750
Other (cost)	928	21 654	-	3 859	40	(53)	(4 163)	22 265
Other (accumulated depreciation)	1 073	(5 118)	-	(3 276)	175	(762)	-	(7 908)
Balance as at 31 December 2015								
Cost	92 573	12 020 514	1 042 951	8 404 091	252 460	545 665	4 745 900	26 061 203
Accumulated depreciation	-	(3 908 052)	(12 498)	(3 121 598)	(86 859)	(333 670)	(2 656)	(7 452 835)
Impairment loss	(1 703)	(269 775)	-	(467 430)	(1 099)	(2 587)	(790 796)	(1 533 390)
Net carrying amount	**90 870**	**7 842 687**	**1 030 453**	**4 815 063**	**164 502**	**209 408**	**3 952 448**	**17 074 978**

Collaterals established on the Group's property, plant and equipment are disclosed in Note 17.

(all amounts in PLN '000, unless specified otherwise)

Finance lease

The Group uses the following property, plant and equipment under finance lease:

	31.12.2016			31.12.2015		
	Initial cost	Accumulated depreciation	Net carrying amount	Initial cost	Accumulated depreciation	Net carrying amount
Technical equipment and machines	608	(326)	282	1 530	(723)	807
Vehicles	6 282	(1 146)	5 136	4 302	(1 068)	3 234
Total	**6 890**	**(1 472)**	**5 418**	**5 832**	**(1 791)**	**4 041**

The Group does not enter into finance lease agreements as a financing party.

8. Perpetual usufruct of land

	31.12.2016	31.12.2015
Cost opening balance	**91 214**	**81 577**
Acquisition	2 101	427
Disposal (cost)	(722)	(173)
Acquisition of subsidiaries	-	5 349
Liquidation (cost)	-	(2 721)
Other	-	6 755
Cost closing balance	**92 593**	**91 214**
Opening balance of depreciation	**(4 944)**	**(4 072)**
Disposal (accumulated depreciation)	170	141
Depreciation	(1 019)	(991)
Liquidation (accumulated depreciation)	-	54
Other (accumulated depreciation)	4	(76)
Closing balance of depreciation	**(5 789)**	**(4 944)**
Opening balance of impairment	(12 110)	(224)
Closing balance of impairment	(11 905)	(12 110)
Net carrying amount opening balance	**74 160**	**77 281**
Net carrying amount closing balance	**74 899**	**74 160**

(all amounts in PLN '000, unless specified otherwise)

9. Intangible assets

(a) 2016

Balance as at 1 January 2016	Research and development expenses	Goodwill	Computer software, licenses, concessions and patents	Easement rights	Customer relations	Geological information	Total
Cost opening balance	3 893	229 323	416 239	32 906	16 000	13 222	711 583
Accumulated amortization	(404)	-	(187 696)	(2 078)	(16 000)	(129)	(206 307)
Impairment loss	-	(227 517)	(5 275)	(368)	-	-	(233 160)
Net carrying amount opening balance	**3 489**	**1 806**	**223 268**	**30 460**		**13 093**	**272 116**
Changes in 12 months ended 31 December 2016							
Reclassifications	-	-	45 529	-	-	-	45 529
Acquisition	702	-	36 873	13 046	-	27 604	78 225
Disposal (cost)	-	-	(81)		-	-	(81)
Disposal (accumulated amortization)	-	-	81	-	-	-	81
Amortization	(426)	-	(21 563)	(1 509)		(527)	(24 025)
Impairment loss*	-		(766)	(443)	-	-	(1 209)
Liquidation (cost)	-	-	(260)	-	-	-	(260)
Liquidation (accumulated amortization)	-	-	260	-	-	-	260
Other	-	-	1 223	5	-	-	1 228
Other (accumulated amortization)	-	-	(1 226)	-	-	-	(1 226)
Balance as at 31 December 2016							
Cost closing balance	4 595	229 323	499 523	45 957	16 000	40 826	836 224
Accumulated amortization	(830)	-	(210 144)	(3 587)	(16 000)	(656)	(231 217)
Impairment loss	-	(227 517)	(6 041)	(811)	-	-	(234 369)
Net carrying amount closing balance	**3 765**	**1 806**	**283 338**	**41 559**	**-**	**40 170**	**370 638**

* Information on the results of impairment tests conducted in Q4 2016 and on the respective impairment losses is shown in Note 6. The impairment loss on intangible assets was disclosed under "Impairment loss on non-financial non-current assets" line in the profit or loss.

(all amounts in PLN '000, unless specified otherwise)

(b) 2015

Balance as at 1 January 2015	Research and development expenses	Goodwill	Computer software, licenses, concessions and patents	Easement rights	Customer relations	Geological information	Total
Cost opening balance	3 375	229 323	328 933	22 865	16 000	-	600 496
Accumulated amortization	(424)	-	(168 528)	(1 258)	(13 792)	-	(184 002)
Impairment loss	-	(26 315)	(218)	-	-	-	(26 533)
Net carrying amount opening balance	**2 951**	**203 008**	**160 187**	**21 607**	**2 208**	**-**	**389 961**
Changes in 12 months ended 31 December 2015							
Reclassifications	38	-	63 003	9 961	-	-	73 002
Acquisition	-	-	20 538	282	-	-	20 820
Disposal (cost)	(214)	-	(64)	(17)	-	-	(295)
Disposal (accumulated amortization)	214	-	81	-	-	-	295
Amortization	(117)	-	(19 787)	(971)	(2 208)	(129)	(23 212)
Impairment loss	-	(201 202)	(5 057)	(368)	-	-	(206 627)
Acquisition of subsidiaries	-	-	4 979	-	-	13 222	18 201
Liquidation (cost)	-	-	(445)	-	-	-	(445)
Liquidation (accumulated amortization)	-	-	430	-	-	-	430
Other	694	-	(705)	(185)	-	-	(196)
Other (accumulated amortization)	(77)	-	108	151	-	-	182
Balance as at 31 December 2015							
Cost closing balance	3 893	229 323	416 239	32 906	16 000	13 222	711 583
Accumulated amortization	(404)	-	(187 696)	(2 078)	(16 000)	(129)	(206 307)
Impairment loss	-	(227 517)	(5 275)	(368)	-	-	(233 160)
Net carrying amount closing balance	**3 489**	**1 806**	**223 268**	**30 460**	**-**	**13 093**	**272 116**

No collateral has been established on intangible assets.

(all amounts in PLN '000, unless specified otherwise)

10. Goodwill

Goodwill has been presented in detail in the table below:

	Period ended 31.12.2016	Period ended 31.12.2015
Goodwill		
Opening balance	1 806	203 008
Impairment loss recognized during the year	-	(201 202)
Closing balance	**1 806**	**1 806**

As at 31 December 2016 and 2015 goodwill related to Miejska Energetyka Cieplna Piła Sp. z o.o.

11. Investment property

	31.12.2016	31.12.2015
Cost opening balance	**25 252**	**31 921**
Reclassifications	3 664	1 635
Acquisition	4 646	-
Disposal (cost)	(160)	-
Sale of investment property	-	(7 017)
Other	-	(1 287)
Cost closing balance	**33 402**	**25 252**
Opening balance of accumulated depreciation	**(3 754)**	**(3 894)**
Depreciation for the period	(1 130)	(763)
Reclassification (accumulated depreciation)	(112)	251
Other (accumulated depreciation)	488	652
Closing balance of accumulated depreciation	**(4 508)**	**(3 754)**
Opening balance of impairment loss	(874)	(4 596)
Impairment loss (-)	-	3 722
Closing balance of impairment loss	**(874)**	**(874)**
Net carrying amount opening balance	**20 624**	**23 431**
Net carrying amount closing balance	**28 020**	**20 624**

No collateral has been established on investment property.

The income and expenses realized from investment property has beed presented below:

	31.12.2016	31.12.2015
Revenue from investment property	5 408	6 811
Operating costs related to investment property:	(4 264)	(4 859)

The Group recognizes as investment properties among others office buildings and other commercial properties.

(all amounts in PLN '000, unless specified otherwise)

The most valuable investment property is Enea S.A. former headquarter building, net carrying amount of PLN 9 119 thousand. The Group estimates fair value of this property at PLN 18 162 thousand.

12. Investments in subsidiaries and jointly controlled entities

	31.12.2016	31.12.2015
Opening balance	748	-
Acquisition	1 770	748
Closing balance	**2 518**	**748**

PGE Polska Grupa Energetyczna, ENERGA, Enea and Tauron Polska Energia established on 19 October 2016 ElectroMobility Poland. The activity of the new company is aimed at contributing to creating an electric mobility system in Poland.

The new company's share capital amounts PLN 10 million. Each company engaged in establishing ElectroMobility Poland acquired 25% of the capital stock, which entitled each of the companies to 25% of votes at the General Meeting of Shareholders.

(all amounts in PLN '000, unless specified otherwise)

13. Non-controlling interests

(a) 2016

Subsidiary name	Miejska Energetyka Cieplna Piła Sp. z o.o.	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Oborniki	Annacond Enterprises Sp. z o.o.	Miejskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.	Grupa Kapitałowa Lubelski Wegiel Bogdanka S.A.	**Total non-controlling interests**
Non-controlling interests (%)	**28.89%**	**0.07%**	**39.00%**	**8.98%**	**34.01%**	
Non-current assets	83 889	11 560	(2 844)	280 725	2 951 333	
Current assets	27 706	3 561	49	76 501	858 474	
Non-current liabilities	(16 634)	(2 140)	-	(59 259)	(1 047 899)	
Current liabilities	(15 774)	(1 704)	-	(46 804)	(435 039)	
Net assets	**79 187**	**11 277**	**(2 795)**	**251 163**	**2 326 869**	
Book value of non-controlling interests	**22 877**	**8**	**(1 090)**	**22 554**	**791 368**	**835 717**
Sales revenue	58 677	6 668	-	243 530	1 785 981	
Net profit/ (loss) for the reporting period	5 153	55	(1 152)	17 339	181 229	
Total comprehensive income	5 135	67	(1 152)	17 488	174 935	
Profit / (Loss) attributable to non-controlling interests	**1 535**	**-**	**(478)**	**1 557**	**61 906**	**64 520**
Net cash flow from operating activities	10 143	1 492	(373)	22 532	678 945	
Net cash flow from investing activities	(3 002)	(1 795)	-	(14 842)	(290 011)	
Net cash flow from financing activities	(5 086)	912	384	(7 219)	(111 358)	
Net cash flows	**2 055**	**609**	**11**	**471**	**277 576**	

(all amounts in PLN '000, unless specified otherwise)

(b) 2015

Subsidiary name	Miejska Energetyka Cieplna Piła Sp. z o.o.	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Obornikach	Annacond Enterprises Sp. z o.o.	Miejskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.	Grupa Kapitałowa Lubelski Wegiel Bogdanka S.A.	**Total non-controlling interests**
Non-controlling interests (%)	**28.89%**	**0.09%**	**39.00%**	**13.64%**	**34.01%**	
Non-current assets	82 310	10 747	(1 603)	283 040	3 147 312	
Current assets	24 215	2 977	34	68 534	628 478	
Non-current liabilities	(19 453)	(2 630)	-	(67 879)	(1 233 720)	
Current liabilities	(13 202)	(1 360)	(1)	(45 310)	(390 925)	
Net assets	**73 870**	**9 734**	**(1 570)**	**238 385**	**2 151 145**	
Book value of non-controlling interests	**21 341**	**9**	**(612)**	**32 516**	**731 604**	**784 858**
Sales revenue	52 526	6 377	-	225 275	362 580	
Net profit/ (loss) for the reporting period	4 842	215	(1 209)	19 520	50 197	
Total comprehensive income	4 786	215	(1 209)	19 635	46 029	
Profit / (Loss) attributable to non-controlling interests	**1 455**	**-**	**(507)**	**2 663**	**32 368**	**35 979**
Net cash flow from operating activities	7 655	1 256	(430)	49 117	146 428	
Net cash flow from investing activities	(10 739)	(1 544)	-	(39 188)	(57 047)	
Net cash flow from financing activities	(623)	(484)	384	14 014	(52 637)	
Net cash flows	**(3 707)**	**(772)**	**(46)**	**23 943**	**36 744**	

(all amounts in PLN '000, unless specified otherwise)

14. Non-current assets held for sale

	31.12.2016	31.12.2015
Tangible fixed assets	4 330	25 108
Deferred tax assets	-	729
Non-current assets held for sale (gross)	**4 330**	**25 837**
Impairment loss	-	(6 597)
Non-current assets held for sale	**4 330**	**19 240**
Loans, borrowings and debt securities	-	4 300
Liabilities related to non-current assets held for sale	**-**	**4 300**

As at 31 December 2015 assets of Szpital Uzdrowiskowy ENERGETYK Sp. z o.o. are presented as non-current assets held for sale and liabilities of that company as liabilities related to assets held for sale. On the basis of a resolution of the Management Board of Enea S.A. No. 40/2016 dated 24 February 2016 the Company commenced proceedings related to the sale of shares in Szpital Uzdrowiskowy ENERGETYK Sp. z o.o. in a public invitation to negotiations. As a result of the proceeding on 5 September 2016 the shares sale agreement of Szpital Uzdrowiskowy ENERGETYK Sp. z o.o. was concluded, and on 2 December 2016 the shares of the company were transferred to the new owner. Therefore, the sale of shares of Szpital Uzdrowiskowy ENERGETYK Sp. z o.o. was completed.

The amount of PLN 4 330 thousand presented in the statement of financial position concerns wagons and assets of Zakład Ceramiki Budowlanej in LWB.

15. Financial assets

The table below presents only financial assets.

	31.12.2016	31.12.2015
Receivables and borrowings	7 399	3 807
Non-current financial assets available for sale (shares in third parties)	42 482	23 982
Non-current financial assets measured at fair value through profit or loss	112	-
Derivatives	40 267	844
Cash deposits at Mine Closure Fund	111 218	90 872
Total non-current financial assets	**201 478**	**119 505**
Receivables and borrowings	1 427 954	1 419 654
Current financial assets held to maturity	478	479
Current financial assets measured at fair value through profit or loss	4 852	222 011
Cash and cash equivalents	2 340 217	1 822 094
Total current financial assets	**3 773 501**	**3 464 238**
Total	**3 974 979**	**3 583 743**

(all amounts in PLN '000, unless specified otherwise)

16. Trade and other receivables

	31.12.2016	31.12.2015
Current trade and other receivables		
Trade receivables	1 207 995	1 293 484
Tax receivables (excluding income tax) and other similar charges	93 886	79 583
Other receivables	81 458	138 178
Advance payments	210 216	91 097
Receivables due to uninvoiced sales	349 442	242 331
Prepaid property insurance	10 974	4 232
	1 953 971	1 848 905
Less: impairment loss on receivables	(129 483)	(116 161)
Net current trade and other receivables	**1 824 488**	**1 732 744**

Non-current trade and other receivables	**31.12.2016**	**31.12.2015**
Non-current trade receivables	7 399	3 807
Other receivables	23 291	24 516
Net non-current trade and other receivables	**30 690**	**28 323**

Trade and other receivables allowance:

	31.12.2016	31.12.2015
Opening balance of receivables allowance	116 161	122 439
Addition	25 977	32 942
Release	(1 744)	(2 542)
Utilization	(10 911)	(36 678)
Closing balance of receivables allowance	**129 483**	**116 161**

(all amounts in PLN '000, unless specified otherwise)

Ageing structure of trade and other receivables (financial instruments only):

31.12.2016	Nominal value	Allowance (-)	Book value
Current	1 264 572	(6 038)	1 258 534
Overdue	300 264	(123 445)	176 819
0-30 days	74 706	(19)	74 687
31- 90 days	28 734	(216)	28 518
91-180 days	11 014	(2 190)	8 824
over 180 days	185 810	(121 020)	64 790
TOTAL	**1 564 836**	**(129 483)**	**1 435 353**

31.12.2015	Nominal value	Allowance (-)	Book value
Current	1 251 682	(3 345)	1 248 337
Overdue	287 940	(112 816)	175 124
0-30 days	88 780	(317)	88 463
31- 90 days	22 980	(626)	22 354
91-180 days	11 318	(2 906)	8 412
over 180 days	164 862	(108 967)	55 895
TOTAL	**1 539 622**	**(116 161)**	**1 423 461**

17. Encumbrances and collaterals established on the Group's assets

Property, plant and equipment with limited ownership of the Group and classified as collateral of liabilities:

Entity's name	Collateral title	Type of collateral	Entity for which the collateral has been established	Indebtedness as at 31 Dec 2016	Indebtedness as at 31 Dec 2015	Collateral period
Szpital Uzdrowiskowy „Energetyk"	Borrowing colleteral	Capped mortgage up to PLN 8 450 thousand, registered pledge	Siemens Finance Sp. z o.o.	-	4 029	30 September 2020

(all amounts in PLN '000, unless specified otherwise)

Other collaterals, including those related to loans and borrowings presented in the preceding table.

No	Entity's name	Collateral title	Type of collateral	Entity for which the collateral has been established	Indebtedness as at 31.12.2016	Indebtedness as at 31.12.2015	Collateral period
1.	**Enea Serwis**	Claims arising from the contract on purchase of products and services secured with Fleet Cards	Blank promissory note	**PKN Orlen S.A.**	229	202	unlimited
2.	**Enea Serwis**	Collateral for tender quarantee	Blank promissory note	**PZU S.A.**	-	458	21 July 2016
3.	**Enea Serwis**	Contract insurance quarantee	Blank promissory note	**TUiR Allianz Polska S.A.**	-	3 128	20 November 2016
4.	**Szpital Uzdrowiskowy „Energetyk"**	Borrowing colleteral	Blank promissory note	**Siemens Finance Sp. z o.o.**	-	4 029	30 September 2020
5.	**Enea Logistyka**	Collateral for lease contracts	Assets under lease agreement	**M Leasing Sp. z o.o.**	-	-	21 January 2017
6.	**PEC Oborniki**	Borrowing colleteral	Blank promissory note, assignment of receivables	**WFOŚiGW**	1 764	1 965	20 June 2023
7.	**PEC Oborniki**	Borrowing colleteral	Blank promissory note, assignment of receivables	**WFOŚiGW**	353	555	20 March 2018
8.	**Enea Wytwarzanie**	Borrowing colleteral	Blank promissory note	**NFOŚiGW**	8 269	12 972	30 September 2018
9.	**Enea Wytwarzanie**	Borrowing colleteral	Blank promissory note, assignment of receivables from power sales contract	**NFOŚiGW**	-	-	20 December 2023
10.	**Enea Wytwarzanie**	Borrowing colleteral	Blank promissory note	**NFOŚiGW**	19 106	-	20 December 2026
11.	**MPEC Białystok**	Investment loan	Blank promissory note	**PKO BP S.A.**	4 778	5 647	30 June 2024
12.	**MPEC Białystok**	Investment loan	Blank promissory note	**ING Bank Śląski S.A.**	5 769	6 718	12 November 2026
13.	**MPEC Białystok**	Borrowing colleteral	Blank promissory note, assignment of receivables from power sales contract	**WFOŚiGW**	-	155	31 March 2017
14.	**MPEC Białystok**	Borrowing colleteral	Blank promissory note, assignment of receivables from power sales contract	**WFOŚiGW**	313	636	30 April 2017
15.	**MPEC Białystok**	Collateral for lease contracts	Blank promissory note	**Europejski Fundusz Leasingowy S.A.**	273	382	31 January 2017
16.	**LW Bogdanka**	Borrowing colleteral	Blank promissory note, assignment of receivables	**WFOŚiGW**	23 274	21 303	31 July 2024
17.	**LW Bogdanka**	Bond issue program agreement collateral	Assignment of receivables, declaration of submission to enforcement	**Pekao S.A. i BGK**	300 000	400 000	31 December 2023
18.	**LW Bogdanka**	Guarantee collateral contract	Assignment of receivables	**PKO BP S.A.**	-	-	30 September 2021

(all amounts in PLN '000, unless specified otherwise)

No	Entity's name	Collateral title	Type of collateral	Entity for which the collateral has been established	Indebtedness as at 31.12.2016	Indebtedness as at 31.12.2015	Collateral period
19.	**LW Bogdanka**	Bond issue program agreement collateral	Assignment of receivables, declaration of submission to enforcement	**Pekao S.A.**	300 000	300 000	31 December 2021
20.	**LW Bogdanka**	Loan colleteral	Power of attorney for a bank account, assignment of receivables, declaration of submission to enforcement	**mBank S.A.**	-	-	31 December 2019
21.	**MEC Piła**	Borrowing colleteral	Blank promissory note, assignment of receivables	**WFOŚiGW**	6 326	7 701	20 June 2021

(all amounts in PLN '000, unless specified otherwise)

18. CO2 emission rights

Opening balance	**31.12.2016**	**31.12.2015**
Cost	307 521	208 720
Net book value	307 521	208 720
Changes within 12 month period		
Acquisition	382 584	217 681
Redemption of emission rights	(199 695)	(107 456)
Sales	(72 361)	(10 268)
Other changes	(976)	(1 156)
Closing balance		
Cost	417 073	307 521
Net book value	**417 073**	**307 521**

19. Inventories

	31.12.2016	**31.12.2015**
Materials	262 506	407 378
Semi-finished products and work in progress	245	336
Finished products	22 374	42 511
Certificates of energy origin	163 801	195 885
Merchandise	9 042	11 582
Cost	**457 968**	**657 692**
Impairment loss on inventories	(9 027)	(8 183)
Net carrying amount	**448 941**	**649 509**

The Group extracts coal. A portion of the coal is used during production, the remaining coal is sold to the entities that do not belong do the Group. It is not possible to reliably determine what portion of the coal shall be sold, therefore the entire supply was assigned in this table as "Materials".

Inventories expensed during the current year amounted to PLN 1 210 608 thousand and were presented as "Consumption of materials and supplies and costs of goods sold". In 2015, PLN 1 597 024 thousand were recognized as an expense.

No collateral has been established on inventories.

(all amounts in PLN '000, unless specified otherwise)

20. Certificates of energy origin

	31.12.2016	31.12.2015
Net carrying amount opening balance	**196 077**	**201 633**
Self-production	57 307	132 595
Acquisition	308 543	202 520
Redemption of emission rights	(397 934)	(343 575)
Impairment loss (-)	(2 534)	3 580
Other changes	-	(676)
Net carrying amount closing balance	**161 459**	**196 077**

21. Cash and cash equivalents

	31.12.2016	31.12.2015
Cash in hand and at bank	**211 810**	**125 884**
- cash in hand	28	103
- cash at bank	211 782	125 781
Other cash	**2 128 407**	**1 696 210**
-cash in transit	42	89
- deposits	2 111 026	1 674 692
- other	17 339	21 429
Total cash and cash equivalents	**2 340 217**	**1 822 094**
Cash disclosed in the statement of cash flows	**2 340 217**	**1 822 094**

Collaterals established on cash has been disclosed in Note 17.

As at 31 December 2016 the total restricted cash of the Group amounted to PLN 50 668 thousand (as at 31 December 2015 PLN 59 262 thousand).The total restricted cash of the Group comprised transaction deposits related to trading in energy and CO_2 emission rights, deposits received from suppliers and blockade of cash to secure proper execution of works.

(all amounts in PLN '000, unless specified otherwise)

22. Financial assets measured at fair value through profit or loss

	31.12.2016	31.12.2015
Investment portfolio	-	215 488
Other short-term financial assets	4 852	6 523
Other long-term financial assets	112	-
Financial assets measured at fair value through profit or loss	**4 964**	**222 011**

As at 31 December 2016 financial assets measured at fair value through profit or loss comprise the valuation of forward contracts for the purchase of CO2 emission rights in the amount of PLN 4 964 thousand (as at 31 December 2015 PLN 6 523 thousand).

As at 31 December 2015 portfolio of financial instruments managed by a specialized institution amounted to PLN 216 826 thousand and comprised of financial assets measured at fair value through profit or loss - treasury bills and bonds amounting to PLN 215 488 thousand.

23. Equity

Balance as at 31.12.2016

Series of shares	Number of shares	Nominal value per share (in PLN)	Carrying amount
"A" series	295 987 473	1	295 988
"B" series	41 638 955	1	41 639
"C" series	103 816 150	1	103 816
Total number of shares	**441 442 578**		
Total share capital			**441 443**
Share capital (face value)			441 443
Capital from business combination			38 810
Hyperinflation adjustment of share capital			107 765
TOTAL SHARE CAPITAL			**588 018**
Share premium			3 632 464
Retained earnings			7 946 612
Reserve capital from valuation of hedging instruments			33 826
Financial instruments revaluation reserve			744
Other capital			(25 652)
Non-controlling interests			835 717
TOTAL EQUITY			**13 011 729**

(all amounts in PLN '000, unless specified otherwise)

Balance as at 31.12.2015

Series of shares	Number of shares	Nominal value per share (in PLN)	Carrying amount
"A" series	295 987 473	1	295 988
"B" series	41 638 955	1	41 639
"C" series	103 816 150	1	103 816
Total number of shares	**441 442 578**		
Total share capital			**441 443**

Share capital (face value)	441 443
Capital from business combination	38 810
Hyperinflation adjustment of share capital	107 765
TOTAL SHARE CAPITAL	**588 018**
Share premium	3 632 464
Retained earnings	7 158 352
Reserve capital from valuation of hedging instruments	3 980
Financial instruments revaluation reserve	814
Other capital	(45 883)
Non-controlling interests	784 858
TOTAL EQUITY	**12 122 603**

Lubelski Węgiel Bogdanka S.A. launched in 2013 the Management Options Programme. The Programme was launched for the period 2013-2017. Exercise of the options is subject to certain conditions.

As at 31 December 2016, the number of the options granted under the Programme was 1 143 863 and the total value of the Management Stock Options Programme amounted PLN 3 839 thousand (31 December 2015: PLN 13 642 thousand). The number of options vested for years 2013-2014 equal 335 199. In the current period, on the basis of the carried out analyses, the absence of the possibility of achieving of the non-market targets required under the Programme was determined and, as a result, the options worth PLN 5 913 thousand were declared forfeit. As a result, the total costs of the programme as at 31 December 2016 under "Retained earnings" were PLN 3 839 thousand (as at 31 December 2015: PLN 9 752 thousand).

In 2015 PLN 5 913 thousand was presented as payroll expenses (2015: PLN 1 409 thousand).

(all amounts in PLN '000, unless specified otherwise)

24. Trade and other liabilities

	31.12.2016	31.12.2015
Non-current trade and other liabilities		
Liabilities due to purchase of licenses for geological information and concessions	40 291	14 935
Other	8 082	1 592
Non-current trade and other liabilities	**48 373**	**16 527**
Current trade and other liabilities		
Trade liabilities	483 582	346 662
Advance payments received for deliveries, works and services	4 036	615
Tax and similar liabilities (excluding income tax)	199 857	196 103
Liabilities due to the purchase of tangible and intangible fixed assets	274 077	492 418
Dividend liabilities	23	23
Special funds	576	518
Liabilities due to put options for purchase of shares in subsidiaries	25 652	45 883
Other	153 797	141 098
Current trade and other liabilities	**1 141 600**	**1 223 320**
Total	**1 189 973**	**1 239 847**

25. Loans, borrowings and debt securities

	31.12.2016	31.12.2015
Bank loans	1 561 382	1 529 220
Borrowings	48 594	35 433
Bonds	4 665 668	4 368 707
Long-term	**6 275 644**	**5 933 360**
Bank loans	72 586	5 342
Borrowings	10 797	9 583
Bonds	365 519	28 474
Short-term	**448 902**	**43 399**
Total	**6 724 546**	**5 976 759**

(all amounts in PLN '000, unless specified otherwise)

Loans and borrowings

The loans and borrowings of the Enea Group are as follows:

No.	Entity	Lender	Date of agreement	Total amount	Outstanding as at 31.12.2016	Outstanding as at 31.12.2015	The term of agreement
1.	Enea S.A.	EBI	18 October 2012 and 19 June 2013 (A and B)	1 425 000	1 425 000	1 425 000	31 December 2030
2.	Enea S.A.	EBI	29 May 2015 (C)	946 000	200 000	100 000	31 March 2032
3.	Enea S.A.	PKO BP	28 January 2014	300 000	-	-	27 January 2017
4.	Enea S.A.	Pekao S.A.	28 January 2014	300 000	-	-	27 January 2017
5.	Enea Wytwarzanie Sp. z o.o.	NFOŚiGW	6 June 2012	17 850	8 269	12 972	30 September 2018
6.	Enea Wytwarzanie Sp. z o.o.	NFOŚiGW	22 December 2015	60 075	19 106	-	20 December 2026
7.	LWB	mBank	21 May 2014	100 000	-	-	30 November 2018
8.	Other	-	-	-	42 563	44 409	-
	TOTAL			**3 148 925**	**1 694 938**	**1 582 381**	
	Transaction costs and the valuation effect according to the effective interest rate				(1 579)	(2 803)	
	TOTAL			**3 148 925**	**1 693 359**	**1 579 578**	

A brief description of significant loan agreements and borrowings of Enea Group is presented below:

Enea S.A.

At present Enea S.A. has loan agreements concluded with EIB for a total amount of PLN 2 371 000 thousand (agreement A for PLN 950 000 thousand, agreement B for PLN 475 000 thousand and agreement C for PLN 946 000 thousand).

The funds from EIB are designated for financing of long-term investment plan for the modernization and extension of the power grids of Enea Operator Sp. z o.o. Funds from Agreement A and B are fully utilized. The availability period for Agreement C expired is March 2017. Enea S.A. obtained the consent of the EIB to extend the availability period till the end of 2017. Interest rate on loans can be fixed or floating.

In January 2016 Enea S.A. has drawn second tranche from EIB under agreement C in the amount of PLN 100 000 thousand. The loan is denominated in PLN, with a floating rate based on WIBOR 6-month plus the banks's margin. Tranche will be repaid in installments, and the final loan repayment is planned for September 2030.

In January 2017 Enea S.A. has drawn third tranche from EIB under agreement C in the amount of PLN 250 000 thousand. The loan is denominated in PLN, with a floating rate based on WIBOR 6-month plus the banks's margin. Tranche will be repaid in equal installments, and the final loan repayment is planned for December 2031.

Enea Wytwarzanie Sp. z o.o.

Investment loan from NFOŚiGW - the loan agreement concluded with NFOŚiGW on 6 June 2012 for the period from 1 October 2013 to 30 September 2018. The amount of used loan is PLN 17 850 thousand. The annual interest rate of the loan is WIBOR 3M+50 bps.

Investment loan from NFOŚiGW - the loan agreement concluded with NFOŚiGW on 22 December 2015 for the period from 1 April 2016 to 20 December 2026 with limit of PLN 60 075 thousand. The amount of used loan bears interest rate on the basis of WIBOR 3M - but not less than 2% per annum. The grace period ends on 29 September 2018.

The total loans of Enea Wytwarzanie Sp. z o.o. at 31 December 2016 amount to PLN 27 375 thousand (31 December 2016: PLN 12 972 thousand).

Lubelski Węgiel Bogdanka S.A.

On 16 December 2016 the company concluded with mBank loan agreement in the current account up to the amount of PLN 100 000 thousand. It bears interest at a variable rate. The maturity date is on 30 November 2018. As at the reporting date the company did not use the limit.

(all amounts in PLN '000, unless specified otherwise)

Bonds

Enea S.A. concludes agreements for the bond issue programmes to finance current operations and investments needs of Enea S.A. and its subsidiaries.

The summary of the bonds issued by Enea S.A. and Lubelski Węgiel Bogdanka S.A. is presented below:

No.	Name of bonds issue programme	Date of the conclusion of programme	Amount of the programme *	Amount issued as at 31.12.2016	Amount issued as at 31.12.2015	Redemption date
1.	Bonds Issue Programme Agreement with PKO BP S.A., Bank Pekao S.A., BZ WBK S.A. and Bank Handlowy w Warszawie S.A (Enea S.A.)	21 June 2012	3 000 000	1 951 000	1 201 000	Redemption from June 2020 till June 2022.
2.	Bonds Issue Programme Agreement with Bank Gospodarstwa Krajowego (Enea S.A.)	15 May 2014	1 000 000	1 000 000	1 000 000	Redemption in installments, final maturity in December 2026.
3.	Bonds Issue Programme Agreement with ING Bank Śląski S.A., PKO BP S.A., Bank PEKAO S.A. and mBank S.A. (Enea S.A.)	30 June 2014	5 000 000	1 500 000	1 500 000	Redemption of a given series in February 2020 and September 2021.
4.	Bonds Issue Programme Agreement with Bank Gospodarstwa Krajowego (Enea S.A.)	3 December 2015	700 000	-	-	Redemption in installments, final maturity in September 2027.
5.	Bonds Issue Programme Agreement with Bank PEKAO S.A. (LWB)	23 September 2013	300 000	300 041	300 040	Redemption in installments, final maturity in December 2018.
6.	Bonds Issue Programme Agreement with Bank PEKAO S.A. and Bank Gospodarstwa Krajowego (LWB)	30 June 2014	300 000	300 039	400 052	Redemption in March 2017.
	TOTAL		**10 300 000**	**5 051 080**	**4 401 092**	
	Transaction costs and the valuation effect according to the effective interest rate			(19 893)	(3 911)	
	TOTAL		**10 300 000**	**5 031 187**	**4 397 181**	

* According to the terms of agreement effective as at 31 December 2016.

During the 12 months ended 31 December 2016 Enea S.A. did not amend the program agreements, and did not enter into new agreements.

Bonds Issue Programme Agreement up to PLN 3 000 000 thousand

Enea S.A. issued bonds of VI series of PLN 300 000 thousand on 19 May 2016, bonds of VII series of PLN 150 000 thousand on 19 August 2016 and bonds of VIII series of PLN 300 000 thousand on 12 December 2016. The interest of the bonds is based on a variable interest rate, and the bonds redemption date is 15 June 2022.

Lubelski Węgiel Bogdanka S.A. - financial obligations arising from bonds issued by LWB concern two programme agreements. Under the first Programme Agreement, concluded by the company on 23 September 2013 with Bank Polska Kasa Opieki S.A., 3 000 bonds of total value of PLN 300 000 thousand with maturity till 31 December 2018 were issued. The maturity date of the portion of the bonds worth PLN 75 000 thousand is 30 March 2018, the maturity date of another portion of the bonds worth PLN 75 000 thousand is 30 June 2018, the maturity date of another portion of the bonds worth PLN 75 000 thousand is 30 September 2018 and the maturity date of the remaining bonds worth PLN 75 000 thousand is 30 December 2018. Bonds interest rate is based on WIBOR 3M increased by fixed margin.

Under the second Programme Agreement concluded by LWB on 30 June 2014 with Bank Polska Kasa Opieki S.A. and with Bank Gospodarstwa Krajowego, 400 bonds worth PLN 400 000 thousand with maturity on 30 June 2016 were initially issued. According to the issue programme, the company is entitled to issue another bond series as part of a particular tranche for the purpose of refinancing of the previous issue of a particular tranche (rollover), which substantiates long-term nature of bonds issue Programme. 30 June 2016 was a maturity date of two series of bonds issued as part of a particular tranche on 30 June 2015 and worth PLN 400 000 thousand. In order to refinance the issue of the bonds with maturity date on 30 June 2016, the company issued in total 300 registered bonds of new series as part of Tranche 1, which are worth PLN 300 000 thousand. The maturity date of the new series of bonds is 30 June 2017. Moreover, on the same date LWB redeemed remaining 100 bonds worth PLN 100 000 thousand. In March 2017 the annexe to the Programme Agreement concluded on 30 June 2014 was signed by LWB, according to which the end of the Term of the Programme for Tranche No. 1 was amended from 31 December 2019 to 30 March 2017. Therefore, all bonds issued under Tranche No. 1 in the total amount of PLN 300 000 thousand will be redeemed on 30 March 2017.

Transactions hedging interest rate risk

During the 12-month period ended 31 December 2016 Enea S.A. concluded interest rate swap transactions to hedge interest rate risk related to the debt (loans and bond issues) of PLN 1 440 000 thousand. As at 31 December 2016 the total value of IRS transactions amounted to of PLN 4 435 000 thousand. The transactions are connected with realization of an interest rate risk management policy adopted for Enea Group companies. Concluded transactions will substantially affect the predictability of cash flows and financial costs. The valuation of these financial instruments is presented in "Derivatives".
As at 31 December 2016 the valuation of derivatives amounted to PLN 40 267 thousand (on 31 December 2015 of PLN 844 thousand).

(all amounts in PLN '000, unless specified otherwise)

Financing conditions – covenants

Financing agreements assume compliance by the Company and the Group with certain financial ratios. As at 31 December 2016 and the date of these consolidated financial statements, the Group did not breach the regulations of loan agreements, on the basis of which the Group would be required to early repayment of long-term debt.

26. Deferred income due to subsidies, connection fees and other

	31.12.2016	31.12.2015
Long-term		
Deferred income due to subsidies	206 198	215 699
Deferred income due to connection fees	416 906	433 043
Deferred income due to street lighting modernization services	36 928	25 940
	660 032	**674 682**
Short-term		
Deferred income due to subsidies	15 115	14 890
Deferred income due to connection fees	67 879	65 891
Deferred income due to street lighting modernization services	1 033	687
Valuation of building contracts	123	2 198
	84 150	**83 666**

Deferred income schedule

	31.12.2016	31.12.2015
Up to 1 year	84 150	83 666
1 to 5 years	142 411	142 664
Over 5 years	517 621	532 018
	744 182	**758 348**

27. Financial instruments

27.1. Principles of financial risk management

The Group is exposed to the following categories of risk related to financial instruments:

- credit risk;
- liquidity risk;
- commodity risk;
- currency risk;
- interest rate risk.

(all amounts in PLN '000, unless specified otherwise)

This note presents information on the Group's exposure to each of the aforementioned risks as well as the risk and capital management objectives, policy and procedures.
Development of the general guidelines and rules of the risk management policy is the responsibility of the Management Board of the Parent.

Financial risk management in the Group is based on a formalized, integrated risk management system described in the dedicated policies, procedures and methodologies for risk management.

Risk is managed on an ongoing basis. Risks are analyzed in connection with the impact of the external environment as well as changes in the structure and activities of the Group. Taking these into consideration, the steps are undertaken aimed at mitigation of the risk or its transfer outside the Group.

27.2. Credit risk

Credit risk is the risk of financial losses which may be incurred if a counterparty or a customer being a party to a financial instrument fails to meet its contractual obligations.

Credit risk is mainly related to debt collection. The key factors that affect the occurrence of credit risk at the Company include:

- a substantial number of small customers resulting in an increase in the costs incurred to monitor debt collection;
- the necessity to supply electricity to budgetary units facing financial difficulties;
- legal requirements defining the principles for electricity supply suspension as a result of default on payment.

The Management Board applies a credit policy which provides monitoring exposure to credit risk on an ongoing basis and undertakes actions for risk minimization. The main tool for credit risk management is the analysis of the creditworthiness of most relevant partners of Enea S.A. under the terms of the contract with a counterparty are subject to appropriate structuring (terms of payment, any collateral contract, etc.).

The table below presents the structure of the assets illustrating the exposure of the Enea Group to credit risk:

	Book value 31.12.2016	**Book value 31.12.2015**
Current and non-current financial assets held to maturity	478	479
Current and non-current financial assets measured at fair value through profit or loss	4 964	222 011
Trade and other receivables	1 435 353	1 423 461
Derivatives	40 267	844
Cash and cash equivalents	2 340 217	1 822 094
Cash deposits at Mine Closure Fund	111 218	90 872
Total	**3 932 497**	**3 559 761**

The credit risk relating to receivables differs for individual market segments in which the Group carries out its business activities:

- electricity and distribution service sales to individual customers – a considerable amount of past due receivables. Although they do not represent a serious threat to the Group's financial position, measures aimed at their reduction have been undertaken. Steps aimed at improvement of the collection process have been taken involving development of new and update of the existing manuals and principles of collection and cooperation with professional entities. The collection process starts 20-25 days after the payment deadline. Thanks to unified collection policy, including soft collection, the entity is able to shorten the collection period and avoid long-lasting and quite ineffective hard collections, i.e. enforcement by court or a bailiff. Court or bailiff's collections are applied to cases whose value is higher than the cost-benefit ratio for debt collection;
- sales of electricity and distribution services to business, key and strategic clients, where overdue receivables are lower than in the segment of individual clients. Because of the much smaller number of customers in these segments, the principles of collection are based mainly on soft collection. Activities related to the soft collection are taken no later than 6 days after the payment deadline, and as a rule do not last longer than 30 days after the payment deadline;
- other receivables – compared to the above segments the amounts of past due receivables are immaterial.

A key role in the debt collection process is played by employees of the Debt Collection Department. They monitor the debt collection process and attempt to collect past due receivables through direct contact with the customer. Enea also works in the field of debt collection with specialized external entities, supporting the activities of the Company in the area of so-called hard bad debt collection.

The Group monitors the amount of past due receivables on an ongoing basis and in justified cases files legal complaints and recognizes appropriate impairment losses.

27.3. Liquidity risk

The liquidity risk is the risk that the Group will be unable to meet its financial obligations at due date.

The objective of the liquidity risk management carried out by the Group is to reduce the probability of loss the ability to repay liabilities. In particular, the policy assumes ensuring the ability to effectively address liquidity crises, i.e. periods of an increased demand for liquid assets.

The policy assumes ensuring available cash sufficient to repay liabilities in the course of standard operations and to continue undisturbed business operations in time of liquidity crisis in the period necessary to implement emergency financing plan which allows to increase liquidity without delay.

Liquidity management focuses on a detailed analysis of the receivables collection scheme debtors' days ratio and the ongoing monitoring of bank accounts. The financial surpluses are invested in current assets in the form of term deposits. The Group diversifies sources of external financing and investments to ensure stability of financing. The

Group also diversifies investments of surplus cash to mitigate concentration risk. The effectiveness of investment process is monitored on an ongoing basis.

Enea S.A. has undertaken actions toward concentration of liquidity management between entities within the Group. In order to finance current operations and optimize the process of managing liquidity, entities within the Group comprising introduction of a cash pooling in key entities participating in Enea Tax Group and expended intra-group bonds issue programmes resulting in an increase of cash effectiveness within the Group.

Taking into account ongoing risk management as well as the market and financial position of the Group it may be concluded that its liquidity risk remains at a minimum level.

Additionally, the Group manages its liquidity risk by maintaining open and unused credit facilities, which amounted to PLN 700 000 thousand as at 31 December 2016 and PLN 550 000 thousand as at the date of these consolidated financial statements.

(all amounts in PLN '000, unless specified otherwise)

The Group's financial assets and liabilities by maturity are presented in the table below:

31.12.2016

	Trade and other liabilities	Finance lease liabilities	Bank loans and bonds	Borrow-ings	Financial liabilities measured at fair value through profit or loss	Cash and cash equivalents	Cash deposits at Mine Closure Fund	Trade and other receivables	Payments for derivatives	Financial assets measured at fair value through profit or loss	Financial instruments held to maturity	Total
Book value	985 504	5 138	6 665 155	59 391	2 502	(2 340 217)	(111 218)	(1 435 353)	(40 267)	(4 964)	(478)	3 785 193
Undiscounted contractual cash flows	(989 385)	(5 204)	(7 564 715)	(64 574)	(2 502)	2 344 019	111 218	1 435 382	40 267	4 964	482	(4 690 048)
up to 6 months	(948 443)	(1 284)	(421 816)	(6 498)	(2 233)	2 343 954	-	1 431 922	40 267	4 852	-	2 440 721
6 - 12 months	(893)	(953)	(160 097)	(5 887)	-	-	-	453	-	-	482	(166 895)
1 – 2 years	(5 508)	(1 833)	(643 540)	(20 986)	(269)	65	-	903	-	112	-	(671 056)
2 – 5 years	(14 220)	(1 134)	(3 745 641)	(22 925)	-	-	-	1 615	-	-	-	(3 782 305)
Over 5 years	(20 321)	-	(2 593 621)	(8 278)	-	-	111 218	489	-	-	-	(2 510 513)

(all amounts in PLN '000, unless specified otherwise)

31.12.2015

	Trade and other liabilities	Finance lease liabilities	Bank loans and bonds	Borrowings	Cash and cash equivalents	Cash deposits at Mine Closure Fund	Trade and other receivables	Payments for derivatives	Financial assets measured at fair value through profit or loss	Financial instruments held to maturity	Total
Book value	1 042 611	2 017	5 931 743	45 016	(1 822 094)	(90 872)	(1 423 461)	(844)	(222 011)	(479)	3 461 626
Undiscounted contractual cash flows	(1 042 611)	(2 020)	(6 857 401)	(48 806)	1 822 164	90 872	1 423 983	844	222 011	479	(4 390 485)
up to 6 months	(1 020 192)	(569)	(79 152)	(6 182)	1 822 099	-	1 325 738	844	215 562	-	2 258 148
6 - 12 months	(5 266)	(442)	(78 969)	(5 632)	-	-	88 032	-	6 449	479	4 651
1 – 2 years	(4 209)	(666)	(265 000)	(11 273)	65	-	6 955	-	-	-	(274 128)
2 – 5 years	(5 628)	(343)	(3 567 878)	(18 840)	-	-	2 542	-	-	-	(3 590 147)
Over 5 years	(7 316)	-	(2 866 402)	(6 879)	-	90 872	716	-	-	-	(2 789 009)

27.4. Commodity risk

Commodity risk is related to possible changes in revenue/cash flows generated by the Group resulting, in particular, from fluctuations in commodity prices and changing demand for products/services offered. The objective of commodity risk management is to maintain the risk exposure within an acceptable level while optimizing the return on risk.

One of the key aspects of the commodity risk results from the fact that being an energy company operating based on an electricity trading license, the entity is required to submit electricity tariffs for the G-tariff groups for approval. The Company purchases energy at market prices and calculates its tariff based on costs regarded as legitimate by the President of the Energy Regulatory Office as well as margins (for electricity trading) planned to be earned in the subsequent tariff period. Therefore, during the tariff period the Group's possibility to transfer adverse changes in its operating costs to electricity customers is limited. A tariff adjustment request may be filed to the President of the Energy Regulatory Office only in the event of a dramatic rise in costs for reasons that are beyond the Group's control.

Commodity risk management in the scope of pricing is based on continuous monitoring of an open position in trading (both with regard to securing the volume of retail sales, and to proprietary trading) and measurement - using value at risk tools - of the level of risk of possible electricity price fluctuation with respect to such an open position in trading. An appropriate risk mitigation technique in this case is to close an item that generates excessive (grater than accepted) value of potential loss. The management model is based in this case on a system of value limits (VaR limits) setting the maximum value of the open position, which is the carrier of the commodity risk (price risk).

Commodity risk management in terms of volumetric involves using scenario methods, optimizing the planning processes and control of commercial activities which allows possibly the most accurate way to estimate expected volumes of electricity and related goods that are traded.

Moreover, independently from mentioned above, the Enea applies the management principles defined by the strategic regulation (so-called Wholesale Trading Procedure), defining the operating methods related to optimization of Enea's trading position with the primary purpose of minimizing the risk of taking actions contrary to the market trends, taking account of the efficiency aspect in the context of that trend (achieving better results than the market average).

(all amounts in PLN '000, unless specified otherwise)

27.5. Curreny risk

The exposure of the Group to currency risk is presented below.

31.12.2016	Book value	Including EUR amount denominated in the functional currency (PLN)	EUR currency risk impact on profit/(loss) +1%	EUR currency risk impact on profit/(loss) -1%	Including USD amount denominated in the functional currency (PLN)	USD currency risk impact on profit/(loss) (USD) +1%	USD currency risk impact on profit/(loss) (USD) -1%	Total currency risk impact on profit/(loss) +1%	Total currency risk impact on profit/(loss) -1%
Financial assets									
Cash and cash equivalents	2 340 217	111 292	**1 113**	**(1 113)**	2 167	**22**	**(22)**	1 135	(1 135)
Cash deposits at Mine Closure Fund	111 218	-	**-**	**-**	-	**-**	**-**	-	-
Trade and other receivables	1 435 353	2 848	**28**	**(28)**	2 741	**27**	**(27)**	55	(55)
Financial assets available for sale	42 482	-	**-**	**-**	-	**-**	**-**	-	-
Financial assets measured at fair value through profit or loss	4 964	-	**-**	**-**	-	**-**	**-**	-	-
Financial assets held to maturity	478	-	**-**	**-**	-	**-**	**-**	-	-
Financial liabilities									
Loans, borrowings and debt securities	(6 724 546)	-	**-**	**-**	-	**-**	**-**	-	-
Trade and other liabilities	(985 504)	(5 076)	**(51)**	**51**	(1)	**-**	**-**	(51)	51
Finance lease liabilities	(5 138)	-	**-**	**-**	-	**-**	**-**	-	-
Financial liabilities measured at fair value through profit or loss	(2 502)								
Impact on profit/loss before tax			**1 090**	**(1 090)**		**49**	**(49)**	**1 139**	**(1 139)**
19% tax								(216)	216
Impact on profit/loss after tax								**923**	**(923)**

(all amounts in PLN '000, unless specified otherwise)

31.12.2015	Book value	Including EUR amount denominated in the functional currency (PLN)	EUR currency risk impact on profit/(loss) +1%	EUR currency risk impact on profit/(loss) -1%	Including USD amount denominated in the functional currency (PLN)	USD currency risk impact on profit/(loss) (USD) +1%	USD currency risk impact on profit/(loss) (USD) -1%	Total currency risk impact on profit/(loss) +1%	Total currency risk impact on profit/(loss) -1%
Financial assets									
Cash and cash equivalents	1 822 094	86 705	**867**	**(867)**	-	-	-	867	(867)
Cash deposits at Mine Closure Fund	90 872								
Trade and other receivables	1 423 461	12	-	-	-	-	-	-	-
Financial assets available for sale	23 982	-	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	222 011	-	-	-	-	-	-	-	-
Financial assets held to maturity	479	-	-	-	-	-	-	-	-
Financial liabilities									
Loans, borrowings and debt securities	(5 976 759)	-	-	-	-	-	-	-	-
Trade and other liabilities	(1 042 611)	(69 187)	**(692)**	**692**	(1)	-	-	(692)	692
Finance lease liabilities	(2 017)	-	-	-	-	-	-	-	-
Impact on profit/loss before tax			**175**	**(175)**		-	-	**175**	**(175)**
19% tax								(33)	33
Impact on profit/loss after tax								**142**	**(142)**

The currency risk is related to possible changes in cash flows generated by the Group resulting from fluctuations in the currencies exchange rates in which such cash flows are denominated.

The Enea Group is exposed in particular to currency risk arising from necessity to purchase CO_2 emission rights, as well as in connection with the purchase of particular fuels (biomass), certain capital expenditures and realized contracts for the services provided by contractors, whose market prices/costs are denominated in EUR.

Currency risk is hedged mainly with currency forward contracts. The purpose of the activities aimed at hedging currency risk is guaranteeing a specific value in PLN of the future revenues and, in particular, expenditures - incurred as a result of purchases of CO2 emission rights, or investment works.

Safety measures are implemented based on *Policy management of currency risk and interest rate risk* applied in Enea Group.

Lubelski Węgiel Bogdanka S.A. enters into specific transactions denominated in foreign currencies, which brings about a risk of exchange rate fluctuations. The Company is mainly exposed to the risk of changes in EUR/PLN and USD/PLN exchange rates. During 2016 no significant foreign exchange transactions were entered into., however, in this year appeard the relatively high value of sales denominated in foreign currency USD and EUR.

Significant foreign exchange transactions were entered into in previous years, before 2015 - in connection with the purchase of specialized equipment and machinery. However, due to the completion of the intensified investment process, no such transactions are expected in the near future.

The risk is managed within the approved procedures using the foreign currency forward contracts. LWB applies hedge accounting for future cash flows. The aim of the LWB's hedge operations against changes in the exchange rate of EUR/PLN and USD/PLN is to ensure a specific level in PLN of future expenditures in EUR, which will be incurred in connection with the future investments and to guarantee a specified level of future proceeds in USD/EUR received in relation with the realized sales.

27.6. Interest rate risk

The interest rate risk, the Group is exposed to, results from credit facilities and loans as well as bond issue programmes taken by Enea. The Group tends to apply variable interest correlated with market (interbank) rates.

Due to the applied by the Group model of financing, interest rate risk is identified and managed (quantified, hedged) at the level of the Parent company.

Safety measures in the area of interest rate are carried out based on *Currency risk and interest rate risk management policy in Enea Group*. As at 31 December 2016 Enea Group has liabilities resulting from loans, borrowings and debt securities of PLN 6 724 546 thousand. The above mentioned debt has been secured by interest rate risk hedging transactions (IRS) in 65%.

(all amounts in PLN '000, unless specified otherwise)

The table below, presents financial assets and liabilities by fixed and variable interest rates, showing the Group's sensitivity to interest rate risk:

	31.12.2016	31.12.2015
Fixed rate instruments		
Financial assets	3 194 418	2 821 093
Financial liabilities	(1 100 276)	(1 141 642)
Effect of interest rate swaps	(4 435 000)	(2 995 000)
Total	**(2 340 858)**	**(1 315 549)**
Variable rate instruments		
Financial assets	697 812	737 824
Financial liabilities	(6 617 414)	(5 879 745)
Effect of interest rate swaps	4 435 000	2 995 000
Total	**(1 484 602)**	**(2 146 921)**

Cash deposited in bank is presented within fixed rate instruments.

Effective interest rates applicable to variable rate assets and liabilities are presented in the table below:

	31.12.2016		31.12.2015	
	Effective interest rate (%)	Book value	Effective interest rate (%)	Book value
Financial instruments held to maturity	1.31	478	1.70	479
Financial assets measured at fair value through profit or loss	-	-	1.32	222 011
Cash deposits at Mine Closure Fund	1.50	111 218	1.75	90 872
Cash and cash equivalents	1.51	586 116	1.95	424 462
Finance lease liabilities	4.55	(2 458)	5.67	(2 017)
Bank loans	2.13	(460 372)	2.31	(1 434 558)
Borrowings	3.20	(59 078)	3.55	(45 016)
Bonds	2.61	(1 660 506)	2.65	(1 403 154)
Total		**(1 484 602)**		**(2 146 921)**

The effective interest rates presented in the table above are determined as the weighted average of interest rates.

(all amounts in PLN '000, unless specified otherwise)

The table below presents the impact of interest rate changes on the Group's net results. The impact of interest rate on bank loans, borrowings and debt securities is presented net of IRS effect.

	Book value as at 31.12.2016	Interest rate risk impact on profit (12-month period)		Book value as at 31.12.2015	Interest rate risk impact on profit (12-month period)	
		+ 1 p.p.	- 1 p.p.		+ 1 p.p.	- 1 p.p.
Financial assets						
Cash	586 116	5 861	(5 861)	424 462	4 245	(4 245)
Cash deposits at Mine Closure Fund	111 218	1 112	(1 112)	90 872	909	(909)
Financial assets held to maturity	478	5	(5)	479	5	(5)
Financial assets measured at fair value through profit or loss	-	-	-	222 011	2 220	(2 220)
Impact on profit/loss before tax		6 978	(6 978)		7 378	(7 378)
19% tax		(1 326)	1 326		(1 402)	1 402
Impact on profit/loss after tax		**5 652**	**(5 652)**		**5 976**	**(5 976)**
Financial liabilities						
Bank loans, borrowings and debt securities	(2 179 956)	(21 800)	21 800	(2 882 728)	(28 827)	28 827
Finance lease liabilities	(2 458)	(25)	25	(2 017)	(20)	20
Financial liabilities measured at fair value through profit or loss						
Impact on profit/loss before tax		**(21 825)**	**21 825**		**(28 847)**	**28 847**
19% tax		4 147	(4 147)		5 481	(5 481)
Impact on profit/loss after tax		**(17 678)**	**17 678**		**(23 366)**	**23 366**
Total		**(12 026)**	**12 026**		**(17 390)**	**17 390**

(all amounts in PLN '000, unless specified otherwise)

27.7. Mangement of founding sources

The key assumption of the Group in management of funding sources is maintaining optimal liabilities structure to reduce the cost of funding operations, secure credit rating at the investment level and sources of funding for operating and investing activities of the Group. Activities conducted in this area also tend to ensure the financial security of the Group and rewarding value for shareholders. When optimizing the structure of liabilities by applying financial leverage it is also important to maintain a strong capital base being a foundation for building confidence of investors, creditors and market. The Group monitors its capital using the debt ratio and the return on equity ratio. Its objective is to ensure increase of capital effectiveness together with maintaining the capital at the safe level.

27.8. Fair value

The table below presents fair values as compared to carrying amounts:

	31.12.2016		31.12.2015	
	Book value	Fair value	Book value	Fair value
Non-current financial assets available for sale (shares in unrelated parties)	42 482	42 482	23 982	23 982
Non-current financial assets measured at fair value through profit or loss	112	112	-	-
Derivatives	40 267	40 267	844	844
Current financial assets held to maturity	478	478	479	479
Current financial assets measured at fair value through profit or loss	4 852	4 852	222 011	222 011
Trade and other receivables	1 435 353	(*)	1 423 461	(*)
Cash and cash equivalents	2 340 217	2 340 217	1 822 094	1 822 094
Cash deposits at Mine Closure Fund	111 218	111 218	90 872	90 872
Loans, borrowings and debt securities	6 724 546	6 778 513	5 976 759	6 020 614
Finance lease liabilities	5 138	5 138	2 017	2 017
Trade and other liabilities	985 504	(*)	1 042 611	(*)
Financial liabilities measured at fair value through profit or loss	2 502	2 502	-	-

(*) - The carrying amounts of trade and other receivables, trade and other liabilities approximates their fair values.

(all amounts in PLN '000, unless specified otherwise)

Financial assets available for sale include shares in unrelated parties for which the ratio of interest in equity is lower than 20%. The positions comprises also shares in PGE EJ1 Sp. o.o. in the amount of PLN 26 902 thousand for which there is no quoted market price in an active market and whose fair value - because of the initial phase of the company's activity – is based on incurred cost.

Derivatives comprise the valuation of interest rate hedging transactions (Interest Rate Swap). The fair value of derivatives is determined by calculating the net present value based on two yield curves, i.e. the curve to determine the discount factor and curve used to estimate future rates of variable reference rates.

Current financial assets measured at fair value through profit or loss include an investment portfolio managed by a company specialized in professional cash management. The fair value of the investment portfolio is estimated based on market quotations.

The table below presents the analysis of financial instruments measured at fair value and classified into the following three levels:

Level 1 – fair value based on stock exchange prices (unadjusted) offered for identical assets or liabilities in active markets,

Level 2 – fair value determined based on market observations instead of market quotations (e.g. direct or indirect reference to similar instruments traded in the market),

Level 3 – fair value determined using various valuation methods, but not based on any observable market information.

	31.12.2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivatives				
Interest Rate Swap used for hedging	-	40 267	-	40 267
Financial assets measured at fair value through profit or loss				
Forward contracts	-	4 964	-	4 964
Financial assets available for sale				
Not listed equity instruments	-	-	580	580
Total	**-**	**45 231**	**580**	**45 811**
Financial liabilities measured at fair value through profit or loss				
Forward contracts	-	(2 502)	-	(2 502)
Total	**-**	**(2 502)**	**-**	**(2 502)**

(all amounts in PLN '000, unless specified otherwise)

	31.12.2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivatives				
Interest Rate Swap used for hedging	-	844	-	844
Financial assets measured at fair value through profit or loss				
Forward contracts	-	6 523	-	6 523
Non-derivative financial assets held for trading	215 488	-	-	215 488
Financial assets available for sale				
Not listed equity instruments	-	-	580	580
Total	**215 488**	**7 367**	**580**	**223 435**

28. Finance lease liabilities

	31.12.2016	31.12.2015
Up to 1 year	2 141	1 025
1 – 5 years	2 997	992
Present value of lease payments	**5 138**	**2 017**

29. Financial liabilities measured at fair value through profit or loss

	31.12.2016	31.12.2015
Long-term forward contracts	269	-
Short-term forward contracts	2 233	-
Total	**2 502**	**-**

30. Deferred income tax

Changes in deferred tax liability (considering the net-off of assets and liability at the Group level) are as follows:

	Book value 31.12.2016	Book value 31.12.2015
Deferred tax asset	1 190 280	1 103 836
Set off of deferred tax assets and liabilities	(787 023)	(487 041)
Deferred tax asset disclosed in the statement of financial position	**403 257**	**616 795**
Deferred tax liability	978 821	875 158
Set off of deffered tax assets and liabilities	(787 023)	(487 041)
Deferred tax liability disclosed in the statement of financial position	**191 798**	**388 117**

In 2016, the Group compensated the temporary differences (impairment loss on non-financial fixed assets), which resulted in decrease of value of the deffered tax asset and liability, but did not influence the net value of the deferred tax assets.

(all amounts in PLN '000, unless specified otherwise)

Changes in the deferred tax asset and liability during the financial year (prior to their set off):

Deferred tax assets:

	Liabilities due to employee benefits	Deferred income from connection fees	Provision for the costs of redemption of certificates of origin	Grants	Provision for disposal, land reclamation and purchase of CO_2 emissions rights	Expenses deductible from taxable base after the end of the settlement period	Valuation of tangible and intangible assets at fair value	Impairment loss on non-financial non-current assets*	Other	Total
Opening balance	**159 977**	**88 540**	**30 704**	**16 587**	**28 906**	**80 779**	**-**	**7 410**	**118 562**	**531 465**
Acquisition of subsidiaries	60 143	-	-	-	1 090	-	130 553	5 156	7 115	204 057
Amount recognized in the profit or loss	(8 673)	(3 110)	15 284	(1 063)	17 147	3 773	-	288 127	63 426	374 911
Change recognized in other comprehensive income	(7 307)	-	-	-	-	-	-	-	710	(6 597)
Balance as at 31 December 2015 - 19% rate	**204 140**	**85 430**	**45 988**	**15 524**	**47 143**	**84 552**	**130 553**	**300 693**	**189 813**	**1 103 836**
Opening balance	**204 140**	**85 430**	**45 988**	**15 524**	**47 143**	**84 552**	**130 553**	**300 693**	**189 813**	**1 103 836**
Amount recognized in the profit or loss	7 037	(3 111)	4 984	(1 044)	13 782	25 039	-	12 314	35 382	94 383
Change recognized in other comprehensive income	(951)	-	-	-	-	24	-	-	(7 012)	(7 939)
Balance as at 31 December 2016 - 19% rate	**210 226**	**82 319**	**50 972**	**14 480**	**60 925**	**109 615**	**130 553**	**313 007**	**218 183**	**1 190 280**

* Including property, plant and equipment, goodwill, other intangible assets and perpetual usufruct of land

(all amounts in PLN '000, unless specified otherwise)

Deferred tax provisions:

	Income taxable after the end of the accounting period	Accrued uninvoiced sales	Difference in carrying and tax values of tangible fixed assets *	Net provision for mine liquidation	Other	Total
Opening balance	**91 915**	**47 025**	**409 645**	**-**	**71 047**	**619 632**
Acquisition of subsidiaries	-	-	179 077	6 318	6 139	191 534
Amount recognized in the profit or loss	4 603	653	68 447	(318)	(3 543)	69 842
Change recognized in other comprehensive income	-	-	-	-	(5 850)	(5 850)
Balance as at 31 December 2015 - 19% rate	**96 518**	**47 678**	**657 169**	**6 000**	**67 793**	**875 158**

Opening balance	**96 518**	**47 678**	**657 169**	**6 000**	**67 793**	**875 158**
Amount recognized in the profit or loss	30 756	1 641	74 890	2 878	(7 357)	102 808
Change recognized in other comprehensive income	-	-	-	-	855	855
Balance as at 31 December 2015 - 19% rate	**127 274**	**49 319**	**732 059**	**8 878**	**61 291**	**978 821**

* The differences result from the measurement of tangible fixed assets to fair value as well as differences in depreciation rates.

The Group has no significant unrecognized deferred tax assets and liabilities.

(all amounts in PLN '000, unless specified otherwise)

31. Liabilities due to employee benefits

	31.12.2016	31.12.2015
Defined benefit plans:		
Retirement benefits		
long-term portion	129 988	122 360
short-term portion	25 017	20 175
	155 005	**142 535**
Right to energy allowance after retirement		
long-term portion	194 002	199 127
short-term portion	8 738	8 927
	202 740	**208 054**
Appropriation to the Company's Social Benefits Fund for pensioners		
long-term portion	60 892	52 914
short-term portion	1 364	1 659
	62 256	**54 573**
Coal allowances in kind		
long-term portion	110 784	107 908
short-term portion	4 092	4 019
	114 876	**111 927**
Total: Defined benefit plans		
long-term portion	495 666	482 309
short-term portion	39 211	34 780
	534 877	**517 089**
Other non-current liabilities due to employee benefits		
Jubilee bonuses		
long-term portion	293 987	333 636
short-term portion	37 572	38 202
	331 559	**371 838**
Salaries and wages and other liabilities		
long-term portion	2 503	2 678
short-term portion	283 807	312 399
	286 310	**315 077**
Provision for Voluntary Redundancy Programme		
long-term portion	-	149
short-term portion	56 347	12 605
	56 347	**12 754**
Total liabilities due to employee benefits		
long-term portion	**792 156**	**818 772**
short-term portion	**416 937**	**397 986**
	1 209 093	**1 216 758**

Based on an arrangement entered into by the representatives of staff and the Group, its employees are entitled to specific benefits other than remuneration, i.e.:

- jubilee bonuses;
- retirement and disability benefits;
- electricity allowance;
- an appropriation to the Company's Social Benefits Fund.

All mentioned above benefits are fully financed by the Group.

The present value of the related future liabilities has been measured using actuarial methods. Calculations were made using basic individual data for the employees of Enea Group as at 31 December 2016 (taking into account their gender) regarding:

- age;
- length of service with Enea Group;
- total length of service;
- remuneration constituting the assessment basis for jubilee benefits as well as retirement and disability benefits.

Additionally, the following assumptions were made for the purpose of the analysis:

- the probable number of leaving employees was determined based on historical data concerning staff turnover in the Group and industry statistics,
- the value of minimum remuneration in the Polish economy since 1 January 2017 was assumed at PLN 2 000.00,
- pursuant to announcements of the Chairman of the Central Statistical Office, the average salary in the Polish economy, less premiums for retirement, pension and health insurance paid by the insured was assumed at PLN 2 917.14 (average amount assumed for the second half of 2010, which will constitute the basis for calculating the appropriation to the Company's Social Benefits Fund in 2017.)
- based on assumptions defined at the corporate level, the increase of the basis for charges for the Employee Social Fund was adopted based on the increase of the average monthly wages in the national economy: 32.17% in 2018, 5.6% in 2019, 5.7% in the period 2020-2021, 5.6% in the remaining years of the forecast. In case of the basis' change the increase in the average monthly wage in the national economy in 2017 of 5.2% was assumed for 2018. The remaining increase of the basis in 2018 is due to the full unfreezing of the basis for charges for the Employee Social Fund since 2018 which is assumed at the date of valuation of the risks.
- mortality rate and the probability of receiving benefits were adopted in line with the 2015 Life Expectancy Tables published by the Central Statistical Office,
- the value of the provision for disability benefits was not determined separately but the individuals receiving disability allowance were not taken into consideration in calculating the employee turnover ratio,
- standard retirement age was assumed under particular regulations of the Act of Pension, excluding these employees, which fulfill the conditions expected to earlier retirement,
- the long-term salaries and wages increase rate was adopted at the level of 1.5% in 2017 and 2.5% in the remaining years (as at 31 December 2015 at the level of 2.038% in 2016, 2.418% in 2017 and 2.5% in the remaining years),

(all amounts in PLN '000, unless specified otherwise)

- the interest rate for discounting future benefits was adopted at the level of 3.2% (as at 31 December 2015: 2.8%),
- value of the annual equivalent of the electricity allowance paid in 2017 was adopted at the level of PLN 1 391.74 (as at 31 December 2015 PLN 1 406.53),
- the rise in the cash equivalent of the electricity allowance was adopted for 2017 at the level of -1.0%, for 2018 +1.9%, for 2019 +2.1 %, for 2020 +3.0 %, for 2021-2026 +3.1% and the following years at the level of 2.5% (as at 31 December 2016 the increase in 2016 at the level of -3.2%, for 2017
  -1.5%, for 2018 +1.7%, for 2019 +4.1%, for 2020- 2021 at the level of 4.2%, for 2022 + 4.3%, for 2023 4.4%, for 2024 4.5%, for 2025-2026 4.6% and the following years at the level of 2.5%).

The Group also recognizes provision for coal allowance benefits.

To determine the amount of provisions for employee benefits Projected Unit Credit Method was used, the same method was used for the analysis of sensitivity for defined benefit plan.

2016

Changes during 12 months ended 31 December 2016	Retirement benefits	Right to energy allowance after retirement	Appropriation to the Company's Social Benefits Fund for pensioners	Coal allowances after retirement	Total
Balance as at 1 January 2016	**142 535**	**208 054**	**54 573**	**111 927**	**517 089**
Costs recognized in profit or loss, including:	**17 214**	**22 288**	**7 220**	**6 480**	**53 202**
current employment costs	7 319	3 616	1 351	2 964	15 250
post-employment costs	6 256	13 100	4 403	206	23 965
interests	3 639	5 572	1 466	3 310	13 987
Costs recognized in other comprehensive income, including:	**6 601**	**(18 266)**	**2 171**	**63**	**(9 431)**
net actuarial losses/(profits) due to changes in financial assumption	(5 747)	(26 741)	2 277	(547)	(30 758)
net actuarial losses/(profits) due to changes in demographic assumptions	2 649	(1 571)	(567)	3 738	4 249
net actuarial losses/(profits) due to adjustments of ex-post assumptions	9 699	10 046	461	(3 128)	17 078
Decrease in liabilities due to benefits paid (negative amount)	**(10 809)**	**(8 473)**	**(1 296)**	**(3 594)**	**(24 172)**
Other decreases	**(536)**	**(863)**	**(412)**	**-**	**(1 811)**
Total changes	**12 470**	**(5 314)**	**7 683**	**2 949**	**17 788**
Balance as at 31 December 2016	**155 005**	**202 740**	**62 256**	**114 876**	**534 877**

(all amounts in PLN '000, unless specified otherwise)

2015

Changes during 12 months ended 31 December 2015	Retirement benefits	Right to energy allowance after retirement	Appropriation to the Company's Social Benefits Fund for pensioners	Coal allowances after retirement	Total
Balance as at 1 January 2015	**109 547**	**226 822**	**49 205**	**-**	**385 574**
Liabilities assumed in a business combination	**28 597**	**-**	**300**	**106 739**	**135 636**
Costs recognized in profit or loss, including:	**7 133**	**8 663**	**1 158**	**915**	**17 869**
current employment costs	6 808	5 553	1 521	127	14 009
post-employment costs	(2 085)	(2 109)	(1 502)	-	(5 696)
interests	2 410	5 219	1 139	788	9 556
Costs recognized in other comprehensive income, including:	**8 208**	**(17 531)**	**5 968**	**4 389**	**1 034**
net actuarial losses/(profits) due to changes in financial assumption	(2 872)	(38 640)	688	4 509	(36 315)
net actuarial losses/(profits) due to changes in demographic assumptions	919	6 224	1 643	(85)	8 701
net actuarial losses/(profits) due to adjustments of ex-post assumptions	10 161	14 885	3 637	(35)	28 648
Decrease in liabilities due to benefits paid (negative amount)	**(4 238)**	**(7 003)**	**(1 207)**	**(116)**	**(12 564)**
Other decreases	**(6 712)**	**(2 897)**	**(851)**	**-**	**(10 460)**
Total changes	**32 988**	**(18 768)**	**5 368**	**111 927**	**131 515**
Balance as at 31 December 2015	**142 535**	**208 054**	**54 573**	**111 927**	**517 089**

Sensitivity analysis for defined benefit plans

Sensitivity analysis for the following segments: trade, distribution, production and other

Defined benefit plans	**Actuarial assumptions change impact on liabilities due to defined benefit plans**	
	+ 1 pp	**- 1 pp**
Discount rate	(47 381)	59 529
Anticipated rise of salaries and wages	23 476	(19 423)
Average rise in the cash equivalent of the electricity allowance	32 360	(26 054)

(all amounts in PLN '000, unless specified otherwise)

Sensitivity analysis for mining segment:

Defined benefit plans	Actuarial assumptions change impact on liabilities due to defined benefit plans	
	+ 1 pp	**- 1 pp**
Discount rate	(19 154)	24 402
Anticipated rise of salaries and wages	3 310	(2 687)
Rise in the base for coal allowances	23 055	(17 043)

Maturity of liabilities due to defined benefit plans

Maturity of liabilities due to defined benefit plans for the following segments: trade, distribution, production and other:

The weighted average duration of liabilities due to defined benefit plans (in years)	31.12.2016	31.12.2015
Retirement benefits	13.7	16.0
Right to energy allowance after retirement	15.2	16.0
Appropriation to the Company's Social Benefits Fund for pensioners	18.3	17.4

Maturity of liabilities due to defined benefit plans for mining area:

The weighted average duration of liabilities due to defined benefit plans (in years)	31.12.2016	31.12.2015
Retirement benefits	13.0	10.0
Coal allowances	18.0	18.0

(all amounts in PLN '000, unless specified otherwise)

Other long-term employee benefits - jubilee bonuses

	31.12.2016	31.12.2015
Opening balace	**371 838**	**275 114**
Liabilities assumed in business combination	-	82 438
Changes during 12 months ended 31 December 2016		
Costs recognized in profit or loss, including:	**(2 064)**	**46 606**
- current employment costs	23 888	20 412
- post-employment costs	(34 034)	(3 849)
- net actuarial losses/(profits) due to adjustments of ex-post assumptions	6 047	26 794
- net actuarial losses/(profits) due to changes in demographic assumptions	3 440	904
- (net actuarial losses/(profits) due to changes in financial assumptions	(10 968)	(4 120)
- interests	9 563	6 465
Decrease in liabilities due to benefits paid	**(28 057)**	**(16 540)**
Other changes	**(10 158)**	**(15 780)**
Total changes	**(40 279)**	**96 724**
Closing balance	**331 559**	**371 838**

Provision for the Voluntary Redundancy Program

Enea S.A.

On 22 December 2016 the Management Board of Enea S.A. adopted a resolution to launch the Generational Change Program (Program), which integral part is the Voluntary Redundancy Program (Program).

The Program was dedicated to Employees:

- employed under a contract of employment no matter the type and nature of their work;
- not being in the period of notice and who have not signed an agreement to terminate the employment contract outside the Program with a date of an employment contract in the future;
- are not employed under any employment agreements or any other civil law agreements in another company of the Enea Group, do not provide any temporary work to Enea S.A. or any other subsidiaries or affiliates of Enea S.A. under agreement with a temporary employment agency and
- belonging to one of the following groups:
  - Group I – Employees who acquired their pension rights until 31 December 2016 and have not terminated their employment agreements as of retiring, and Employees who will acquire their pension rights until 31 December 2017 (due to coming of official retirement age, coming to the age, at which they are entitled to bridging retirement for working in extraordinary conditions, pensions in reduced pension age for working in extraordinary conditions),
  - Group II – Employees who will acquire their pension rights in the period from 1 January 2018 to 31 December 2022 (due to coming of official retirement age, coming to the age, at which they are entitled to bridging retirement for working in extraordinary conditions, pensions in reduced pension age for working in extraordinary conditions),
  - Group no. III - Employees who are to acquire pension rights after 31 December 2022.

The programme runs in the period between 28 December 2016 and 30 September 2017. As at 31 December 2016 Enea S.A. recorded provision for the Program in the amount of PLN 1 280 thousand.

Enea Centrum Sp. z o.o.

On the basis of a resolution No. 187/2015 dated 22 December 2015, the Management Board of Enea Centrum Sp. z o.o. decided to launch the Voluntary Redundancy Program in the company valid from 28 December 2015 to 31 December 2016 in quartarely tranches, which can be launched on the basis of relevant resolutions of the Management Board of Enea Centrum Sp. z o.o.The first tranche of the Program is valid from 15 February 2016 to 29 February 2016. The decisions for the first tranche of the Program were taken by the Employer in the period from 1 March 2016 till 31 March 2016.

By the Resolution no. 125/2016 of 22 December 2016, the Management Board of Enea Centrum Sp. z o.o. made a decision on launching Generational Change Programme in the company in 2017. The Voluntary Redundancy Programme constitutes an integral part of the aforementioned programme. The programme runs in the period between 28 December 2016 and 30 September 2017. The employees are entitled to submit applications for being covered by the Programme from 13 February 2017 to 28 February 2017, the Employer shall make the decision on covering a particular employee with the Programme in the period between 1 March 2017 and 31 March 2017.

The Program was dedicated to Employees who:

- acquired their pension rights until 31 December 2016 and have not terminated their employment agreements as of retiring,
- will acquire their pension rights until 1 January 2017 to 31 December 2022 (due to coming of official retirement age, coming to the age, at which they are entitled to bridging retirement for working in extraordinary conditions, pensions in reduced pension age for working in extraordinary conditions), (Group I);
- will acquire their pension rights in the period from 1 January 2018 to 31 December 2022 (due to coming of official retirement age, coming to the age, at which they are entitled to bridging retirement for working in extraordinary conditions, pensions in reduced pension age for working in extraordinary conditions), (Group II);
- Employees who are to acquire pension rights after 31 December 2022 (Group III).

As at 31 December 2016 Enea Centrum Sp. z o.o. recorded provision for the Program in the amount of PLN 4 136 thousand.

Generational Change Programme was launched in other Group companies (provision amounting to PLN 50 931 thousand).

(all amounts in PLN '000, unless specified otherwise)

32. Provisions for liabilities and other charges

Provision for liabilities and other charges divided into current and non-current portion

	31.12.2016	31.12.2015
Non-current	635 488	625 388
Current	789 718	567 556
Closing balance	**1 425 206**	**1 192 944**

Change in provisions for liabilities and other charges

for the period ended 31 December 2016

	Provision for non-contractual use of land	Provision for other claims	Provision for land reclamation	Provision for certificates of origin	Provision for CO2 emissions rights	Mine liquidation	Other	Total
Opening balance	**189 429**	**60 456**	**55 409**	**250 024**	**193 034**	**124 441**	**320 151**	**1 192 944**
Unwinding of discount and discount rate change	(3 272)	-	(5 539)	-	-	3 484	-	(5 327)
Increase in provisions	27 125	7 387	1 701	263 343	291 306	-	161 107	751 969
Provisions used	(171)	(16 987)	-	(237 684)	(197 691)	-	(13 566)	(466 099)
Provision reversed	(9 820)	(9 509)	(1 678)	(521)	(1 465)	(17 737)	(7 551)	(48 281)
Closing balance	**203 291**	**41 347**	**49 893**	**275 162**	**285 184**	**110 188**	**460 141**	**1 425 206**

for the period ended 31 December 2015

	Provision for non-contractual use of land	Provision for other claims	Provision for land reclamation	Provision for certificates of origin	Provision for CO_2 emissions rights	Mine liquidation	Other	Total
Opening balance	**172 854**	**27 362**	**57 551**	**164 878**	**105 758**	**-**	**240 691**	**769 094**
Acquisition of subsidiaries	-	26 014	5 738	2 202	-	115 744	50 309	200 007
Unwinding of discount and discount rate change	(2 266)	-	(8 540)	-	-	850	-	(9 956)
Increase in provisions	29 819	10 671	660	227 768	193 412	7 847	45 470	515 647
Provisions used	(462)	(2)	-	(144 470)	(105 668)	-	(10 819)	(261 421)
Provision reversed	(10 516)	(3 589)	-	(354)	(468)	-	(5 500)	(20 427)
Closing balance	**189 429**	**60 456**	**55 409**	**250 024**	**193 034**	**124 441**	**320 151**	**1 192 944**

Provisions for liabilities are determined in reasonable, reliably estimated amounts. Individual provisions are recognized for projected losses related to court action brought against the Group. The amount recognized as a provision is the best estimate of the expenditure required to settle a claim. The cost of provisions is recognized under other operating expenses. A description of material claims and the related contingent liabilities has been presented in Notes 47.2, 47.5 and 47.6

Provisions for liabilities and other charges include mainly:

Provision for non-contractual use of land

Provision for claims of persons holding possession of real properties, arising from non-contractual use of land.

The provision for claims concerning non-contractual use of real properties is measured according to so-called staged approach and weighting, i.e. the probability of losing the dispute and necessity to fulfil the claim. Claims for non-contractual use of real property may be significant for the Group because of the number of properties used, but the Group is not able to estimate the maximum amount of compensation. Enea Group - in relation to term transmission corridors - estimated and included in provisions the compensations for non-contractual use of real properties on which the grid assets are located (power lines), for which no claims have yet been raised as at the reporting date.

Provision for land reclamation

After closing or filling a slag and ash dump, the Group is obliged to carry out appropriate land reclamation. As the Group has large unfilled dumps, land reclamation is planned for 2060. Future estimated costs of land reclamation were discounted to their current value using a discount rate of 3.20% (as at 31 December 2015 – 2.80%).

As at 31 December 2016 the provision amounted to PLN 49 893 thousand (as at 31 December 2015 it was PLN 55 409 thousand).

Provision for purchasing CO_2 emissions rights

As at 31 December 2016 the provision for CO_2 emissions rights amounted to PLN 285 184 thousand (as at 31 December 2015 it was PLN 193 034 thousand).

Provision for mine liquidation

Enea Group recognizes a provision for mine liquidation expenses, as required under applicable provisions. Key assumptions used to determine the cost of mine liquidation include assumptions regarding the useful life of the mine, the expected rate of inflation and long-term discount rates.The calculated amount of mine liquidation costs on 31 December 2016 amounts to PLN 110 188 thousand.

Other provisions

Other provisions relate mainly:

- wind farm Skoczykłody: Group estimated the value of shares in Eco-Power Sp. z o.o. and recorded provision for the difference between the price including the base amount of PLN 286 500 000,00 and value estimated in the model of Enea S.A. in the amount of PLN 129 000 thousand (Note 54).
- potential liabilities related to network assets resulting from differences in law interpretation - PLN 148 259 thousand (as at 31 December 2015 PLN 129 197 thousand),

(all amounts in PLN '000, unless specified otherwise)

- costs of using forest lands managed by State Forests - PLN 108 245 thousand (as at 31 December 2015 PLN 112 680 thousand),
- real property tax in Lubelski Węgiel Bogdanka S.A. PLN 32 456 thousand (as at 31 December 2015 PLN 23 881 thousand),
- ZUS claims regarding accident contribution in Lubelski Węgiel Bogdanka S.A. PLN 20 042 thousand (as at 31 December 2015 PLN 18 727 thousand)
- restoration of mining damages PLN 4 440 thousand (as at 31 December 2015 PLN 8 497 thousand).

33. Net sales revenue

	31.12.2016	31.12.2015
Revenue from sales of electricity	6 548 229	5 696 818
Revenue from sales of distribution services	3 001 032	2 964 470
Revenue from sales of goods and materials	87 004	106 141
Revenue from sales of other services	176 369	146 254
Revenue from sales of certificates of origin	13 739	24 931
Revenue from sales of CO_2 emission rights	32 780	-
Compensation to cover stranded costs	-	293 147
Revenue from sales of heat	312 625	275 118
Revenue from sales of coal	904 424	219 548
Revenue from sales of gas	179 476	121 965
Total net sales revenue	**11 255 678**	**9 848 392**

34. Costs by type

	31.12.2016	31.12.2015
Amortization and depreciation	**(1 110 350)**	**(790 375)**
Costs of employee benefits	**(1 490 752)**	**(989 489)**
- salaries and wages	(1 084 141)	(723 197)
- social security and other benefits	(406 611)	(266 292)
Consumption of materials, raw materials, value of goods and materials sold	**(1 361 884)**	**(1 791 115)**
- consumption of materials and energy	(1 210 310)	(1 688 834)
- cost of goods and materials sold	(151 574)	(102 281)
Cost of energy and gas purchased for resale	**(4 074 797)**	**(3 282 923)**
External services	**(1 525 635)**	**(1 192 707)**
- transmission services	(860 991)	(769 503)
- other external services	(664 644)	(423 204)
Taxes and charges	**(326 537)**	**(290 201)**
Total costs of products, goods and materials sold, selling, marketing, general and administrative expenses	**(9 889 955)**	**(8 336 810)**

(all amounts in PLN '000, unless specified otherwise)

35. Costs of employee benefits

	31.12.2016	31.12.2015
Payroll expenses:	**(1 084 141)**	**(723 197)**
- current salaries and wages	(1 002 605)	(659 269)
- jubilee bonuses	(20 874)	(50 420)
- retirement benefits	(3 236)	(9 364)
- other	(57 426)	(4 144)
Social security and other benefits	**(406 611)**	**(266 292)**
- Social Security premiums	(226 871)	(154 480)
- appropriation to the Company's Social Benefits Fund	(42 792)	(27 647)
- other social benefits	(74 114)	(59 491)
- other post-employment benefits	(11 728)	(12 016)
- other	(51 106)	(12 658)
Total	**(1 490 752)**	**(989 489)**

Employment guarantees

Based on an arrangement entered into by the Group and labor unions, specific employment guarantees have been given to people employed by the Group before 29 June 2007, which expire on 31 December 2018.

Furthermore, the provisions of the aforementioned arrangement will remain in force longer for employees who, at the expiry of the guarantees, have maximum four years to satisfy the conditions to acquire pension rights. This implies that in the event the employer fails to comply with the guarantees, employment contracts may not be terminated without payment of additional benefits to employees who, at the expiry of the guarantees, have maximum four years to satisfy the conditions to acquire pension rights.

Under the employment guarantees, in case the employement contract is terminated by the employer, the Group is obliged to pay an employee an amount being the product of their monthly salary and the remaining period of the guarantee validity.

Under the social agreement concluded on 10 August 2007 between Enea Wytwarzanie S.A. and trade unions workers employed in Enea Wytwarzanie S.A., at the date of entry into force of the agreement, the employment guarantees has been extended for further 11 years, ie. till 30 January 2019.

(all amounts in PLN '000, unless specified otherwise)

36. Other operating revenue and expenses

Other operating revenue

	31.12.2016	31.12.2015
Release of provisions for claims	30 515	3 834
Release of other provisions	9 985	11 083
Reimbursement of expenses by an insurance company	8 332	11 503
Settlement of income due to subsidies and connection fees	24 840	12 603
Damages, fines, penalties	16 750	7 486
Reversal of allowances	6 302	8 856
Fixed assets received free of charge	25 909	11 761
Other operating revenue	21 405	31 976
Total	**144 038**	**99 102**

Other operating expenses

	31.12.2016	31.12.2015
Increase of provisions for claims	(28 654)	(34 511)
Increase of other provisions	(151 627)	(32 063)
Allowances on receivables	(11 413)	(14 416)
Receivables written-off	(14 010)	(31 602)
Impairment loss on inventories	(119)	-
Costs of court proceedings	(9 217)	(5 155)
Trade union related expenses	(1 524)	(1 105)
Compensations for non-contractual use of property	(1 505)	(2 297)
Settlement of pre-existing relationship related to acquisition	-	(94 000)
Other operating revenue	(43 556)	(46 891)
Total	**(261 625)**	**(262 040)**

(all amounts in PLN '000, unless specified otherwise)

37. Financial revenue

	31.12.2016	31.12.2015
Interest income	**41 151**	**50 311**
- bank accounts and deposits	31 815	26 588
- other loans and receivables	9 279	5 478
- other interest income	57	18 245
Foreign exchange differences	**11 176**	**1 733**
Change in fair value of financial instruments	**11 575**	**6 914**
Reclassification of valuation of assets available for sale to profit or loss	**-**	**12 854**
Other financial revenue	**12 448**	**12 685**
Total	**76 350**	**84 497**

38. Financial expenses

	31.12.2016	31.12.2015
Interest expense	**(92 003)**	**(53 444)**
- interest expense on loans and borrowings	(30 067)	(24 644)
- interest expense on bonds	(49 818)	(22 540)
- finance lease cost	(81)	(118)
- other interest	(12 037)	(6 142)
Foreing exchange differences	**(2 081)**	**(121)**
Discounting liabilities due to employee benefits and provisions	**(26 635)**	**(17 317)**
Change in fair value of financial instruments	**(5 647)**	**(8 629)**
Costs of unused bonds	**(120)**	**-**
Other finance costs	**(524)**	**(2 240)**
Total	**(127 010)**	**(81 751)**

39. Income tax

	31.12.2016	31.12.2015
Current tax	(211 464)	(294 969)
Deferred tax	(8 425)	305 069
Total	**(219 889)**	**10 100**

The income tax on gross profit before tax differs from the theoretical amount resulting from application of the nominal tax rate applicable to the Group's consolidated profit in the following manner:

(all amounts in PLN '000, unless specified otherwise)

	31.12.2016	31.12.2015
Profit/ (loss) before tax	1 068 802	(408 978)
Tax at a 19% rate	(203 072)	77 706
Costs not classified as tax-deductible expenses (permanent differences at 19% rate)	(20 830)	(58 850)
Income not subject to taxation (permanent differences at 19% rate)	7 026	5 096
Other at 19% rate	(3 013)	(13 852)
Amount charged to profit or loss due to income tax	**(219 889)**	**10 100**

40. Dividend

The decision concerning the payment of dividend for the current financial year will be made by the shareholders at the Ordinary General Meeting of Shareholders in 2017. The Management Board of the Parent Entity is currently analyzing the possibility of dividend payment for 2016 and as the date of preparation of these consolidated financial statements, the decision concerning distribution of profit for 2016 has not been taken yet. The Management Board of the Parent Entity will present a recommendation on distribution of profit for 2016 at the turn of the first and second quarter of 2017 .

On 27 June 2016 the General Shareholders' Meeting of Enea S.A. adopted Resolution no. 7 concerning cover the net loss of PLN 1 116 888 thousand for the financial period from 1 January 2015 to 31 December 2015 from retained earnings.

On 30 June 2015 the General Shareholders' Meeting of Enea S.A. adopted Resolution no. 7 concerning net profit distribution for the financial period from 1 January 2014 to 31 December 2014 under which the dividend for shareholders amounted to PLN 207 478 thousand. Dividend per share amounted to PLN 0.47. Until the reporting date the dividend was paid to shareholders.

41. Earnings per share

	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Net profit/ (loss) attributable to shareholders of the Parent	784 393	(434 857)
Weighted average number of ordinary shares	441 442 578	441 442 578
Net earnings per share (in PLN per share)	**1.78**	**(0.99)**
Diluted earnings per share (in PLN per share)	**1.78**	**(0.99)**

42. Related party transactions

The companies of the Group conclude the following related party transactions:

- The Group's constituent entities – transactions are eliminated at the consolidation stage;
- transactions concluded between the Group and Members of its governing bodies fall within two categories:
  - those resulting from employment contracts with Members of the Supervisory Board;
  - resulting from other agreements under civil law.

(all amounts in PLN '000, unless specified otherwise)

- Transactions with entities whose shares are held by the State Treasury of the Republic of Poland.

Transactions with members of the Group's governing bodies:

	Management Board of the Company		**Supervisory Board of the Company**	
	01.01.2016 31.12.2016	**01.01.2015 31.12.2015**	**01.01.2016 31.12.2016**	**01.01.2015 31.12.2015**
Remuneration under managerial contracts and consultancy agreements	12 578	8 889	-	-
Remuneration relating to appointment of members of management and supervisory bodies	-	-	484	340
TOTAL	**12 578**	**8 889**	**484**	**340**

As at 31 December 2016 the liabilities resulting from managerial contracts and consultancy agreements to members of the Management Board amount to PLN 315 thousand. The provision for bonuses to members of the Management Board amounts to PLN 3 082 thousand as at 31 December 2016 (as at 31 December 2015: PLN 2 680 thousand), the amounts of provisions are not included in the table above.

The remuneration under managerial and consultancy agreements in 2016 included bonus for 2015 in the amount of PLN 2 653 thousand (in 2015 for 2014: PLN 2 936 thousand) and compensation for non-competition.

Transactions related to loans from the Company's Social Benefits Fund:

	Balance as at 01.01.2016	**Granted from** 01.01.2016	**Repaid till** 31.12.2016	**Balance as at** 31.12.2016
Supervisory Board	27	-	(11)	**16**
Total	**27**	**-**	**(11)**	**16**

	Balance as at 01.01.2015	**Granted from** 01.01.2015	**Repaid till** 31.12.2015	**Balance as at** 31.12.2015
Supervisory Board	22	10	(5)	**27**
Total	**22**	**10**	**(5)**	**27**

Other transactions resulting from agreements under civil law concluded between the Parent and Members of the Parent's Bodies relate only to private use of company's cars by Members of the Management Board of Enea S.A.

The Group also concludes business transactions with entities of the central and local administration and entities controlled by the State Treasury of the Republic of Poland.

The transactions concern mainly:

- purchase of coal, electricity and property rights resulting from certificates of origin as regards renewable energy and energy cogenerated with heat, transmission and distribution services provided by the Group to companies whose shares are held by the State Treasury;

- sale of electricity, distribution services, connection to the grid and other related fees and coal, provided both to central and local administration bodies (sale to end users) and entities whose shares are held by the State Treasury (wholesale and retail sale to end users).

Such transactions are concluded under arm's length terms and their conditions do not differ from those applied in transactions with other entities. The Group does not keep a register which would allow it to aggregate the values of all transactions with state institutions and entities whose shares are held by the State Treasury. The most significant customer of Enea Group among entities controlled by the State Treasury is Energa Group, in 2016 the net sales to the entity amounted to PLN 158 344 thousand (in 2015 Polskie Sieci Elektroenergetyczne Group: PLN 116 602 thousand), the most significant supplier is also Polskie Sieci Elektroenergetyczne Group - net purchase amounted to PLN 917 043 thousand (in 2015 also PSE Group: PLN 815 129 thousand).

43. Concession arrangements on the provision on public services

The key business activities carried out by the Group include generation, distribution, trading in electricity, as well as production and sales of coal.

Enea S.A. received on 5 October 2007 a decision on extension of the validity of the concession for trading in electricity until 31 December 2025.

Pursuant to the provisions of the Energy Law, the President of the Energy Regulatory Office is responsible for granting concessions, exercising supervision over energy companies as well as approval of tariffs. Energy prices, fee rates and the principles for their application laid down in the Tariff are approved by the President of the Energy Regulatory Office based on administrative decisions. Transactions not recognized by the President of the Energy Regulatory Office as held on arms-length, are subject to the obligation to submit tariffs for the approval of the President of URE (with respect to which the President of the Energy Regulatory Office has not issued a decision exempting from the obligation to submit tariffs for the approval). Electricity tariffs covering activities not considered by the President of the Office for Energy Regulation as carried out in competitive conditions are subject to the obligation of submitting to the President of the Office for Energy Regulation (activities for which the President of the Office for Energy Regulation has not issued a decision exempting from the obligation to submit tariffs for approval). Currently, also tariffs for natural gas for final customers are subject to the obligation of submitting to the President of the Office for Energy Regulation, however the Energy Law Act specifies a schedule of exemption from this obligation (as of 1 January 2017, sale at a virtual point of sale of compressed natural gas (CNG) and liquefied natural gas (LNG) is exempt from the tariff rules, as well as sale conducted as part of bids, auctions, and public procurement. From October 2017, prices for final customers other than customers in households will be deregulated. Gas prices for the latter will be deregulated as of 1 January 2024).

In 2016 Enea S.A. applied the following tariffs approved by the President of URE:
- Tariff for electricity for G-tariff group, not using the right to choose the supplier, effective from 1 January 2016,
- Tariffs for methane natural gas (effective from 20 November 2015).

On 12 September 2013 Enea S.A. received a concession for trading in gaseous fuels from the President of Energy Regulatory Office. The concession is valid from 1 January 2014 till 31 December 2030.

Spółka **Enea Operator Sp. z o.o.** has a concession for distribution of electricity effective tiill 1 July 2030.

Enea Wytwarzanie Sp. z o.o. is providing for commercial purposes and on their own account economic activities involving production and sale of electricity and heat production and sale. This activity is covered by the licenses granted by the President of the Energy Regulatory Office - after the merger of the companies Enea Wytwarzanie Sp. Z o.o. operates on the basis of:

Concession for electricity production WEE/115-ZTO-F/1271/W/DSW/2013/TW from 31 December 2013 valid till 31 December 2030 with subsequent amendments introduced by decision WEE/115-ZTO-I/1271/W/DSW/2015/TW dated 27 February 2015 in connection with the transformation of Enea Wytwarzanie S.A. into Enea Wytwarzanie Sp. z o.o.

Concession for heat production WCC/256-ZTO-H/1271/W/DSW/2013/TW dated 31 December 2013 valid till 31 December 2025 with subsequent amendments introduced by decision WCC/256-ZTO-J/1271/W/DSW/2015/TW dated 27 February 2015 in connection with the transformation of Enea Wytwarzanie S.A. into Enea Wytwarzanie Sp. z o.o.

Concession for transmission and distribution of heat PCC/269-ZTO-C/1271/W/DRE/2013/RK dated 31 December 2013 valid till 31 December 2025 with subsequent amendments introduced by decision PCC/269-ZTO-D/1271/W/DRE/2015/Esz dated 23 April 2015 in connection with the transformation of Enea Wytwarzanie S.A. into Enea Wytwarzanie Sp. z o.o.

Concession for electricity trading OEE/702/1271/W/2/2012/KL dated 21 December 2012 valid till 31 December 2030 with subsequent amendments introduced by decision OEE/702A/1271/W/DRE/2015/KCh dated 22 April 2015 in connection with the transformation of Enea Wytwarzanie S.A. into Enea Wytwarzanie Sp. z o.o.

Mining activity of the company **Lubelski Węgiel Bogdanka S.A.** for the economic mining of mineral of hard coal have to be carried out in accordance with the regulations of Geological and Mining Law. The Company has:

The concession for mining of hard coal from the deposit "Bogdanka" from seams 385, 385/2, 389, 391, covered by the mining area "Puchaczów V", issued by the Minister of the Environment No. 5/2009 of 6 April 2009. The concession is valid tilll 31 December 2031.

The concession for mining of hard coal from the deposit "Lubelskie Zagłębie Węglowe - the area of K-3" from seams 379/2, 385/2 and 391, covered by the mining area "Stręczyn" No. 3/2014 of 17 June 2014, issued by the Minister of the Environment. The concession is valid tilll 17 July 2046.

(all amounts in PLN '000, unless specified otherwise)

The concession for recognition of deposit of hard coal from the deposit "Orzechów" No. 29/2014/p of 14 October 2014, issued by the Minister of the Environment. The concession is valid tilll 14 November 2018. At the request of LW Bogdanka the concession was changed based on decision of 7 July 2016 for a maximum period to 14 November 2019.

The concession for recognition of deposit of hard coal from the deposit "Ostrów" No. 25/2014/p of 30 June 2014, issued by the Minister of the Environment. The concession is valid tilll 30 July 2019. The concession was changed at the request of LW Bogdanka on the basis of decision of 10 November 2015 for a maximum period till 30 July 2020.

In September 2014 LWB received a refusal on application for concession for exploitation in the areas of K-6 and K-7, where another entity has a concession for exploration. The appeal has also meet with a refusal. On 12 December 2014 the company filed a complaint against the decision refusing to grant a concession to the Regional Administrative Court in Warsaw. The case is pending.

Enea Trading Sp. z o.o. has the following concessions:
No. OEE/610/19120/W/2/2011/BT for trading in electricity for the period from 1 February 2011 till 31 December 2030.
No. OPG/214/19120/W/2/2012/ŁG for trading in gaseous fuels for the period from 27 November 2012 till 31 December 2030.
No. OGZ/63/19120/W/DRG/2013/KL for trading in gas with foreign customers for the period from 1 August 2013 till 31 December 2030.

MEC Piła Sp. z o.o. and **PEC Sp. z o.o.** in Oborniki have concessions for generation, transmission and distribution of heat till 31 December 2025. MEC Piła Sp. z o.o. has also a concession for production electricity till 31 December 2030.

MPEC Białystok Sp. z o.o. has a concession for trading, production, transmission and distribution of heat till 30 September 2018.

44. Future payments due to the right of perpetual usufruct acquired for a consideration and free of charge as well as lease, rental and operating lease agreements

The future liabilities arising from the right of perpetual usufruct (estimated based on 2016 fees) apply to the remaining term of agreements for the use of land (40-99 years).

	31.12.2016	31.12.2015
Up to 1 year	5 418	5 621
1 – 5 years	21 676	23 666
Over 5 years	370 914	387 860
	398 008	**417 147**

(all amounts in PLN '000, unless specified otherwise)

Future liabilities arising from lease, rental and operating lease agreements:

	31.12.2016	31.12.2015
Up to 1 year	20 402	17 850
1 – 5 years	43 300	17 354
Over 5 years	33 917	25 089
	97 619	**60 293**

Perpetual usufruct, lease and rental expenses incurred in period:

	2016	2015
Perpetual usufruct of land	5 621	4 912
Lease, rental and operating lease agreements	17 850	11 491

Operating lease payments recognized in expenses

	31.12.2016	31.12.2015
Minimum lease payments	(8 275)	(11 491)
	(8 275)	**(11 491)**

45. Future liabilities under contracts concluded as at the end of the reporting period

Contractual obligations related to acquisition of property, plant and equipment and intangible assets assumed as at the end of the reporting period, not yet recognized in the statement of financial position:

	31.12.2016	31.12.2015
Acquisition of property, plant and equipment	1 644 896	2 402 418
Acquisition of intangible assets	38 134	12 301
	1 683 030	**2 414 719**

46. Employment

	12 months ended 31.12.2016	12 months ended 31.12.2015
Blue-collar positions	8 998	5 381
White-collar positions	5 889	5 366
TOTAL	**14 887**	**10 747**

The information in the table is presented in FTE equivalent. Managerial positions are qualified as white collar.

(all amounts in PLN '000, unless specified otherwise)

47. Contingent liabilities and proceedings before courts, arbitration or public administration bodies

47.1. Sureties and guarantees

The table below presents actual relevant bank guarantees under the agreements concluded with BZ WBK S.A. and Pekao S.A. as at 31 December 2016 to the limits specified therein:

Date of guarantee	Guarantee period	Guarantee for	Bank - issuer	Guarantee value in PLN thousand
01.01.2016	11.08.2018	Górecka Projekt Sp. z o.o.	BZ WBK S.A.	1 662
21.12.2016	30.01.2018	Urząd Marszałkowski Województwa Zachodniopomorskiego in Szczecin	BZ WBK S.A.	1 325
Total of guarantees issued				**2 987**

Guarantees as at 31 December 2015

Date of guarantee	Guarantee period	Guarantee for	Bank - issuer	Guarantee value in PLN thousand
01.01.2015	31.12.2015	Górecka Projekt Sp. z o.o.	Pekao S.A.	1 600
Total of guarantees issued				**1 600**

The value of other guarantees issued by Enea Group as at 31 Dcember 2016 amount of PLN 3 733 thousand (as at 31 December 2015 of PLN 5 076 thousand).

Guarantees of Lubelski Węgiel Bogdanka S.A.

Date of guarantee	Guarantee period	Guarantee for	Bank - issuer	Guarantee value in PLN thousand
19.09.2012	30.09.2021	Ministry of Environment	PKO BP S.A.	19 000
06.06.2013	30.09.2021	Ministry of Environment	PKO BP S.A.	1 500
27.10.2015	31.01.2018	UTA Polska Sp. z o.o.	PEKAO S.A.	50

47.2. Pending proceedings before courts of general jurisdiction

Actions brought by the Group

Actions which Enea S.A. and Enea Operator Sp. z o.o. brought to courts of general jurisdiction refer to claims for receivables due to sale of electricity (the so–called electricity cases) and claims for other receivables – illegal consumption of electricity, connections to the grid and other specialized services (the so-called non-electricity cases).

Actions brought to courts of general jurisdiction by Enea Wytwarzanie Sp. z o.o. are connected mainly with claims for outstanding invoice payments and contractual penalties from the Company vendors.

As at 31 December 2016 the total of 16 487 cases brought by the Group were pending before common courts for the total amount of PLN 161 308 thousand (11 584 cases for the total amount of PLN 219 468 thousand as at 31 December 2015).

None of these cases can significantly affect the Group's net profit.

Actions brought against the Group

Actions against the Group are brought both by natural and legal entities. They mainly refer to issues such as compensation for interrupted delivery of electricity, identification of illegal electricity consumption and compensation for use by the Group of real property where electrical devices are located. The Group considers actions concerning non-contractual use of real property as particularly important (Note 47.5).

As at 31 December 2016 there were 2 314 cases pending before common courts which have been brought against the Group for the total amount of PLN 368 702 thousand (as at 31 December 2015 2 282 cases for the total amount of PLN 301 815 thousand). Provisions related to the court cases are presented in note 32.

47.3. Arbitration proceedings

Proceeding brought by Mostostal Warszawa S.A. and Acciona Infraestructuras S.A. against Lubelski Węgiel Bogdanka S.A. is conducted before the Arbitration Court at the Polish Chamber of Commerce in Warsaw under file number SA 64/15. Arbitration proceeding was commenced on the basis of request for arbitration filed by the Consortium on 7 April 2015. The amount of consortium's claim is approx. PLN 16.2 million (the above-mentioned claim includes the amount of the bank guarantee that was allegedly received unfoundedly by LWB, interest and costs borne by the consortium as a result of LWB benefitting from the guarantee). On 30 October 2016, the consortium submitted a reply. Currently, the works on rejoinder of LWB are underway. In the meantime, LWB brought action against the consortium before the Regional Court in Lublin for negative declaration on the absence on the part of the LWB of obligation to satisfy consortium's claims resulting from the contract on extending Zakład Przeróbki Mechanicznej Węgla (the Court of Arbitration at the Polish Chamber of Commerce in Warsaw decided that it is non-competent in terms of the aforementioned claims). The claim is aimed at determining that the consortium implemented the contract on extending Zakład Przeróbki Mechanicznej Węgla unduly and, therefore, charging of contractual penalties by LWB was reasonable.

(all amounts in PLN '000, unless specified otherwise)

47.4. Proceedings before public administration bodies

Regarding Enea Wytwarzanie Sp. z o.o. before the public administration bodies and administrative courts are carried out proceedings on:

1) Application of Towarzystwo na rzecz Ziemi for annulment of an integrated permit. The Minister for the Environment refused to initiate proceedings. The Society lodged complaint with the Voivodeship Administrative Court in Warsaw with regard to the Minister's decision. VAS rejected the complaint. Towarzystwo na rzecz Ziemi lodged a complaint in cassation to Supreme Administrative Court on 24 April 2014. On 2 February 2016, a hearing before SAC took place, due to irregularity in terms of notifying of the Minister of Environment the Court postponed the proceedings until 7 April 2016. SAC set aside the judgment of VAS and the decision of the Minister on refusal to initiate proceedings, the decision is a final decision. On 20 May 2016, the representative of Enea Wytwarzanie Sp. z o.o. was provided with the copy of the original of the judgment together with a substantiation. On 16 June 2016, the Minister of Environment was provided with the copy of the file relating to the proceeding. By the decision of 26 July 2016, the Minister of Environment refused to initiate proceedings. The decision was upheld by virtue of the decision of the Minister of 21 September 2016. Towarzystwo na rzecz Ziemi lodged a complaint to Voivodeship Administrative Court in Warsaw with regard to the decision of the Minister of Environment of 21 September 2016 upholding the decision of the Minister of Environment of 26 July 2016 on refusal to initiate proceedings on annulment of the decision of the Marshal of the Mazovian Voivodeship of 31 January 2011 – integrated permit for Block 11. The complaint was not submitted to the representative of the company,

2) Complaint filed by foundation ClientEarth Poland about permission to participate in administrative proceedings in case of emission of greenhouse gas, proceeded on the basis of art. 50 of Act on trading greenhouse gas emission privileges from 28 April 2011. The Supreme Administrative Court (NSA) repealed the WSA's sentence. The Marshal of the Mazovian Voivodeship refused to admit the Foundation, which filed a complaint to the Minister of Environment. The Minister of Environment upholds the decision of the body of the first instance. The Foundation submitted complaint with regard to the decision of the Minister to VAC in Warsaw, VAC dismissed the complaint. The Supreme Administrative Court, by the judgment of 20 May 2015, set aside the judgment of the Voivodeship Administrative Court in Warsaw and referred the case back for reconsideration. The Voivodeship Court, by the judgment of 5 November 2015, set aside the decisions of the Minister and the Marshal on refusal to admit the Foundation to participate in the proceedings. Complaint in cessation was lodged by the company with regard to the judgment of VAC in Warsaw of 5 November. On 21 January 2016, the Minister of Environment lodged a complaint as well. Currently, the case was delegated to SAC, where it was assigned a case no. II OSK 552/16,

3) The proceedings conducted by the Regional Environmental Protection Directorate, case no. WPN-II.6334.1.2015/2016.AA.10, with regard to the activity carried out by Enea Wytwarzanie Sp. z o.o. consisting in construction of a temporary stabilising check dam at 426 kilometre of the coast of Vistula, between the cooling water intake and the cooling water discharge canal of the Kozienice Power Plant, in Świerże Górne. On 14 December 2016, the Regional Director for Environment Protection in Warsaw issued a decision by which it decided to dismiss the proceedings conducted in accordance with the procedure stipulated by Article 37 section 1. The parties are entitled to appeal against the decision,

4) Obtaining decision on environmental permits with regard to the stabilising check dam. The legal predecessor of Enea Wytwarzanie Sp. z .o.o. submitted an application for issuing decision on environment permits

with regard to the stabilising check dam together with the corresponding infrastructure. The parties and participants to the proceedings are: Enea Wytwarzanie Sp. z o.o., Polish Society for the Protection of Birds, Society for Nature Protection, Society for Earth. The case is pending.

Proceedings conducted by public administration courts regarding company Lubelski Węgiel Bogdanka S.A. refer, inter alia, to disputes with local government units regarding real property tax. The question stems from the fact that the Company, drawing up the real property tax, did not take into account (similarly to other mining companies in Poland) the value of underground mining pits or the value of equipment included in them in the calculation of this tax. The suits refer to both the reimbursement of surplus payments, and the establishment of basis for taxation with real property tax for 2004-2007 in terms of surplus payments, and for 2008-2012. To cover possible claims in real property tax, the Company has established provisions of PLN 32 456 thousand.

Furthermore, a proceeding is conducted by the District Court in Lublin, regarding ZUS claims in accident insurance contribution – namely the legitimacy of requalification of accidents at work and the repeal of sanction imposed as a result of ZUS (Lublin Division) inspection of the Company. The company has provisions of PLN 20 042 thousand to cover any possible claims in this respect. On 7 February 2017, The District Court in Lublin issued a judgement in the proceedings against the Social Insurance Institute (ZUS) Lublin Branch requesting that the decision issued by the Social Insurance Institute (ZUS) Lublin Branch relating to the determination of the percentage share of the accident insurance ZUS contribution for the settlement period from 1 April 2013 to 31 March 2014 and from 1 April 2014 to 31 March 2015 and penalizing the Company by imposing sanctions constituting an increase in the rate referred to above by 50% be revoked or potentially amended. Based on the above judgement, the District Court changed the appealed decision so that the Company does not have to pay the ZUS accident insurance contribution at an interest rate increased by 50%, and the interest rate of the accident insurance contribution is to be the rate previously determined by the Company. The judgement is not yet final.

The contingent liability in reference to legal claims concerning the remuneration for the co-creators of inventions covered by patents No. 206048 and 209043, functioning in the Company, from which the Company does not create provisions, mainly may result from an inability to assess the merits of the amount of the claim and the discrepancy between the Company's position and the position of the co-creators of inventions, covered by aforementioned patents.
The value of potential liability at the date of publication these consolidated financial statements acqusition is PLN 48 million. The Company estimated the provision for the remuneration for the co-creators of inventions in accordance with their best knowledge and principles previously applied by the Company. In the position of provision for legal claims, the Company presents on the acquisition date, provision for claims relating to remuneration for the co-creators of inventions covered by patent No. 206048 and 209043, functioning in LWB. Remuneration's value issue will be a subject to the work of court experts or experts mutually accepted by both parties, and it shall be carried out after drawing up of technical opinion on the inventions covered by a patent. On 24 March 2016, an expert witness drew up an opinion a number of reservations were made with regard to in the course of year 2016. The subsequent step shall be examination of the expert witness in terms of the drawn up opinion – the date for the hearing has not

been selected yet, but it is expected that the hearing takes place in the first quarter of 2017. Related provision as at 31 December 2016 amounted to PLN 3 554 thousand.

47.5. Risk related to the legal status of property used by the Group

The risk related to the legal status of the property used by the Group results from the fact that the Group does not have all legal titles to use the land where transmission networks and the related devices are located. The Group may have to incur costs related to non-contractual use of property in the future.

Considering the legal status, there is a risk of incurring additional costs related to compensation claims for non-contractual use of land, rental fee or, rarely, claims related to the change of facility location (restoring land to its previous condition).

Decisions related to these issues are significant as they considerably affect both the Group's strategy towards persons who raised pre-trial claims related to devices located on their land in the past and the approach to the legal status of devices in case of new investments.

The risk of loss of assets is low. The lack of legal status of the land where transmission networks are located does not constitute the risk of loss of Group's assets, but generates potential additional costs to be incurred as a result of claims for non-contractual use of land, rental and easement fees or exceptionally, in individual cases, relocation of assets (restoration of the land to the original state). The relevant provisions for that purpose have been made by the Group.

Enea Group also recognized provision for the compensations for non-contractual use of the real properties on which the grid assets are located (power lines), in connection with transmission corridors and transmission easements on the above mentioned real properties.

As at 31 December 2016 the Group recognized the provision for non-contractual use of land in the amount of PLN 203 291 thousand.

47.6. Motions for settlement of not balanced energy trading in 2012

On 30 and 31 December 2014 Enea S.A. submitted motions for settlement to:

	Claimed amounts in PLN thousand
PGE Polska Grupa Energetyczna S.A.	7 410
PKP Energetyka S.A.	1 272
TAURON Polska Energia S.A.	17 086
TAURON Sprzedaż GZE Sp. z o.o.	1 826
FITEN S.A.	207
Total	**27 801**

The subject of motions was claim for the payment for electric energy incorrectly settled under the system of energy balancing in 2012. Claimed companies earned unjustified benefits by refusing Enea S.A. to issue invoice corrections for 2012.

In the absence of amicable settlement of the above case, Enea S.A. filed the following lawsuits against above mentioned entities:

- FITEN S.A. - lawsuit of 24 November 2015,
- TAURON Polska Energia S.A. – lawsuit of 10 December 2015,
- TAURON Sprzedaż GZE Sp. z o. o. – lawsuit of 10 December 2015,
- PKP Energetyka S.A. – lawsuit of 28 December 2015,
- PGE Polska Grupa Energetyczna S.A. – lawsuit of 29 December 2015.

Two entities ie. PKP Energetyka S.A. and PGE Polish Energy Group S.A. have agreed for mediation, however no settlement of the dispute was reached. In the case against FITEN S.A. the court in the first instance issued a judgment dismissing the complaint of Enea S.A., from which the appeal will be filed. In other proceedings, there have been no settlement of disputes.

47.7. Dispute concerning energy origin certificate prices

Before the District Court in Poznań the proceeding brought by PGE Górnictwo i Energetyka Konwencjonalna S.A. is pending against the Company for the payment of PLN 42 351 thousand concerning purchased certificates of origin. Enea SA made a deduction from the payment for certificates of origin (by offsetting with invoices for certificates of origin) in respect of a damage caused by PGE GiEK S.A. to Enea S.A. The damage resulted from the fact that PGE GiEK S.A. did not fulfill the contractual obligation to accede to renegotiate long-term contracts for certificates of origin in accordance with the adaptive clause applicable to both Parties.

A reply to the action brought by PGE GIEK S.A. was made on 11 August 2016. In response to the lawsuit Enea SA made a motion to strike and dismiss the lawsuit in full. The mediation proceeding between the parties is currently in progress.

There are four another similar cases proceeded by the District Court in Poznan.

47.8. The contracts for the purchase of property rights from the certificates of energy origin from renewable sources

On 28 October 2016, Enea S.A. submitted representations, depending on the contract: notice of termination or withdrawal from long-term contracts for the purchase of property rights from the certificates of energy origin from renewable sources (the so-called green certificates) (the Contracts).

The Contracts were concluded in the years 2006-2014 with the counterparties listed below, who own the renewable energy generation plants ("Counterparties"):

- Farma Wiatrowa Krzęcin Sp. z o.o. with its registered office in Warsaw;

- Megawind Polska Sp. z o.o. with its registered office in Szczecin;
- PGE Górnictwo i Energetyka Konwencjonalna S.A. with its registered office in Bełchatów;
- PGE Energia Odnawialna S.A. with its registered office in Warsaw;
- PGE Energia Natury PEW Sp. z o.o. with its registered office in Warsaw;
- "PSW" Sp. z o.o. with its registered office in Warsaw;
- in.ventus Sp. z o.o. EW Śniatowo sp.k. with its registered office in Poznań;
- Golice Wind Farm Sp. z o.o. with its registered office in Warsaw.

As a rule, the Contracts were terminated as of the end of November 2016. The exact date of termination of particular Contracts followed from the contractual provisions.

The reason for the Company terminating/withdrawing from particular Contracts was the exhaustion of the possibilities of recovering the contractual balance and equivalence of the parties' performance caused by amendments to the law.

Amendments to the law which occurred after the conclusion of the said Contracts, in particular:

- the Regulation of the Minister of Economy dated 18 October 2012 on the detailed scope of duties relating to obtaining certificates of origin and presenting them for redemption, paying the substitution fee, purchase of electric energy and heat generated from renewable sources and the duty to confirm data relating to the amount of electric energy generated from renewable sources (Journal of Laws of 2012, item 1229);
- the Act on renewable energy sources of 20 February 2015 (Journal of Laws of 2015, item 478) and the consecutive amendments to the law related to the Act, and draft amendments, in particular:
  - the Act of 22 June 2016 on amending the Act on renewable energy sources and certain other acts (Journal of Laws of 2016, item 925); and
  - the draft Regulation of the Minister of Energy on changing the share of electric energy resulting from the redeemed certificates of origin confirming the generation of electric energy from renewable sources, which is to be issued based on the authorization following from Article 12, section 5 of the Act of 22 June 2016 on amending the Act on renewable energy sources and certain other acts;

caused an objective inability to prepare reliable price forecast models for green certificates.

The financial effect of the termination of the Contracts is that the Company avoided incurring a loss in the amount of the difference between the contractual prices and the market prices of the green certificates.

The estimated total non-discounted value of the contractual liabilities of Enea S.A. as at 31 December 2016 amounted to approx. PLN 1 187 million, net. The Company recognized provision for potential claims following from the terminated Contracts with reference to the requested transactions for the sale of property rights by counterparties presented until 31 December 2016.

48. The participation on the construction of the atomic power plant programme

On 15 April 2015 KGHM, PGE TAURON and Enea concluded Share Purchase Agreement in PGE EJ 1. Each of KGHM, TAURON and Enea acquired from PGE 10% of shares (total 30%) in PGE EJ 1. Enea paid PLN 16 million for the acquired shares.
On 21 December 2016 (on 16 December 2016 the Extraordinary Shareholders' Meeting began however, it has been declared a break till 21.12.2016) the Extraordinary Shareholders' Meeting of PGE EJ1 adopted a resolution to increase the share capital of the Company approximately by PLN 35 million through issue of 248 220 new shares in the nominal value of PLN 141 each and cover them with cash. According to the decision of the Extraordinary Shareholders' Meeting Enea acquired in the total nominal value of approximately PLN 3.5 million, and covered them with cash of approximately PLN 3.5 million.

In accordance with the Shareholder Agreement, the financial commitment of Enea S.A. during the Initial Phase will not exceed the amount of approximately PLN 107 million in a front of contributions to the share capital of PGE EJ 1 Sp. z o.o.

Enea S.A. as a partner is obliged to vote to increase the share capital of PGE EJ 1, aiming to provide PGE EJ 1 with funds required to realize investment. Furthermore, Enea S.A. is obliged to acquire shares in the increased share capital, in the amount resulting from the percentage of shares held (10%) and cover the shares in cash in accordance with relevant resolutions.
During 2016 no financial actions were taken to provide the Company with funds other than the share capital increase.

Under the Shareholders Agreement, Enea S.A. is involved in financing activities of PGE EJ 1, in accordance with the approved schedule of financing. As at the date of the preparation of these information, there are no agreement planned, which may impose the obligation to provide other support or to provide assistance in obtaining financial support on Enea S.A.

PGE EJ 1 planned agreements are connected with the realization of the purpose, for which the Company has been established, which is the preparation of the investment process, construction, operation of nuclear power plant with a capacity of approximately 3 000 MW in Poland and its liquidation at the end of the commercial operation.Due to the nature of the core business of the Company and the initial phase of the project, the operating expenses and capital expenditures cannot be balanced by income that will be achieved after the investment. Financing the company's business is carried out only through the share capital increases. All Shareholders, including Enea, are obliged to provide such forms of financial support.

Reduction of Enea's exposure to risk in connection with participation in PGE EJ 1 Sp. z o.o. is also realized by regulations of PGE EJ 1 Agreement. In accordance with the aforementioned Agreement, the Management Board of PGE EJ 1 is obliged to obtain the approval of the Supervisory Board, inter alia, before the management of rights or incurring liabilities of the individual value exceeding PLN 1 000 thousand but not exceeding PLN 40 000 thousand with additional reservations contained in the Agreement. Additionally, competences of the Shareholders' Meeting include, inter alia, approval for the management of rights or incurring liabilities of the value exceeding PLN 40 000 thousand, with additional reservations contained in the Agreement.

Parties, providing financial support (capital increases) to PGE EJ 1 business activity, are at present all Shareholders of the Company – PGE S.A., KGHM S.A., TAURON S.A. and Enea S.A., with respectively 70%, 10%, 10%, 10% of the shares in the Company's share capital.

As at 31 December 2016 and the date of preparation of these consolidated financial statements, Enea S.A. holds 220 467 shares in the share capital of PGE EJ 1 Sp. z o.o. with a total nominal value of approximately PLN 31 085 thousand, representing 10% of the total number of shares/votes. In accordance with Article 5.3.7 of the Shareholders Agreement, the resolutions to increase the share capital on the Development Phase will allow share capital increase, provided all shareholders acquire and pay for shares in the increased share capital, proportionally to their shares, unless the parties agree otherwise. Therefore, Enea's share in the share capital of the company will not be changed without the consent of Enea S.A.

49. Aquistion of shares in Polimex–Mostostal S.A.

On 6 December 2016 targeted talks commenced between the Company and the following companies: Energa S.A., PGE Polska Grupa Energetyczna S.A., PGNiG S.A. ("Investors") and between Investors and Polimex-Mostostal S.A. ("Polimex"). The goal of the talks is drafting the structure of a potential equity interest of Investors in Polimex ("Investment") and development of a prospective model of cooperation between Investors on the investment implementation.

On 27 December 2016, Enea S.A. signed with Investors and Polimex a letter of intent in which the Investors expressed their intention to consider a potential investment in Polimex and based on which they commenced talks with Polimex with the purpose of specifying detailed parameters of the transaction. At the same time, on the same day, the Company and the Investors, lodged a motion with the Office for Competition and Consumer Protection ("UOKiK") for issuing the approval by the President of UOKiK to perform the concentration being the takeover by the Investors of a joint control over Polimex. The approval to perform the concentration, being the acquisition by the Investors of a joint control over Polimex was issued on 18 January 2017.

At the same time, also on 18 January 2017, the Company entered into an investment agreement with the Investors and Polimex, based on which the Investors undertook to make an investment in Polimex. The investment is the takeover by the Investors of a total of 150 million shares issued by Polimex. The Company undertook to subscribe for r 37.5 million shares of the new issue for the total issue price of PLN 75 million. The agreement was concluded under conditions precedent described in detail in Current Report 2/2017. Along with the above mentioned agreement, agreements specifying the principles of co-operation as well as mutual rights and obligations of the Investors when carrying out the above mentioned investment were concluded, as well as additional agreements related to the implementation of the investments, concluded with the creditors and hitherto shareholders of Polimex.

On 20 January 2017, due to the fulfilment of the conditions precedent reserved in the investment agreement referred to above the Company accepted the offer, submitted by the management board of Polimex, of private subscription for 37.5 million shares at the issue price of PLN 2 per share, i.e. for the total issue price of PLN 75 million. In addition, under one of the above additional agreements, on 20 January 2017, the Company acquired 1.5 million shares of Polimex from its hitherto shareholder. The purchase price of all the shares was PLN 80.6 million, and the estimated costs related to the purchase of the shares amounted to PLN 1 million. Enea S.A. acquired 16.48% interest.

On 21 March 2017 Investors announced a tender offer for shares of Polimex as a result of exceeding the 33% threshold of the total number of votes at the general meeting of Polimex. Tender offer is of secondary nature and Investors intend to aquire in tender offer shares in excess of number of shares currently held by Investors (i.e. in total 65.93% of the total number of votes in Polimex) and get no more than 66% of total votes at the general meeting of Polimex. As a result of tender offer each of Investors (including Enea) intends to get no more than approximately 0.018% of total votes at the general meeting of Polimex.

50. Acquisition of shares of ENGIE Energia Polska S.A.

On 30 September 2016 Enea S.A. submitted an offer for the purchase of 100% of shares in ENGIE Energia Polska S.A. The offer was submitted according to the description in the process initiated by ENGIE, the owner of 100% of the shares in ENGIE Energia Polska, which considered their sale. On 2 December 2016 the Company obtained exclusivity rights to further negotiations of the purchase of 100% of shares in ENGIE Energia Polska S.A., owned by ENGIE.

On 23 December 2016 the Company and ENGIE International Holdings B.V. signed a conditional agreement for sale of 100% of shares of ENGIE Energia Polska S.A. ("the Agreement"). Based on the Agreement the Company will purchase 100% of shares in share capital of ENGIE Energia Polska S.A. and also indirectly 100% of shares of ENGIE Bioenergia sp. z o.o. ENGIE Energia Polska S.A. is the owner of the Połaniec Power Plant.

The enterprise value of ENGIE Energia Polska S.A. (i.e. calculated excluding debt and cash in the company) has been agreed at the amount of PLN 1 073 140 672. The final price of 100% of shares of ENGIE Energia Polska S.A. will be calculated on the basis of the established enterprise value adjusted by net debt and working capital as of 31 December 2016.

Closing of the transaction is conditional upon fulfilment of the following significant conditions precedent:

- obtaining the consent of the Minister of Energy, in accordance with the Act on Control over Certain Investments,
- obtaining the consent of the President of the Office of Competition and Consumer Protection for concentration,
- renunciation of pre-emptive right by the President of the Agricultural Property Agency, and
- conversion of debt of ENGIE Energia Polska S.A. owed to entities within the ENGIE Group into equity in ENGIE Energia Polska S.A.

The Agreement will expire after 6 months from its signing, if 100% of shares of ENGIE Energia Polska S.A. are not purchased within said deadline due to failure to fulfil conditions precedent.

On 28 February 2017, the Company received the information on the satisfaction of the last of the said conditions, which means that all the conditions precedent have been fulfilled.
On 2 March 2017 the Company received the calculation of the initial selling price of 100% of shares in ENGIE Energia Polska SA in the amount of PLN 1 264 159 355 from ENGIE International Holdings B.V. The initial selling price was determined in accordance with the terms of the Agreement, and will be subject to verification by the Company and to

potential adjustments in the period occurring directly after taking the control over ENGIE Energia Polska S.A., under the terms specified in the Agreement, compliant with the market standards applying to such transactions. The estimated costs related to the purchase of shares amounted to PLN 3.4 million. Transaction is consistent with Enea Capital Group's Development Strategy until 2030 approved in September 2030. With this transaction the Group will increase its share in domestic electicity production and will be vice-leader of Polish market of electricity producers. As the date of preparation of these consolidatet financial statements, process of purchase price allocaton has not been completed. As at 28 February 2017, the estimated net value of assets of the group acquired amounts to PLN 1 296 143 854.

On 14 March 2017 Enea S.A. acquired 100% of shares in ENGIE Energia Polska S.A., i.e. 7,135,000 shares entitled to the same amount of votes for the initial price of PLN 1 264 159 355.

51. Concluding the Investment Agreement with Energa S.A. and Elektrownia Ostrołęka S.A. on the construction and operation of a power unit in Ostrołęka Power Plant

19 September 2016 the Company and Energa S.A. signed a Letter of Intent relating to undertaking the cooperation on the preparation, implementation and operation of a modern 1,000 MW coal-fired unit in Ostrołęka Power Plant (Investment, Ostrołęka C).

The Parties' intention is joint elaboration of Ostrołęka C effective business model, verification of its design documentation and optimisation of technical and economic parameters of the new unit. The cooperation will also include drafting of documents necessary for the initiation of a tender procedure and selecting the Investment's general contractor.

In the Parties' agreeable assessment, the Investment implementation will positively affect the Polish energy security, will satisfy the highest environmental standards and will guarantee the next, stable, highly efficient and low-emission source of energy in the Polish Power System.

On 8 December 2016, the Company concluded the Investment Agreement on the implementation of the project Ostrołęka C. The subject of the Agreement is preparation, construction and exploitation of the above mentioned power unit. P Pursuant to the concluded Agreement, the cooperation, as a rule, will be organised in three stages: Development Stage - until the instruction to commence works for the general contractor; Construction Stage - until the commissioning of Ostrołęka C for commercial exploitation and Exploitation Stage - commercial exploitation of Ostrołęka C. After the Development Stage Enea S.A. is obliged to participate in the Construction Stage with the assumption that the Project profitability condition is satisfied, and Project financing will not infringe upon the Company's bank covenants. It is estimated that the total investment outlays of Enea S.A. until the completion of the Development Stage will total approx. PLN 128 million. For the implementation of the Investment Energa S.A. will dispose of the shares held in Elektrownia Ostrołęka S.A., constituting 50% in the share capital, to Enea S.A., in the amount of ca. PLN 101 million. A condition precedent suspending the Investment Contract's entry into force was obtaining the consent of the President of the Office of Competition and Consumer Protection to perform the consolidation being the acquisition of the shares in the special purpose vehicle to implement the Project. The condition was fulfilled on 11 January 2017.

On 19 December 2016, the special purpose vehicle announced a tender procedure to select the general contractor for the construction of the Ostrołęka C power plant with capacity of approx. 1 000 MW and net fuel efficiency of at least

45 per cent, operating on supercritical steam parameters. Elektrownia Ostrołęka S.A., if certain assumptions are implemented (including an adequate share of Enea S.A., Energa S.A. and possible Financial Investors), and assuming that Capacity Market or other assistance mechanisms are introduced, will be able to undertake the comprehensive implementation of the Project.

52. Signing the letter of intent on the preliminary interest in financial involvement in Katowicki Holding Weglowy S.A.

In relation to the process of acquiring capital investors by Katowicki Holding Węglowy S.A., in July 2016 Enea S.A. started talks with possible investors on the possibility of implementation of the Investment and its possible parameters.
On 28 October 2016 the Company and Węglokoks S.A. and Towarzystwo Finansowe Silesia Sp. z o.o. (Investors) signed a Letter of Intent expressing the preliminary interest in the financial participation in Katowicki Holding Węglowy S.A. seated in Katowice or in KHW's assets.
Investors' participation in KHW depends on the satisfaction of numerous conditions related to e.g. presentation of an acceptable business plan and financial model and obtaining the required corporate consents.

The Investors' final decisions as regards the participation in KHW will be made e.g. after the analysis of the due-diligence performed and after the determination of the final shape of all the other arrangements.

53. Initial offer for acquisition of EDF's assets in Poland

On 16 September 2016 Enea S.A. and PGE S.A., Energa S.A. and PGNiG Termika S.A. ("Business Partners") jointly submitted a preliminary, nonbinding offer to EDF International SAS ("EDF") for the purchase of shares in companies belonging to EDF in Poland, holding conventional generating assets and pursuing a service activity.
On 30 November 2016 the Company and Business Partners submitted a new offer to EDF) for the purchase of shares in companies belonging to EDF in Poland, holding conventional generating assets and pursuing a service activity. The submission of the new offer by Business Partners was made in relation to the upcoming expiry of the offer submitted on 16 September 2016.
On 27 January 2017, the Company and Business Partners signed an agreement with EDF Investment SAS on negotiations related to the purchase of EDF assets in Poland as well as due diligence process in this scope. The Transaction includes acquisition of all EDF shares in EDF Polska S.A., which, in particular, is the owner of 4 combined heat and power plants, namely Kraków, Gdańsk, Gdynia and Toruń and heat distribution networks in Toruń, Rybnik Power Plant, and acquisition of all EDF shares in ZEC "Kogeneracja" S.A., which is the owner of 4 combined heat and power plants, namely Wrocław, Zielona Góra, Czechnica and Zawidawie and heat distribution networks in Zielona Góra, Siechnice and Zawidawie.
On 15 March 2017 Business Partners amended the structure of the transaction in the following way:
- withdrawal of PGNiG Termika S.A. from the transaction;
- takeover of the so far declared share of PGNiG Termika S.A. in the transaction by PGE S.A., which results in the growth in PGE S.A.'s share in the transaction to 60%,

- maintaining the shares of Enea S.A. and Energa S.A. in the transaction on the same level of 20% for each of the Companies.

The aforementioned amendments in the Transaction structure require confirmation of filing no objections by EDF.

54. Agreement for the purchase of the company Eco-Power Sp. z o.o.

Fen Wind Farm B.V. with its registered office in Amsterdam and Wento Holdings S.à r.l. with its registered office in Luxembourg ("Claimants") sued Enea Wytwarzanie Sp. z o.o. for concluding an agreement for the sale of shares in Eco-Power Sp. z o.o. for a price which included the base amount of PLN 286 500 000,00.

Enea Wytwarzanie Sp. z o.o. did not acknowledge the grounds for the above claim and in its response to the claim (and in other pleadings and in the preparatory document dated 7 January 2017) it filed a motion to dismiss the claim in its entirety and for adjudging the costs of the proceedings from the Claimants on its behalf. The date of the first hearing was set for 10 April 2017.

According to valuation of the shares of Eco-Power Sp. z o.o., the Group created provision in the amount of PLN 129 000 thousand, which results from the difference between agreement price considering base amount PLN 286 500 000,00 and the value calculated according to the Enea SA model.

55. Description of key accounting principles

The key accounting principles applied in the preparation of these consolidated financial statements have been presented below. The principles have been applied consistently in all presented financial periods.

55.1. Basis of preparation

These consolidated financial statements for the financial year ended 31 December 2016 have been prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union ("IFRS EU").

These consolidated financial statements have been prepared on the historical cost basis, except for financial assets measured at fair value through profit or loss and financial assets available for sale.

The Group's accounting policies have been applied consistently and ammendmends to standards, that became effective in the reporting period, did not have any material impact on the financial statements.

55.2. Consolidation principles

(a) Subsidiaries

Subsidiaries include all entities whose financial and operational policy may be managed by the Group, which usually results from the majority of votes in the Company's decision-making bodies. When assessing whether the Group controls an entity, the existence and impact of potential voting rights that may be exercised or exchanged at a given moment are taken into consideration. The subsidiaries are subject to consolidation using the full method as from the date of the Group's assumption of control over such entities. They are not consolidated starting from the date when the Group loses control over them.

The cost of business combination, which is not under common control, is measured as the fair value of the acquired assets, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets, liabilities and contingent liabilities acquired in a business combination are measured initially at their fair value at the acquisition date, irrespective of the non-controlling interest, if any.

The Group measures non-controlling interests in proportion to their share in the fair value of identifiable acquired net assets. In the following periods the value of non-controlling interests accounts for the amount recognized at the initial recognition adjusted by changes in the subsidiary's net assets in proportion to the non-controlling interests' share. The total comprehensive income is allocated to non-controlling interests even when it results in their negative value.

If a gain for a bargain purchase occurs, the Group verifies the fair value of each net asset acquired. If following the verification, the outcome remains negative, it is recognized in profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between Group's companies are eliminated. Unrealized losses are also eliminated unless there is an impairment indicator of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates and jointly-controlled entities

Associates include all entities over which the Group has a substantial influence without exercising control, which usually results from holding 20%-50% of the total number of votes in an entity's decision-making bodies. Investments in associates are accounted for using the equity method and are initially recognized at cost. Any surplus of the cost over the fair value of identifiable net assets of an associate as of the acquisition date is recognized as goodwill. Goodwill is included in the carrying amount of investments with impairment measured in relation to the total investment value. Any surplus of the Group's interest in the net amount of identifiable assets, liabilities and contingent liabilities over the acquisition cost after revaluation is immediately recognized in profit or loss.

Jointly-controlled entities include all entities over which the Group exercises control together with other companies based on contractual arrangements. Investments in jointly-controlled entities are accounted for using the equity method in the same way as investments in associates.

The post-acquisition Group's share in profits or losses of associates and/or jointly-controlled entities is recognized in the profit or loss, and Group's share of post-acquisition movements in other capitals is recognized in other comprehensive income. The carrying value of investments is adjusted by post-acquisition cumulative changes in equity. When the Group's share of losses in an associate or jointly-controlled entity equals or exceeds its interest in the equity accounted associate or jointly controlled entity, including any other unsecured receivables, recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of an associate or jointly-controlled entity.

Unrealized gains on transactions between the Group and associates or jointly controlled entities are eliminated proportionally to the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the transferred asset. Accounting policies of associates and jointly-controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

55.3. Business combinations/acquisitions

Business combinations/acquisitions of entities beyond common control are settled using the acquisition method, presented in Note 55.2.(a).

55.4. Foreign currency transactions and measurement of foreign currency balances

(a) Functional and presentation currency

Balances presented in the financial statements of Group individual entities are measured in the currency of the primary economic environment in which the entity carries out its business activity (functional currency). The consolidated financial statements are presented in the Polish zloty (PLN), which is the functional and presentation currency of all Group companies.

(b) Transactions and balances

Foreign currency transactions are translated upon their initial recognition to the functional currency at the exchange rate ruling as at the transaction date.

As at the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the closing rate (the average exchange rate published by the National Bank of Poland as at the measurement date).

Exchange gains and losses arising from settlement of foreign currency transactions and measurement of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, while gains or losses on exchange differences on fixed assets under construction are capitalized as part of fixed assets under construction.

55.5. Property, plant and equipment

Property, plant and equipment is measured at acquisition price or manufacturing cost less accumulated depreciation and accumulated impairment losses.

Further expenditures are recognized in the carrying amount of a given fixed asset or recognized as a separate fixed asset (where appropriate) only if it is probable that the Group will generate economic benefits in connection with such an asset, whereas the cost of an item may be reliably measured. Any other expenditure incurred for repair and maintenance are recognized in profit or loss in the period when they are incurred.

If a fixed asset is replaced, the cost of the replaced component of the asset is recognized in its carrying amount, whereas the carrying amount of the replaced component is derecognized from the statement of financial position irrespective of whether it has been depreciated separately, and recognized in profit or loss.

(all amounts in PLN '000, unless specified otherwise)

Included in the initial value of fixed assets, mine liquidation costs are depreciated using such method that is used to depreciate fixed assets, which they relate to, beginning from the moment of starting to use a given asset, for the period specified in the plan of liquidation of groups of objects within the expected timetable for the mine liquidation.

Land is not subject to depreciation. Other fixed assets are depreciated using the straight-line method over the expected useful life of the asset. Depreciation is calculated based on the gross value reduced by the residual value, provided it is material. Each material component of a fixed asset with a different useful life is depreciated separately.

The useful lives of fixed assets are as follows:

• buildings and structures	10 – 80 years
including power grids	33 years
• structures (exploitation excavation)	depreciated using natural method based on the length of exploited walls
• technical equipment and machines	2 – 50 years
• vehicles	3 – 30 years
• other fixed assets	3 – 25 years

The residual value and useful lives of tangible fixed assets are reviewed at least on an annual basis. Any change in the depreciation period needs to be justified and the depreciation is adjusted prospectively.

The assessment of circumstances indicating the possible impairment in accordance with IAS 36 is carried out at each reporting date of a financial year. Impairment test in accordance with IAS 36 is carried out if there is any evidence indicating the possible impairment.

Depreciation begins when a given asset has been commissioned for use. Depreciation is no longer recognized when an asset is to be sold or derecognized from the statement of financial position.

The Group receives fixed assets constituting electricity infrastructure free of charge. Until 31 December 2009, fixed assets taken over were measured at fair value upon initial recognition, with the corresponding entry to deferred income from fixed assets received free of charge, settled over time proportionally to depreciation of these fixed assets. Since 1 January 2010 components of electricity infrastructure received free of charge have been fully recognized in other operating revenues at the moment of acquisition.

Gains and losses on disposal of fixed assets, which constitute the difference between revenue from sales and the carrying amount of the fixed asset disposed are recognized in profit or loss.

(all amounts in PLN '000, unless specified otherwise)

55.6. Perpetual usufruct of land

Land owned by the State Treasury, local governments or their associations may be used based on the right of perpetual usufruct (PU). The perpetual usufruct of land is a special property right based on which property may be used with the exclusion or other parties and the object (right) may be disposed of.

Depending on the method of acquisition, the Group classifies the right of perpetual usufruct as follows:

1. PU acquired by virtue of the law free of charge pursuant to a decision of the voivode or local government authorities is recognized as an operating lease;
2. PU acquired for consideration from third parties is recognized as an asset under right of perpetual usufruct at acquisition price reduced by depreciation charges;
3. PU acquired under a land perpetual usufruct agreement entered into with the State Treasury or local governments is recognized as a surplus of the first payment over the annual fee, disclosed as an asset under right of perpetual usufruct and depreciated.

The right of perpetual usufruct is amortized in the period for which it was granted (40-99 years).

55.7. Intangible assets

(a) Goodwill

Goodwill arising from an acquisition results from a surplus of the consideration paid, non-controlling interests and fair value of shares previously held in the entity over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities as of the acquisition date.

If gain on a bargain purchase occurs, the Group verifies the fair value of each net asset acquired. Any remaining gain from a bargain purchase after completing the re-assessment is immediately recognized in profit or loss.

Goodwill is initially recognized as an asset at cost and subsequently measured at cost less accumulated impairment loss.

For impairment testing purposes, goodwill is allocated to each cash generating unit (CGU) that should benefit from the post-combination synergy. CGU to which the goodwill is allocated are tested for impairment once a year or more frequently if according to reliable assumptions, impairment could occur. If the recoverable amount of a CGU is lower than its carrying amount, the impairment loss is first assigned in order to reduce the carrying amount of goodwill allocated to that CGU, and then to other assets of the unit pro rata to the carrying amount of each asset belonging therein. The impairment loss recognized for goodwill is not reversed in the following period.

(b) Geological information

Purchased geological information is accounted for in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources" at the value arising from the agreement concluded with the Ministry of Environment. Information is not amortised until receipt of the mining concession. Then capitalized costs are amortised over the mining concession lifetime.

(c) Fees

The fee for the mining usufruct for the purpose of extraction to coal from the Bogdanka deposit is capitalized in the amount of the fee paid. The capitalized cost are amortised over the estimated useful life of the mine.

(d) Other intangible assets

Other intangible assets include: computer software, licenses as well as other intangible assets. Intangible assets are measured at acquisition price or manufacturing cost less accumulated amortization and accumulated impairment losses.

Amortization is calculated based on the straight-line method, taking into account the estimated useful life amounting to:

- for server licenses and software 2 - 10 years;
- for workstation licenses and software as well as anti-virus software 2 - 10 years;
- for geological information mining concession lifetime
- for other intangible assets 2 - 40 years.

The useful lives of intangible assets are reviewed by Group at least on an annual basis. Any change in the depreciation period needs to be justified depreciation is adjusted prospectively.
The assessment of circumstances indicating the possible impairment is carried out at each reporting date of a financial year. Impairment test in accordance with IAS 36 is carried out if there is any evidence indicating the possible impairment.

55.8. Research and development expenses

Research and development expenses are recognized in profit or loss in the period when they are incurred.
Like other intangible assets, research and development expenses meeting the capitalization criteria presented below are measured at acquisition price or manufacturing cost less accumulated amortization and accumulated impairment losses. Amortization is calculated based on the straight-line method, taking into account the estimated useful life, which is 2-7 years.

Capitalization criteria:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- ability to use or sell the intangible asset;
- the way the intangible asset will generate probable future economic benefits. Among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

55.9. Borrowing cost

Borrowing costs directly attributable to the acquisition, ie. costs that could be avoided if there were no expenditure for acquisition, construction or production of a qualifying asset are capitalized as a part of the acquisition price or manufacturing cost of the asset. Other borrowing costs are expensed in the period they are incurred.
Capitalization of borrowing costs commences at the later of when expenditures for the asset are being made or when borrowing costs are being incurred. The borrowing costs are no longer capitalized when substantially all the activities necessary to prepare the asset for its intended use are complete.

55.10. Leasing

Lease agreements that transfer substantially all the risks and rewards incidental to ownership to the Group are classified as finance leases. Leases other than finance leases are recognized as operating leases.

The object of a finance lease is recognized in the assets as at the lease commencement date at the lower of: the fair value of the leased asset or the present value of the minimum lease payments. Each finance lease payment is divided into an amount reducing the balance of the liability and financial expenses so as to produce a constant rate of interest on the remaining balance of the liability. The interest component of each lease payment is recognized in the income statement over the lease period in such a way as to arrive at a fixed periodic interest rate compared to the unsettled liability amount. Depreciable assets acquired under finance lease agreements are depreciated over their useful life.

Lease payments under an operating lease (less any special promotional offers from the lessor) are recognized as an expense on a straight-line basis over the lease term.

55.11. Impairment of assets

The Group's assets are tested for impairment whenever there are indicators that an impairment loss might have occurred. Goodwill is tested annually.

Non-financial assets

An impairment loss is recognized up to the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of: the fair value less the costs of bringing an asset into condition for its sale or value in use (i.e. the present estimated value of the future cash flows expected to be derived from an asset or cash-generating unit). For the purpose of impairment testing, assets are grouped at the lowest possible level with respect to which separate cash flows may be identified (cash-generating units).
All impairment losses are recognized in profit or loss. Impairment losses may be reversed in subsequent periods (except from losses on goodwill) if events occur justifying the lack or change in the impairment of assets.

Financial assets

Financial assets are analyzed as at each reporting date so as to determine whether there are any indications of their impairment. It is assumed that financial assets have been impaired if there are objective indications that one or more events having a negative impact on the estimated future cash flows relating to the assets have occurred.
Individual by significant financial instruments with material value are analyzed for impairment on a case-by-case basis. Other financial assets are analyzed for impairment by groups with similar credit risk.

The principles for recognition of impairment losses on financial assets have been presented in detail in Note 55.13.

55.12. Investment property

Investment property is maintained in order to generate rental income, for capital appreciation or for both. For measuring investment property after the initial recognition, the Group selected the acquisition cost model.
Investments in property are depreciated according to the straight-line method. Depreciation begins in the month of its commissioning. The estimated useful life period is as follows:

Buildings 25 – 35 years

Revenue from lease of investment property is recognized in the profit or loss according to the straight-line method over the term of the lease.

55.13. Financial assets

Financial instruments are classified to the following categories: financial assets measured at fair value through profit or loss, loans and receivables, investments held to maturity and financial assets available for sale.

The classification is based on the purpose of acquiring an investment. The assets are classified upon initial recognition and then reviewed at each reporting date, if required or accepted by IAS 39.

(a) Financial assets measured at fair value through profit or loss

The category includes two sub-categories:

- financial assets held for; a financial asset is classified in this category if it has been acquired principally for the purpose of being sold in the short term, is part of a portfolio of financial instruments managed together and for which there is a probability of profit in the short term, or is a derivative not constituting a hedging instrument.
- financial assets designated as measured at fair value through profit or loss upon initial recognition.

These assets are recognized as current assets, if the Company intends to sell or realize them within 12 months from the end of the reporting period.
Financial assets measured at fair value through profit or loss are measured at fair value taking into account their

market value at the reporting date, excluding transaction costs. Changes in the value of these financial instruments are recognized in profit or loss as financial income or expenses. If a contract contains one or more embedded derivatives, the whole contract may be classified as financial assets measured at fair value through profit or loss. This does not apply to cases where the embedded derivative does not significantly modify the cash flows of the contract or separation of embedded derivatives is clearly prohibited.

(b) *Loans and receivables*

Loans and receivables are financial assets with determined or determinable payments, which are not quoted on the active market, not classified as derivatives. They arise when the Group spends cash, delivers goods or services directly to the debtor without the intention of classifying them as receivables held for trading.

Loans and receivables are classified as current assets if their maturity as at the end of the reporting period does not exceed 12 months. Loans and receivables whose maturity as at the end of the reporting period exceeds 12 months are classified as non-current assets. Loans and receivables are recognized in the statement of financial position under trade and other receivables. Loans and receivables are measured at amortized cost.

(c) *Investments held to maturity*

Investments held to maturity that do not constitute derivative instruments are financial assets with determined or determinable payments and fixed maturity that Group intends to and is able to hold to maturity other than:

- designated by the Company upon initial recognition as measured at fair value through profit or loss,
- designated as available for sale and
- meet the definition of loans and receivables.

Investments held to maturity are measured at amortized cost using the effective interest rate.

If there is evidence of possible impairment of loans and receivables or investments held to maturity which are measured at amortized cost, the impairment loss is determined as the difference between the carrying amount of assets and the present value of estimated future cash flows discounted at the original effective interest rate for these assets (i.e. the effective interest rate computed at initial recognition for assets based on a fixed interest rate and the effective interest rate determined at the time of the last revaluation of assets based on a variable interest rate). An impairment loss is recognized in the statement of profit and loss and other comprehensive income. Impairment loss is reversed if in subsequent periods the impairment loss decreases and the decrease can be attributed to events occurring after recognition. As a result of reversal of the impairment, the carrying amount of financial assets may not exceed the amortized cost which would be determined if no impairment loss was recognized. Reversal of impairment loss is recognized in profit or loss.

(d) *Financial assets available for sale*

Financial assets available for sale (AFS) are non-derivative financial assets designated as “available for sale” or not classified to any of the remaining categories. This category includes mainly shares in unrelated parties. AFS financial assets are recognized as non-current assets if the Group does not intend to dispose of the investment within 12 months from the end of the reporting period.

Acquisition and sale of financial assets is recognized as at the date of the transaction, i.e. the day when the Group undertakes to purchase or sell a given asset. Financial assets are initially recognized at fair value increased by transaction costs, except for investments classified as financial assets measured at fair value through profit or loss, which are initially measured at fair value without transaction costs.

Financial assets are derecognized from the accounting records if the rights to the related cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards incidental to their ownership.

Assets available for sale and those measured at fair value through profit or loss are initially recognized at fair value.

Available for sale financial assets are measured at acquisition price less impairment losses if it is not possible to determine their fair value and they do not have a fixed maturity. Financial assets held to maturity are measured at amortized cost using the effective interest rate.

The effects of measurement of financial assets at fair value through profit or loss are recognized in profit or loss in the period when they occurred. The effects of the valuation of financial assets available for sale are recognized in the components of other comprehensive income except for impairment losses and gains or losses from foreign exchange differences that arise on monetary assets. Upon derecognition of an asset classified as available for sale from the accounting records, the total accumulated profits or loss (previously recognized in in the components of other comprehensive income) are recognized in profit or loss.

The fair value of investments quoted in an active market is determined with reference to their current purchase price. If there is no active market for financial assets (or the securities are not quoted), Group determines their fair value using adequate measurement techniques which include: recent transactions conducted under arm's length conditions, comparison to other instruments which are identical in substance, an analysis of discounted cash flows, option valuation models and other techniques and models widely applied in the market, adjusted to the specific situation of the issuer.

If there are indicators of impairment of unquoted equity instruments, which are valued at acquisition cost (due to the inability to reliably determine the fair value), the impairment loss is determined as a difference between the carrying amount of the assets and the present value of estimated future cash flows discounted at the current market return rate of similar financial assets. Such impairment losses are not reversed.

At the end of each reporting period, Group verifies whether there is any objective evidence indicating impairment of a financial asset or a group of financial assets.

If such evidence exists in the case of financial assets available for sale, the total accumulated losses recognized in equity, determined as the difference between the acquisition price and their current fair value less possible impairment losses recognized previously in profit or loss, are excluded from equity and recognized in profit or loss. Impairment losses recognized in profit or loss and relating to equity instruments are not reversed in correspondence with profit or loss. The reversal of impairment losses on debt securities is recognized in profit or loss if the fair value increased as a result of subsequent events after the recognition of impairment in the periods following the recognition of the impairment loss.

(e) Hedge accounting and derivatives

Derivative instruments used by the Company to hedge against the risks associated with changes in interest rates and exchange rates are measured at fair value. Derivative instruments are presented as assets when their value is positive and as liabilities - when their value is negative.

The fair value of foreign exchange contracts is calculated by reference to current forward rates for contracts with the same maturity date or based on valuations obtained from financial institutions. The fair value of contracts for interest rate change can be determined based on the valuation received from independent financial institutions.

In relation to the part of the secured exposure the Company applies hedge accounting.

The Company defines certain hedges against the risk of exchange rate differences, including derivatives, embedded derivatives and other instruments as fair value hedges or cash flow hedges. Foreign currency risk hedge in relation to probable future liabilities are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Derivatives are accounted for in accordance with fair value or cash flow hedge accounting, if all of the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- or cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- the effectiveness of the hedge can be reliably measured,
- the hedge is assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

If a fair value hedge is used, it is accounted for as follows:

- the gain or loss from remeasuring the hedging instrument at fair value is recognized in profit or loss, and
- the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in profit or loss (this applies also if the hedged item is an available-for-sale financial asset, whose changes in value are recognized directly in revaluation reserve).

The Group discontinues fair value hedge accounting if:

- the hedging instrument expires, is sold, terminated or exercised,
- the hedge no longer meets the criteria for hedge accounting, or
- the Group revokes the designation.

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. A forecast transaction is an uncommitted but anticipated future transaction.

If a cash flow hedge is used, it is accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in revaluation reserve,

- the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in revaluation reserve are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. However, if the Group expects that all or a portion of a loss recognized in revaluation reserve will not be recovered in one or more future periods, it reclassifies to profit or loss the amount that is not expected to be recovered.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group removes the associated gains and losses that were recognized in revaluation reserve and includes them in the initial cost or other carrying amount of the asset or liability.

The Group discontinues cash flow hedge accounting if the hedging instrument expires, is sold, terminated or exercised or no longer meets the criteria for hedge accounting. In this case, the cumulative gain or loss on the hedging instrument is recognized in revaluation reserve until the hedged transaction occurs. In case the hedged transaction is no longer expected to occur, related cumulative net gain or loss recognized in revaluation reserve is immediately recognized in profit or loss.

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

55.14. CO_2 emission rights

CO_2 emission rights granted free of charge under the National Allocation Plan (Krajowy Plan Rozdziału Uprawnień) and additional CO_2 emission rights purchased for the purpose of redemption, i.e. fulfilling the CO_2 emission settlement obligation, are presented as current intangible assets which are not amortized but tested for impairment and are presented separately in current assets.

CO_2 emission rights granted free of charge for the given financial year are recognized at nominal cost, i.e.zero. CO_2 emission rights purchased are measured at acquisition price less any impairment loss.

CO_2 emission rights are registered in the following groups:

- green CER,
- free-of-charge and purchased EUA.

Within the above mentioned groups, costs are recognized according to first in, first out method (FiFo).

As regards CO_2 emissions associated with the electricity production process, the Group is obliged to settle them through presentation of a specified quantity of CO_2 emission rights for redemption. The costs related to fulfilling the aforementioned obligation are recognized in the accounting records systematically throughout the annual reporting period, in proportion to the actual and planned volume of production of electricity.

A provision is created for estimated CO_2 emissions during the reporting period, and charged to costs of operating activities.

The amount of the provision, presented in the statement of financial position within liabilities, is determined in compliance with the following rules:

- the amount recognized as a provision should be the best estimate of the expenditure required to settle, in annual periods, the present obligation at the reporting date,
- first, the provision is established on the basis of the value of emission rights owned on the reporting date,
- if the demand for emission rights is not covered by the quantity of owned rights, a provision is established for the volume of uncovered estimated emissions, on the basis of the purchase prices of emission rights as specified in forward contracts made (if the delivery date is set before the date of actual settlement of the obligation, i.e. redemption of emission rights),
- if the demand for emission rights is not covered by the quantity of emission rights owned, due and purchased on forward date, then a provision is established for the volume of uncovered estimated emissions, on the basis of market quotes (Bluenext) as at the reporting date.

The liability (provision) due to CO_2 emission is settled through redemption of emission rights.
Sales revenues and the cost of CO_2 emission rights sold are presented in operating income and costs, respectively.
The value of the emission rights sold is determined according to FIFO in the given group of emission rights:

- green CER,
- free-of-charge and purchased EUA.

55.15. Inventories

Inventories are measured at acquisition cost, which consists of purchase price plus the costs incurred in their purchase, i.e. in particular the costs of transport to storage location or production cost not higher than net realisable value.
The cost of inventories is based on:

- using weighted average cost method or
- using the method of specific identification of actual price (cost) of assets, that relate to specific projects, regardless of date of their purchase or manufacturing.

The Group reports as inventory certificates of origin of energy acquired for redemption, acqiuired for resale and self-produced.

Certificates of origin of energy are confirmation of the production of energy from renewable sources of energy (energy from e.g. wind, water, sun, biomass - so-called green certificates, energy derived from agricultural biogas so-called blue certificates) or the energy generated in cogeneration (from three types of sources, i.e. the sources of gas or sources of power less than 1 MW - so-called yellow certificates, sources of power more than 1 MW other than burning gaseous fuels, methane and gas from biomass - so-called red certificates and sources of gas-fired obtained from biomass or methane released by demethylation in mines - so-called purple certificates). The President of URE grants them at the request of an energy company engaged in the production of energy from renewable energy sources and cogeneration.

Energy efficiency certificate i.e. white certificates are the confirmation of declared energy savings resulting from energy savings measures undertaken in three areas: increasing energy savings by end-users, increase energy savings by energy producers from devices used for their production needs and reducing the electricity, heat or natural gas loss in transmission or distribution. For these categories of undertakings President of URE organizes tenders for so-called white certificates. They are issued by President of URE at the request of the party which won the tender.

Rights resulting from certificates of origin and certificates of energy efficiency arise as the moment of registration of certificates of origin of energy and certificates of energy efficiency conducted by Towarowa Giełda Energii S.A. (TGE S.A.).These rights are transferable and are a commodity. The transfer of rights takes place upon an appropriate entry in the register of certificates of origin or in the register of certificates of energy efficiency. Rights expire at the time of redemption.

Acquired certificates of origin are valued at purchase price less any accumulated impairment losses.

Certificates of origin of self-produced electricity are recognized at the date of the their production (or at the date of when their acquisition become probable) unless there is legitimate doubt as to the posiibility of grant them by President of URE. Certificates are recognized as inventory and are measured at market prices from the last month of energy production.

In accordance with the Energy Law and Energy Efficiency Act, energy company engaged in energy trading and selling energy to end users is obliged:

a) obtain and present for redemption to the President of URE certificates of origin of energy and certificates of energy efficiency or
b) pay a substitution fee.

The Group is required to obtain and present for redemption:

a) certificates of origin of energy corresponding to the size specified in the regulations to the Energy Law, as a percentage of total energy sales to end users,
b) certificates of energy efficiency in tonnes of oil equivalent [toe], no more than 3% of quotient of revenue from the sale of electricity to end users, achieved for the year in which this obligation is implemented and substitution fee. The amount of revenue from the sale of electricity to end users reached for the accounting year shall be reduced by the amounts and costs accordingly to Article 12 paragraph. 4 of the Energy Efficiency Act. The size of the obligation in each accounting year of account is defined in the regulation to the Energy Efficiency Act.

The deadline for complying with the requirement of certificate redemption or substitute fee payment expires on dates specified in the applicable law.

The Group presents certificates of origin for redemption to President of Energy Regulatory Office on a monthly basis in order to fulfill its obligation regarding the financial year. Redemption of certificates of origin is recognized in the accounting records based on a redemption decision issued by the President of Energy Regulatory Office, the redeemed certificates being subject to detailed identification.

(all amounts in PLN '000, unless specified otherwise)

At the reporting date in the absence of a sufficient number of certificates required to fulfill the obligations imposed by the Energy Law and Energy Efficiency Act, the Group creates a provision for redemption of certificates of origin of energy and certificates of energy efficiency or pay a substitution fee.

55.16. Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash at bank, call deposits with banks and other short-term investments maturing within three months and with high liquidity. As at the end of the reporting period, cash is measured at nominal value.

55.17. Share capital

The share capital of the Group is the share capital of the Parent Company, recognized in the amount stipulated in the by-laws and registered in the National Court Register, adjusted by the effects of hyperinflation as well as settlement of the effects of business combinations and acquisitions, respectively. Increases in the share capital covered as at the end of the reporting period and not yet registered in the National Court Register are also disclosed as share capital.

55.18. Loans, borrowings and debt securities

Upon initial recognition financial liabilities are measured at fair value less transaction costs.
Following their initial recognition, financial liabilities are measured at amortized cost using the effective interest method. Amortized cost includes the costs associated with obtaining the loan and discount or premium on liabilities.

55.19. Income tax (including deferred income tax)

Income tax presented in the statement of profit or loss and other comprehensive income includes the current and deferred portion.
The current tax liability is calculated based on the taxable profit (tax base) for a given reporting period. The taxable profit/(loss) differs from net accounting profit/(loss) due to the exclusion of taxable income and expenses classified as tax-deductible in the following years as well as expenses and revenue which will never be subject to taxation. Tax liabilities are calculated based on tax rates applicable in a given reporting period.

The deferred tax is a tax of from events that occurred in a given period, recognized on the accrual basis in the accounting records of the period but realized in future. It arises when the tax effect of income and expenses is the same as the balance sheet, but it occurs in different periods.

55.20. Employee benefits

The following types of employee benefits are provided by the Group:

A. Short-term employee benefits

Short-term employee benefits at Group include: monthly wages, annual bonuses, electricity allowance, short-term paid leave with social security contributions, award at Dzień Energetyka and liability due to Voluntary Redundancy Program.

The liability due to short-term (accumulated) paid leave (compensation for paid leave) is recognized even if employees are not entitled to receive payment in lieu of holiday.

The Group determines the expected cost of accumulating paid leave as the additional amount that the entity expects to pay as a result of the unused entitlement established at the balance sheet date.

B. Defined benefit plans

Defined benefit plans of the Group include:

1) Retirement benefits

Employees retiring (eligible for disability benefits) are entitled to receive retirement benefits in the form of cash compensation. The value of such benefits depends on the length of service and the remuneration received by the employee. The related liabilities are estimated using actuarial methods.

2) Electricity allowance for pensioners

Retiring employees who have worked for Group for at least one year are entitled to a reduced price of consumed energy. Pensioners and disability pensioners acquire the right to an electricity allowance in the amount of 3000 kWh x 80% of the electricity price and the variable component of the transmission charge and 100% the fixed network charge and subscription charge at the single-zone rate household tariff. The equivalent is paid twice a year, each time in the amount of the half of the annual equivalent. Equivalent value is indexed on the increase of energy price of generally applicable tariff for households in the year preceding the payment.
In case of an employee's death, the right is transferred to his/her spouse if that person receives a family allowance.

3) Appropriation to the Group's Social Benefits Fund for pensioners covered by the social care

Appropriation to the Company's Social Benefits Fund for pensioners covered by the social care is made in the amount resulting from the applicable regulations.
Employee benefits are recognized in the statement of financial position in liabilities due to employee benefits and the change in provisions is presented in the statement of profit and loss and other comprehensive income.

4) Coal allowance benefits

Former employees of Lubelski Węgiel Bogdanka S.A. whose contracts of employment were terminated due to retirement or transiction to pension, and optionally relatives or spouses of deceased employees, will annually get perpetual coal allowance. The projected unit credit method requires the recognition of provisions for current employees of the Company at the reporting date, but only for the part of benefit, which will be paid upon death or retirement.

Only person that acquired or will acquire the right to this benefit by 31 December 2034, are its beneficiaries and will not loose rights to the benefit. Other person are not entitled to this benefit and provision for them was not recognized.

Actuary estimates the amount of provisions for employee benefits, which are mentioned in par. 1-4, using Projected Unit Credit Method. Actuarial losses are fully recognized in other comprehensive income.

C. Other long-term employee benefits

Jubilee bonuses

Other long-term employee benefits in the Group include jubilee bonuses. Their value is dependent on the length of service and the remuneration received by the employee. The related liabilities are estimated using actuarial methods. The total value of actuarial gains and losses is recognized in profit or loss.

D. Defined contribution plan

1) Social security contributions

The social security system in Poland is a state programme, in accordance with which the Group is obliged to make social security contributions for employees when they become due. No legal or constructive obligation has been imposed on the Group to pay future benefits relating to social security. The costs of contributions pertaining to the current period are recognized by the Group in profit or loss as the costs of employee benefits.

2) Employee Pension Scheme

Pursuant to Appendix to the Collective Labor Agreement, Group operates an Employee Pension Scheme in the form of unit-linked group employee insurance in line with the statutory principles and under conditions negotiated with the labor unions.

The Employee Pension Scheme is available to all employees of Group after one year of service, irrespective of the type of their employment contract.

Employees join the Employee Pension Scheme under the following terms and conditions:

- the insurance is group life insurance with insurance protection;
- the amount of the basic premium is set at 7% of the participant's salary;
- 90% of the basic premium is allocated to investment premium and 10% to insurance protection.

The Group recognizes the cost of current premiums for Employee Pension Scheme in the statement of profit and loss and other comprehensive income as costs of employee benefits.

E. Share-based payments

The fair value of share options granted is recognized as payroll costs in correspondence with the increase in equity. The fair value is determined at the grant date of share options to employees and spread over the period in which employees willl acquire the unconditional right to exercise the option (due to the fact that the fair value of employees' services can not be assessed directly, their value is determined based on the fair value of equity instruments granted). The amount charged to costs is adjusted to reflect the number of granted options for which service conditions and non-market vesting conditions are met.

55.21. Provisions

Provisions are created if the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation as at the end of the reporting period.

Use of previously created provisions for certain or highly probable future liabilities is recorded as the reduction of the provision when the liabilities occur.

Unused provisions in the event of a reduction or cessation of risk justifying their creation, increase the financial revenues or other operating income.

The Group also creates provisions for claims which have not been submitted to court yet reported by the owners of the property, where there are distribution networks and devices, and other potential claims related to construction of the network assets of the Group on property to which the Group has no legal title. Estimating the value of claims includes potential compensation for so-called non-contractual use of land and is made by the technical service.

Provision for redemption of certificates of energy origin and energy efficiency certificates

The Group recognizes a provision for redemption of certificates of origin and energy efficiency certificates or substitute fee.

The basis for determining the provision for redemption of certificates of origin for each colour is the number of certificates of origin accounting for the difference between the number of certificates redeemed as at the end of the reporting period and the number required for redemption by the Energy Law.

The basis for determining the provision for the redemption of certificates of energy efficiency is the number of certificates in tonnes of oil equivalent representing the difference between the number of certificates required for redemption in accordance with the requirements of the Energy Efficiency Act, and the number of certificates redeemed at the reporting date.

Provisions are measured:

1. firstly, at acquisition price of unredeemed certificates of origin held as the end of the reporting period,
2. secondly, on the basis of the purchase price resulting from the concluded sales contracts by the Group, in

respect of that part of the certificates, which the Group plans to receive in the first instance,

3. thirdly, on the basis of weighted average price in session transactions closed at the Property Rights Market operated by the Polish Power Exchange during the month preceding the reporting date at which the measurement of the provision is determined,
4. and if there are no such transactions or there is a shortage of specific certificates on the market, preventing the Group from acquiring a required number of certificates to be redeemed according to the Energy Law, the missing amount of certificates is measured at the unit substitute fee for the given financial year.

Provision for mine liqudation

Enea Group creates a provision for future costs of mine liquidation due to obligations arising under the Geological and Mining Law. The act requires a mining company to liquidate mines on discontinuation of production in the amount of the expected costs related to:

- securing or liquidating excavations and facilities and equipment of mine;
- securing the unexploited part of a mineral deposit;
- securing adjacent mineral deposits;
- securing excavations of adjacent mining plants;
- taking the necessary measures to protect the environment, land reclamation and development of post-mining areas.

The costs of mine liquidation is calculated by an independent consulting company using historical data on the costs of mine liquidations in coal mining sector in Poland.

55.22. Revenue recognition

Sales revenue is measured at the fair value of the consideration received or receivable less the value added tax, discounts and rebates.

Revenue from the sales of energy and distribution services is recognized upon delivery of the energy or transmission services to the customer. In order to determine the value of revenue for a period from the last billing date to the end of the reporting period, an estimate is made and recognized in the statement of financial position under trade and other receivables.

Revenue from the sale of certificates of origin acquired for resale is recognized according to the principles described in 55.15.

Revenue from the sales of goods, merchandise and materials is recognized when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods and materials it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from connection fees for projects completed until 31 December 2009 are recognized as deferred income and accounted for during the depreciation period of the connections, which based on current estimates is 35 years. In the financial statements prepared in accordance with IFRS-EU these fees are reported as long-term deferred income due to subsidies and connection fees. At the end of each reporting period, fees up to 1 year are reclassified to short-term deferred income due to subsidies and connection fees. Advance payments for connection fees that were received by the Group until 31 December 2009 and when connections were put into use after 1 January 2010, are recognized in 100% directly as revenues, in accordance with IFRIC 18, introduced by the International Financial Reporting Interpretations Committee effective from 1 January 2010.

Revenue from lease of investment property is recognized in profit or loss according to the straight-line method over the term of the lease.

Interest income is recognized on an accrual basis using the effective interest rate.
Dividend income is recognized when the Group acquires the right to receive the related payments.

55.23. Subsidies

The Group receives tangible fixed assets constituting electricity infrastructure free of charge. Until 31 December 2009 such transactions were recognized at fair value as property, plant and equipment, and their value was recognized under deferred income and settled over time in the profit or loss pro rata to depreciation costs accrued on the received assets. Since 1 January 2010 fixed assets constituting electricity infrastructure received free of charge are recognized in full amount as revenue in profit or loss.
Other subsidies received by the Group (i.e. grants in the form of other fixed assets and compensation for expenses incurred for other fixed assets) are recognized by the Group in the statement of financial position as deferred income when there is reasonable assurance that they will be received and that the Group will comply with appropriate conditions related to such grants. Grants received as compensation for costs already incurred by the Group are recognized on a systematic basis as revenue in profit or loss in the periods in which the entity recognizes as expenses the related costs. Grants received by the Group as compensation for capital expenditure incurred are recognized on a systematic basis in proportion to the depreciation charges as other operating revenue in profit or loss over the useful life of an asset.

55.24. Connection fees

Revenue from connection fees for tasks completed by 31 December 2009 is recognized in deferred income and settled over the depreciation period of the connection, at present determined as 35 years. In financial statements the fees are recognized under long-term liabilities. At the end of each reporting period, the fees up to one-year maturity are reclassified to short-term liabilities.
Advances for connection fees paid to the Group until 31 December 2009 with connections commissioned after 1 January 2010 are recognized in full amount in revenue.

55.25. Compensation to cover stranded costs originating from early termination of long-term power and electricity sales contracts (LTC)

Compensation to cover the stranded costs is recognized in the profit or loss as revenue in the periods when the related stranded costs are incurred.
Compensation to cover stranded costs is recognized in the amount of advances due for a given financial period as determined in Appendix 4 to the Act on principles to cover producers' costs originating from early termination of LTC of 29 June 2007 adjusted by an estimated adjustment amount for the given period. The compensation for stranded costs for the given year is settled by the President of the Energy Regulatory Office by 31 July of the subsequent year and by 31 August following the last year of LTC remaining in force.

55.26. Dividend payment

Payments of dividends to shareholders (including minority shareholders for dividends of subsidiaries) are recognized as a liability in the financial statements of the Group for the period when they were approved by the Parent's shareholders.

55.27. Non - current assets held for sale

Non-current assets held for sale include items satisfying the following criteria:

- their carrying amount will be recovered principally through sale transactions rather than through continuing use;
- the Management Board of the Company submitted a sales declaration and started to search actively for a potential buyer;
- the assets are available for immediate sale in their current condition;
- the sale transaction is highly probable and may be settled within 12 months of the date of the decision;
- the sales price is reasonable compared to the current fair value;
- the probability that changes to the asset disposal plan will be made is low.

If the aforementioned criteria have been satisfied after the end of the reporting period, the asset is not reclassified at the end of the financial year preceding the event. The classification change is reflected in the reporting period when the aforementioned criteria have been satisfied. Amortization/depreciation charges are no longer applied starting from the date when the asset is designated as held for sale.
Assets held for sale are measured at the lower of: the net carrying amount or the fair value less costs to sell.

55.28. Statement regarding application of International Financial Reporting Standards

The following new Standards, amendments to the existing Standards and Interpretations are not yet adopted by the EU or mandatorily effective for annual periods ending on 31 December 2016 and were not appied in the preparation of the consolidated financial statements:

- IFRS 14 Regulatory Deferral Accounts – for annual periods beginning on 1 January 2016. The standard in the presend version will not be valid in the EU,
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates) – the effective date has not been arranged,
- IFRS 16 Leases - for annual periods beginning 1 January 2019,
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 Income Taxes) - for annual periods beginning on 1 January 2017,
- Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows) - for annual periods beginning on 1 January 2017,
- IFRS 15 Revenue from Contracts with Customers – for annual periods beginning om 1 January 2018,
- Amendments to IFRS 2 (Share-based Payment) - for annual periods beginning on 1 January 2018,
- Amendments to IFRS 4 (insurance contracts) - for annual periods beginning on 1 January 2018,
- Improvements to International Financial Reporting Standards (2014-2016) - for annual periods beginning on 1 January 2018 (except improvements to IFRS 12, which apply for annual periods beginning on or after 1 January 2017),
- IFRIC 22 Foreign Currency Transactions and Advance Consideration - for annual periods beginning on 1 January 2018,
- Amendments to IAS 40 Investment Property - for annual periods beginning on 1 January 2018.
- IFRS 9 Financial Instruments - classification and measurement – for periods beginning on 1 January 2018.

The Group plans to adopt these pronouncements when they become effective.

The Group has not yet analysed the likely impact of the new Standards, amendments to Standards and Interpretations on its financial position or performance.