



**Consolidated financial statements
of the Enea Capital Group
for the financial year ended
31 December 2017**

Poznań, 22 March 2018

**ENEA Capital Group**

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

*(all amounts in PLN '000, unless specified otherwise)***Index to the consolidated financial statements**

Consolidated Statement of Financial Position	5
Consolidated Statement of Profit or Loss and Other Comprehensive Income	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	10
Notes to the consolidated financial statements	11
1. General information	11
1.1. General information about Enea S.A. and the Enea Capital Group	11
1.2. Composition of the Management Board and the Supervisory Board	12
2. Statement of compliance	13
3. Material estimates and assumptions	14
4. Composition of the Capital Group – list of subsidiaries, associates and jointly controlled entities	16
5. Segment reporting	18
6. Impairment tests (property, plant and equipment)	23
7. Property, plant and equipment	26
8. Perpetual usufruct of land	28
9. Intangible assets	29
10. Goodwill	31
11. Investment property	31
12. Investments in associates and jointly controlled entities	32
12.1. Acquisition of shares of ENGIE Energia Polska S.A. (currently Enea Elektrownia Połaniec S.A.)	34
12.2. Acquisition of shares of Polimex-Mostostal S.A.	35
12.3. Implementation of the Investment Agreement with Energa S.A. and Elektrownia Ostrołęka S.A. concerning construction and operation of a power unit at Elektrownia Ostrołęka S.A.	36
12.4. Recapitalisation of Polska Grupa Górnicza S.A.	38
13. Non-controlling interests	41
14. Non-current assets held for sale	43
15. Financial assets	43
16. Trade and other receivables	43
17. Disposal restrictions and collaterals established on the Group's assets and other collateral	45
18. CO ₂ emission rights	47
19. Inventories	47
20. Certificates of energy origin	48
21. Cash and cash equivalents	48
22. Financial assets measured at fair value through profit or loss	49
23. Equity	49
24. Trade and other liabilities	51
25. Loans, borrowings and debt securities	51
26. Deferred income due to subsidies, connection fees and other	56
27. Financial instruments	56
27.1. Principles of financial risk management	56
27.2. Credit risk	57
27.3. Liquidity risk	59
27.4. Commodity risk	62
27.5. Currency risk	63
27.6. Interest rate risk	65
27.7. Management of funding sources	68
27.8. Fair value	68
28. Finance lease liabilities	70
29. Financial liabilities measured at fair value through profit or loss	70
30. Deferred income tax	70
31. Liabilities due to employee benefits	73
32. Provisions for other liabilities and other charges	79
33. Net sales revenue	82
34. Costs by type	82
35. Costs of employee benefits	83
36. Other operating revenue and expenses	84

**ENEA Capital Group**

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

37.	Financial revenue.....	85
38.	Financial expenses.....	85
39.	Income tax.....	85
40.	Dividend.....	86
41.	Earnings per share.....	86
42.	Related party transactions.....	87
43.	Concession agreements for the provision of public services.....	88
44.	Future payments due to the right of perpetual usufruct acquired for a consideration and free of charge as well as lease, rental and operational lease agreements.....	90
45.	Future liabilities under contracts concluded as at the end of the reporting period.....	90
46.	Employment.....	91
47.	Contingent liabilities and proceedings before courts, arbitration or public administration bodies.....	91
47.1.	Sureties and guarantees.....	91
47.2.	Proceedings pending before common courts of law.....	92
47.3.	Arbitration proceedings.....	92
47.4.	Other court proceedings.....	93
47.5.	Risk connected with the legal status of properties used by the Group.....	94
47.6.	Cases concerning not-balanced energy trading in 2012.....	95
47.7.	Dispute concerning prices of renewable energy certificates and terminated contracts for the purchase of property rights under certificates of origin of energy from renewable sources.....	95
48.	Participation in the programme of construction of a nuclear power plant.....	97
49.	Acquisition agreement of Eco-Power Sp. z o.o.....	98
50.	Description of key accounting principles.....	98
50.1.	Basis for preparation.....	98
50.2.	Consolidation principles.....	99
50.3.	Business combinations/ acquisitions.....	100
50.4.	Foreign currency transactios and measurement of foreign currency balances.....	100
50.5.	Property, plant and equipment.....	101
50.6.	Perpetual usufruct of land.....	102
50.7.	Intangible assets.....	102
50.8.	Research and development expenses.....	104
50.9.	Borrowing cost.....	104
50.10.	Leasing.....	104
50.11.	Impairment of assets.....	105
50.12.	Investment property.....	105
50.13.	Financial assets.....	106
50.14.	CO ₂ emission allowances.....	110
50.15.	Inventories.....	111
50.16.	Cash and cash equivalents.....	113
50.17.	Share capital.....	113
50.18.	Loans, borrowings and debt securities.....	113
50.19.	Income tax (including deferred income tax).....	113
50.20.	Employee benefits.....	114
50.21.	Provisions.....	116
50.22.	Revenue recognition.....	117
50.23.	Assets received free of charge and subsidies.....	118
50.24.	Connection fees.....	119
50.25.	Dividend payment.....	119
50.26.	Non-current assets held for sale.....	119
50.27.	Statement regarding the new standards and interpretation of the IFRS.....	120



ENE A Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

These consolidated financial statements were prepared in accordance with the 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 **Mirostaw Kowalik**

Member of the Management Board **Piotr Adamczak**

Member of the Management Board **Piotr Olejniczak**

Member of the Management Board **Zbigniew Piętko**

Poznań, 22 March 2018

Prepared by Robert Kiereta

Head of Consolidated Reporting Office

Consolidated Statement of Financial Position

	Note	As at	
		31.12.2017	31.12.2016
ASSETS			
Non-current assets			
Property, plant and equipment	7	20 416 867	18 382 498
Perpetual usufruct of land	8	105 571	74 899
Intangible assets	9	418 248	370 638
Investment property	11	26 981	28 020
Investments in associates and jointly-controlled entities	12	355 152	2 518
Deferred income tax assets	30	501 945	403 257
Financial assets available for sale	15, 48	40 698	42 482
Financial assets measured at fair value through profit or loss	22	33 364	112
Derivative instruments	25	29 553	40 267
Trade and other receivables	16	30 729	30 690
Cash deposits at Mine Closure Fund		121 806	111 218
		22 080 914	19 486 599
Current assets			
CO2 emission rights	18	595 533	417 073
Inventories	19	846 187	448 941
Trade and other receivables	16	1 903 568	1 824 488
Current income tax assets		149 859	9 541
Financial assets held to maturity	15	478	478
Financial assets measured at fair value through profit or loss	22	49 329	4 852
Cash and cash equivalents	21	2 687 126	2 340 217
Non-current assets classified as held for sale	14	-	4 330
		6 232 080	5 049 920
Total assets		28 312 994	24 536 519

Consolidated Statement of Financial Position

		As at	
	Note	31.12.2017	31.12.2016
EQUITY AND LIABILITIES			
Equity			
Equity attributable to shareholders of the Parent Company			
Share capital		588 018	588 018
Share premium		3 632 464	3 632 464
Financial instruments revaluation reserve		741	744
Other capital		(27 101)	(25 652)
Reserve capital from valuation of hedging instruments		25 967	33 826
Retained earnings		8 858 130	7 946 612
		13 078 219	12 176 012
Non-controlling interests	13	921 450	835 717
Equity	23	13 999 669	13 011 729
LIABILITIES			
Long-term liabilities			
Loans, borrowings and debt securities	25	7 720 091	6 275 644
Trade and other payables	24	57 579	48 373
Finance lease liabilities	28	1 651	2 997
Deferred income due to subsidies, connection fees and other	26	645 443	660 032
Deferred income tax provision	30	245 240	191 798
Employee benefits liabilities	31	739 946	792 156
Financial liabilities measured at fair value through profit or loss	29	9 875	269
Provisions for other liabilities and charges	32	643 187	635 488
		10 063 012	8 606 757
Current liabilities			
Loans, borrowings and debt securities	25	539 429	448 902
Trade and other payables	24	2 051 385	1 141 600
Finance lease liabilities	28	1 942	2 141
Deferred income due to subsidies, connection fees and other	26	92 422	84 150
Current income tax liabilities		1 797	32 071
Employee benefits liabilities	31	437 943	416 937
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	29	41 185	2 233
Provisions for other liabilities and other charges	32	1 083 929	789 718
		4 250 313	2 918 033
Total liabilities		14 313 325	11 524 790
Total equity and liabilities		28 312 994	24 536 519


ENECA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		12 months ended	12 months ended
	Note	31.12.2017	31.12.2016
Sales revenue		11 661 269	11 513 305
Excise tax		(255 580)	(257 627)
Net sales revenue	33	11 405 689	11 255 678
Other operating revenue	36	141 790	144 038
Depreciation	34	(1 194 540)	(1 110 350)
Costs of employee benefits	35	(1 470 644)	(1 490 752)
Consumption of materials and supplies and cost of goods sold	34	(1 728 771)	(1 361 884)
Energy and gas purchase for sale	34	(3 169 673)	(4 074 797)
Transmission services	34	(1 057 151)	(860 991)
Other outsourced services	34	(815 743)	(664 644)
Taxes and charges	34	(376 542)	(326 537)
Loss on sale and liquidation of property, plant and equipment		(23 530)	(30 662)
Impairment loss on non-financial non-current assets	6	(1 284)	(98 160)
Other operating expenses	36	(221 871)	(261 625)
Operating profit/(loss)		1 487 730	1 119 314
Financial expenses	38	(170 689)	(127 010)
Financial revenue	37	139 718	76 350
Dividend income		526	148
Share in profits of affiliates and jointly controlled entities		9 282	-
Profit/(loss) before tax		1 466 567	1 068 802
Income tax	39	(301 676)	(219 889)
Net profit for the reporting period		1 164 891	848 913
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
- valuation of hedging instruments		(9 703)	36 847
- other		(3)	(70)
- income tax		1 844	(7 001)
Items that will not be reclassified to profit or loss:			
- remeasurement of defined benefit scheme		(55 096)	9 431
- income tax		10 139	(1 793)
Net other comprehensive income		(52 819)	37 414
Total income for the reporting period		1 112 072	886 327
including net profit:			
attributable to Parent Company's shareholders		1 070 168	784 393
attributable to non-controlling interests		94 723	64 520
Including comprehensive income:			
attributable to Parent Company's shareholders		1 025 582	823 949
attributable to non-controlling interests		86 490	62 378
Net profit attributable to Parent Company's shareholders		1 070 168	784 393
Weighted average number of ordinary shares		441 442 578	441 442 578
Basic earnings per share (in PLN per share)	41	2,42	1,78
Diluted earnings per share (in PLN per share)		2,42	1,78

The consolidated statement of profit or loss and other comprehensive income should be analyzed together with the notes, which constitute an integral part of the consolidated financial statements



ENECA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Consolidated Statement of Changes in Equity

(a) 2017

	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 01.01.2017		441 443	146 575	588 018	3 632 464	744	(25 652)	33 826	7 946 612	835 717	13 011 729
Net profit of the reporting period									1 070 168	94 723	1 164 891
Net other comprehensive income						(3)		(7 859)	(36 724)	(8 233)	(52 819)
Total net income for the period						(3)		(7 859)	1 033 444	86 490	1 112 072
Redemption of non-controlling interests in subsidiaries							(1 449)			(301)	(1 750)
Dividends	40								(121 926)	(456)	(122 382)
Balance as at 31.12.2017		441 443	146 575	588 018	3 632 464	741	(27 101)	25 967	8 858 130	921 450	13 999 669

The consolidated statement of changes in equity should be analyzed together with the notes, which constitute an integral part of the consolidated financial statements



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

(b) 2016

Note	Share capital (nominal 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 of the reporting period								784 393	64 520	848 913
Net other comprehensive income					(70)		29 846	9 780	(2 142)	37 414
Total net 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

The consolidated statement of changes in equity should be analyzed together with the notes, which constitute an integral part of the consolidated financial statements

Consolidated Statement of Cash Flows

	12 months ended	12 months ended
	31.12.2017	31.12.2016
Cash flows from operating activities		
Net profit for the reporting period	1 164 891	848 913
Adjustments:		
Income tax in profit or loss	39 301 676	219 889
Depreciation	34 1 194 540	1 110 350
Loss on sale and liquidation of property, plant and equipment	23 530	30 662
Impairment loss on non-financial non-current assets	6 1 284	98 160
Gain on a bargain purchase	36 (11 953)	-
(Profit) / loss on sale of financial assets	(3 149)	1 941
Interest income	(10 821)	(9 591)
Dividend income	(526)	(148)
Interest expense	84 257	84 144
Gain on measurement of financial instruments	(29 171)	(7 370)
Share in profit/loss of subsidiaries and jointly-controlled entities	(9 282)	-
Other adjustments	(1 588)	(24 766)
	1 538 797	1 503 271
Income tax paid	(372 170)	(270 365)
Changes in working capital:		
CO2 emission rights	(73 273)	(99 228)
Inventories	(178 679)	202 145
Trade and other receivables	(12 919)	(186 484)
Trade and other payables	483 178	190 495
Employee benefits liabilities	(119 934)	4 470
Deferred income due to subsidies, connection fees and other	(7 836)	(14 375)
Non-current assets held for sale and related liabilities	-	(636)
Provisions for other liabilities and charges	157 589	246 239
	248 126	342 626
Net cash flows from operating activities	2 579 644	2 424 445
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(2 057 979)	(2 688 358)
Proceeds from disposal of property, plant and equipment and intangible assets	1 779	6 143
Acquisition of financial assets	(19 443)	(18 500)
Inflows from disposal of financial assets	4 226	216 689
Acquisition of subsidiaries, affiliates and jointly-controlled entities adjusted by acquired cash	(1 415 230)	(10 187)
Disposal of investments in subsidiaries and affiliates	-	11 600
Dividends received	526	148
Outflows related to cash deposits at Mine Closure Fund	(10 588)	(20 346)
Interest received	10 519	11 720
Other inflows from investing activities	3 265	511
Net cash flows from investing activities	(3 482 925)	(2 490 580)
Cash flows from financing activities		
Loans and borrowings received	781 602	124 888
Bond issue	1 199 000	750 000
Loans and borrowings repaid	(80 237)	(13 329)
Bonds redemption	(340 000)	(100 000)
Dividends paid	(122 382)	(1 053)
Expenses related to payment of finance lease liabilities	(2 235)	(1 463)
Expenses related to future issue of bonds	(1 023)	(4 536)
Interest paid	(178 568)	(151 295)
Other expenses from financing activities	(5 967)	(18 954)
Net cash flows from financing activities	1 250 190	584 258
Total net cash flows	346 909	518 123
Opening balance of cash	21 2 340 217	1 822 094
Closing balance of cash	21 2 687 126	2 340 217

Notes to the consolidated financial statements

1. General information

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

Name (business name):	Enea Spółka Akcyjna
Legal form:	Joint-stock company
Country:	Republic of Poland
Registered office:	Poznań
Address:	ul. Górecka 1, 60-201 Poznań
National Court Register number (KRS):	0000012483
Telephone number:	(+48 61) 884 55 44
Fax number:	(+48 61) 884 59 59
E-mail address:	enea@enea.pl
Website:	www.enea.pl
Statistical identification number (REGON):	630139960
Tax identification number (NIP):	777-00-20-640

The core business activity of the Enea Capital Group (the „Group”, the „Capital Group”) includes:

- generation of electricity and thermal Energy (Enea Wytwarzanie Sp. z o.o., Enea Elektrownia Połaniec S.A., Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. in Oborniki, Miejska Energetyka Ciepła Piła Sp. z o.o., Enea Ciepło Sp. z o.o.);
- trading in electricity (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 Ciepłej Sp. z o.o. in Oborniki, Miejska Energetyka Ciepła Piła Sp. z o.o., Enea Ciepło Sp. z o.o.);
- mining and cleaning of hard coal (Grupa Lubelski Węgiel „Bogdanka” S.A.).

As at 31 December 2017 the shareholding structure of the Parent Company was as follows: the State Treasury of the Republic of Poland held 51.50% of shares, PZU TFI - 9.96% and other shareholders - 38.54%.

As at 31 December 2017, the statutory share capital of Enea S.A. amounted to PLN 441,443 thousand (PLN 588,018 thousand following adoption of IFRS-EU and accounting for hyperinflation and other adjustments) and it was divided into 441,442,578 shares.

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

As at 31 December 2017, the Capital Group comprised the parent company, Enea S.A. (the „Company”, the „Parent Company”), 13 subsidiaries, 10 indirect subsidiaries, 1 affiliate and 4 jointly-controlled entities.

The consolidated financial statements have been prepared based on the 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

	31.12.2017	31.12.2016
President of the Management Board	Miroslaw Kowalik	Miroslaw Kowalik
Member of the Management Board for Financial Affairs	Piotr Olejniczak	Mikołaj Franzkowiak
Member of the Management Board for Commercial Affairs	Piotr Adamczak	Piotr Adamczak
Member of the Management Board for Corporate Affairs	Zbigniew Piętka	Wiesław Piosik

On 24 August 2017, the Company’s Supervisory Board adopted resolutions to dismiss Mr Wiesław Piosik, Member of the Company’s Management Board responsible for Corporate Affairs and Mr Mikołaj Franzkowiak, Member of the Company’s Management Board responsible for Financial Affairs. At the same time, the Company’s Supervisory Board delegated on that date Member of the Supervisory Board, Mr Rafał Szymański, to temporarily perform the duties of the Member of the Company’s Management Board responsible for Corporate Affairs of Enea S.A. for a period not exceeding three months until the time of appointment of a new Member of the Company’s Management Board responsible for Corporate Affairs of Enea S.A.

On 22 September 2017, the Company’s Supervisory Board adopted a resolution to appoint Mr Piotr Olejniczak to the position of Member of the Company’s Management Board responsible for Financial Affairs, effective as of 1 October 2017.

On 29 September 2017, the Company received a statement from Mr Rafał Szymański delegated by the Company’s Supervisory Board to temporarily perform the duties of the Member of the Company’s Management Board responsible for Corporate Affairs of Enea S.A. on his resignation from the delegation to perform the aforementioned duties effective as at 1 October 2017 .

On 5 October 2017, the Supervisory Board adopted a resolution to appoint Mr Zbigniew Piętka to the position of Member of the Company’s Management Board responsible for Corporate Affairs, effective as of 10 October 2017.

**ENE A Capital Group**

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

	31.12.2017	31.12.2016
Chairman of the Supervisory Board	Stanisław Hebda	Małgorzata Niezgoda
Vice-Chairman of the Supervisory Board	Piotr Kossak	Piotr Kossak
Secretary of the Supervisory Board	Rafał Szymański	Rafał Szymański
Member of the Supervisory Board	Rafał Bargiel	Rafał Bargiel
Member of the Supervisory Board	Piotr Mirkowski	Piotr Mirkowski
Member of the Supervisory Board	Stawomir Brzeziński	Stawomir 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	Roman Stryjski
Member of the Supervisory Board	Paweł Skopiński	Paweł Skopiński

On 24 August 2017, the Company's Supervisory Board delegated Member of the Supervisory Board, Mr Rafał Szymański, to temporarily perform the duties of Member of the Company's Management Board responsible Corporate Affairs of Enea S.A. for a period not exceeding three months until the time of appointment of a new Member of the Company's Management Board responsible for Corporate Affairs of Enea S.A.

On 29 September 2017, the Company received a statement from Mr Rafał Szymański delegated by the Company's Supervisory Board to temporarily perform the duties of the Member of the Company's Management Board responsible for Corporate Affairs of Enea S.A. on his resignation from the delegation to perform the aforementioned duties effective as at 1 October 2017.

On 27 December 2017, the Company received resignation of Ms Małgorzata Niezgoda from the function of Member of the Supervisory Board, effective as at 27 December 2017.

On 28 December 2017, the Extraordinary Shareholders' Meeting of Enea S.A. appointed a new Member of the Supervisory Board, Mr Stanisław Hebda, in the capacity of Chairman of the Supervisory Board.

On 13 March 2018, the Company received resignation of Mr Paweł Skopiński from the the function of Member of the Supervisory Board.

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 Company 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 Capital Group in accordance with the IFRS-EU as at 31 December 2017. The

disclosures and clarifications presented herein have been prepared with utmost diligence. These consolidated financial statements were audited by a certified auditor.

3. Material estimates and assumptions

Preparation of the consolidated financial statements in accordance with the EU IFRS requires the Management Board to adopt certain assumptions and make estimates that affect the adopted accounting principles and the amounts disclosed in the consolidated financial statements and in the notes to these financial statements. The assumptions and estimates are based on the best knowledge of the Management Board regarding current and future events and activities. Actual results, however, may differ from those anticipated. The main areas in which the Management Board's estimates have a material impact on the consolidated financial statements are:

- **employee benefits during and after employment** - the valuation of provisions for employee benefits was made by determining the balance of liabilities at the end of the reporting period on account of anticipated future benefits payments, calculated in an actuarial manner; the discount rates and the rate of long-term increase in remuneration have an impact on the estimate made (Note 31),
- **depreciation periods for property, plant and equipment and intangible and legal assets** - depreciation is based on the expected period of economic use of tangible fixed assets and intangible and legal assets. The periods of economic use are verified at least once during the financial year. The depreciation periods used are presented in Notes 50.5, 50.6, 50.7 and 50.12 of these consolidated financial statements,
- **trade receivables revaluation write-offs and other write-offs** - the amount of the write-off is the difference between the book value and the present value of estimated future cash flows, discounted at the original effective interest rate; changes in the value of estimated future cash flows will result in changes in the receivables revaluation write-offs estimate (Note 16),
- **non-invoiced sales revenues at the end of the financial period** - estimation of the amount of unsettled energy sales takes place on the basis of estimated energy consumption in the period from the day of the last billing reading to the end of the financial period (Note 16),
- **compensation for non-contractual use of land** - the estimation includes the potential payment of compensation for the so-called non-contractual use of land and rent (Notes 32, 47.5),
- **provision for landfill reclamation** - after filling up or closing the slag and ash dump, the Group is obliged to reclaim the area. Due to the fact that the Group has large, unfilled landfill areas, the expected date of reclamation falls in 2060 at Enea Wytwarzanie Sp. z o.o. and in 2043 at Enea Elektrownia Połaniec S.A. The future estimated costs of landfill reclamation were discounted to the present value as at 31 December 2017 using the discount rate of 3.26% (Note 32),
- **recoverable value of property, plant and equipment and intangible and legal assets** - impairment tests of cash-generating units are based on a number of assumptions, some of which are outside the Group's control. Significant changes to these assumptions affect the results of the impairment tests and, consequently, the financial position and financial results of the Group (Note 6),
- **provision for the purchase of CO₂ allowances** - estimates include assumptions regarding allocation of free CO₂ allowances due to the Group for 2017 (Note 32),

- **estimation of the mine's lifetime and coal resources** - the mine's lifetime (LWB) is estimated based on available coal reserves covered by the concession and estimated production capacity, for 2051. The actual date of mine decommissioning may, however, differ from the one estimated by the Group. This results from taking into account in the calculation of the estimated life-span of the mine only the operational resources of coal available as at the reporting date. A fall in the demand for the Group's coal may result in lowering production below the production capacity, which will affect the mine's life-span. On 17 November 2017, the Group received a mining concession for the "Ostrów" area with operating reserves estimated at around 186 million tonnes of coal. Obtaining this concession is a basic element of the plan for doubling the operational resources and it means extending the life of the mine eventually to approximately 50 years (entailing significant expenditures on the construction of new infrastructure, including the construction of a new shaft). The Group also makes efforts to expand the mining area by adding the "Orzechów" deposits over the next several years (currently the Group has a concession for exploration of the "Orzechów" deposit). At the same time, the Group does not stop efforts to obtain a mining concession for the K-6, K-7 deposit,
- **estimation of the provision for mine decommissioning costs** - the Group creates a provision for the costs of decommissioning a mining plant, which it is obliged to do by existing law. The main assumptions used in determining the costs related to the decommissioning of a mining plant include assumptions regarding the life of the mine, expected inflation and long-term discount rates. Any changes to these assumptions affect the book value of the provision (Note 32),
- **a provision for the difference in 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 a provision for the difference between the price including the base amount, which is PLN 286,500,000 and the value estimated in the Enea S.A. model (Note 49),
- **Provision for claims due to terminated property rights purchase contracts** – recognition thereof requires making the most appropriate estimate covering the prospective payment of liquidated damages due to the termination of contracts for purchase of property rights (Note 47.7).

ENE A Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

4. Composition of the Capital Group – list of subsidiaries, associates and jointly-controlled entities

	Name and address of company		Enea S.A.'s share in total number of votes [%] 31.12.2017	Enea S.A.'s share in total number of votes [%] 31.12.2016
1.	Enea Operator Sp. z o.o. Poznań, ul. Strzeszyńska 58	subsidiary	100	100
2.	Enea Wytwarzanie Sp. z o.o. Świerże Górne, municipality of Kozienice, Kozienice 1	subsidiary	100	100
3.	Enea Elektrownia Połaniec S.A. ⁶ Połaniec, ul. Zawada 26	subsidiary	100	-
4.	Enea Oświetlenie Sp. z o.o. Szczecin, ul. Ku Słońcu 34	subsidiary	100	100
5.	Enea Trading Sp. z o.o. Świerże Górne, municipality of Kozienice, Kozienice 1	subsidiary	100	100
6.	Enea Logistyka Sp. z o.o. Poznań, ul. Strzeszyńska 58	subsidiary	100	100
7.	Enea Serwis Sp. z o.o. Lipno, Gronówko 30	subsidiary	100	100
8.	Enea Centrum Sp. z o.o. Poznań, ul. Górecka 1	subsidiary	100	100
9.	Enea Pomiary Sp. z o.o. Poznań, ul. Strzeszyńska 58	subsidiary	100	100
10.	ENERGO-TOUR Sp. z o.o. w likwidacji Poznań, ul. Strzeszyńska 58	subsidiary	100 ⁵	100 ⁵
11.	Enea Innovation Sp. z o.o. Warszawa, ul. Jana Pawła II 25	subsidiary	100 ⁹	100
12.	Lubelski Węgiel BOGDANKA S. A. Bogdanka, Puchaczów	subsidiary	65.99	65.99
13.	Annacond Enterprises Sp. z o.o. ¹⁵ Warszawa, ul. Jana Pawła II 25	subsidiary	61	61
14.	Polimex – Mostostal S.A. Warszawa, al. Jana Pawła II 12	associate company	16.48	-
15.	Polska Grupa Górnicza S.A. ¹³ Katowice, ul. Powstańców 30	jointly-controlled company	5.81 ⁸	-
16.	Elektrownia Ostrołęka Sp. z o.o. ¹² Ostrołęka, ul. Elektryczna 5	jointly-controlled company	23.79 ⁷	-
17.	Enea Bioenergia Sp. z o.o. Połaniec, ul. Zawada 26	indirect subsidiary	100 ⁴	-
18.	Enea Ciepło Serwis Sp. z o.o. ¹¹ Białystok, ul. Starosielce 2/1	indirect subsidiary	100 ¹	100 ¹
19.	Centralny System Wymiany Informacji Sp. z o.o. Poznań, ul. Strzeszyńska 58	jointly-controlled company	20 ³	100 ³
20.	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. Oborniki, ul. Wybudowanie 56	indirect subsidiary	99.93 ¹	99.93 ¹
21.	Enea Ciepło Sp. z o.o. ¹¹ Białystok, ul. Warszawska 27	indirect subsidiary	91.14 ^{1,1a}	91.02 ¹
22.	Miejska Energetyka Ciepła Piła Sp. z o.o. Piła, ul. Kaczorska 20	indirect subsidiary	71.11 ¹	71.11 ¹
23.	EkoTRANS Bogdanka Sp. z o.o. Bogdanka, Puchaczów	indirect subsidiary	65.99 ²	65.99 ²
24.	RG Bogdanka Sp. z o.o. Bogdanka, Puchaczów	indirect subsidiary	65.99 ²	65.99 ²
25.	MR Bogdanka Sp. z o.o. Bogdanka, Puchaczów	indirect subsidiary	65.99 ²	65.99 ²
26.	Łęczyńska Energetyka Sp. z o.o. Bogdanka, Puchaczów	indirect subsidiary	58.53 ²	58.53 ²
27.	ElectroMobility Poland S.A. Warszawa, ul. Mysia 2	jointly-controlled company	25 ¹⁴	25
28.	Enea Badanie i Rozwój Sp. z o.o. ¹⁰ Świerże Górne, al. Józefa Zielińskiego 1	indirect subsidiary	100 ¹	-

ENECA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

¹ – an indirect subsidiary held through shares in Enea Wytwarzanie Sp. z o.o.

^{1a} – On 17 September 2015, pursuant to Resolution No. 547/2015 of the Management Board of Enea Wytwarzanie Sp. z o.o. a project was launched entitled „Purchase of employee shares in MPEC Sp. z o.o. in Białystok”. On 17 November 2015, pursuant to Resolution No. 661/2015, powers of attorney were granted to enter into preliminary contracts and final contracts. There are 75 thousand shares available for purchase. Preliminary contracts were scheduled to be entered into between 7 December 2015 and 27 January 2016. Final contracts were entered into after 16 September 2016. By the end of December 2015, preliminary share sale contracts were concluded totalling at PLN 747 thousand. In 2016, Enea Wytwarzanie Sp. z o.o. purchased 67 209 shares of MPEC Sp. z o.o. in Białystok for PLN 7,688 thousand; as a result, at the of the year, its shareholding in the share capital was 91.02%. In 2017, Enea Wytwarzanie Sp. z o.o. purchased 1,749 shares of MPEC Sp. z o.o. in Białystok for PLN 217 thousand; as a result, as at 31 December 2017, its shareholding in the share capital was 91.14%.

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

³ – a jointly-controlled company of Enea Operator Sp. z o.o., On 30 June 2017, Enea Operator Sp. z o.o. sold 16 shares of PLN 2,500.00 each, totalling at PLN 40,000.00.

⁴ – an indirect subsidiary held through shares in Enea Elektrownia Połaniec S.A. On 16 March 2017, the Extraordinary Shareholders' Meeting of ENGIE Bioenergia Sp. z o.o. adopted a resolution on amending the Company's Articles of Incorporation by changing its business name to Enea Bioenergia Sp. z o.o. On 26 April 2017, the amended Articles of Incorporation of the aforesaid company were registered with the National Court Register

⁵ – On 30 March 2015, the Extraordinary Shareholders' Meeting of the company adopted a resolution on dissolution of the company following liquidation proceedings; the resolution took effect on 1 April 2015. On 5 November 2015, an application for deleting the company from the National Court Register was filed. As at the date of drawing up these consolidated financial statements, activities relating to deleting the company from the National Court Register were still underway.

⁶ – On 10 April 2017, the business name of ENGIE Energia Polska S.A. was changed to Enea Elektrownia Połaniec S.A. in the National Court Register

⁷ – On 1 February 2017, Enea S.A. entered into a share purchase agreement with ENERGA S.A. regarding purchase of 24,980,926 shares of Elektrownia Ostrołęka S.A., thus becoming the owner of 11.89% shares in the company's share capital. On 13 April 2017, the Extraordinary Shareholders' Meeting of Elektrownia Ostrołęka S.A. adopted a resolution on increasing the company's share capital by way of private placement from PLN 210,100 thousand to PLN 229,100 thousand, i.e. by an amount of PLN 19,000 thousand by issuing 19,000,000 new D series share with the nominal value of PLN 1.00 each. Shares offered for private placement were directed to Enea S.A. and ENERGA S.A. On 27 April 2017, Enea S.A. signed a contract of acquisition of 9,500,000 shares with Elektrownia Ostrołęka S.A. The share capital increase was registered in the National Court Register on 30 May 2017. On 27 June 2017, Enea S.A. entered into a contract of acquisition of 20,017,269 shares of Elektrownia Ostrołęka with ENERGA S.A. and in this way it acquired in total 23.79% shareholding in the share capital of the company.

⁸ – On 3 April 2017, Enea S.A. acquired 1,500,000 new shares with the nominal value of PLN 100.00 each and the total value of PLN 150,000,000.00 of Polska Grupa Górnicza Sp. z o.o. On 14 June, the Extraordinary Shareholders' Meeting of Polska Grupa Górnicza Sp. z o.o. adopted a resolution on increasing the company's share capital by an amount of PLN 200,000 thousand from an amount of PLN 3,416,718 thousand to PLN 3,616,718 thousand by creating 2,000,000 new shares with the nominal value of PLN 100.00 each. As a result of the aforesaid capital increase, Enea S.A. acquired 600,000 shares with the total nominal value of PLN 60 000 thousand. The increase of the share capital was registered in the National Court Register on 7 July 2017.

On 31 January 2018, the Extraordinary Shareholders' Meeting of Polska Grupa Górnicza S.A. adopted a resolution on increasing the company's share capital by PLN 300,000 thousand up to an amount of PLN 3,916,718 thousand by issuing 3,000,000 new shares by way of private placement. Enea S.A. will acquire 900,000 new shares by way of private placement, with the nominal value of PLN 100.00 each share and with the total nominal value of PLN 90 000 thousand. Following registration of the share capital increase in the National Court Register, Enea S.A. will increase in share in the share capital up to 7.66%.

⁹ – On 2 August 2017, the Extraordinary Shareholders' Meeting of Enea Innovation Sp. z o.o. adopted Resolution No. 1 on increasing the company's share capital by PLN 300,000.00, that is from PLN 5,000 up to PLN 305,000.00 by creating 3,000 new shares with the nominal value of PLN 100.00 each.

On 31 January 2018, the Extraordinary Shareholders' Meeting of Enea Innovation Sp. z o.o. adopted a resolution on increasing the company's share capital by PLN 3,500,000.00 up to PLN 3,805,000.00 by creating 35,000 shares with the nominal value of PLN 100.00 each. The aforesaid increase of the share capital has not been registered in the National Court Register

¹⁰ – On 4 August 2017, Enea Wytwarzanie Sp. z o.o. and Enea S.A. incorporate a company trading as Enea Badanie i Rozwój Sp. z o.o. Enea Wytwarzanie Sp. z o.o. acquired 99 shares while Enea S.A. acquired 1 share. On 28 September 2017, the company was entered in the National Court Register On 17 November 2017, the Extraordinary Shareholders' Meeting of the company adopted a resolution on increasing the share capital by PLN 2,000,000.00. By the end of 2017, the increase of the share capital has not been entered in the National Court Register

¹¹ – On 17 November 2017, the Extraordinary Shareholders' Meeting of Przedsiębiorstwo Energetyki Ciepłej Zachód Sp. z o.o. adopted a resolution on amending the company's Articles of Incorporation by changing its business name to Enea Ciepło Serwis Sp. z o.o.

ENE A Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

On 17 November 2017, the Extraordinary Shareholders' Meeting of MPEC Sp. z o.o. in Białystok adopted a resolution on amending the company's Articles of Incorporation by changing its name to Enea Ciepło Sp. z o.o.

¹² – On 23 November 2017, the Extraordinary Shareholders' Meeting of Elektrownia Ostrołęka S.A. adopted a resolution on transforming the company into a limited liability company. On 27 February 2018, the transformation into a limited liability company was registered in the National Court Register.

¹³ – On 28 November 2017, the Extraordinary Shareholders' Meeting of Polska Grupa Górnicza Sp. z o.o. adopted a resolution on transforming the company into a joint-stock company. On 29 December 2017, the transformation was registered in the National Court Register

¹⁴ – On 3 January 2018, the Extraordinary Shareholders' Meeting of ElectroMobility Poland S.A. adopted a resolution on increasing the company's share capital by PLN 20,000,000 by way of increasing the face value of existing shares from PLN 1,000.00 to PLN 3,000.00. Following the aforesaid increase, Enea S.A. holds 2,500 shares of the company with the nominal value of PLN 3,000.00 and the total value of PLN 7,500,000.00.

¹⁵ – On 28 February 2018, the Extraordinary Shareholders' Meeting of Annacond Enterprises Sp. z o.o. adopted a resolution to put the company into liquidation.

5. Segment reporting

Management of the Group's business is broken down to business segments, determined on the basis of the products and services offered thereby. There are four operating segments in the ENEA Capital Group:

- trade – purchase and sale of electricity,
- distribution – electricity distribution and transmission services,
- generation – generation of electricity and heat,
- mining – production and sale of coal, companies supporting the mining business,

and other business – maintenance and upgrading of road lighting equipment, transport services, overhaul and construction services.

Segment revenues are generated from sales to external customers and transactions with other segments, which are directly attributable to a given segment. In 2017, in the mining segment, the company Grupa Azoty Zakłady Azotowe „Puławy” was the external customer whose share in the sales exceeded 10% of the sales revenues (23.5%). Segment costs include the cost of goods sold to external customers and the cost of transactions carried out with other Group segments, which ensue from operations of a given segment and may be directly allocated to that segment.

In inter-segment transactions, arms' length prices are applied. They guarantee that individual entities generate an appropriate margin enabling them to be independent in the market. EBITDA is defined as operating profit/loss reduced by depreciation and impairment loss on non-financial non-current assets.

Information on geographic areas

The Group's activity in 2017 and 2016 was carried out in a single geographic area, i.e. in the territory of Poland.



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Segment results:

(a) The results for 2017, period between 1 January and 31 December 2017, are as follows:

	Trade	Distribution	Generation	Mining	Other business	Exclusions	Total
Net sales revenue	5 225 380	3 244 006	2 313 604	462 194	160 505	-	11 405 689
Inter-segment sales	750 533	36 230	2 265 191	1 318 126	427 339	(4 797 419)	
Total net sales revenue	5 975 913	3 280 236	4 578 795	1 780 320	587 844	(4 797 419)	11 405 689
Total costs	(5 799 100)	(2 704 065)	(4 150 335)	(1 429 636)	(580 291)	4 786 345	(9 877 082)
Segment profit/loss	176 813	576 171	428 460	350 684	7 553	(11 074)	1 528 607
Depreciation	(955)	(497 188)	(306 877)	(357 015)	(43 731)		
Impairment loss on non-financial non-current assets	-	-	-	(1 284)	-		
EBITDA	177 768	1 073 359	735 337	708 983	51 284		
% of net sales revenues	3,0 %	32,7 %	16,1 %	39,8 %	8,7 %		
Gain on a bargain purchase							11 953
Unallocated costs of the entire Group (overhead costs)							(52 830)
Operating profit							1 487 730
Financial expenses							(170 689)
Financial revenue							139 718
Dividend income							526
Share in profits of affiliates and jointly-controlled entities							9 282
Income tax							(301 676)
Net profit							1 164 891
Share in profit from non-controlling interests							94 723



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Segment results:

(b) The results for 2016, period between 1 January and 31 December 2016, were as follows:

	Trade	Distribution	Generation	Mining	Other business	Exclusions	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 costs	(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 revenues	2,2 %	36,0 %	15,6 %	34,3 %	5,2 %		
Unallocated costs of the entire Group (overhead costs)							(53 204)
Operating profit							1 119 314
Financial expenses							(127 010)
Financial revenue							76 350
Dividend income							148
Income tax							(219 889)
Net profit							848 913
Share in profit from non-controlling interests							64 520



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Other information regarding segments as at 31 December 2017 and for a period of 12 months ending on that date are as follows:

	Trade	Distribution	Generation	Mining	Other business	Exclusions	Total
Property, plant and equipment	15 552	8 389 251	9 370 558	2 747 876	343 008	(460 228)	20 406 017
Trade and other receivables	1 004 500	515 632	654 299	209 966	107 015	(570 208)	1 921 204
Total	1 020 052	8 904 883	10 024 857	2 957 842	450 023	(1 030 436)	22 327 221
Assets excluded from segmentation							5 985 773
- whereof property, plant and equipment							10 850
- whereof trade and other receivables							13 093
TOTAL: ASSETS							28 312 994
Trade and other payables	332 284	454 598	1 040 323	278 978	369 194	(547 076)	1 928 301
Equity and liabilities excluded from segmentation							26 384 693
- whereof trade and other payables							180 663
TOTAL: EQUITY AND LIABILITIES							28 312 994

for a period of 12 months ended on 31 December 2017

Capital expenditure on property, plant and equipment and intangible assets	215	1 022 408	1 114 148	373 073	55 530	(19 302)	2 546 072
Capital expenditure on property, plant and equipment and intangible assets excluded from segmentation							-
Depreciation	955	497 188	306 877	357 015	43 731	(12 622)	1 193 144
Depreciation excluded from segmentation							1 396
Establishment/(termination /use) of receivables allowance	8 724	13 740	563	581	24	-	23 632
Establishment/(termination) of impairment allowance for non-financial non-current assets	-	-	-	1 284	-	-	1 284



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Other information regarding segments as at 31 December 2016 and for a period of 12 months ending on that date are as follows:

	Trade	Distribution	Generation	Mining	Other business	Exclusions	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
- whereof property, plant and equipment							13 783
- whereof trade and other receivables							69 851
TOTAL: Assets							24 536 519
Trade and other payables	390 417	347 056	346 744	273 016	206 956	(458 739)	1 105 450
Equity and liabilities excluded from segmentation							23 431 069
- whereof trade and other payables							84 523
TOTAL: Equity and liabilities							24 536 519
for a period of 12 months ended on 31 December 2016							
Capital expenditure on property, plant and equipment and intangible assets	1 212	923 929	1 382 682	306 620	71 552	(27 013)	2 658 982
Capital expenditure on property, plant and equipment and intangible assets excluded from segmentation							
Depreciation	793	479 720	247 931	363 238	28 260	(11 402)	1 108 540
Depreciation excluded from segmentation							1 810
Establishment/(termination /use) of receivables allowance	3 534	3 198	1 876	5 090	(1 121)	745	13 322
Establishment/(termination) of impairment allowance for non-financial non-current assets	-	-	90 808	7 352	-	-	98 160

6. Impairment tests (property, plant and equipment)

In the fourth quarter of 2017, due to significant impairment allowances made in the previous years and the uncertainty as to the development of the energy market in Poland, including in particular the capacity market and the support system for renewable energy sources, the Group carried out tests for impairment of tangible fixed assets to the extent of areas engaged, among others, in electricity generation. On the basis of the conducted tests, the recoverable values were established, which did not show the need to change the value of the property, plant and equipment as at the reporting date.

Results of the impairment tests are presented below:

CGU [‘000 PLN]	Recoverable value
CGU Koźienice Major Power Plants – generation assets of Enea Wytwarzanie at Świerże Górne site	6 975 873
CGU Białystok – generation assets of Enea Wytwarzanie at the Białystok location together with the assets of the subsidiaries Enea Ciepło and Enea Ciepło Serwis at the same location, treated as one CGU due to close business relationship	642 425
CGU Wind – generation assets based on wind farms of Enea Wytwarzanie	289 239
CGU Water – generation assets based on hydropower plants of Enea Wytwarzanie	173 276
CGU Biogas – generation assets based on biogas plants of Enea Wytwarzanie	1 017
CGU Połaniec Major Power Plants – generation assets of Enea Elektrownia Połaniec (coal-fired generation sources)	862 524
CGU Green Power Unit - generation assets of Enea Elektrownia Połaniec (biomass-fired power unit)	171 415

The recoverable value of individual CGUs was estimated on the basis of the use value using the discounted cash flow method based on the prepared financial projects. The following projection periods have been assumed for the individual tested cash generating units:

- CGU Koźienice Major Power Plants – until 2040,
- CGU Białystok – until 2040,

ENECA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

- CGU Wind:
 - Darżyno Wind Farm until 2037,
 - Bardy Wind Farm until 2036,
 - Baczyna Wind Farm until 2040,
- CGU Water – until 2040,
- CGU Biogas – until 2023,
- CGU Połaniec Major Power Plants – until 2034,
- CGU Green Power Unit – until 2042.

Presented below are the main assumptions used for the purpose of impairment tests:

- assets were subjected to tests in seven cash generating units (i.e. CGU Kozienice Major Power Plants, CGU Białystok, CGU Wind, CGU Water, CGU Biogas, CGU Połaniec Major Power Plants, CGU Green Power Unit),
- the main price paths based, among others, on the forecasts prepared by Enea Trading (a company constituting a competence centre in the Enea Capital Group with regard to wholesale trade in electricity, property rights, emission allowances and fuels) taking into account product specificity and knowledge of the already concluded contracts:
 - wholesale prices of electrical energy: an increase over the period covered by the projection,
 - prices of certificates of origin of energy from renewable energy sources and from co-generation: the existence of support systems: for renewable energy sources also after 2025, for highly efficient co-generation until 2018,
 - prices of CO₂ emission allowances: an increase over the entire period covered by the projection,
 - coal prices: an increase over the entire period covered by the projection,
 - biomass price: an increase until 2029, and a decrease since 2030.
- the number of CO₂ emission allowances received free of charge for the years 2015-2020 was based on the derogation application (under Article 10c(5) of Directive 2003/87/EC of the European Parliament and of the Council),
- taking into account revenues related to the maintenance of production capacities from 2021 pursuant to the Capacity Market Law passed in December 2017, based on the analyses and estimates made by Enea Trading
- inflation, taking into account the inflation target at the maximum level of 2.5%.
- the nominal discount rate of 6.44% ,
- the rate of increase during the residual period – 0%.

The sensitivity analysis carried out indicates that important factors influencing the estimates of the recoverable value of cash flow generating units include, among others: discount rates, inflation, electricity prices and revenues from the Capacity Market. In addition, prices of certificates of origin of energy, CO₂ emission rights and coal prices will also have an impact on future financial performance and, consequently, on the use value of cash flow generating units.

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Presented below is the statement of impact (in terms of value) of changes of the selected factors on the total recoverable value (initial value) of the cash generating units:

Impact of changes of the discount rate (initial value 6.44%)

Change of assumptions	-0,5 p.p.	Initial value	+0,5 p.p.
Change of recoverable value	768 374	9 115 770	(666 617)

Impact of changes of inflation from 2019 (initial value 2.5%)*

Change of assumptions	-0,5 p.p.	Initial value	+0,5 p.p.
Change of recoverable value	(717 297)	9 115 770	775 459

*sensitivity analysis does not take into account the impact of inflation on the discount rate

Impact of changes of electricity prices

Impact of changes	-1,0 p.p.	Initial value	+1,0 p.p.
Impact of changes	(739 061)	9 115 770	739 061

Impact of changes of the Capacity Market

Change of assumptions	-10,0 p.p.	<i>Initial value</i>	+10,0 p.p.
Change of recoverable value	(626 072)	9 115 770	626 072



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

7. Property, plant and equipment

(a) 2017

	Land	Buildings and structures	whereof mining excavations	Plant and machinery	Means of transport	Other tangible assets	Tangible assets under construction	Total
Balance as at 01.01.2017								
Gross value at the start of the period	96 978	12 880 119	1 160 361	9 011 746	276 944	582 553	5 580 530	28 428 870
Accumulated depreciation at the start of the period	-	(4 416 822)	(189 522)	(3 519 775)	(102 715)	(374 377)	(2 656)	(8 416 345)
Impairment allowance at the start of the period	(2 205)	(327 155)	-	(558 513)	(1 092)	(2 709)	(738 353)	(1 630 027)
Net value at the start of the period	94 773	8 136 142	970 839	4 933 458	173 137	205 467	4 839 521	18 382 498
Changes during the 12 months period ended 31 December 2017								
Reclassifications	2 809	2 628 264	237 332	4 299 022	34 904	68 411	(7 079 115)	(45 705)
Acquisition	-	1 567	-	2 720	558	1 605	2 494 187	2 500 637
Settlement of subsidiary acquisition	13 543	226 129	-	473 445	44	1 240	40 696	755 097
Disposal (initial value)	(19)	(721)	-	(30)	(3 948)	(48)	-	(4 766)
Disposal (accumulated depreciation)	-	482	-	30	3 753	14	-	4 279
Depreciation	-	(611 749)	(170 118)	(473 991)	(26 208)	(44 303)	-	(1 156 251)
Impairment allowance (-)	-	(211 683)	-	(500 892)	(2 464)	(2 233)	719 132	1 860
Liquidation (initial value)	(444)	(140 384)	(72 977)	(26 595)	(729)	(32 792)	-	(200 944)
Liquidation (accumulated depreciation)	-	117 553	62 446	25 321	719	31 322	-	174 915
Other	118	7 029	-	(1 500)	587	2 075	(2 778)	5 531
Other (accumulated depreciation)	-	(114)	-	438	(37)	(571)	-	(284)
Balance as at 31 December 2017								
Gross value at the end of the period	112 985	15 602 003	1 324 716	13 758 808	308 360	623 044	1 033 520	31 438 720
Accumulated depreciation	-	(4 910 650)	(297 194)	(3 967 977)	(124 488)	(387 915)	(2 656)	(9 393 686)
Impairment allowance	(2 205)	(538 838)	-	(1 059 405)	(3 556)	(4 942)	(19 221)	(1 628 167)
Net value at the end of the period	110 780	10 152 515	1 027 522	8 731 426	180 316	230 187	1 011 643	20 416 867



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

(b) 2016

	Land	Buildings and structures	whereof mining excavations	Plant and machinery	Means of transport	Other non-current assets	Tangible assets under construction	Total
Balance as at 01.01.2016								
Gross value at the beginning of the period	92 573	12 020 514	1 042 951	8 404 091	252 460	545 665	4 745 900	26 061 203
Accumulated depreciation at the start of the period	-	(3 908 052)	(12 498)	(3 121 598)	(86 859)	(333 670)	(2 656)	(7 452 835)
Impairment allowance at the start of the period	(1 703)	(269 775)	-	(467 430)	(1 099)	(2 587)	(790 796)	(1 533 390)
Net value at the start of the period	90 870	7 842 687	1 030 453	4 815 063	164 502	209 408	3 952 448	17 074 978
Changes during the 12 months period 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 (initial value)	(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 allowance (-)	(502)	(57 380)	-	(91 083)	7	(122)	52 443	(96 637)
Reclassification to non-current assets held for sale (gross value)	-	(13)	-	(896)	(21)	-	-	(930)
Reclassification to investment property (gross value)	(40)	(3 432)	-	(107)	-	(149)	(4 646)	(8 374)
Reclassification to investment property (accumulated depreciation)	-	102	-	4	-	6	-	112
Liquidation (initial value)	(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	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								
Gross value at the end of the period	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 allowance	(2 205)	(327 155)	-	(558 513)	(1 092)	(2 709)	(738 353)	(1 630 027)
Net value at the end of the period	94 773	8 136 142	970 839	4 933 458	173 137	205 467	4 839 521	18 382 498

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

Finance lease

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

	31.12.2017			31.12.2016		
	Initial cost	Accumulated depreciation	Net book value	Initial cost	Accumulated depreciation	Net book value
Plant and machinery	-	-	-	608	(326)	282
Means of transport	5 549	(1 991)	3 558	6 282	(1 146)	5 136
Total	5 549	(1 991)	3 558	6 890	(1 472)	5 418

8. Perpetual usufruct of land

	31.12.2017	31.12.2016
Gross value at the beginning of the period	92 593	91 214
Reclassifications	581	-
Acquisition	-	2 101
Settlement of subsidiary acquisition	31 952	-
Disposal (initial value)	(10)	(722)
Liquidation (initial value)	(1 300)	-
Other	220	-
Gross value at the end of the period	124 036	92 593
Accumulated depreciation at the start of the period	(5 789)	(4 944)
Disposal (accumulated depreciation)	4	170
Depreciation	(1 278)	(1 019)
Liquidation (accumulated depreciation)	132	-
Other (accumulated depreciation)	371	4
Accumulated depreciation at the end of the period	(6 560)	(5 789)
Impairment allowance at the start of the period	(11 905)	(12 110)
Impairment allowance at the end of the period	(11 905)	(11 905)
Net value at the start of the period	74 899	74 160
Net value at the end of the period	105 571	74 899



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

9. Intangible assets

(a) 2017

Balance as at 01.01.2017

	Research and development expenses	Goodwill	Computer software, licenses, concessions, patents	Easement rights	Customer relations	Geological information	Total
Gross value at the start of the period	4 595	229 323	499 523	45 957	16 000	40 826	836 224
Accumulated depreciation at the start of the period	(830)	-	(210 144)	(3 587)	(16 000)	(656)	(231 217)
Impairment allowance at the start of the period	-	(227 517)	(6 041)	(811)	-	-	(234 369)
Net value at the start of the period	3 765	1 806	283 338	41 559	-	40 170	370 638

Changes during the 12 months period ended 31 December 2017

Reclassifications	-	-	35 806	-	-	-	35 806
Acquisition	1 781	-	28 625	14 999	-	30	45 435
Settlement of subsidiary acquisition	-	-	5 467	-	-	-	5 467
Depreciation	(542)	-	(36 551)	(2 022)	-	(158)	(39 273)
Impairment allowance	-	-	(208)	-	-	-	(208)
Liquidation initial value	-	-	(3 046)	(54)	-	-	(3 100)
Liquidation (accumulated depreciation)	-	-	3 040	3	-	-	3 043
Other	-	-	-	441	-	-	441
Other (accumulated depreciation)	-	-	-	(1)	-	-	(1)

Balance as at 31 December 2017

Gross value at the end of the period	6 376	229 323	566 375	61 343	16 000	40 856	920 273
Accumulated depreciation	(1 372)	-	(243 655)	(5 607)	(16 000)	(814)	(267 448)
Impairment allowance	-	(227 517)	(6 249)	(811)	-	-	(234 577)
Net value at the end of the period	5 004	1 806	316 471	54 925	-	40 042	418 248



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

(b) 2016

Balance as at 01.01.2016

	Research and development expenses	Goodwill	Computer software, licenses, concessions, patents	Easement rights	Customer relations	Geological information	Total
Gross value at the beginning of the period	3 893	229 323	416 239	32 906	16 000	13 222	711 583
Accumulated depreciation at the start of the period	(404)	-	(187 696)	(2 078)	(16 000)	(129)	(206 307)
Impairment allowance at the start of the period	-	(227 517)	(5 275)	(368)	-	-	(233 160)
Net value at the start of the period	3 489	1 806	223 268	30 460	-	13 093	272 116

Changes during the 12 months period ended 31 December 2016

Reclassifications	-	-	45 529	-	-	-	45 529
Acquisition	702	-	36 873	13 046	-	27 604	78 225
Disposal (initial value)	-	-	(81)	-	-	-	(81)
Disposal (accumulated depreciation)	-	-	81	-	-	-	81
Depreciation	(426)	-	(21 563)	(1 509)	-	(527)	(24 025)
Impairment allowance	-	-	(766)	(443)	-	-	(1 209)
Liquidation initial value	-	-	(260)	-	-	-	(260)
Liquidation (accumulated depreciation)	-	-	260	-	-	-	260
Other	-	-	1 223	5	-	-	1 228
Other (accumulated depreciation)	-	-	(1 226)	-	-	-	(1 226)

Balance as at 31 December 2016

Gross value at the end of the period	4 595	229 323	499 523	45 957	16 000	40 826	836 224
Accumulated depreciation	(830)	-	(210 144)	(3 587)	(16 000)	(656)	(231 217)
Impairment allowance	-	(227 517)	(6 041)	(811)	-	-	(234 369)
Net value at the end of the period	3 765	1 806	283 338	41 559	-	40 170	370 638

No collateral has been established on intangible assets.

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

	Period ended 31.12.2017	Period ended 31.12.2016
Goodwill		
Opening balance	1 806	1 806
Impairment allowance recognised during the year	-	-
Closing balance	1 806	1 806

As at 31 December 2017 and 31 December 2016 goodwill related to Miejska Energetyka Ciepła Piła Sp. z o.o.

11. Investment property

	31.12.2017	31.12.2016
Gross value at the beginning of the period	33 402	25 252
Reclassifications	-	3 664
Acquisition	-	4 646
Disposal (initial value)	(457)	(160)
Gross value at the end of the period	32 945	33 402
Accumulated depreciation at the start of the period	(4 508)	(3 754)
Disposal (accumulated depreciation)	355	
Depreciation	(1 038)	(1 130)
Reclassification (accumulated depreciation)	-	(112)
Other (accumulated depreciation)	-	488
Accumulated depreciation at the end of the period	(5 191)	(4 508)
Impairment allowance at the start of the period	(874)	(874)
Impairment allowance (-)	101	-
Impairment allowance at the end of the period	(773)	(874)
Net value at the start of the period	28 020	20 624
Net value at the end of the period	26 981	28 020

No collateral has been established on investment property.

Income and expenses relating to investment property have been presented below:

	31.12.2017	31.12.2016
Revenue from investment property	5 239	5 408
Operating costs relating to revenue generating investment property	(4 606)	(4 264)

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

The most valuable investment property was the registered office of Enea S.A., with the net value recorded in the books of PLN 8,793 thousand. The Group estimates that its fair value amounts to PLN 18,162 thousand.

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

(all amounts in PLN '000, unless specified otherwise)
12. Investments in associates and jointly-controlled entities

	31.12.2017	31.12.2016
Opening balance	2 518	748
Share in net assets change	9 282	-
Acquisition of investments	344 562	1 770
Other changes	(1 210)	-
Balance as at the reporting date	355 152	2 518

	31.12.2017	31.12.2016
Polska Grupa Górnicza S.A.	210 000	-
Elektrownia Ostrołęka S.A.	52 335	-
Polimex - Mostostal S.A.	90 967	-
ElectroMobility Poland S.A.	1 850	2 500
Advances towards shareholding in Enea Ciepło Sp. z o.o.	-	18
	355 152	2 518

**ENECA Capital Group**

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

The table below shows the basic financial information regarding affiliates and jointly controlled entities consolidated using the equity method of accounting:

31 December 2017	Share in ownership	Current assets	Non-current assets	Total assets	Current liabilities	Long-term liabilities	Total liabilities	Revenues	Net profit	Elimination of unrealised losses	Share in profit/loss of affiliates and jointly-controlled entities
Elektrownia Ostrołęka S.A.	23,79%	25 832	214 212	240 044	32 821	703	33 524	1 201	(1 661)	-	(395)
Polimex - Mostostal S.A.	16,48%	1 586 019	654 262	2 240 281	973 960	809 979	1 783 939	2 077 245	64 619	(322)	10 327
ElectroMobility Poland S.A.	25,00%	7 382	241	7 623	223	-	223	151	(2 600)	-	(650)
		1 619 233	868 715	2 487 948	1 007 004	810 682	1 817 686	2 078 597	60 358	(322)	9 282

Figures of the jointly-controlled company trading as Polska Grupa Górnicza S.A. will be consolidated using the equity method as of 1 January 2018.

The Group made a consolidation adjustment regarding sales margin on transactions between the Group and Polimex – Mostostal S.A.

12.1. Acquisition of shares of ENGIE Energia Polska S.A. (currently Enea Elektrownia Połaniec S.A.)

On 30 September 2016, Enea S.A. made an offer for the purchase of 100% shares of ENGIE Energia Polska SA (EEP, currently Enea Elektrownia Połaniec S.A.). The offer was submitted in the way described in the course of the process initiated by ENGIE, holder of 100% shares of EEP. On 2 December 2016, the Company was granted exclusivity for conducting negotiations regarding purchase of 100% of EEP shares. On 23 December 2016, the Company signed with ENGIE International Holdings B.V. a conditional sale agreement of 100% shares of EEP, and indirectly also of 100% shares of ENGIE Bioenergia Sp. z o.o.

Closing of the transaction was contingent upon fulfilment of the following conditions precedent:

- obtaining consent of the Minister of Energy in conformity with the Act on control over certain investments,
- obtaining consent for the concentration from the President of the Office for Competition and Consumer Protection (UOKiK),
- waiver of the right of first refusal by President of the Agricultural Property Agency,
- conversion of debt of EEP to companies – members of the ENGIE Group into equity of EEP.

On 28 February 2017, the Company was notified about the fulfilment of the last of the aforementioned conditions, meaning that all conditions precedent had been duly fulfilled. On 2 March 2017, the Company was provided by ENGIE International Holdings B.V. with a calculation of the initial sale price of 100% shares of EEP amounting to PLN 1,264,159,355.

On 14 March 2017, the Issuer acquired 100% of shares of EEP, i.e. 7,135,000 shares which entitle their holder to the same number of votes, for an initial price of PLN 1,264,159,355. The estimated costs relating to the acquisition of the shares amounted to PLN 3.9 million and were presented under “other outsourced services”. The aforesaid transaction is in conformity with the Development Strategy of the ENEA Capital Group until 2030 approved in September 2016. As a result of that transaction, the Group increased its share in domestic generation of electricity. These consolidated financial statements show the allocation of the purchase price to the identifiable net assets acquired.

The table below shows the determined fair values of the main items of the identifiable assets acquired and liabilities assumed as at the acquisition date:

	<u>14.03.2017</u>
Price paid for the shares	1 264 159
Property, plant and equipment	788 858
Intangible assets	18 764
Deferred income tax assets	213 553
Cash and cash equivalents	230 065
Trade and other receivables	162 171
Inventories	394 373
Other assets	557
Liabilities	<u>(532 229)</u>
Net assets	<u>1 276 112</u>
Gain on a bargain purchase	<u>11 953</u>

In the period between 14 March do and 31 December 2017, the EEP generated net sales revenue of PLN 1,643,962 thousand and a net profit of PLN 190,727 thousand. Should the acquisition had taken place on 1 January 2017, then – according to the Management Board’s estimation – consolidated net sales revenues for 2017 would have amounted to PLN 11,732,854 thousand and consolidated net profit would have amounted to PLN 1,176,582 thousand.

The EEP Group had not contingent liabilities that would need to be recognised Grupa EEP in the course of settlement of the acquisition.

12.2. Acquisition of shares of Polimex-Mostostal S.A.

On 18 January 2017, Enea S.A. signed an investment agreement with Energa S.A., PGE Polska Grupa Energetyczna S.A., PGNiG Technologie S.A. (Investors) and with Polimex, under which the Investors committed to make investment in Polimex. The investment consisted in the acquisition by the Investors of the total of 150 million shares issued by Polimex. The Company committed to acquire 37.5 million new shares at the total issue price of PLN 75 million. The Agreement was concluded on conditions precedent described in detail in Current Report No. 2/2017. Together with the aforementioned agreement, agreements were signed aimed at fine-tuning of the principles of cooperation and the mutual rights and obligations of the Investors upon implementation of the aforesaid investment, as well as additional agreements regarding the implementation of the investment were concluded with creditors and hitherto shareholders of Polimex.

On 20 January 2017, in connection with the fulfilment of the conditions precedent stipulated in the investment agreement, referred to hereinabove, the Company accepted an offer submitted by the Management Board of Polimex of acquisition – by way of private placement – of 37.5 million shares at an issue price of PLN 2.00 per share, i.e. at the total issue price of PLN 75 million. Additionally, as a result of performance of one of the aforementioned additional agreements, on 20 January 2017, the Company acquired 1.5 million shares of Polimex from its hitherto shareholder. The purchase price of all shares amounted to PLN 80.6 million. Enea S.A. acquired a shareholding of 16.48%.

The investment agreement made it possible for the Investors to influence the financial and operational policy of Polimex. These rights are exercised by the Supervisory Board. Besides, the Investors signed a letter of agreement regarding investment in Polimex (the „Letter of Agreement”). The purpose of the Letter of Agreement is to provide Investors who together hold a majority share of votes at the Shareholders’ Meeting of Polimex with increased control over Polimex. The Letter of Agreement stipulates, among others, that upon taking key decisions belonging to the competencies of the Shareholders Meetings and the Supervisory Board of Polimex, including determination of the composition of Polimex’s Management Board, the Investor would agree on their common position by way of a vote. In view of the aforementioned rights of the Investors, translating to their significant impact on the company, the shareholding in Polimex has been classified as a share in an affiliate company accounted for using the equity method. Polimex is an engineering and construction company, offering a broad range of services provided in the capacity of a general contractor Polimex is listed at the Warsaw Stock Exchange (GPW).

On 21 March 2017, Investors made a call to subscribe for the shares of Polimex in connection with exceeding (as parties to the Letter of Agreement) the threshold of 33% of the total number of votes at the General Shareholders’ Meeting of Polimex. The call was of a secondary nature and the Investors intended to acquire through the call shares

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

accounting for the surplus above the number of shares currently held by the Investors (i.e. jointly 65.93% of the general number of votes at the General Shareholders' Meeting of Polimex) and ensuring reaching no more than 66% of the total number of votes at the General Shareholders' Meeting of Polimex. In connection with the call, each Investor (including Enea) intended to get no more than, approximately, 0.018% of the general number of votes at the General Shareholders' Meeting of Polimex. The call was finally settled on 28 April 2017: as a result, each Investor acquired 24 shares of Polimex. Currently, the Company holds 39,000,024 shares of Polimex, which represent a 16.48% shareholding in the share capital of Polimex. Together, the Investors hold 156,000,097 shares representing a 65.9% shareholding in the share capital of Polimex.

Pursuant to the Investment Agreement, in 2017 Polimex undertook actions aimed at admitting to trading at the Warsaw Stock Exchange the series T shares acquired by the Investors. On 20 October 2017, the Polish Financial Supervision Authority approved of the Polimex share issue prospectus prepared in connection with the issue of 150,000,000 T-series ordinary bearer shares. On 31 October, the Management Board of the Warsaw Stock Exchange (GPW) decided to admit T-series shares to trading in the GPW regulated market as of 3 November 2017 on condition of registration of those shares by Krajowy Depozyt Papierów Wartościowych S.A. (KDPW) by 3 November 2017. On 2 November 2017, the Operational Department of KDPW issued a communique informing of the registration of 150,000,000 T-series shares of the Company on 3 November 2017, with the code PLMSTSD00019.

The joint control was assumed on 20 January 2017. The transaction costs relating to the acquisition of the shares amounted to PLN 1.1.million and were recorded under "other outsourced services".

In these consolidated financial statements the purchase price of Polimex has been allocated as at 31 December 2016. Detailed information is provided in the table below.

	Polimex - Mostostal S.A.
Share issue in connection with the transaction	300 000
Net assets before adjustments	482 177
Net assets after adjustments	392 505
Shareholding	16.48%
Acquisition price	80 648
Share in the net fair value of acquired assets	64 694
Goodwill regarding the shares held	15 954

12.3. Implementation of the Investment Agreement with Energa S.A. and Elektrownia Ostrołęka S.A. concerning construction and operation of a power unit at Elektrownia Ostrołęka S.A.

On 19 September 2016, Enea SA signed a Letter of Intent with Energa S.A. regarding initiating co-operation on the preparation, implementation and operation of a cutting-edge 1,000 MW coal-fired power unit at Elektrownia Ostrołęka (Ostrołęka C, Investment Project).

The Parties' intention is to jointly develop an efficient business model of Ostrołęka C, verify the design documents and optimize the technical and economic parameters of the new power unit. The co-operation will also include organisation of the tendering proceedings in order to select the general contractor of the Investment Project.

In the Parties' mutual opinion, implementation of the Investment Project, which fulfils the highest environmental standards, will significantly contribute to Poland's Energy security and it will provide another stable, highly efficient and low-emission source of power in the National Grid System.

On 8 December 2016, the Company entered into an Investment Agreement regarding implementation of the Ostrołęka C Project. The purpose of the Agreement is preparation, construction and operation of the power unit referred to hereinabove. Pursuant to the aforesaid Agreement, as a rule, the co-operation will be organised within three stages: the Development Stage – until the time the Notice to Proceed is issued to the General Contractor, the Construction Stage – until the commissioning of Ostrołęka C and the Operation Stage – commercial operation of Ostrołęka C. After the Development Stage is completed, Enea S.A. will be obliged to participate in the Construction Stage provided that the condition of the Project profitability is fulfilled and Project funding does not violate the Company's bank covenants.

It is estimated that the total capital expenditure of Enea S.A. until completion of the Development Stage will amount to approximately PLN 128 million. For the purpose of Project implementation, Energa S.A. will sell to Enea S.A. shares of Elektrownia Ostrołęka S.A., representing 50% of the share capital, worth approximately PLN 101 million. A condition precedent for the execution of the Investment Agreement was obtaining consent from the President of the Office for Competition and Consumer Protection (UOKiK) for concentration consisting in the acquisition of shares of the special purpose vehicle established to implement the Project. The aforesaid condition was fulfilled on 11 January 2017.

On 19 December 2016, the special purpose vehicle announced a tender for selection of the general contractor for construction of the Ostrołęka C power plant with the capacity of approximately 1,000 MW and net efficiency of at least 45%, operating on steam supercritical parameters. Subject to the fulfilment of the pre-determined assumptions (including, among others, an adequate share of Enea S.A., Energa S.A. and Financial Investors, if any) and assuming that the Capacity Market or other support mechanisms are introduced, Elektrownia Ostrołęka S.A. will be able to undertake the comprehensive implementation of the Project.

On 1 February 2017, Enea S.A. entered into a Share Purchase Agreement with ENERGA S.A. regarding acquisition of 24,980,926 shares of Elektrownia Ostrołęka S.A. for the total amount of PLN 24 million, thus acquiring a 11.89% shareholding in the Company's share capital.

Pursuant to the aforementioned agreements, ENERGA S.A. and Enea S.A. assumed joint control over Elektrownia Ostrołęka S.A., based in Ostrołęka, whose main object of operation is the construction and operation of a new coal-fired power unit. Both parties will hold 50% shares of Elektrownia Ostrołęka S.A., and a corresponding number of votes at the General Shareholders' Meeting. The Management Board and the Supervisory Board will be composed of the same number of representatives of both investors. Decisions regarding major activities will require unanimous approval of both shareholders who are entitled to net assets of Elektrownia Ostrołęka S.A. In view of the foregoing,

the investment project has been classified as a joint venture and it is recognized according to the equity method of accounting.

Elektrownia Ostrołęka SA is a non-public company therefore there are no listed market prices of its shares.

On 13 April 2017, the Extraordinary Shareholders' Meeting of Elektrownia Ostrołęka S.A. adopted a resolution to increase the company's share capital from PLN 210,100 thousand to PLN 229,100 thousand by issuing new shares. By way of private placement Enea S.A. acquired 9,500,000 shares in exchange for a cash contribution, which was made on 28 April 2017. Following acquisition of the shares from the new issue Enea increased its shareholding in the share capital of Elektrownia Ostrołęka S.A. to 15.1%. On 27 June 2017, Enea S.A. concluded a Share Purchase Agreement with Energa S.A. regarding acquisition of 20,017,269 shares of Elektrownia Ostrołęka S.A., for the total amount of approximately PLN 19.2 million, thus increasing its share in the share capital of Elektrownia Ostrołęka S.A. to 23.79%. In order to provide the company with sufficient funds, pursuant to an agreement of 23 November 2017, ENERGA S.A. and Enea S.A. granted a loan to the company of PLN 10 million from each Shareholder

On 23 November 2017, the Extraordinary Shareholders' Meeting of Elektrownia Ostrołęka S.A. adopted a resolution to transform the Company into a limited liability company. On 27 February 2018, the transformation into a limited liability company was registered in the National Court Register.

12.4. Recapitalisation of Polska Grupa Górnicza S.A.

In connection with sourcing of capital investors by Katowicki Holding Węglowy S.A., in July 2016 Enea S.A. initiated talks with prospective investors regarding the possibilities of implementing the Project and its future parameters.

On 28 October 2016, Enea S.A. signed a Letter of Intent with Węglokoks S.A. and Towarzystwo Finansowe Silesia Sp. z o.o. in which preliminary interest was expressed with regard to financial involvement in Katowicki Holding Węglowy S.A. or with regard to selected assets thereof.

In view of the interest of Polska Grupa Górnicza S.A. (PGG) in the acquisition of selected assets of Katowicki Holding Węglowy S.A. and commencement of the process of recapitalisation of PGG, Enea S.A. – together with the hitherto Shareholders of PGG – carried out the necessary reviews of the Business Plan presented by PGG and expressed interest in committing capital to Polska Grupa Górnicza S.A.

On 30 March 2017, the Supervisory Board of Enea S.A. granted its consent for the Company's accession to Polska Grupa Górnicza S.A. and for the acquisition thereby of the new shares in the PGG capital with the nominal value of PLN 300 million in exchange for a cash contribution of PLN 300 million.

On 31 March 2017, the Company entered into:

- an investment agreement determining the terms and conditions of financial investment in PGG (Investment Agreement),
- a letter of agreement regarding exercising joint control over PGG (Investors' Agreement).

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Investment Agreement

The parties to the Investment Agree are: Enea S.A., ENERGA Kogeneracja Sp. z o.o., PGE Górnictwo i Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A., Węglkokoks S.A., Towarzystwo Finansowe Silesia Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (the Investors) and PGG. The Investment Agreement provided that PGG would acquire selected mining assets from Katowicki Holding Węglowy S.A. pursuant to a preliminary agreement, that was entered into on 1 April 2017.

The Investment Agreement determines the method of conducting the investment project and the Company's accession to PGG, the principles of operation of PGG and its governing bodies as well as the principles of withdrawal from the investment in PGG by the parties.

Within the frame of recapitalisation of PGG, Enea S.A. committed itself to acquire new shares of PGG with the total nominal value of PLN 300 million in exchange for a cash contribution of PLN 300 million in three stages:

- a) within the first stage, the Company acquired new shares of PGG with the nominal value of PLN 150 million in exchange for a cash contribution of PLN 150 million. Following the acquisition of those shares, the Company held a 4.39% share in the share capital of PGG. The first recapitalization took place in April 2017;
- b) within the second stage, the Company acquired new shares of PGG with the nominal value of PLN 60 million in exchange for a cash contribution of PLN 60 million. Following the acquisition of those shares, the Company held a 5.81% share in the share capital of PGG. The second recapitalisation took place in June 2017;
- c) within the third stage, the Company acquired new shares of PGG with the nominal value of PLN 90 million in exchange for a cash contribution of PLN 90 million. Following registration of the capital increase with the National Court Register, Enea S.A. will increase its shareholding in the share capital to 7.66%. The third recapitalisation took place in January 2018.

The Agreement determines the rules of appointment of Members of the Supervisory Board, according to which each Investor and the State Treasury shall be entitled to appoint one member of the Supervisory which is to be composed of no more than eight members.

The Investment complies with the Development Strategy of the ENEA Capital Group, where one of significant elements is securing raw material base for conventional power engineering.

Investors' Agreement

On 31 March 2017, the following Investors: ENERGA Kogeneracja Sp. z o.o., PGE Górnictwo i Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and Enea S.A. entered into a Letter of Agreement regulating the method of agreeing on their common position with regard to decisions concerning the Company and exercising joint control over the Company. As far as Enea S.A. is concerned, the Letter of Agreement was entered into on condition of obtaining consent from taking over joint control over the Company from the President of the Office for Competition and Consumer Protection (UOKiK). The consent of the UOKiK, referred to in the preceding sentence, was issued on 22 December 2017.

**ENEA Capital Group**

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

At the same time, on 31 March 2017, a letter of intent signed on 16 October 2016 by Enea S.A., Węglokoks S.A. and Towarzystwo Finansowe Silesia Sp. z o.o. regarding an earlier analysed capital investment in Katowicki Holding Węglowy S.A. was terminated.

The joint control was assumed on 22 December 2017. The transaction costs relating to the acquisition of the shares amounted to PLN 2 million and were recorded under “other outsourced services”.

In these consolidated financial statements initial allocation was made of the acquisition price of Polska Grupa Górnicza S.A. using the initial valuation up to the fair value of net assets of Polska Grupa Górnicza S.A. as at 31 December 2017. Detailed information is provided in the table below.

	Polska Grupa Górnicza S.A.
Net assets before adjustments	3 374 406
Net assets after adjustments	2 904 199
Shareholding	5,81%
Acquisition price	210 000
Share in the net fair value of the acquired assets	168 734
Goodwill due to shares held	41 266



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

13. Non-controlling interests

(a) 2017

Name of subsidiary	Miejska Energetyka Ciepła Piła Sp. z o.o.	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. in Oborniki	Annacond Enterprises Sp. z o.o.	Enea Ciepło Sp. z o.o.	Grupa Kapitałowa Lubelski Węgiel Bogdanka S.A.	Total non-controlling interests
Non-controlling interests (w %)	28,89%	0,07%	39,00%	8,86%	34,01%	
Non-current assets	82 138	12 716	0	280 501	2 988 101	
Current assets	40 904	3 785	312	93 619	730 224	
Long-term liabilities	(14 518)	(1 815)	(4 335)	(47 147)	(406 561)	
Current liabilities	(18 807)	(2 945)	(2)	(57 039)	(744 352)	
Net assets	89 717	11 741	(4 025)	269 934	2 567 412	
Book value of non-controlling interests	25 919	8	(1 570)	23 916	873 177	921 450
Sales revenue	59 235	6 411	-	245 261	1 780 320	
Profit / (Loss) for the reporting period	10 278	(191)	(1 157)	18 569	265 696	
Total comprehensive income	10 370	(191)	(1 157)	18 771	241 361	
Profit / (Loss) attributable to non-controlling interests	3 015	0	(480)	1 645	90 543	94 723
Total comprehensive income corresponding to non-controlling shares	3 015	0	(480)	1 645	82 310	86 490
Net cash flows from operating activities	17 636	2 012	(374)	42 097	616 936	
Net cash flows from investing activities	(3 901)	(1 667)	-	(18 655)	(374 874)	
Net cash flows from financing activities	(1 204)	(462)	387	(6 991)	(342 643)	
Net cash flows	12 531	(117)	13	16 451	(100 581)	



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

(b) 2016

Name of subsidiary	Miejska Energetyka Ciepna Pita Sp. z o.o.	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. in Oborniki	Annacond Enterprises Sp. z o.o.	Enea Ciepło Sp. z o.o.	Grupa Kapitałowa Lubelski Węgiel Bogdanka S.A.	Total non-controlling interests
Non-controlling interests (w %)	28,89%	0,07%	39,00%	8,98%	34,01%	
Non-current assets	83 889	11 560	0	280 725	2 951 333	
Current assets	27 706	3 561	49	76 501	858 474	
Long-term liabilities	(16 634)	(2 140)	(2 844)	(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	
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
Total comprehensive income corresponding to non-controlling shares	1 535	-	(478)	1 557	59 764	62 378
Net cash flows from operating activities	10 143	1 492	(373)	22 532	678 945	
Net cash flows from investing activities	(3 002)	(1 795)	-	(14 842)	(290 011)	
Net cash flows from financing activities	(5 086)	912	384	(7 219)	(111 358)	
Net cash flows	2 055	609	11	471	277 576	

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

(all amounts in PLN '000, unless specified otherwise)
14. Non-current assets held for sale

	31.12.2017	31.12.2016
Property, plant and equipment	-	4 330
Total non-current assets held for sale	-	4 330

The amount of PLN 4,330 thousand in the statement of financial position for 2016 referred to railway carriages and assets of Zakład Ceramiki Budowlanej [*Architectural Ceramics Plant*] at LWB.

15. Financial assets

The table below presents only financial assets.

	31.12.2017	31.12.2016
Receivables and borrowings	9 843	7 399
Long-term financial assets available for sale (shares in third parties)	40 698	42 482
Long-term financial assets measured at fair value through profit or loss	33 364	112
Derivatives	29 553	40 267
Cash deposits at Mine Closure Fund	121 806	111 218
Total long-term financial assets	235 264	201 478
Receivables and borrowings	1 524 150	1 427 954
Short-term financial assets held to maturity	478	478
Short-term financial assets measured at fair value through profit or loss	49 329	4 852
Cash and cash equivalents	2 687 126	2 340 217
Total short-term financial assets	4 261 083	3 773 501
Total	4 496 347	3 974 979

16. Trade and other receivables

	31.12.2017	31.12.2016
Short-term trade and other receivables		
Financial lease receivables	24	-
Trade receivables	1 417 979	1 298 843
Tax receivables (excluding income tax) and other similar charges	114 125	93 886
Other receivables	230 389	81 458
Advance payments	35 499	210 216
Receivables due to uninvoiced sales	249 224	258 594
Prepaid property insurance	9 443	10 974
	2 056 683	1 953 971
Less: receivables revaluation write-off	(153 115)	(129 483)
Net short-term trade and other receivables	1 903 568	1 824 488

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Long-term trade and other receivables	31.12.2017	31.12.2016
Financial lease receivables	46	-
Long-term trade receivables	6 857	7 399
Other receivables	23 826	23 291
Net long-term trade and other receivables	30 729	30 690

Trade and other receivables impairment allowances:

	31.12.2017	31.12.2016
Impairment allowance at the start of the period	129 483	116 161
Acquisition of subsidiaries	5 537	-
Established	45 263	25 977
Terminated	(6 834)	(1 744)
Used	(20 334)	(10 911)
Impairment allowance at the end of the period	153 115	129 483

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

31 December 2017			
	Nominal value	Impairment allowance (-)	Book value
Current	1 416 579	(20 264)	1 396 315
Overdue	270 529	(132 851)	137 678
0-30 days	81 060	(193)	80 867
31-90 days	18 264	(706)	17 558
91-180 days	8 894	(3 061)	5 833
over 180 days	162 311	(128 891)	33 420
Total	1 687 108	(153 115)	1 533 993

31 December 2016			
	Nominal value	Impairment 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


ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

(all amounts in PLN '000, unless specified otherwise)
17. Disposal restrictions and collaterals established on the Group's assets and other collateral

No.	Company	Collateral title	Type of collateral	Collateral established to the benefit of	Indebtedness as at 31 December 2017	Indebtedness as at 31 December 2016	Collateral period
1.	Enea Serwis	Securing claims under products and services purchase contracts paid with Fleet Cards	Blank promissory note	PKN Orlen S.A.	252	229	unlimited
2.	Enea Serwis	Securing an agreement for provision of contractual guarantees	Blank promissory note	WUPRINŻ S.A.	14	-	11 August 2018
3.	Enea Serwis	Securing an agreement for provision of contractual guarantees	Blank promissory note	ARDAGH Glass	157	-	11 August 2018
4.	Enea Serwis	Securing an agreement for provision of contractual guarantees	Blank promissory note	PGL Lasy Państwowe	31	-	10 August 2018
5.	Enea Serwis	Securing an agreement for provision of contractual guarantees	Blank promissory note	STRABAG Sp. z o.o.	30	-	27 December 2019
6.	Enea Serwis	Securing an agreement for provision of contractual guarantees	Blank promissory note	STRABAG Sp. z o.o.	30	-	04 December 2020
7.	PEC Oborniki	Borrowing collateral	Blank promissory note, assignment of receivables	WFOŚiGW [Provincial Fund for Environmental Protection and Water Management]	1 562	1 764	20 June 2023
8.	PEC Oborniki	Borrowing collateral	Blank promissory note, assignment of receivables	WFOŚiGW	151	353	20 March 2018
9.	Enea Wytwarzanie	Borrowing collateral	Blank promissory note	NFOŚiGW	3 564	8 269	30 September 2018
10.	Enea Wytwarzanie	Borrowing collateral	Blank promissory note, assignment of receivables under electricity sale contract	NFOŚiGW	-	-	27 February 2017
11.	Enea Wytwarzanie	Borrowing collateral	Blank promissory note	NFOŚiGW	53 536	19 106	20 December 2026
12.	Enea Ciepło	Loan collateral	Blank promissory note	PKO BP S.A.	3 909	4 778	30 June 2024
13.	Enea Ciepło	Loan collateral	Blank promissory note	ING Bank Śląski S.A.	4 819	5 769	12 November 2026


ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

No.	Company	Collateral title	Type of collateral	Collateral established to the benefit of	Indebtedness as at 31 December 2017	Indebtedness as at 31 December 2016	Collateral period
14.	Enea Ciepło	Borrowing collateral	Blank promissory note, a contract for assignment of receivables from thermal energy deliveries	WFOŚiGW	-	-	31 March 2017
15.	Enea Ciepło	Borrowing collateral	Blank promissory note, a contract for assignment of receivables from thermal energy deliveries	WFOŚiGW	-	313	30 April 2017
16.	Enea Ciepło	Collateral for a lease agreement	Blank promissory note	Europejski Fundusz Leasingowy S.A.	-	273	31 January 2017
17.	LW Bogdanka	Borrowing collateral	Blank promissory note, assignment of receivables	WFOŚiGW	20 208	23 274	31 July 2024
18.	LW Bogdanka	Collateral for the bond issue programme agreement	Assignment of receivables, declaration of submission to enforcement	Pekao S.A. and BGK	-	300 000	07 April 2017
19.	LW Bogdanka	Securing an agreement for provision of guarantees	Assignment of receivables	PKO BP S.A.	-	-	13 July 2017
20.	LW Bogdanka	Collateral for the bond issue programme agreement	Assignment of receivables, declaration of submission to enforcement	Pekao S.A.	300 000	300 000	31 December 2021
21.	LW Bogdanka	Loan collateral	Power of attorney over the bank account, declaration of submission to enforcement	mBank S.A.	-	-	31 December 2019
22.	MEC Piła	Borrowing collaterals	Blank promissory notes, assignment of receivables	WFOŚiGW	5 208	6 326	20 June 2022

18. CO2 emission rights

Balance as at start of the period	31.12.2017	31.12.2016
Gross value	417 073	307 521
Net book value	417 073	307 521
Changes over 12 month period		
Acquisition	531 535	382 584
Acquisition of subsidiary companies	108 657	-
Amortisation of emission allowances	(364 640)	(199 695)
Sale	(97 092)	(72 361)
Other changes	-	(976)
Balance as at the end of the period		
Gross value	595 533	417 073
Net book value	595 533	417 073

19. Inventories

	31.12.2017	31.12.2016
Materials	573 051	262 506
Semi-finished products and work in progress	632	245
Finished products	10 452	22 374
Certificates of energy origin	257 471	163 801
Resale goods	11 471	9 042
Gross value of inventory	853 077	457 968
Write-down of inventory	(6 890)	(9 027)
Net value of inventory	846 187	448 941

The Group is engaged in coal mining. The coal is partly used for energy generation purposes and partly it is sold to third party customers. It is not possible to reliably determine what portion of the coal will be sold therefore the entire inventory is presented in the table above under „Materials”.

The cost of inventory recognised in the current year amounted to PLN 734,499 thousand and was presented under „Consumption of materials and supplies and costs of goods sold”.

No collateral was established on inventories.

20. Certificates of energy origin

	31.12.2017	31.12.2016
Net value at the start of the period	161 459	196 077
Acquisition of subsidiaries	48 672	-
In-house production	126 680	57 307
Acquisition	152 690	308 543
Amortisation	(190 736)	(397 934)
Sales	(43 522)	-
Impairment allowance/ reversal of allowance	1 803	(2 534)
Net value at the end of the period	257 046	161 459

21. Cash and cash equivalents

	31.12.2017	31.12.2016
Cash in hand and at bank	563 217	211 810
- Cash in hand	32	28
- Cash at bank	563 185	211 782
Other cash	2 123 909	2 128 407
- Cash in transit	33	42
- deposits	2 088 904	2 111 026
- other	34 972	17 339
Total cash and cash equivalents	2 687 126	2 340 217
Cash disclosed in the statement of cash flows	2 687 126	2 340 217

Collaterals established on cash are listed in Note 17.

As at 31 December 2017, the total restricted access cash in the Group amounted to PLN 99,244 thousand (as at 31 December 2016, it amounted to PLN 50,668 thousand). It comprised transaction deposits relating to trading in electricity and CO₂ emission allowances, tender bonds and deposits received from suppliers and blockage of cash to secure proper completion of works.

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

(all amounts in PLN '000, unless specified otherwise)
22. Financial assets measured at fair value through profit or loss

	31.12.2017	31.12.2016
Call options (long-term assets)	23 836	-
Long-term futures contracts	9 528	4 852
Short-term futures contracts	49 329	112
Financial assets measured at fair value through profit or loss	82 693	4 964

As at 31 December 2017, under financial assets measured at fair value through profit or loss the Group presents share purchase options regarding shares of Polimex-Mostostal S.A. Pursuant to the share purchase option agreement regarding shares of Polimex-Mostostal S.A. dated 18 January 2017, Enea S.A. acquired call options from Towarzystwo Finansowe Silesia Sp. z o.o. The said agreement provides for the purchase of the total amount 9,125 thousand shares at the nominal price of PLN 2.00 per share in three tranches, on the prescribed dates, i.e. 30 July 2020, 30 July 2021 and 30 July 2022. Fair value call option pricing was carried out using the Black-Scholes model. The fair value of the options as at 31 December 2017 was PLN 23,836 thousand. Additionally, under financial assets measured to fair value through profit or loss the Groups shows the valuation of futures contracts for the purchase of electricity and gas and concerning proprietary interests with a value of PLN 58,857 thousand (as at 31 December 2016, the value was PLN 4,964 thousand).

23. Equity
Balance as at 31 December 2017

	Number of shares	Nominal value per share (in PLN)	Book value
Series of shares			
„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 merger settlement			38 810
Hyperinflation adjustment of share capital			107 765
TOTAL SHARE CAPITAL			588 018
Share premium			3 632 464
Retained earnings			8 858 130
Reserve capital from valuation of hedging instruments			25 967
Financial instruments revaluation reserve			741
Other capital			(27 101)
Non-controlling interests			921 450
TOTAL EQUITY			13 999 699

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

(all amounts in PLN '000, unless specified otherwise)
Balance as at 31 December 2016

Series of shares	Number of shares	Nominal value per share (in PLN)	Book value
„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 merger settlement			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

In 2013, Lubelski Węgiel Bogdanka S.A. launched a Management Options Programme for a period 2013-2017. The options may be exercised on condition of fulfilment of certain criteria.

As at 31 December 2017, the number of options granted under the Programme was 1,143,863 and the total value of the Management Stock Options Programme amounted to PLN 3,839 thousand (on 31 December 2016: PLN 3,839 thousand). Within that figure, the number of rights (awarded for the years 2013-2014) to exercise the aforementioned options is 335,199. In 2016, it was determined - on the basis of analyses that had been carried out - that it is not possible to achieve the non-market targets required under the Programme and therefore, options worth PLN 5,913 thousand were declared forfeit. Consequently, the total cost of the Programme recognized as at 31 December 2017 under „Retained earnings” amounted to PLN 3,839 thousand (As at 31 December 2016: PLN 3,839 thousand).

In 2017, no amounts on that account were recognised as payroll expenses (in 2016 an amount of PLN 5,913 thousand was recognised as a reduction in cost).

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

(all amounts in PLN '000, unless specified otherwise)
24. Trade and other liabilities

	31.12.2017	31.12.2016
Long-term trade and other accounts payable		
Accounts payable due to purchase of licenses for geological information and concessions	42 675	40 291
Other	14 904	8 082
Long-term trade and other accounts payable	57 579	48 373
Short-term trade and other accounts payable		
Trade accounts payable	904 946	483 582
Advance payments received for deliveries, works and services	14 959	4 036
Tax and similar accounts payable (excluding income tax)	177 916	199 857
Accounts payable due to purchase of property, plant and equipment and intangible assets	696 641	274 077
Dividend accounts payable	27	23
Special funds	587	576
Accounts payable due to share purchase options in subsidiaries	27 101	25 652
Other	229 208	153 797
Short-term trade and other accounts payable	2 051 385	1 141 600
	2 108 964	1 189 973

25. Loans, borrowings and debt securities

	31.12.2017	31.12.2016
Bank loans	2 207 341	1 561 382
Borrowings	69 959	48 594
Bonds	5 442 791	4 665 668
Long-term	7 720 091	6 275 644
Bank loans	102 365	72 586
Borrowings	12 741	10 797
Bonds	424 323	365 519
Short-term	539 429	448 902
Total	8 259 520	6 724 546

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

The table below shows loans and borrowings in the Group.

No.	Company	Lender	Date of contract conclusion	Total contract amount	Amount outstanding as at 31.12.2017	Amount outstanding as at 31.12.2016	Term of the contract
1.	Enea S.A.	EIB	18 October 2012 and 19 June 2013 (A and B)	1 425 000	1 357 174	1 425 000	31 December 2030
2.	Enea S.A.	EIB	29 May 2015 (C)	946 000	946 000	200 000	31 March 2032
3.	Enea S.A.	PKO BP	28 January 2014, Annex No. 1 dated 25 January 2017	300 000	-	-	31 December 2019
4.	Enea S.A.	Pekao S.A.	28 January 2014, Annex No. 1 dated 25 January 2017	150 000	-	-	31 December 2019
5.	Enea Wytwarzanie Sp. z o.o.	NFOŚiGW	6 June 2012	17 850	3 564	8 269	30 September 2018
6.	Enea Wytwarzanie Sp. z o.o.	NFOŚiGW	22 December 2015	60 075	52 017	19 106	20 December 2026
7.	LWB	mBank	16 December 2016	100 000	-	-	30 November 2018
8.	Other	-	-	-	35 847	42 563	-
TOTAL				2 998 925	2 394 602	1 694 938	
Transaction costs and valuation effect according to effective interest rate					(2 196)	(1 579)	
TOTAL				2 998 925	2 394 406	1 693 359	

Presented below is brief characteristics of material loan and credit agreements in the ENEA Capital Group:

Enea S.A.

Enea S.A. currently has finance contracts entered into with the EIB totalling PLN 2,371,000 thousand (Contract A of PLN 950,000 thousand, Contract B of PLN 475,000 thousand and Contract C of PLN 946,000 thousand).

Funds obtained from the EIB are to be used to finance a multi-annual investment programme to modernise and extend the power grids of Enea Operator Sp. z o.o. Funds under Contracts A, B and C have been fully used.

The availability period of Contract C expired in December 2017. Interest rate of the loans may be fixed or floating.

**ENEA Capital Group**

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Under the Finance Contract entered into with the European Investment Bank, in 2017 the Bank disbursed to Enea S.A. the third and fourth tranche of the Loan amounting to, respectively, PLN 250,000,000.00 (January) and PLN 496,000,000.00 (December). Tranches of the loan were disbursed in Polish zloty. The interest rate is floating, based on WIBOR 6 months increased by the Bank's margin. Tranches are to be repaid in equal instalments, and the final loan repayment is scheduled to take place in December 2031 (3rd tranche) and September 2032 (4th tranche).

As of 15 December 2017, pursuant to provisions of Contract A with the EIB, the Parties changed the margin for the first tranche of the loan in an amount of PLN 780,000 thousand.

Enea Wytwarzanie Sp. z o.o.

An investment loan from the National Fund for Environmental Protection and Water Management (NFOŚiGW) – the respective loan agreement was entered into on 6 June 2012 for a period between 1 October 2013 and 30 September 2018. The interest rate of the used amount of the loan of PLN 17,850 thousand is WIBOR 3M plus 50 basis point per annum.

An investment loan from the NFOŚiGW – a loan agreement of 22 December 2015 was entered into for a period from 1 April 2016 to 20 December 2026 with a limit of PLN 60,075 thousand. The interest rate of the used amount of the loan per annum is based on WIBOR 3M, but no less than 2 % . The grace period of the loan ends on 29 September 2018.

The total debt of Enea Wytwarzanie Sp. z o.o. due to borrowings as at 31 December 2017 amounts to PLN 55,581 thousand (as at 31 December 2016: PLN 27,375 thousand).

Lubelski Węgiel Bogdanka S.A.

On 16 December 2016, the company entered into an overdraft facility agreement with mBank up to an amount of PLN 100,000,000.00. The facility has a floating interest rate. The maturity date falls on 30 November 2018. As at the reporting date, the company did not use the loan limit.

Bonds

Enea S.A. enters into agreements regarding bond issue programmes in order to finance its current business operations and the investment needs of Enea S.A. and its subsidiaries.

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

The table below presents the bonds issued by Enea S.A. and Lubelski Węgiel Bogdanka S.A.

No.	Name of bond issue programme	Programme Date	Programme Amount	Value of bonds issued and not redeemed as at 31.12.2017	Value of bonds issued as at 31.12.2016	Redemption date
1.	Bond Issue Programme Agreement entered into with PKO BP S.A., Bank PEKAO S.A., BZ WBK S.A., Bank Handlowy w Warszawie S.A. (Enea S.A.)	21 June 2012	3 000 000	3 000 000	1 951 000	One-off redemption between June 2020 and June 2022
2.	Bond Issue Programme Agreement entered into with Bank Gospodarstwa Krajowego (Enea S.A.)	15 May 2014	1 000 000	960 000	1 000 000	Redemption in instalments, last instalment payable in December 2026
3.	Bond Issue Programme Agreement entered into 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	One-off redemption of a given series in February 2020 and September 2021
4.	Bond Issue Programme Agreement entered into with Bank Gospodarstwa Krajowego (Enea S.A.)	3 December 2015	700 000	150 000	-	Redemption in instalments, last instalment payable in September 2027
5.	Agreement on Bond Issue Programme entered into with Bank PEKAO S.A. (LWB)	23 September 2013	300 000	301 911	300 041	Redemption in instalments, last instalment payable in December 2018
6.	Bond Issue Programme Agreement entered into with Bank PEKAO S.A. and Bank Gospodarstwa Krajowego (LWB)	30 June 2014	300 000	-	300 039	Redemption in March 2017
TOTAL			10 300 000	5 911 911	5 051 080	
Transaction costs and valuation effect according to effective interest rate					(44 797)	(19 893)
TOTAL			10 300 000	5 867 114	5 031 187	

During the period of 12 months ended 31 December 2017, Enea S.A. did not make any amendments to the Programme Agreements and did not enter into any new agreements.

Bond Issue Programme Agreement up to PLN 700,000 thousand

In March 2017, under that aforesaid Programme, Enea S.A. issued the first tranche of bonds worth PLN 150,000 thousand.

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Bond Issue Programme Agreement up to PLN 3,000,000 thousand

In April 2017, under the aforementioned Programme, Enea S.A. issued bonds of the 9th series of PLN 140,000 thousand, and in December, bonds of the 10th series of PLN 909,000 thousand. The interest rate of the bonds is based on a floating interest rate and the bonds redemption date falls on 15 June 2022. The availability of the Programme ended on 31 December 2017.

Lubelski Węgiel Bogdanka S.A. – financial liabilities under bonds issued by LWB currently pertain one programme agreement. Under the Programme Agreement entered into by the company and Bank Polska Kasa Opieki S.A. on 23 September 2013, 3,000 bonds were issued with the total value of PLN 300,000 thousand and bonds redemption date of 31 December 2018. The maturity date of the respective tranches of bonds of PLN 75,000 thousand each falls on 30 March 2018, 30 June 2018, 30 September 2018 and 30 December 2018. Bonds interest is based on WIBOR 3M increased by a fixed margin.

Until 30 March 2017, LWB held bonds under the second Programme Agreement entered into on 30 June 2014 with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego. On 10 March 2017, the Management Board of LWB signed an annexe to that Agreement with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego. Pursuant to the Annex, the maturity date of the Programme for Tranche 1 was changed from 31 December 2019 to 30 March 2017. Consequently, on 30 March 2017, LWB redeemed series LWB01C300617 registered bonds. Tranche 1 that was subject to the redemption included 300 bonds with the nominal value of PLN 1,000 thousand each and with the total nominal value of PLN 300,000 thousand. As a result, the term of the Programme Agreement expired.

Interest rate risk hedging transactions

In 2017, Enea S.A. entered into two interest rate risk hedging transactions (Interest Rate Swap) for an exposure of PLN 1,091,000 thousand. The total exposure under bonds and loans hedged with the IRS transactions as at 31 December 2017 was PLN 5,442,520 thousand. The concluded transactions significantly affect the predictability of cash flows and financial costs. Valuation of those instruments is presented by the Group under „Derivative instruments”. Derivative instruments are regarded as securing cash flows and consequently they are recognised and settled in the books using the principles of hedge accounting.

As at 31 December 2017, the valuation of derivative instruments was PLN 29,553 thousand (as at 31 December 2016, it was PLN 40,267 thousand).

Financing conditions – covenants

Under financing agreements, the Company and the ENEA Capital Group are required to comply with certain financial ratios. As at 31 December 2017 and as at the date of drawing up these consolidated financial statements the Group did not breach any provisions of loan agreements under which it would be required to earlier repay its long-term debt.

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

	31.12.2017	31.12.2016
Long-term		
Deferred income due to subsidies	196 334	206 198
Deferred income due to connection charges	401 514	416 906
Deferred income due to street lighting upgrading services	47 595	36 928
	645 443	660 032
Short-term		
Deferred income due to subsidies	13 864	15 115
Deferred income due to connection fees	17 129	16 351
Advance payments received towards connection fees	59 125	51 528
Deferred income due to street lighting upgrading services	1 125	1 033
Building contracts - estimate	1 179	123
	92 422	84 150
Deferred income schedule		
	31.12.2017	31.12.2016
Up to one year	92 422	84 150
From 1 to 5 years	134 426	142 411
Over 5 years	511 017	517 621
	737 865	744 182

27. Financial Instruments
27.1. Principles of financial risk management

The activity of the Capital Group is subject to the following categories of risk associated with financial instruments:

- credit risk,
- financial liquidity risk,
- commodity risk,
- currency risk,
- interest rate risk.

This note contains information about the Group's exposure to each type of risk indicated above and describes the objectives and policies related to risk and capital management.

Responsibility for determining the framework and principles of risk management lies with the Management Board of the Parent Company.

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

Risk management is designed as a continuous process. The Group subjects risk to continuous analysis from the point of view of the impact of the external environment and changes in its structures and activities. On this basis, it takes actions aimed at limiting risk or its transfer outside the Capital Group.

27.2. Credit risk

Credit risk is the risk of financial losses incurred by the Group as a result of the customer or business partner being a party to a financial instrument not meeting its contractual obligations.

Credit risk is mainly related to the collection of receivables. The main factors affecting the occurrence of credit risk in the case of the Group include:

- a large number of small customers influencing the increase of costs of controlling the inflow of receivables;
- the need to supply electricity to budgetary units in a difficult financial situation;
- legal requirements governing the suspension of electricity supply due to non-payment.

The Management Board follows a credit risk management policy in accordance with which credit risk exposure and measures taken to minimize credit risk are monitored on an ongoing basis. The main credit risk management tool is the analysis of the creditworthiness of Enea's key counterparties, under which the terms of the contract with the counterparty are subject to appropriate structuring (payment terms, possible contract security, etc.).

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

The table below presents the structure of balance sheet items showing the Group's exposure to credit risk:

	Book value 31.12.2017	Book value 31.12.2016
Short-term and long-term financial assets held to maturity	478	478
Short-term and long-term financial assets measured at fair value through profit or loss	82 693	4 964
Trade and other receivables	1 533 993	1 435 353
Derivative instruments	29 553	40 267
Cash and cash equivalents	2 687 126	2 340 217
Cash deposits at Mine Closure Fund	121 806	111 218
Credit risk	4 455 649	3 932 497

In the Capital Group, the credit risk in relation to receivables differs for individual market segments in which the Group operates:

- sales of electricity and distribution services to individual customers - there is a considerable amount of overdue receivables in this segment. Although they do not represent a significant threat to the Group's finances, steps have been taken to reduce them. Actions aimed at improving the debt collection process are being successively carried out, consisting, among others, in the development of new and updated instructions and rules regarding debt collection, as well as establishing cooperation with specialized entities. Debt collection begins 20-25 days after the payment date. The introduction of uniform debt recovery rules, including soft debt collection, allows for shorter cash recovery times and makes it possible to avoid long-lasting and often ineffective hard debt collection, i.e. judicial and bailiff enforcement. Cases worth more than debt recovery cost-effectiveness limit are transferred to court for enforcement proceedings;
- sales of electricity and distribution services to business, key and strategic customers - amounts of overdue receivables in this segment are lower than in the case of individual customers. Due to the above and due to the considerably smaller number of customers in these segments, the principles of debt collection are mainly based on soft debt recovery. Actions in the area of soft debt recovery are taken no later than after 6 business days after the payment date and in principle do not last longer than 30 business days after the payment deadline,
- other receivables - in comparison with the two previous segments, the amount of overdue receivables is negligible.

Employees of the Debt Collection Department play a key role in the recovery process. These are the people monitoring the debt recovery process, who by contacting the customer try to recover overdue debts. Enea also co-operates in the field of debt collection with specialised third-party entities supporting the Group in the so-called

hard debt recovery. The Group monitors the amount of overdue receivables on an ongoing basis, makes revaluation write-offs and, in justified cases, files legal claims.

27.3. Liquidity risk

The risk of losing financial liquidity is perceived as the risk of the inability to meet payment obligations by the companies from the Enea Capital Group as of their maturity dates.

The aim of the Group's activities in the area of liquidity management and liquidity risk management is to limit the probability of losing the ability to settle liabilities. As a result of implementation of activities within the scope of the adopted liquidity management and liquidity risk management policy the ability to effectively respond to the so-called liquidity crises, i.e. periods of significant demand for cash, is ensured.

As part of the adopted business policy, it is assumed to ensure the availability of cash at a level allowing the settlement of liabilities in the course of day-to-day operations. The implemented activities enable, at the same time, uninterrupted continuation of operations in situations of liquidity crisis for a period indispensable to launch an emergency financing plan, aimed at ensuring replenishment of the shortages.

In liquidity management, the Group focuses on a detailed analysis of cash flows, receivables and liabilities turnover, bank account balance monitoring. In order to ensure an adequate level of safety in unpredictable situations, the Group also conducts scenario analyses and develops solutions ensuring that liquidity risk is maintained at an acceptable level. The Group deposits financial surpluses in current assets in the form of term deposits. In order to ensure stable sources of financing, the Group diversifies the sources of external financing. With a view to limiting the concentration risk, surplus cash investment is diversified. Investment efficiency is constantly monitored.

Enea S.A. concentrates the activities regarding liquidity management and liquidity risk management between the Group's companies. In order to ensure financing of current operations and optimization of the liquidity management process, the companies included in the Enea Tax Capital Group use the cash pooling mechanism. The Group is also intensifying the implementation of intra-group bond issue programs. Thanks to these activities the effectiveness of using funds within the Capital Group is increasing.

Constant risk management in the aforementioned areas and the Group's market and financial position allow the statement that the risk of losing financial liquidity remains at the minimum level.

The Group manages liquidity risk also by maintaining open and unused credit lines, which as at 31 December 2017 amounted to PLN 550,000 and as at the date of preparation of these consolidated financial statements, PLN 700,000 thousand.



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

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

31 December 2017

	Trade and other payables	Finance lease liabilities	Bank loans and bonds	Borrowings	Financial liabilities measured at fair value through profit or loss	Cash and cash equivalents	Cash deposits at Mine Closure Fund	Trade and other receivables	Derivatives payments	Financial assets measured at fair value through profit or loss	Financial instruments held to maturity	Total
Book value	1 915 502	3 593	8 176 820	82 700	51 060	(2 687 126)	(121 806)	(1 533 993)	(29 553)	(82 693)	(478)	5 774 026
Undiscounted contractual cash flows up to 6 months	(1 927 205)	(3 705)	(9 236 314)	(87 295)	(51 060)	2 690 461	121 806	1 534 389	29 553	82 693	482	(6 846 195)
6-12 months	(1 865 502)	(1 042)	(352 434)	(5 789)	(40 019)	2 690 396	-	1 528 229	-	32 018	-	1 985 857
1-2 years	(6 914)	(975)	(356 023)	(7 844)	(1 166)	65	-	744	-	17 311	482	(354 320)
2-5 years	(5 792)	(1 688)	(454 453)	(19 855)	(9 875)	-	-	844	29 553	33 364	-	(427 902)
Over 5 years	(14 825)	-	(5 757 905)	(48 824)	-	-	-	4 384	-	-	-	(5 817 170)
	(34 172)	-	(2 315 499)	(4 983)	-	-	121 806	188	-	-	-	(2 232 660)



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

31 December 2016

	Trade and other payables	Finance lease liabilities	Bank loans and bonds	Borrowings	Financial liabilities measured at fair value through profit or loss	Cash and cash equivalents	Cash deposits at Mine Closure Fund	Trade and other receivables	Derivatives payments	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												
up to 6 months	(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)
6-12 months	(948 443)	(1 284)	(421 816)	(6 498)	(2 233)	2 343 954	-	1 431 922	-	4 852	-	2 400 454
1-2 years	(893)	(953)	(160 097)	(5 887)	-	-	-	453	-	-	482	(166 895)
2-5 years	(5 508)	(1 833)	(643 540)	(20 986)	(269)	65	-	903	40 267	112	-	(630 789)
Over 5 years	(14 220)	(1 134)	(3 745 641)	(22 925)	-	-	-	1 615	-	-	-	(3 782 305)
	(20 321)	-	(2 593 621)	(8 278)	-	-	111 218	489	-	-	-	(2 510 513)

27.4. Commodity risk

Commodity risk is related to the possible occurrence of changes in the revenues/cash flows generated by the Group, in particular, due to the existing volatility of commodity prices, as well as fluctuations in the demand for products/services offered by Enea. The objective of commodity risk management is to maintain exposure to this risk at an acceptable level while optimizing the return on risk.

A specific aspect of the Group's commodity risk is the fact that acting as an energy company playing the role of a last resort supplier, the Group is required to submit for approval electricity tariffs for G-tariff groups. The Group buys energy at market prices and calculates its tariff based on costs recognized by the President of the Energy Regulatory Office as justified and taking into account the (trading) margin planned for the next tariff period. In connection with the above, during the tariff period, the Group has limited possibilities of transferring the costs of its operations to end users of electricity that are unfavourable for the Group. The Group may submit a proposal for tariff adjustment to the President of the Energy Regulatory Office only in the event of a dramatic increase in costs due to reasons beyond the Group's control.

Commodity risk management to the extent of pricing is based on continuous monitoring of the size of the open trading position (both in the area of securing the volume of retail sales and in the proprietary trading area) and measurement - using value at risk tools - of the risk level resulting from possible fluctuations in electricity prices in relation to such open position. An appropriate risk mitigation technique in this case is to close an item that generates excessive (greater than accepted) value of potential loss. In this case, the management model is based on a system of value limits (VaR limits) defining the maximum permissible value of the open position, which is the carrier of the commodity (price) risk understood in this way.

Volumetric commodity risk management is based on the use of scenario methods and optimization of planning and control processes of commercial activities that allow one to estimate the expected volume of electricity and related goods traded in the most accurate way possible.

In addition, regardless of the above, Enea applies the management principles specified in the Group's strategic regulations (the Wholesale Trade Procedure), which determine the methods of operation with regard to the optimization of Enea's trading position, whose main objective is to minimize the risk of taking actions inconsistent with market trends, while taking into account the measured effectiveness aspect of the actions taken (obtaining results better than the market average).



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

27.5. Currency risk

The table below shows the exposure of the Group to exchange rates fluctuations.

31 December 2017	Book value	whereof EUR amount denominated in the functional currency (PLN)	EUR currency risk impact on profit/(loss)		whereof USD amount denominated in the functional currency (PLN)	USD currency risk impact on profit/(loss)		Total currency risk impact on profit/(loss)	
			+1%	-1%		+1%	-1%	+1%	-1%
Financial assets									
Cash and cash equivalents	2 687 126	181 803	1 818	(1 818)	-	-	-	1 818	(1 818)
Cash deposits at Mine Closure Fund	121 806	-	-	-	-	-	-	-	-
Trade and other receivables	1 533 993	11 983	120	(120)	-	-	-	120	(120)
Financial assets available for sale	40 698	-	-	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	82 693	-	-	-	-	-	-	-	-
Financial assets held to maturity	478	-	-	-	-	-	-	-	-
Financial liabilities									
Loans, borrowings and debt securities	(8 259 520)	-	-	-	-	-	-	-	-
Trade and other payables	(1 915 502)	(105 155)	(1 052)	1 052	(2)	-	-	(1 052)	1 052
Finance lease liabilities	(3 593)	-	-	-	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss	(51 060)	-	-	-	-	-	-	-	-
Impact on profit/ loss before tax			886	(886)		-	-	886	(886)
Tax of 19%								(168)	168
Impact on profit/ loss after tax								718	(718)



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

31 December 2016	Book value	whereof EUR amount denominated in the functional currency (PLN)	EUR currency risk impact on profit/(loss)		whereof USD amount denominated in the functional currency (PLN)	USD currency risk impact on profit/(loss)		Total currency risk impact on profit/(loss)	
			+1%	-1%		+1%	-1%	+1%	-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 payables	(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)
Tax of 19%								(216)	216
Impact on profit/ loss after tax								923	(923)

The currency risk is related to the possible occurrence of changes in the cash flows generated by the Group as a result of the fluctuations in the exchange rates, in which these amounts are denominated. The Enea Group is exposed in particular to currency risk resulting from the need to purchase allowances for CO₂ emissions, certain capital expenditures, and contracts for the provision of services by contractors whose prices/costs are denominated in EUR.

Currency risk is hedged mainly using currency forward contracts. The purpose of the measures taken to hedge against exchange rate risk is to guarantee a certain level of the PLN value of future revenues and, in particular, expenses incurred in connection with the purchase of CO₂ emission allowances or investment works.

Hedging is done on the basis of the *Currency risk and exchange rates risk management policy* in force in the Enea Group.

Lubelski Węgiel S.A. (LWB) concludes specific transactions denominated in foreign currencies. Therefore, there is a risk of currency fluctuations. LWB is primarily exposed to the risk of changes in the EUR/PLN and USD/PLN exchange rates. During 2017, there were no significant foreign exchange transactions, there were very limited sales of coal denominated in foreign currency (USD). Very significant currency transactions took place in the past before 2015 - in connection with the purchase of special-purpose equipment and machines, however, due to the end of the intensified investment process, no such transactions are planned in the nearest future. This risk is managed under the approved operating principles using currency forward contracts. LWB applies hedge accounting for future cash flows. The purpose of LWB's measures aimed at hedging against the risk of changes in the EUR/PLN and USD/PLN exchange rates is to guarantee a certain level of PLN value of future expenses in EUR that will be incurred in connection with investment works and to guarantee a certain level of future revenues in USD/EUR that will be received in connection with the sales made by the company.

27.6. Interest rate risk

The risk of interest rates fluctuations, to which the Group is exposed, results from concluded loan agreements and agreements on bond issue programs. Arranged financing takes place on the basis of variable interest rates, calculated in correlation with market (interbank) rates.

Due to the financing arrangement model in force in the Group, the interest rate risk is identified and managed (quantified, mitigated) by the Parent Company.

Hedging in the area of interest rates risk is done on the basis of the *Currency exchange risk and interest rate risk management policy* in force in the Enea Group.

As at the balance sheet date, 31 December 2017, the Group had liabilities on account of bank loans and borrowings and debt securities in the amount of PLN 8,259,520 thousand. The value of debt referred to above was hedged in 66% with interest rate hedging transactions (IRS instruments).

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

The table below presents the Group's profile of susceptibility to interest rate risk by presenting financial assets and liabilities broken down by variable and fixed interest rates:

	31.12.2017	31.12.2016
Fixed interest rate instruments		
Financial assets	3 529 685	3 189 454
Financial liabilities	(2 004 802)	(1 097 774)
Effect of interest rate swaps	(5 442 520)	(4 435 000)
Total	(3 917 637)	(2 343 320)
Fixed interest rate instruments		
Financial assets	813 718	697 812
Financial liabilities	(8 173 813)	(6 617 414)
Effect of interest rate swaps	5 442 520	4 435 000
Total	(1 917 575)	(1 484 602)

As part of financial assets with a fixed interest rate, the Group presents cash deposited in bank.

The table below presents the effective interest rate for assets and liabilities on which interest is charged according to a variable interest rate:

	31.12.2017		31.12.2016	
	Weighted average interest rate (%)	Book value	Weighted average interest rate (%)	Book value
Financial assets held to maturity	1,30	478	1,31	478
Financial assets measured at fair value through profit or loss	-	-	-	-
Cash deposits at Mine Closure Fund	1,50	121 806	1,50	111 218
Cash and cash equivalents	1,42	691 434	1,51	586 116
Finance lease liabilities	4,75	(2 055)	4,55	(2 458)
Bank loans	2,30	(1 179 163)	2,13	(460 372)
Borrowings	2,57	(82 700)	3,20	(59 078)
Bonds	3,32	(1 467 375)	2,61	(1 660 506)
Total		(1 917 575)		(1 484 602)

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


ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

The table below presents the impact of interest rate changes on the Group's net profit/ loss with regard to fixed interest rate instruments. The impact of interest rate changes on „Loans, borrowings and debt securities” is presented taking into account the impact of Interest Rate Swaps.

	Book value	Interest rate risk		Book value	Interest rate risk	
	31.12.2017	impact on profit/loss (12-month period)		31.12.2016	impact on profit/loss (12-month period)	
		+ 1 p.p.	- 1 p.p.		+ 1 p.p.	- 1 p.p.
Financial assets						
Cash	691 434	6 914	(6 914)	586 116	5 861	(5 861)
Cash deposits at Mine Closure Fund	121 806	1 218	(1 218)	111 218	1 112	(1 112)
Financial assets held to maturity	478	5	(5)	478	5	(5)
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-
Impact on profit/loss before tax		8 137	(8 137)		6 978	(6 978)
Tax of 19%		(1 546)	1 546		(1 326)	1 326
Impact on profit/loss after tax		6 591	(6 591)		5 652	(5 652)
Financial liabilities						
Loans, borrowings and debt securities	(2 729 238)	(27 292)	27 292	(2 179 956)	(21 800)	21 800
Finance lease liabilities	(2 055)	(21)	21	(2 458)	(25)	25
Financial liabilities measured at fair value through profit or loss						
Impact on profit/loss before tax		(27 313)	27 313		(21 825)	21 825
Tax of 19%		5 189	(5 189)		4 147	(4 147)
Impact on profit/loss after tax		(22 124)	22 124		(17 678)	17 678
Total		(15 533)	15 533		(12 026)	12 026

27.7. Management of funding sources

The basic assumption of the Group with regard to funding sources management is to obtain an optimal structure of liabilities in order to reduce the cost of financing operations, ensure a credit rating at the investment level and sources of financing for the Group's operating and investment activities. The activities taken in this respect also aim at ensuring the Group's financial security and a satisfying value for its shareholders. While optimizing the structure of liabilities through the use of financial leverage, it is important to maintain the capital base at a level allowing for the building of trust of investors, lenders and the market. The Group monitors the efficiency and stability of equity using the debt ratio and return on equity ratios. The Group's objective is to increase the efficiency of capital while maintaining it at a safe level.

27.8. Fair value

The table below contains a comparison of fair values and book values.

	31.12.2017		31.12.2016	
	Book value	Fair value	Book value	Fair value
Long-term financial assets available for sale (shares and stocks in unrelated entities)	40 698	40 698	42 482	42 482
Long-term financial assets measured at fair value through profit or loss	33 364	33 364	112	112
Derivative instruments	29 553	29 553	40 267	40 267
Short-term financial assets held to maturity	478	478	478	478
Short-term financial assets measured at fair value through profit or loss	49 329	49 329	4 852	4 852
Trade and other receivables	1 533 993	(*)	1 435 353	(*)
Cash and cash equivalents	2 687 126	2 687 126	2 340 217	2 340 217
Cash deposits at Mine Closure Fund	121 806	121 806	111 218	111 218
Loans, borrowings and debt securities	8 259 520	8 338 192	6 724 546	6 778 513
Finance lease liabilities	3 593	3 593	5 138	5 138
Trade and other payables	1 915 502	(*)	985 504	(*)
Financial liabilities measured at fair value through profit or loss	51 060	51 060	2 502	2 502

(*) - Book value of trade receivables and other receivables, trade payables and other liabilities is close to their fair value.

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Financial assets available for sale are shares and stocks in unrelated entities in which the participation in the equity is less than 20%. The item presents shares in PGE EJ1 Sp. z o.o. in the amount of PLN 26,902 thousand PLN for which there is no market price listed on the active market and whose fair value - due to the initial phase of the company's operation - is determined on the basis of the incurred cost.

Derivative instruments include the valuation of interest rate hedging transactions (Interest Rate Swaps). The fair value of derivative instruments is determined by calculating the net present value based on two yield curves, i.e. a curve to determine the discount factors, and a curve used to estimate future rates of variable reference rates.

Long-term financial assets measured at fair value through profit or loss are options to buy shares in Polimex-Mostostal S.A.

The table below presents the analysis of financial instruments measured at fair value, grouped according to a three-tier hierarchy, where:

Tier 1 - fair value is based on stock prices (unadjusted) offered for identical assets or liabilities in active markets,

Tier 2 - fair value is determined on the basis of values observed in the market, however not being direct market quotations (e.g. determined by reference, directly or indirectly, to similar instruments existing in the market),

Tier 3 - fair value is determined based on various valuation techniques not based, however, on any observable market information.

	31.12.2017			
	Level 1	Level 2	Level 3	Total
Derivative instrument				
Hedging interest rate swap transactions	-	29 553	-	29 553
Financial assets measured at fair value through profit or loss				
Forward contract	-	58 857	-	58 857
Call options	-	23 836	-	23 836
Financial assets available for sale				
Not-listed equity instruments	-	-	1 391	1 391
Total	-	112 246	1 391	113 637
Financial liabilities measured at fair value through profit or loss				
Forward contracts	-	(51 060)	-	(51 060)
Total	-	(51 060)	-	(51 060)

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

	31.12.2016			Total
	Level 1	Level 2	Level 3	
Derivatives				
Hedging interest rate swap transactions	-	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)

28. Finance lease liabilities

	31.12.2017	31.12.2016
Under one year	1 942	2 141
Between one and five years	1 651	2 997
Present value of lease payments	3 593	5 138

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

	31.12.2017	31.12.2016
Long-term forward contracts	9 875	269
Short-term forward contracts	41 185	2 233
Total	51 060	2 502

30. Deferred income tax

Changes in provision for deferred income tax (after asset and provision compensation at the Group level) are as follows:

	As at 31.12.2017	As at 31.12.2016
Deferred income tax assets	1 525 469	1 190 280
Set-off of deferred income tax assets and provisions	(1 023 524)	(787 023)
Deferred income tax assets after set-off	501 945	403 257
Deferred income tax provision	1 268 764	978 821
Set-off of deferred income tax assets and provisions	(1 023 524)	(787 023)
Deferred income tax provision after set-off	245 240	191 798



ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Change in deferred income tax assets and liabilities during the financial year (prior to their set off):

Deferred income tax assets:

	Employee benefits liabilities	Deferred income from grid connection charges	Provision for the cost of certificates of origin redemption	Subsidies	Provision for storage, reclamation and purchase of CO2 emission allowances	Expenses deductible from taxable base after the end of the settlement period	Fair value valuation of tangible and intangible assets	Impairment allowance for non-financial non-current assets*	Other	Total
Balance as at the start of the year	204 140	85 430	45 988	15 524	47 143	84 552	130 553	300 693	189 813	1 103 836
Amount recognised in the profit or loss	7 037	(3 111)	4 984	(1 044)	13 782	25 039	-	12 314	35 382	94 383
Amount recognised in other comprehensive income	(951)	-	-	-	-	24	-	-	(7 012)	(7 939)
Balance as at 31 December 2016 - rate of 19%	210 226	82 319	50 972	14 480	60 925	109 615	130 553	313 007	218 183	1 190 280
Balance as at the start of the year	210 226	82 319	50 972	14 480	60 925	109 615	130 553	313 007	218 183	1 190 280
Acquisition of subsidiaries	4 341	-	127	-	-	-	192 744	73 999	22 844	294 055
Amount recognised in the profit or loss	(32 856)	(3 837)	(1 980)	(1 040)	(2 218)	13 014	15 100	-	43 178	29 361
Amount recognised in other comprehensive income	9 554	-	-	-	-	(48)	-	-	2 267	11 773
Balance as at 31 December 2017 - rate of 19%	191 265	78 482	49 119	13 440	58 707	122 581	338 397	387 006	286 472	1 525 469

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

**ENEA Capital Group**

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Deferred income tax provision:

	Taxable income after the end of the accounting period	Non-invoiced sales	Difference between balance sheet value and tax value of tangible fixed assets*	Net provision for mine decommissioning	Other	Total
Balance as at the start of the year	96 518	47 678	657 169	6 000	67 793	875 158
Amount recognised in the profit or loss	30 756	1 641	74 890	2 878	(7 357)	102 808
Amount recognised in other comprehensive income	-	-	-	-	855	855
Balance as at 31 December 2016 - rate of 19%	127 274	49 319	732 059	8 878	61 291	978 821
Balance as at the start of the year	127 274	49 319	732 059	8 878	61 291	978 821
Acquisition of subsidiaries	-	-	6 411	-	144 708	151 119
Amount recognised in the profit or loss	12 339	(2 227)	90 714	1 202	37 006	139 034
Amount recognised in other comprehensive income	-	-	-	-	(210)	(210)
Balance as at 31 December 2017 - rate of 19%	139 613	47 092	829 184	10 080	242 795	1 268 764

*The differences are due to the fair value valuation of tangible assets and difference in depreciation rates.

There are no unrecognised deferred tax assets or provisions in the Group.

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

(all amounts in PLN '000, unless specified otherwise)
31. Liabilities due to employee benefits

	31.12.2017	31.12.2016
Defined benefit schemes		
Retirement and disability packages		
- long-term portion	149 048	129 988
- short-term portion	24 936	25 017
	173 984	155 005
Right to reduced payments for energy after retirement		
- long-term portion	214 029	194 002
- short-term portion	9 428	8 738
	223 457	202 740
Company Social Benefits Fund write-off for retired employees		
- long-term portion	67 584	60 892
- short-term portion	1 678	1 364
	69 262	62 256
Coal allowances		
- long-term portion	-	110 784
- short-term portion	-	4 092
	-	114 876
Death-in service benefits		
long-term portion	3 910	2 503
short-term portion	361	224
	4 271	2 727
Total defined benefit schemes		
long-term portion	434 571	498 169
short-term portion	36 403	39 435
	470 974	537 604
Other long-term employee benefits		
Jubilee bonuses		
- long-term portion	304 757	293 987
- short-term portion	34 595	37 572
	339 352	331 559
Payroll and other payables		
long-term portion	618	-
short-term portion	357 803	283 583
	358 421	283 583
Provision for the Voluntary Redundancy Programme		
long-term portion	-	-
short-term portion	9 142	56 347
	9 142	56 347
Total employee benefits liabilities		
long-term portion	739 946	792 156
short-term portion	437 943	416 937
	1 177 889	1 209 093

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Pursuant to an agreement between employee representatives and Group representatives, employees of the Capital Group are entitled to specific benefits other than remuneration for work, i.e.:

- jubilee bonuses,
- retirement and disability benefits,
- discount on electricity,
- contribution to the Company Social Benefit Fund,

The aforesaid benefits are financed in whole by the Group.

The current value of future liabilities due to the above benefits has been determined based on actuarial valuation. The basic data for individual employees employed in the Capital Group as at 31 December 2017 (taking into account the gender of the employee) were used for calculations, from the following areas:

- age of the employee,
- length of employment in the Group,
- total length of employment,
- remuneration constituting the basis for calculating the jubilee bonus and retirement and disability package.

In addition, the following assumptions were applied in the analysis:

- the probability of employees leaving was calculated on the basis of historical data on the employee turnover in the Company and statistical data on employees leaving in the industry,
- the value of the minimum remuneration in force in the national economy since 1 January 2018 in the amount of PLN 2,100.00 was used,
- on the basis of the announcements of the President of the Central Statistical Office, the average monthly salary in the national economy less contributions to pension, disability and sickness insurance deducted from insured persons in the amount of PLN 3,161.77 was used (the average for the second half of 2012, which will be the basis for calculating the Company Social Benefits Fund write-off in 2018),
- based on assumptions defined at the corporate level, the increase of the base for creating the CSBF write-off was determined on the basis of the increase of the monthly average pay in the national economy: 27.56% in 2019, 6.0% in 2020, 5.2% in 2021, 5.6% in the years 2023-2029, and 5.2% in the remaining years of the forecast. In the event of a change of the base in 2019, an increase of the average monthly pay in the national economy of 4.9% in 2017 and of 6.1% in 2018 was used. The remaining increase of the base in 2019 results from the full valorisation of the base for calculating the Company Social Benefits Fund as of 2019 assumed as at the date of drawing up the risk valuation,
- mortality rate and probability of survival were adopted in accordance with the Life Expectancy Tables 2016 published by the Central Statistical Office; it was assumed that the population of employees in the Company reflects the average for Poland in terms of mortality,
- no separate disability pension severance pay provision has been calculated; in return, those who started collecting a disability pension were not taken into account when calculating the probability of employees leaving,

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

- the standard retirement procedure was assumed in accordance with detailed rules set forth in the Pensions Act, except for those employed, who according to information provided by the Company meet the conditions required to exercise the right to early retirement,
- long-term annual rate of pay increase of 2.0% in 2018, 2.2% in 2019 and 2.5% in the following years (as at 31 December 2016 1.5% in 2017, 2.5% in the following years),
- discount rate for discounting future benefits pay-outs of 3.26% (as at 31 December 2016: 3.2%),
- the assumed electricity allowance paid out in 2018: PLN 1,407.37 (as at 31 December 2016: PLN 1,391.74),
- an increase of the cash equivalent paid out as part of the discounted electricity price was set in 2018 at 0.2%, in 2019 at 1.8%, in 2020 at 0.6%, in the years 2021 to 2025 at 4.7%, in 2026 at 4.8%, in subsequent years at 2.5% (as at 31 December 2016 at -1.0% for 2017, in 2018 an increase by 1.9%, in 2019 by 2.1%, in 2020 by 3.0%, in the years 2021 to 2026 at 3.1%, and in the following years at 2.5%).

On 17 October 2017, the Management Board of LWB signed an agreement with trade union organizations operating in LWB amending the provisions of the Company Collective Labour Agreement with regard to coal allowances paid to LWB pensioners. As a result of the signed agreement, the existing old-age and disability pensioners, for whom LWB was the last employer, lost their right to free coal. As a result of the agreement concluded, the current LWB employees also lost the right to free coal after retiring, in exchange for receiving the right to a one-off, additional retirement severance pay.

In connection with the foregoing, appropriate changes had to be made in the books of LWB. In connection with the loss of the entitlement to reduced coal prices after retirement, LWB re-measured the provision for coal allowances as at 17 October 2017 (the date of loss of the entitlements). The updated amount of the provision was PLN 145,564 thousand and subsequently the provision was released in full. At the same time, in line with the concluded agreement, LWB recognised in the books a provision for an additional old age/ disability retirement package totalling at PLN 7,044 thousand. Moreover, in December 2017, in consideration of the resignation from the entitled to free coal after retirement, current employees of LWB received a compensation totalling PLN 23,589 thousand. The total impact on the Group's performance of all transactions relating to the coal allowance and the respective agreement that has been signed amounted to approximately PLN 114,931 thousand.

The Projected Unit Credit Method was used to determine the provisions for employee benefits. The same method was applied in the sensitivity analysis of the defined specific benefit schemes.

2017

Changes during the 12 months period ended 31 December 2017	Retirement and disability benefits	Right to electricity allowance after retirement	Contribution to the Company Social Benefits Fund for retired employees	Coal allowances after retirement	Death-in service benefits	Total
Balance as at 01.01.2017	155 005	202 740	62 256	114 876	2 727	537 604
Liabilities assumed as a result of merger of business units	11 167	-	2 423	-	1 332	14 922
Costs recognised as profit or loss, whereof:	18 418	10 242	3 978	(139 662)	656	(106 368)
current employment costs	7 013	4 218	1 991	2 733	394	16 349
past employment costs	6 917	-	-	(145 564)	127	(138 520)
interest cost	4 488	6 024	1 987	3 169	135	15 803
Costs recognised in other comprehensive income, whereof:	4 087	18 911	2 058	28 632	(325)	53 363
net actuarial profits/ losses due to changes in financial assumptions	(1 622)	5 646	(3 116)	25 467	(8)	26 367
net actuarial profits/ losses due to changes in demographic assumptions	809	3 565	1 499	1 641	(27)	7 487
net actuarial profits/ losses due to adjustment of ex-post assumptions	4 900	9 700	3 675	1 524	(290)	19 509
Decrease in liabilities due to benefits paid (negative figure)	(14 693)	(8 436)	(1 453)	(3 846)	(119)	(28 547)
Total changes	18 979	20 717	7 006	(114 876)	1 544	(66 630)
Balance as at 31 December 2017	173 984	223 457	69 262	-	4 271	470 974

2016

Changes during the 12 months period ended 31 December 2016	Retirement and disability benefits	Right to electricity allowance after retirement	Contribution to the Company Social Benefits Fund for retired employees	Coal allowances after retirement	Death-in service benefits	Total
Balance as at 01.01.2016	142 535	208 054	54 573	111 927	2 625	519 714
Costs recognised as profit or loss, whereof:	17 214	22 288	7 220	6 480	(201)	53 001
current employment costs	7 319	3 616	1 351	2 964	230	15 480
past employment costs	6 256	13 100	4 403	206	(500)	23 465
interest cost	3 639	5 572	1 466	3 310	69	14 056
Costs recognised in other comprehensive income, whereof:	6 601	(18 266)	2 171	63	-	(9 431)
net actuarial profits/ losses due to changes in financial assumptions	(5 747)	(26 741)	2 277	(547)	-	(30 758)
net actuarial profits/ losses due to changes in demographic assumptions	2 649	(1 571)	(567)	3 738	-	4 249
net actuarial profits/ losses due to adjustment of ex-post assumptions	9 699	10 046	461	(3 128)	-	17 078
Decrease in liabilities due to benefits paid (negative figure)	(10 809)	(8 473)	(1 296)	(3 594)	-	(24 172)
Other changes	(536)	(863)	(412)	-	303	(1 508)
Total changes	12 470	(5 314)	7 683	2 949	102	17 890
Balance as at 31 December 2016	155 005	202 740	62 256	114 876	2 727	537 604

Sensitivity analysis for the defined benefit scheme

Sensitivity analysis for the following segments: trading, distribution, generation and other business is presented below:

Defined benefit schemes:	Impact of the actuarial assumptions change on defined benefit scheme liabilities	
	+ 1 pp	- 1 pp
Discount rate	(51 693)	64 995
Expected salary increase rate	25 197	(20 836)
Average increase of the cash equivalent of electricity allowance	35 693	(28 714)

Presented below is the sensitivity analysis for the mining segment:

Defined benefit schemes:	Impact of the actuarial assumptions change on defined benefit scheme liabilities	
	+ 1 pp	- 1 pp
Discount rate	(3 872)	4 505
Expected salary increase rate	4 300	(3 465)
Increase of the coal allowance calculation basis	679	(591)

Maturity of defined benefit scheme liabilities

Presented below are maturity periods for defined benefit scheme liabilities for the following segments: trading, distribution, generation and other business:

Weighted average term of the defined benefit scheme liability (in years)	31.12.2017	31.12.2016
Pension and disability benefits	13,8	13,7
Death-in-service benefits	6,9	-
Right to electricity allowance after retirement	15,3	15,2
Contribution to the Company Social Benefits Fund for retired employees	17,9	18,3

Presented below are maturity periods for defined benefit scheme liabilities for the mining segment:

Weighted average term of the defined benefit scheme liability (in years)	31.12.2017	31.12.2016
Pension and disability benefits	13,3	13,0
Coal allowances	0	18,0
Death-in-service benefits	11,7	11,0

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

(all amounts in PLN '000, unless specified otherwise)
Other long-term employee benefits – jubilee bonuses

	31.12.2017	31.12.2016
Value at the start of the period	331 559	371 838
Changes during the 12 months until the end of the reporting period		
Costs recognised in profit/loss of the current period, whereof:	47 426	(2 064)
- current employment costs	24 015	23 888
- past employment costs	-	(34 034)
- net actuarial (profits)/ losses due to adjustment of ex-post assumptions	15 003	6 047
- net actuarial (profits)/ losses due to changes in demographic assumptions	2 085	3 440
- net actuarial (profits)/ losses due to changes in financial assumptions	(3 170)	(10 968)
- Interest cost	9 493	9 563
Decrease in liabilities due to benefits paid	(39 633)	(28 057)
Other changes	-	(10 158)
Total changes	7 793	(40 279)
Value at the end of the period	339 352	331 559

32. Provisions for liabilities and other charges
Provisions for total liabilities and other charges broken down into long-term and short-term

	31.12.2017	31.12.2016
Long-term	643 187	635 488
Short-term	1 083 929	789 718
Closing balance	1 727 116	1 425 206

Change in provisions for liabilities and other charges
for a period ended on 31 December 2017

	Provision for non-contractual use of land	Provision for other claims filed	Provision for landfill reclamation	Provision for certificates of energy origin	Provision for the purchase of CO2 emission allowances	Mine decommissioning	Other	Total
Balance as at start of the period	203 291	41 347	49 893	275 162	285 184	110 188	460 141	1 425 206
Acquisition of subsidiaries	-	-	7 397	1 937	120 191	-	4 823	134 348
Unwinding of discount and discount rate change	(477)	-	(668)	-	-	3 526	-	2 381
Increase in provisions	6 180	103 509	3 090	231 929	447 843	-	31 642	824 193
Provisions used	(479)	(642)	-	(243 390)	(362 106)	-	(10 820)	(617 437)
Provision reversed	(7 685)	(11 296)	-	(85)	(3 753)	(8 273)	(10 483)	(41 575)
Closing balance	200 830	132 918	59 712	265 553	487 359	105 441	475 303	1 727 116

for a period ended on 31 December 2016

	Provision for non-contractual use of land	Provision for other filed claims	Provision for landfill reclamation	Provision for certificates of energy origin	Provision for the purchase of CO2 emission allowances	Mine decommissioning	Other	Total
Balance as at start of the period	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

Provisions for liabilities are measured at reasonable, reliably estimated value. Individual provisions are established for projected losses relating to the court action brought against the Group. The amount recognized as a provision is the best estimate of the expenditure required to settle the obligation. The cost of provisions is recognized under other operating expenses. A description of material claims and contingent liabilities relating thereto have been presented in Notes 47.2, 47.5 and 47.6.

Provisions for liabilities and other charges primarily include:

Provision for non-contractual use of land

Provision for claims that may be filed by real property holders due to non-contractual use of the land.

Provisions for claims concerning non-contractual use of land are estimated using the so-called staged approach and weighting, i.e. the probability of losing the dispute and obligation to meet the claim. The damages awarded due to non-contractual use of land may be of significance for the Group in view of the number of the respective real properties. However, the Group is unable to reliably estimate the maximum amount of such damages.

In connection with the definition of the so-called transmission corridors, the Enea Capital Group estimated compensation for non-contractual use of real property on which the Group's grid assets (power lines) are located and recognized it in the created provision. As at the reporting date, no such claims had been filed.

Provision for other claims that have been filed

Under this item the Group shows provisions for court actions not connected with non-contractual use of land.

In 2017, Enea S.A. created a provision of PLN 85,684 thousand for prospective claims relating to the termination by Enea S.A. of contracts for the purchase of certificates of origin from renewable energy sources (detailed information is provided in Note 47.7).

Provision for landfill reclamation

After filling up or closing the slag and ash dump, the Group is obliged to reclaim the area. Due to the fact that the Group has large, unfilled landfill areas, the expected date of reclamation falls in 2060. The future estimated costs of landfill reclamation were discounted to the present value using a discount rate of 3.26% (As at 31 December 2016 – 3,20%).

As at 31 December 2017, the provision amounted to PLN 59,712 thousand (As at 31 December 2016 it was PLN 49,893 thousand).

Provision for the purchase of CO₂ emission allowances

As at 31 December 2017, the provision for CO₂ allowances amounted to PLN 487,359 thousand (As at 31 December 2016 it was PLN 285,184 thousand).

Provision for mine decommissioning

The Group creates a provision for the cost of decommissioning of a mine as required pursuant to the applicable legal provisions. The key assumptions applied to determine the cost of mine decommissioning include the useful life of the mine, the projected rate of inflation and long-term discount rates. The calculated cost of mine decommissioning as at 31 December 2017 amounts to PLN 105,441 thousand (as at 31 December 2016: PLN 110,188 thousand).

Other provisions

Other provisions concern:

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

- Skoczyloty wind farm: PLN 129 000 thousand (As at 31 December 2016: 129 000 thousand, Note 49),
- prospective liabilities relating to grid assets due to differences in the interpretation of legal provisions PLN 147,609 thousand (As at 31 December 2016: PLN 148,259 thousand),
- the cost of use of forests managed by Lasy Państwowe (State Forests) of PLN 113,547 thousand (As at 31 December 2016: PLN 108,245 thousand),
- real estate tax of Lubelski Węgiel Bogdanka S.A. of PLN 42,353 thousand (As at 31 December 2016: PLN 32,456 thousand),
- claims of the ZUS (Social Insurance Institution) regarding accident contribution at Lubelski Węgiel Bogdanka S.A. of PLN 21,340 thousand (As at 31 December 2016: PLN 20,042 thousand),
- repair of mining damages of PLN 4,434 thousand (As at 31 December 2016: PLN 4,440 thousand).

33. Net sales revenue

	31.12.2017	31.12.2016
Revenue from sales of electricity	6 932 940	6 548 229
Revenue from sale of distribution services	3 215 618	3 001 032
Revenue from sale of goods and materials	87 199	87 004
Revenue from sale of other products and services	177 139	176 369
Revenue from sale of certificates of origin	12 937	13 739
Revenue from sale of CO2 emission rights	77 315	32 780
Revenue from sale of thermal energy	347 871	312 625
Revenue from sale of coal	409 408	904 424
Revenue from sale of gas	145 262	179 476
Total net sales revenue	11 405 689	11 255 678

34. Costs by type

	31.12.2017	31.12.2016
Depreciation	(1 194 540)	(1 110 350)
Costs of employee benefits	(1 470 644)	(1 490 752)
- salaries and wages	(1 022 024)	(1 084 141)
- social insurance contributions and other benefits	(448 620)	(406 611)
Consumption of materials and supplies and value of goods and materials sold	(1 728 771)	(1 361 884)
- consumption of materials and energy	(1 500 129)	(1 210 310)
- value of goods and materials sold	(228 642)	(151 574)
Value of energy and gas purchased for resale	(3 169 673)	(4 074 797)
Outsourced services	(1 872 894)	(1 525 635)
- transmission services	(1 057 151)	(860 991)
- other outsourced services	(815 743)	(664 644)
Taxes and charges	(376 542)	(326 537)
Total cost of products, goods and materials sold, cost of sale and marketing and overhead costs	(9 813 064)	(9 889 955)

35. Costs of employee benefits

	31.12.2017	31.12.2016
Payroll expenses	(1 022 024)	(1 084 141)
- current salaries and wages	(936 721)	(1 002 605)
- jubilee bonuses	(29 708)	(20 874)
- retirement and disability packages	(10 383)	(3 236)
- other	(45 212)	(57 426)
Cost of social insurance and other benefits	(448 620)	(406 611)
- Social Insurance contributions	(239 905)	(226 871)
- contribution to the Company Social Benefits Fund	(45 560)	(42 792)
- other social benefits	(82 260)	(74 114)
- other post-employment benefits	-	(11 728)
- other	(80 895)	(51 106)
Total	(1 470 644)	(1 490 752)

Employment guarantees

Pursuant to an agreement entered into by the Company and the trade unions, employment guarantees have been awarded to people employed by the Company before 29 June 2007, which expire on 31 December 2018.

Furthermore, the term of the aforementioned agreement was extended with regard to employees who on the guarantee expiry date will have no more than four years to serve before becoming eligible to retire. This implies that if the employer fails to comply with the guarantees the contracts of employment may not be terminated without payment of additional benefits to an employee who has no more than four years to serve before reaching the retirement age at the time of the guarantee expiry.

Under employment guarantees, in the event of termination of the contract of employment by the employer the Group shall be obliged to pay to the employee an amount equal to the product of the their monthly remuneration and the period remaining until the guarantee expiry date.

Pursuant to an agreement entered into on 10 August 2007 by and between Enea Wytwarzanie S.A. (currently obecnie Enea Wytwarzanie Sp. z o.o.) and its trade union organisations, employment guarantees for employees employed at Enea Wytwarzanie S.A. (currently Enea Wytwarzanie Sp. z o.o.) as at the effect date of the agreement have been extended for the following 11 years, i.e. until do 30 January 2019.

36. Other operating revenue and expenses
Other operating revenue

	31.12.2017	31.12.2016
Release of provisions for compensation claims	9 716	30 515
Release of other provisions	15 641	9 985
Cost reimbursement by insurance company	8 765	8 332
Settlement of income due to subsidies and connection fees	13 316	24 840
Liquidated damages, fines, penalties	18 977	16 750
Reversal of allowances	4 566	6 302
Tangible assets received free of charge	17 960	25 909
Profit on a bargain purchase	11 953	-
Other operating revenue	40 896	21 405
Total	141 790	144 038

Other operating expenses

	31.12.2017	31.12.2016
Creating provisions for compensation claims	(7 956)	(28 654)
Creating other provisions	(104 667)	(151 627)
Receivables revaluation write-off	(24 367)	(11 413)
Bad debt written-off	(28 592)	(14 010)
Write-down of inventory	(2 038)	(119)
Cost of court proceedings	(11 129)	(9 217)
Trade union related expenses	(1 603)	(1 524)
Compensation for non-contractual use of land	(1 490)	(1 505)
Other operating costs	(40 029)	(43 556)
Total	(221 871)	(261 625)

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

(all amounts in PLN '000, unless specified otherwise)
37. Financial revenue

	31.12.2017	31.12.2016
Interest income	28 277	41 151
- bank accounts and deposits	27 815	31 815
- other loans and accounts receivable	462	9 279
- other	-	57
Foreign exchange differences	-	11 176
Change in fair value of financial instruments	27 754	11 575
Valuation of CO2 purchase contracts	79 267	-
Other financial revenue	4 420	12 448
Total	139 718	76 350

38. Financial expenses

	31.12.2017	31.12.2016
Interest expense	(96 651)	(92 003)
- interest expense on loans and borrowings	(36 826)	(30 067)
- interest expense on bonds	(44 980)	(49 818)
- finance lease cost	(160)	(81)
- other interest	(14 685)	(12 037)
Foreign exchange differences	(28 134)	(2 081)
Discounting liabilities due to employee benefits and provisions	(28 282)	(26 635)
Change in fair value of financial instruments	(15 892)	(5 647)
Cost of unused bonds	(89)	(120)
Other financial cost	(1 641)	(524)
Total	(170 689)	(127 010)

39. Income tax

	31.12.2017	31.12.2016
current tax	(192 003)	(211 464)
deferred tax	(109 673)	(8 425)
Income tax	(301 676)	(219 889)

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

The income tax on the Group's profit before tax differs from the theoretical amount obtained using the nominal tax rate applicable to consolidated companies' profits in the following way:

	31.12.2017	31.12.2016
Profit before tax	1 466 567	1 068 802
Tax calculated at a rate of 19%	(278 648)	(203 072)
Costs not classified as tax-deductible expenses (permanent differences * 19%)	(45 137)	(20 830)
Income not subject to tax (permanent differences * 19%)	3 629	7 026
Other * 19%	18 480	(3 013)
Amount charged to profit or loss due to income tax	(301 676)	(219 889)

40. Dividend

The decision regarding payment of the dividend for the current financial year will be taken by shareholders at the General Annual Meeting in 2018. The Management Board of Enea S.A. is currently reviewing the possibility of payment of the dividend for 2017. As at the date of drawing up these consolidated financial statements, the decision as to the allocation of profits for 2017 has not been taken. The Management Board of Enea S.A. will present a recommendation regarding the 2017 profit allocation at the turn of the first and second quarter of 2018.

On 26 June 2017, the Annual General Meeting of Shareholders of Enea S.A. adopted Resolution No. 6 on the allocation of net profits for the financial year from 1 January 2016 to 31 December 2016, under which an amount of PLN 110,361 thousand was allocated towards dividend to be paid to shareholders. Dividend per share amounted to PLN 0.25. By the reporting date, the dividend has been paid to shareholders.

The Company did not pay the dividend for the financial year from 1 January 2015 to 31 December 2015 due to the fact that it generated a loss. On 27 June 2016, the Annual General Meeting of Shareholders of Enea S.A. adopted Resolution No. 7 on the coverage of the net loss of PLN 1,116,888 thousand for the financial year from 1 January 2015 to 31 December 2015 from retained earnings.

41. Earnings per share

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Net profit/(loss) due to shareholders of the Parent Company	1 070 168	784 393
Weighted average number of ordinary shares	441 442 578	441 442 578
Net earnings per share (in PLN per share)	2,42	1,78
Diluted earnings per share (in PLN per share)	2,42	1,78

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

(all amounts in PLN '000, unless specified otherwise)
42. Related party transactions

Capital Group companies conclude transactions with the following related parties:

- Companies forming the Capital Group – these transactions are eliminated at the consolidation stage,
- Transactions concluded between the Group and Members of its governing bodies may be classified into two categories:
 - transactions resulting from appointments of Members of Supervisory Boards,
 - transactions under other civil law agreements.
- Transactions with entities controlled by the State Treasury of the Republic of Poland.

Transactions with members of the Group's governing bodies:

	Company's Management Board		Company's Supervisory Board	
	01.01.2017	01.01.2016	01.01.2017	01.01.2016
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Remuneration under managerial contracts and consultancy agreements	4 928	12 578	-	
Remuneration relating to appointment of members of management and supervisory bodies			826	484
TOTAL	4 928	12 578	826	484

As at 31 December 2017, liabilities under managerial contracts and consultancy agreements with regard to members of the Management Board amounted to PLN 159 thousand. Provision for bonuses for Management Board Members as at 31 December 2017 amounted to PLN 1,755 thousand (as at 31 December 2016: PLN 3,082 thousand), provision amounts are not included in the table above.

In 2017, the remuneration under managerial contracts and consultancy agreements included a bonus for 2016 amounting to PLN 1,749 thousand (in 2016, a bonus for 2015 of PLN 2,653 thousand) and the non-competition compensation.

Transactions concerning borrowings from the Company Social Benefits Fund are presented in the table below:

Governing body	Balance as at 01.01.2017	Granted as of 01.01.2017	Repaid until 31.12.2017	Balance as at 31.12.2017
Supervisory Board	16	-	(5)	11
TOTAL	16	-	(5)	11

Governing body	Balance as at 01.01.2016	Granted as of 01.01.2016	Repaid until 31.12.2016	Balance as at 31.12.2016
Company's Management Board				
Supervisory Board	27	-	(11)	16
TOTAL	27	-	(11)	16

Other transactions pursuant to civil law agreements concluded between the Parent Company and members of the Parent Company's governing bodies pertain exclusively to the use of company cars by Management Board Members of Enea S.A. for private purposes.

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

The Group also concludes business transactions with state government and local government units owned by the State Treasury of the Republic of Poland.

Those transactions primarily concern:

- purchase of coal, electricity, property rights under certificates of energy origin regarding renewable energy and energy cogenerated with heat, transmission and distribution services by the Group from companies controlled by the State Treasury,
- sale of electricity, distribution services, connection to the grid and other related charges and sale of coal, provided by the Group both to state and local administration units (sale to end consumers) and to companies controlled by the State Treasury (wholesale and retail sales to end consumers).

These transactions are concluded under arm's length terms and conditions which do not differ from the terms and conditions applied in transactions with other entities. The Group does not keep a register that would allow aggregating the value of all transactions with state institutions and State Treasury-controlled companies. Among the State Treasury-controlled companies, the largest customer of the Enea Group is the Polskie Sieci Elektroenergetyczne Group; in 2017, net sales amounted to PLN 250,330 thousand (in 2016, it was the Energa Group with sales of PLN 158,344 thousand), the largest supplier is the Polskie Sieci Elektroenergetyczne Group, with the net value of sales of PLN 1,159,053 thousand (in 2016 it was also the PSE Group, with purchases of PLN 917,043 thousand).

43. Concession agreements for the provision of public services

The core business activity of the Capital Group generation, distribution and sale of electricity as well as production and sale of coal.

Pursuant to the Energy Law Act, President of the Energy Regulatory Office is responsible for granting concessions, exercising supervision over the activities of power-generating companies and for tariff approval.

Enea S.A. holds concessions for:

- trading in electricity until 31 December 2025,
- trading in gaseous fuels until 31 December 2030.

Enea Operator Sp. z o.o. holds a concession for electricity distribution effective until 1 July 2030.

Enea Wytwarzanie Sp. z o.o. holds the following concessions:

- electricity generation concession until 31.12.2030,
- heat generation concession until 31.12.2025,
- concession for transmission and distribution of heat until 31.12.2025,
- concessions for electricity trading until 31.12.2030.

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Enea Trading Sp. z o.o. holds concessions for:

- trading in electricity until 31.12.2030,
- trading in gaseous fuels until 31.12.2030,
- trading in natural gas with foreign customers until 31.12.2030.

MEC Piła Sp. z o.o. holds concessions for:

- generation of thermal energy until 31 December 2025,
- transmission and distribution of heat until 31 December 2025,
- electricity generation until 31 December 2030.

PEC Sp. z o.o. with its registered office in Oborniki hold concessions for:

- generation of thermal energy until 31 December 2025,
- heat transmission and distribution until 31 December 2025.

Enea Ciepło Sp. z o.o. holds concessions:

- generation of thermal energy until 30 September 2028,
- trading in heat until 30 September 2028,
- transmission and distribution of heat until 30 September 2028.

Enea Elektrownia Połaniec S.A. holds concessions for:

- electricity generation until 1 November 2025,
- trading in electricity, until 31 December 2030,
- generation of heat until 1 November 2025,
- transmission and distribution of heat until 1 November 2025.

The business activity of **Lubelski Węgiel Bogdanka S.A.** to the extent of commercial mining of hard coal has to be conducted in conformity with the provisions of the Geological and Mining Law. The Company holds concessions for:

- hard-coal mining from the „Bogdanka” deposit, of 6 April 2009, valid until 31 December 2031,
- hard-coal mining from the „Lubelskie Zagłębie Węglowe – area K-3” deposit, of 17 June 2014, valid until 17 July 2046,
- exploration and identification of a hard coal deposit „Orzechów” of 14 October 2014, valid until 14 November 2018. It was amended at the request of LW Bogdanka by the decision of 7 July 2016 and extended until 14 November 2020,
- hard-coal mining from the „Ostrów” deposit in the „Ludwin” mining area, of 17 November 2017, valid until 31 December 2065.

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

Future liabilities due to the right of perpetual usufruct of land (based on 2017 fees) concern the period that has remained until the expiry of land use agreements (40 - 99 years).

	31.12.2017	31.12.2016
Up to 1 year	10 011	5 418
1 - 5 years	30 530	21 676
over 5 years	452 257	370 914
	492 798	398 008

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

	31.12.2017	31.12.2016
Up to 1 year	22 165	20 402
1 - 5 years	45 346	43 300
over 5 years	28 690	33 917
	96 201	97 619

Perpetual usufruct of land, lease and rental expenses incurred during the period:

	2017	2016
Right of perpetual usufruct of land	5 418	5 621
Lease, rental and operational lease agreements	20 402	17 850

Operational lease payments recognised in expenses

	31.12.2017	31.12.2016
Minimum lease payments	(4 798)	(8 275)
	(4 798)	(8 275)

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

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

	31.12.2017	31.12.2016
Acquisition of tangible fixed assets	1 138 756	1 644 896
Acquisition of intangible assets	34 029	38 134
	1 172 785	1 683 030

46. Employment

	12 months ended 31.12.2017	12 months ended 31.12.2016
Blue-collar jobs	9 216	8 998
White-collar jobs	6 298	5 889
TOTAL	15 514	14 887

The table shows employment in Full-Time Equivalents. Managerial jobs have been classified as white-collar jobs.

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

47.1. Sureties and guarantees

The table below shows significant bank guarantees under agreements entered into by and between Enea S.A. and Bank BZ WBK S.A. up to the limit specified therein as at 31 December 2017.

Guarantees issued as at 31 December 2017

Date of guarantee	Guarantee expiry date	Guarantee issued to	Issuing Bank	Guarantee amount in PLN '000
01.01.2016	11.08.2018	Górecka Projekt Sp. z o.o.	BZ WBK S.A.	1 662
21.12.2016	30.01.2018	Marshal's Office of Zachodniopomorskie Province in Szczecin	BZ WBK S.A.	1 325
Total guarantees issued				2 987

Guarantees issued as at 31 December 2016

Date of guarantee	Guarantee expiry date	Guarantee issued to	Issuing Bank	Guarantee amount in PLN '000
01.01.2016	11.08.2018	Górecka Projekt Sp. z o.o.	BZ WBK S.A.	1 662
21.12.2016	30.01.2018	Marshal's Office of Zachodniopomorskie Province in Szczecin	BZ WBK S.A.	1 325
Total guarantees issued				2 987

The value of other guarantees issued by the Enea Group as at 31 December 2017 amounts to PLN 3,640 thousand (as at 31 December 2016: PLN 3,733 thousand).

47.2. Proceedings pending before common courts of law

Proceedings brought by the Group

Proceedings instituted before common courts by Enea S.A. and Enea Operator Sp. z o.o. concern the recovery of receivables due to electricity supply (energy cases) and recovery of receivables on other accounts, e.g. illegal electricity consumption, connections to the grid and other specialist services (non-energy cases).

Proceedings instituted before common courts of law by Enea Wytwarzanie Sp. z o.o. mostly concern compensations and liquidated damages from the company's counterparties.

As at 31 December 2017, the Group was pursuing a total of 16,176 actions with the value of the claims amounting to PLN 219,335 thousand in total (as at 31 December 2016, there were 16,487 cases totalling PLN 161,308 thousand).

The outcome of neither individual case is material for the financial result of the Capital Group.

Proceedings against the Group

Proceedings against the Group are brought both by natural and legal persons. They concern, among others, issues such as compensation for interruptions in energy supply, determination of illegal consumption of energy and compensation for the Company's use of real estate on which power devices are located. The Group considers claims for non-contractual use of land not owned by the Group to be particularly important (Note 47.5).

Claims are also pursued regarding the terminated contracts for the purchase of property rights (Note 47.7).

Court proceedings against Enea Wytwarzanie Sp. z o.o. concern, among others, compensations and payment of liquidated damages.

As at 31 December 2017, there were 2,431 cases against the Group pending before common courts of law with claims totalling PLN 680,828 thousand (as at 31 December 2016, there were 2,314 cases for PLN 368,702 thousand in total). Provisions connected with these court cases are presented in Note 32.

47.3. Arbitration proceedings

Proceedings brought by Mostostal Warszawa S.A. and Acciona Infraestructuras S.A. against Lubelski Węgiel Bogdanka S.A. are conducted before the Arbitration Court at the Polish Chamber of Commerce in Warsaw under file reference symbol SA 64/15. The arbitration proceedings were instituted on the basis of a call for arbitration made by the Consortium on 7 April 2015. The consortium's claim amounts to approximately PLN 16.2 million (the above claim consists of a bank guarantee allegedly obtained without grounds by LWB, interest, and costs incurred by the consortium due to the use by LWB of this guarantee). On 30 November 2016, the consortium submitted a replica

Notes presented on pages 11-122 constitute an integral part of these consolidated financial statements

to which a rejoinder was submitted by LWB on 25 January 2017 - the consortium responded with its letter of 25 February 2017, to which LWB also responded. Hearings before the Arbitration Court were held on 19-21 June 2017.

On 29 September 2017, the Arbitration Court at the Polish Chamber of Commerce in Warsaw issued a judgment dismissing in full the action brought against LWB by the Consortium. The verdict ended the proceedings before the Arbitration Court. In October 2017, LWB filed a motion with the Lublin Court of Appeal for recognition of the arbitration award. At the same time, at the end of November 2017, the Consortium filed a complaint to set aside the Arbitration Court's award. At this moment in time, the award is not legally binding.

On 20 September 2016, LWB brought an action against the Consortium before the Regional Court in Lublin to establish a (negative) lack of obligation on the part of LWB to satisfy the consortium's claims under the contract for the extension of the Mechanical Coal Processing Plant. This claim serves to determine that the Consortium was improperly performing the contract for the extension of the Mechanical Coal Processing Plant, and thus LWB reasonably charged the Consortium with liquidated damages and withdrew from the contract. After the Consortium submitted a statement of defence and after the first hearing, the parties unanimously requested the court to refer the parties to mediation and agreed on the person of the mediator.

47.4. Other court proceedings

As far as LWB is concerned, proceedings are pending before the Regional Court in Lublin concerning claims of the ZUS (the Polish Social Insurance Institution) for the accident insurance contribution, namely the legitimacy of reclassifying accidents at work and the repeal of the sanction imposed on the company as a result of an audit carried out by the Lublin Branch of the ZUS. In order to cover any claims in this respect, LWB has established a provision of PLN 21,340 thousand.

On 21 November 2017, an appeal hearing was held, at which the Court of Appeal in Lublin considered the appeal filed by the ZUS against the judgement of 7 February 2017. The Court of Appeal issued a judgment in which it dismissed the appeal filed by the ZUS. At the moment, the judgement is not legally binding. On 15 January 2018, the Court of Appeals prepared the grounds for the judgment. On 12 March 2018, the Court of Appeal in Lublin received a cassation appeal of ZUS.

On 18 January 2018, Enea Wytwarzanie Sp. z o.o. received a statement of claim of 28 December 2017 filed with the Regional Court in Białystok by the Municipality of Białystok against ENEA Wytwarzanie Sp. z o.o. regarding payment of PLN 29,445 thousand together with statutory interest on account of the sale price of 126,083 shares in Miejskie Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. in Białystok (currently, Enea Ciepło Sp. z o.o.), constituting the so-called "Remainder" in the performance of the obligation under the share purchase agreement regarding sales of Enea Ciepło Sp. z o.o. entered into on 26 May 2014. On 23 February 2018, Enea Wytwarzanie Sp. z o.o. submitted a reply to the statement of claim, objecting the standpoint expressed in the statement of claim and requesting its dismissal.

The dispute concerns the interpretation of the provisions of the share sale agreement of 2014 and determining whether Enea Wytwarzanie Sp. z o.o. is still obligated to acquire the remaining shares, the so-called "Remainder". According to the opinion of Enea Wytwarzanie Sp. z o.o., the Company fulfilled its obligation as per the share sale

agreement of 2014 concerning the acquisition of shares in Enea Ciepło Sp. z o.o. and is no longer obligated to acquire additional 121 863 shares.

Should the outcome of the dispute be unfavourable for Enea Wytwarzanie Sp.z zo.o., the company may be obligated to acquire the total of 126 083 shares for the price as per the agreement of 26 May 2014. i.e. for the total amount as per the statement of claim.

According to the information received from the company's representative in that case, there is a good chance that the judgment will be positive for the company.

47.5. Risk connected with the legal status of properties used by the Group

The risk connected with the legal status of the properties used by the Group is due to the fact that the Group does not have a legal title to use all the plots where the transmission lines and auxiliary installations are located. In the future, the Group may be obligated to bear the costs of non-contractual use of land.

The absence of a clear legal status of the real estate causes a threat connected with claims to pay compensation for non-contractual use of land, rent or, exceptionally, in individual cases with demands to change the location of the facility (restore the land to the original condition).

The court judgements issued in these cases are important because they significantly affect the way the Group deals with persons who have already submitted pre-court claims in relation to devices located on their real estate and the manner of determining the legal status of these properties in the event of new investment projects.

The possibility of losing property in this case is negligible. Lack of a clear legal status of real estate under energy devices does not constitute a risk of losing the assets by the Group, but only causes the risk of additional costs connected with requests for compensation for the so-called non-contractual use of land, rent, the costs of establishing transmission easement or, exceptionally, in individual cases, with demands related to the change of the location of the facility (restoration of the ground to the original condition). The Group creates adequate provisions.

The provision also applies to compensation for non-contractual use by the Group of real property on which the Group's grid assets (power lines) are located, in connection with the definition of the so-called transmission corridors and establishing transmission easement for the benefit of the Group.

As at 31 December 2017, the Group recognized a provision for claims arising from non-contractual use of land in the amount of PLN 200,830 thousand.

47.6. Cases concerning not balanced energy trading in 2012

On 30 and 31 December 2014, Enea S.A. applied for a summons to a conciliation hearing with regard to:

	Amount in PLN '000
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 object of the summonses were claims for payment for electrical energy incorrectly settled in the electricity balancing market in 2012. The summoned companies obtained undue financial benefits by refusing to allow Enea S.A. to issue invoices for the year 2012.

Following its unsuccessful attempt at resolving the aforesaid cases amicably, Enea S.A. brought actions against:

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

In the case against FITEN S.A. Enea S.A. has filed a cassation appeal with the Supreme Court. In the remaining cases no judgement has been issued.

47.7. Dispute concerning prices of renewable energy certificates and terminated contracts for the purchase of property rights resulting from certificates of origin of energy from renewable sources

In connection with a dispute concerning prices used in long-term contracts for the purchase of property rights from renewable energy sources, there are six proceedings pending in court concerning remuneration. Enea S.A. set off the payment of a portion of the receivables owed to counterparties of Enea S.A. due to the payment of the price for the property rights sold against the claim for damages filed by Enea S.A. against renewable energy producers. The damage suffered by Enea S.A. was created as a result of counterparties' failure to perform their contractual obligations to renegotiate in good faith the long-term contracts for sale of property rights in accordance with the adaptation clause binding upon the parties.

Moreover, three cases are currently pending before the Regional Court in Poznań for declaration of ineffectiveness of termination/withdrawal of Enea S.A. from contract of sale of property rights made on 28 October 2016.

On 28 October 2016, Enea S.A. made representations, depending on the contract, on termination or withdrawal from long-term contract for the purchase by the Company of property rights resulting from renewable energy certificates (so-called green certificates) (Contracts).

The Contracts were concluded in the years 2006-2014 with the following counterparties, owners of facilities producing energy from renewable sources ("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 by the end of November 2016. The exact termination date resulted from contractual provisions.

The Company terminated/withdrew from individual Contracts due to the impossibility of restoring contractual equilibrium and equivalency of performances of the parties caused by changes in the law.

Changes in the law which took place after the conclusion of the aforesaid Contracts, i.e. in particular:

- Regulation of the Minister of Economy of 18 October 2012 concerning detailed scope of obligations to obtain renewable energy certificates and present them for redemption, pay the substitution fee, purchase electricity and heat produced in renewable energy sources, and the obligation to confirm data concerning the amount of electrical energy produced in a renewable energy source (Journal of Laws of 2012, item 1229);
- The Renewable Energy Sources Act of 20 February 2015 (Journal of Laws of 2015, item 478) and the ensuing changes in the law and published Bills and draft regulations including, in particular:
 - The Act on the Amendment to the Renewable Energy Sources Act and Certain Other Acts of 22 June 2016 (Journal of Laws of 2016, item 925); and
 - The draft Regulation of the Minister of Energy concerning a change of the quantitative share of the sum of electrical energy resulting from redeemed certificates of origin confirming production of electrical energy from renewable energy sources, to be enacted under the delegation resulting from Article 12 section 5 of the Act on the Amendment to the Renewable Energy Sources Act and Certain Other Acts of 22 June 2016,

prevented the preparation of reliable models forecasting future prices of the green certificates.

By terminating the Contracts the Company intends to avoid financial losses constituting the difference between contract prices and the market price of the green certificates.

Due to the changed legal conditions following termination of the Contracts in 2017, in particular resulting from the provisions of the Act of 20 July 2017 on amending the renewable energy sources act, the estimated value of future contractual liabilities would have been changed. In the current legal situation it would have been significantly lower in comparison to the amount of ca. PLN 1,187 million estimated as at the moment of termination of the contracts. The drop reflects the change in the method of determination of the substitution fee, which as per some of the contracts is the basis for the calculation of the contractual price and the connected market price.

The Company created a provision in the amount of PLN 85.684.000 for potential claims arising from the terminated contracts, with reference to sales notifications of the counterparties concerning property rights submitted by 31 December 2017; the provision is presented in Note 32.

48. Participation in the programme of construction of a nuclear power plant

On 15 April 2015, KGHM, PGE, TAURON and Enea concluded the PGE EJ 1 Shares Acquisition Agreement. KGHM, PGE, TAURON and Enea each acquired from PGE a 10% stake (a total of 30% shares) in PGE EJ 1. Enea paid for these shares PLN 16 million.

On 21 December 2016, the Extraordinary Shareholders' Meeting of PGE EJ 1 was held. During the Meeting the Shareholders resolved to raise the share capital of the Company by approximately PLN 35 million by way of creating 248,220 new shares with the par value of PLN 141 each, subscribe for the newly-created shares and finance them with cash contributions. Pursuant to the decision of the Extraordinary Shareholders' Meeting, Enea subscribed for shares with the total par value of approximately 3.5 million and financed them with a cash contribution of approximately PLN 3.5 million.

In accordance with the Shareholder Agreement, Enea S.A.'s financial commitment in the Initial Phase will not exceed PLN 107 million and is to consist in providing contributions up to this amount towards the increased share capital of PGE EJ 1 Sp. z o.o.

As a shareholder, Enea S.A. is obligated to vote in favour of increases of the share capital of PGE EJ 1 aimed at acquiring funds required for the implementation of the investment project and subscribe for shares in the increased share capital proportionately to its shares (10%) and finance shares with cash contributions in accordance with the relevant resolutions.

During the year 2017 there were no increases of the share capital of the company. In order to provide PGE EJ 1 with funds needed to finance its day-to-day operations, the Shareholders granted the company a loan. The loan granted by Enea S.A. was approximately PLN 2.9 million.

Under the Shareholder Agreement Enea S.A. participates in financing the activity of PGE EJ1 in accordance with the financing schedule adopted by the Shareholders.

Contracts that PGE EJ 1 Sp. z o.o. plans to conclude are connected with the purpose of forming the Company, i.e. preparation of the investment process, construction, operation and decommissioning of a nuclear power plant with a capacity of approximately 3,000 MW in Poland. In view of the nature of the core activity of the company and the initial phase of the project, operating costs and investment outlays cannot be balanced with revenues, since they will be obtained after the conclusion of the investment project.

The risk to which Enea is exposed in connection with its participation in PGE EJ 1 Sp. z o.o. is also mitigated by provisions of the Articles of Association of PGE EJ 1. Pursuant to the aforesaid Articles of Association, the Management Board of PGE EJ 1 is obligated to obtain the consent of the Supervisory Board before disposing of a right or contracting an obligation exceeding PLN 1,000,000 and not exceeding PLN 40,000,000 (§ 17 section 2 clause 1), subject to additional provisos contained in the Articles of Association. The powers of the Shareholders' Meeting

include, among others, granting consent to disposing of a right or contracting an obligation with a value in excess of PLN 40,000,000 (§ 25 section 4 clause 2), subject to additional provisos contained in the Articles of Association.

The parties providing financial support to PGE EJ 1 currently include all Company Shareholders, i.e. PGE S.A., KGHM S.A., TAURON S.A. and Enea S.A., holding 70%, 10%, 10%, 10% shares in the share capital of the company respectively.

As at 31 December 2017 and as at the date of drawing up these consolidated financial statements, Enea S.A. holds 220,467 shares in the share capital of PGE EJ 1 Sp. z o.o. with the total nominal value of approximately PLN 31,085,000 representing 10% of the total number of shares/votes. Pursuant to Article 5.3.7 of the Shareholder Agreement, resolutions on an increase of the share capital during the Development Phase are to stipulate that the share capital increase is effected only if all the Shareholders subscribe for and finance shares in the increased share capital proportionately to their shares, unless otherwise resolved by the Shareholders. In the light of the foregoing, the share of Enea S.A. in the share capital of the company will not change without its consent.

49. Acquisition agreement of Eco-Power Sp. z o.o.

Fen Wind Farm B.V. with its registered office in Amsterdam and Wento Holdings S.à l. with its registered office in Luxembourg („Claimants”) brought an action against Enea Wytwarzanie Sp. z o.o. for the conclusion of a share purchase agreement regarding shares of Eco-Power Sp. z o. o. at a price including a base amount of PLN 286,500,000.00 .

Enea Wytwarzanie Sp. z o.o. denied the above claim and in its response to the statement of claim (and in subsequent letter of 7 January 2017) requested that the claim be dismissed in its entirety and that costs of the proceedings be charged to the Claimants. Based on the estimated value of shares of Eco-Power Sp. z o. o., the Group created a provision of PLN 129 million. This figure results from the difference between the price taking into account the base amount of PLN 286,500,000.00 and the value estimated according to the model of Enea SA.

The first court session was held on 10 April 2017, and the following sessions were held on 15 and 29 May, 20, 22 and 24 November 2017 and 5 January 2018, The Court has interviewed a majority of the witnesses. As of today, the hearing of an important witness, scheduled to take place on 22 January 2018 within the legal assistance, has not been held. The Company is waiting for the determination of the date of the following session and for the Court's decision regarding hearing of additional evidence.

50. Description of key accounting principles

The key accounting principles applied in the preparation of these consolidated financial statements are presented below. These principles were applied continuously in all presented periods.

50.1. Basis for preparation

The consolidated financial statements for the financial year ended 31 December 2017 have been prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

These consolidated financial statements have been prepared on the historical cost basis, with the exception of financial instruments measured at fair value.

The accounting principles adopted by the Group were applied on a continuous basis, and changes in standards that came into force during the reporting period did not have a material impact on the financial statements.

50.2. Consolidation principles

(a) Subsidiaries

Subsidiaries are all entities in relation to which the Group is able to manage their financial and operating policies, which is usually accompanied by holding the majority of the total number of votes in the decision-making bodies. When assessing whether the Group controls a given entity, the existence and effect of potential voting rights that are currently exercisable or convertible are taken into account. Subsidiaries are subject to full consolidation from the date of taking control over them by the Group. They cease to be consolidated on the day the control ceases.

With regard to acquisitions of companies that are not under common control, the cost of acquisition is determined as the fair value of the assets transferred, equity instruments issued and liabilities contracted or taken over as at the date of exchange. Identifiable acquired assets, as well as liabilities and contingent liabilities taken over as part of a merger of businesses, are initially measured at their fair value as at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interests proportionally to the share in the fair value of the net assets acquired. In subsequent periods, the value of non-controlling interests includes the value recognized upon initial recognition adjusted for changes in the value of the subsidiary's capital in proportion to its shares. The total income is allocated to non-controlling interests even when it gives rise to a negative value of these shares.

In the event of a negative value, the Group reviews again the fair value of particular components of the net assets acquired. If as a result of the review the value is still negative, it is recognized immediately in the profit or loss of the current period.

Transactions, settlements and unrealized profits on transactions between Group companies are eliminated. Unrealized losses are also subject to elimination unless the transaction provides evidence of impairment of the transferred asset. Accounting principles applied by subsidiaries have been changed where it was necessary to ensure compliance with the accounting principles applied by the Group.

(b) Associated and jointly controlled entities

Associated entities are all entities over which the Group has significant influence, but which it does not control, which is usually accompanied by holding between 20% and 50% of the total number of votes in the decision-making bodies. Investments in associates are accounted for using the equity method and are initially recognized at cost. The surplus of the purchase price over the fair value of identifiable net assets of the associated company as at the acquisition date is recognized as goodwill. Goodwill is included in the carrying value of the investment, and its impairment is measured at the total value of the investment. Any surplus of the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities over the cost of the acquisition after the revaluation is recognized immediately in the profit or loss of the current period.

Jointly controlled entities are all entities which the Group controls jointly with other entities on the basis of contractual arrangements. Investments in jointly controlled entities are accounted for using the equity method in the same way as investments in associates.

The Group's share in the profit or loss of associated and/or jointly controlled entities from the acquisition date is recognized in profit or loss of the current period, and its share in changes in other capitals since the date of acquisition - in other comprehensive income. The carrying amount of the investment is adjusted by the total change in equity from the acquisition date. When the Group's share in losses of an associated or jointly controlled entity becomes equal to or greater than the Group's share in this entity, including any other unsecured receivables, the Group ceases to recognize further losses, unless it has assumed obligations or made payments on behalf of a given associated or jointly controlled entity.

Unrealized profits on transactions between the Group and its associated or jointly controlled entities are eliminated in proportion to the Group's share in associated or jointly controlled entities. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the transferred asset. Accounting principles applied by associated or jointly controlled entities have been changed, where necessary, to ensure compliance with the accounting principles applied by the Group.

50.3. Business combinations/acquisitions

Business combinations /acquisitions of business entities outside joint control are settled using the acquisition method described in point 50.2.(a).

50.4. Foreign currencies transactions and measurement of foreign currency balances

(a) Functional currency and presentation currency

Items included in the financial statements of individual entities of the Group are measured in the currency of the primary economic environment in which the entity operates (in the functional currency). The consolidated financial statements are presented in Polish zloty (PLN), which is the functional and presentation currency of all entities of the Capital Group. Items of the statements are presented rounded up to full thousands of zlotys.

(b) Transactions and balances

Transactions expressed in foreign currencies are translated as at the moment of initial recognition into the functional currency according to the exchange rate in force on the day of the transaction.

At the end of the reporting period, monetary items expressed in a foreign currency are converted using the closing rate (closing rate - this is the average NBP rate prevailing on the valuation day).

Foreign exchange gains and losses arising from the settlement of transactions in a foreign currency and the valuation of monetary assets and liabilities expressed in a foreign currency are recognized in the profit or loss of the current period, whereas gains or losses due to exchange rate differences on fixed assets under construction are recognized in expenditure on fixed assets under construction.

50.5. Property, plant and equipment

Property, plant and equipment are valued at the purchase price or production cost less accumulated depreciation and accumulated impairment allowances.

Subsequent expenditures are included in the book value of a given tangible fixed asset or are recognized as a separate tangible fixed asset (where appropriate) only when it is probable that this item will have a positive economic impact on the Group and the cost of the item may be reliably measured. All other repair and maintenance expenses are recognized in the profit or loss in the financial period, in which they were incurred.

In case of replacement of a part of a fixed asset, in its carrying amount, the cost of the replaced component of this asset is recognized; at the same time, the carrying amount of the said component is removed from the statement on the financial situation, regardless of whether it was separately depreciated and recognized in the profit or loss of the current period.

The mine decommissioning costs included in the initial value of tangible fixed assets are depreciated using the same method as depreciation of tangible fixed assets to which they apply, starting from the commencement of use of a given tangible asset, for the period specified in the plan for liquidation of groups of facilities under the planned mine decommissioning schedule.

Land is not subject to depreciation. Depreciation of other tangible fixed assets is calculated using the straight-line method over the estimated useful life. The basis for calculating depreciation is the initial value less the residual value if it is significant. Each significant component of an item of a tangible fixed asset with a different useful life is depreciated separately.

Periods of useful life of tangible fixed assets are as follows:

- | | |
|-----------------------------------|---|
| • Buildings and structures | 10 – 80 years |
| Whereof power networks | 33 years |
| • structures (mining excavations) | natural depreciation based on length of the exploited walls |
| • plant and machinery | 2 – 50 years |
| • means of transport | 3 – 30 years |
| • other tangible fixed assets | 3 – 25 years |

The verification of the residual value and periods of use of tangible fixed assets is carried out at least once a year. Each change in the depreciation period requires justification and results in an adjustment of depreciation write-offs made in subsequent financial years.

As at each balance sheet date ending the financial year, an assessment is made of premises indicating impairment of assets in accordance with IAS 36. If it is determined that such premises exist, an impairment test is performed in accordance with IAS 36.

Depreciation begins when the asset is made available for use. Depreciation ends when the asset is put up for sale or when it is removed from the report on the financial situation.

As part of its operations, the Group receives tangible fixed assets making up the energy infrastructure free of charge. Until 31 December 2009, tangible fixed assets received were measured at fair value as at the time of the initial recognition, and their value was recognized simultaneously at the settlement of income from tangible fixed assets received free of charge, which is subject to settlement at the appropriate time as depreciation of these tangible fixed assets. From 1 January 2010, tangible fixed assets of the energy infrastructure obtained free of charge are recognized on a one-off basis in other operating revenues at the time of their receipt.

Profits and losses from disposal of tangible fixed assets constituting differences between revenues from sales and the balance sheet value of the tangible fixed asset disposed of are presented in the profit or loss of the current period.

50.6. Perpetual usufruct of land

Land owned by the State Treasury, local governments or their associations, may be placed in perpetual usufruct (PULR). Perpetual usufruct is a special right in rem entitling the holder to use a real property to the exclusion of other persons and to dispose of this object (right).

Depending on the manner of rights acquisition, the Group makes the following classification:

1. PULR obtained free of charge by force of the law on the basis of a governor or local government unit decision – are treated as operational leasing.
2. PULR acquired against payment from third parties – are presented as PULR assets at the acquisition price less depreciation write-offs.
3. PULR acquired under a perpetual usufruct of land agreement concluded with the State Treasury or local government units – are recognised as the surplus of the first fee over the annual fee and presented as a PULR asset and depreciated.

Depreciation of the right of perpetual usufruct of law takes place over the period for which this right has been afforded (between 40 and 99 years).

50.7. Intangible assets

(a) Goodwill

The goodwill arising upon the acquisition results from the occurrence of the surplus of the sum of the transferred payment, the value of non-controlling interests and the fair value of previously held shares in the acquired entity over the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities of the entity recognized as at the acquisition date.

In the event of a negative goodwill, the Group reviews again the fair value of particular components of the net assets acquired. If as a result of the review the goodwill is still negative, it is recognized immediately in the profit or loss of the current period.

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

For the purposes of impairment testing, goodwill is allocated to individual Group's cash-flow generating units, which should benefit from the synergies resulting from the merger. Cash-generating units to which goodwill is allocated are tested for impairment annually or more frequently if it is probable that impairment has occurred. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first in order to reduce the carrying amount of goodwill allocated to this unit, and then to the remaining assets of this unit in proportion to the carrying amount of individual assets of that unit. Loss due to impairment recognized for goodwill is not reversed in the next period.

(b) Geological information

Purchased geological information is recognized in accordance with IFRS 6 "Exploration for and evaluation of mineral resources" at the value resulting from the contract concluded with the Ministry of the Environment. It is not subject to depreciation until a mining concession has been obtained. Then, the capitalized costs are written off for the entire duration of the mining concession.

(c) Fees

The fee for establishing a mining usufruct for the purpose of extracting hard coal from the "Bogdanka" deposit is activated in the amount of the fee incurred. Capitalized costs are written off over the estimated period of mining usufruct.

(d) Other intangible assets

Other intangible assets include computer software, licenses, and other intangible assets. Intangible assets are measured at the purchase price or production cost less accumulated depreciation and accumulated impairment allowances.

Depreciation is calculated using the straight-line method, according to the estimated useful life, which is:

- server licenses and software 2 - 10 years,
- work stations licenses and software and anti-virus programs 2 - 10 years
- geological information throughout the term of the mining concession,
- other intangible assets 2 - 40 years.

Every year, the Group verifies the correctness of the determined period of use of intangible assets. Each change in the depreciation period requires justification and results in an adjustment of depreciation write-offs made in subsequent years.

At each reporting day ending the financial year, an assessment of the occurrence of premises indicating the possible impairment of intangible assets is carried out. If it is determined that such premises exist, an impairment test is performed in accordance with IAS 36.

50.8. Research and development expenses

Research expenses are recognized in the profit or loss in the period in which they are incurred.

Research and development expenses that meet the criteria for their capitalization, described below, like other intangible assets, are valued at purchase price or production cost less accumulated depreciation and accumulated impairment allowances. Depreciation is calculated using the straight-line method according to the estimated useful life, which is 2-7 years.

Capitalisation criteria:

- the possibility, from a technical point of view, of completing an intangible asset so that it can be used or sold,
- the intention to complete an intangible asset and its use or sale,
- the ability to use or sell an intangible asset,
- the way in which an intangible asset will generate probable future economic benefits. Among others, an enterprise should prove the existence of a market for products arising from an intangible asset or for the component itself or - if the asset is to be used by the entity - the usefulness of an intangible asset,
- availability of appropriate technical, financial and other means to complete the development and use or sale of an intangible asset,
- the possibility to reliably determine the expenditures incurred during development work that can be assigned to this component of intangible assets.

50.9. Borrowing cost

Borrowing costs that can be directly assigned, i.e. costs that could be avoided if no expenditure was made for the acquisition, construction or production of an asset, are capitalized as part of the purchase price or production cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Activation of borrowing costs begins at the later of the following two dates: start of investment or start of financing. Activation ends when all relevant work is completed.

50.10. Leasing

A lease agreement, under which substantially all risk and all benefits of ownership are vested in the Group, is classified as a financial lease. Leasing other than financial leasing is considered operational lease.

The financial lease item is recognized under assets as of the commencement of the lease at the lower of the two amounts: the fair value of the leased item or the present value of the minimum lease payments. Each financial leasing fee is divided into the amount decreasing the liability balance and the amount of financial costs in such a way as to maintain a fixed interest rate in relation to the outstanding part of the liability. The interest element of the leasing instalment is recognized in financial costs in the profit and loss account of the current period over the lease term in such a way as to obtain a constant periodic interest rate for each period in relation to the outstanding portion

of the liability. Depreciable assets acquired under financial leasing are depreciated over the useful life of the assets.

Leasing fees paid under operational leases (net of any special promotional offers obtained from the lessor) are recognized in costs using the straight-line method over the lease term.

50.11. Impairment of assets

The Group's assets are analysed for impairment whenever there are indications that an asset could be depreciated and annually for goodwill.

Non-financial assets

An impairment loss is recognized in the amount by which the carrying amount of a given asset exceeds its recoverable amount. The recoverable value is determined as the higher of two amounts: fair value less costs of sale or utility value (i.e. the current estimated value of future cash flows expected to be obtained from the continued use of an asset or a cash-generating unit). For the purpose of impairment analysis, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

All impairment allowances are charged to profit or loss. Impairment allowances may be reversed in subsequent periods (with the exception of goodwill write-offs) if events occurred justifying the lack of or a change in the impairment of assets.

Financial assets

Financial assets are analysed at the end of each reporting period in order to determine whether there are any indications of impairment of these assets. It is recognized that the assets have been impaired if there are objective indications that one or more events had a negative impact on the estimated future cash flows from this asset.

Individual financial instruments that are significant in terms of value are assessed individually in terms of impairment. Other financial assets are divided into groups with a similar level of credit risk to assess impairment.

The principles for making impairment allowances on financial assets are described in detail in Note 51.13.

50.12. Investment property

Investment property is maintained in order to obtain rental income, increase their value or for both reasons. For the valuation after the initial recognition, the Group chose the purchase price model.

Investments in real estate are depreciated using the straight-line method. Depreciation begins next month after accepting investment in real estate for use. The estimated period of use is as follows:

Buildings	25 – 35 years
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Revenues from the lease of investment real estate are recognized in the profit or loss using the straight-line method

over the term of the contract.

50.13. Financial assets

The Group classifies financial instruments into the following categories: financial assets measured at fair value through profit or loss, loans and receivables, financial assets held to maturity and financial assets available for sale.

The classification is based on the criterion of the investment acquisition objective. The classification is made at the moment of initial recognition and then reviewed at the end of each reporting period if required or permitted by IAS 39.

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

This category includes two sub-categories:

- financial assets intended for trading; a financial asset is classified into this category, if it was acquired primarily for the purpose of being sold in the short term, it is part of a portfolio of specific financial instruments managed together and for which there is a probability of obtaining a profit in the short term, or is a derivative that does not constitute a hedging instrument,
- financial assets designated at their initial recognition as measured at fair value through profit or loss.

Assets in this category are classified as current assets if they are intended for trading or are expected to be realised within 12 months from the reporting date.

Financial assets measured at fair value through profit or loss are measured at fair value taking into account their market value as at the reporting date without taking into account the costs of the sale transaction. Changes in the value of these financial instruments are recognized in the profit or loss as financial revenues or costs. If the contract contains one or more embedded derivatives, the entire contract may be classified as a financial asset measured at fair value through profit or loss. This does not apply to cases where the embedded derivative does not have a material effect on cash flows from the contract or where separation of embedded instruments is expressly prohibited.

(b) Borrowings and receivables

Borrowings and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They usually arise when the Group spends cash, delivers goods or services directly to the debtor, without the intention to classify these receivables as intended for trading.

Borrowings and receivables are classified as current assets, provided their maturity does not exceed 12 months from the balance sheet date. Borrowings and receivables with maturities exceeding 12 months from the balance sheet date are classified as fixed assets. Borrowings and receivables are disclosed in the financial statements under "trade receivables and other receivables". Borrowings and receivables are recognized at depreciated cost.

(c) Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group intends and is able to hold to maturity, other than:

- designated by the Group at the initial recognition as measured at fair value through profit or loss,
- designated by the Group as available for sale and
- meeting the definition of borrowings and receivables.

Financial assets held to maturity are measured at depreciated cost using the effective interest rate method.

If there is evidence indicating an impairment of borrowings and receivables or held-to-maturity investments measured at depreciated cost, the impairment allowance is determined as the difference between the carrying value of assets and the present value of estimated future cash flows discounted with the original effective interest rate for these assets (i.e. the effective interest rate calculated as at the time of the initial recognition for the assets based on a fixed interest rate and the effective interest rate set at the moment of the last revaluation for assets based on a variable interest rate). The impairment allowance is recognized in the profit or loss. Reversal of an impairment allowance is recognized if in subsequent periods the impairment is reduced and this decrease can be attributed to events occurring after the impairment was recognized. As a result of the reversal of the allowance, the carrying amount of financial assets cannot exceed the amount of the depreciated cost that would have been determined if no impairment allowance had been previously recognized. The reversal of an allowance is recognized in the profit or loss.

(d) Financial assets available for sale

Available-for-sale financial assets are non-derivative financial instruments designated as "available-for-sale" or not classified into any of the other categories. This category includes shares and stocks in unrelated entities. Available-for-sale financial assets are classified as non-current assets unless the Group intends to dispose of the investment within 12 months from the end of the reporting period.

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

Financial assets are derecognized from the books of account when the rights to receive cash flows on their account have expired or these rights have been transferred and the Group has transferred substantially all the risks and rewards of their ownership.

Financial assets available for sale and financial assets measured at fair value through profit or loss are measured at fair value after initial recognition. If it is not possible to determine their fair value and if they do not have a fixed maturity date financial assets available for sale are measured at cost less impairment allowances. Financial assets held to maturity are measured at depreciated cost using the effective interest rate.

The effects of the measurement of financial assets at fair value through profit or loss are recognized in the profit or loss in the period in which they arise. The effects of the valuation of financial assets available for sale are recognized

in other comprehensive income, except for impairment allowances and those profits and losses due to exchange rate differences that arise for monetary assets. At the moment of removing from the books of account an asset classified as "available for sale", the total current profits and losses previously recognized in other comprehensive income are recognized in the profit or loss of the current period.

The fair value of investments for which there is an active market results from their current purchase price. If there is no active market for financial assets (or if securities are unquoted), the Group establishes fair value using appropriate valuation techniques that include the use of recent transactions under normal market conditions, comparison to other instruments that are essentially identical, discounted cash flows analysis, option pricing models and other valuation techniques / models commonly used in the market, tailored to the specific situation of the issuer.

If there are indications of impairment of unquoted equity instruments that are measured at the purchase price (due to the inability to reliably determine the fair value), the impairment allowance is determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted using the current market rate of return for similar financial assets. Such allowances are not reversed.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets has been impaired.

If such evidence exists for available-for-sale financial assets, the total current losses recognized in equity - determined as the difference between the purchase price and the current fair value, less any impairment losses previously recognized in the profit or loss - are excluded from equity and presented in profits or losses. Impairment losses recognized in the profit or loss and relating to equity instruments are not reversed in correspondence with profits or losses. The reversal of the impairment loss on debt financial instruments is recognized in profits or losses, if in subsequent periods after the impairment was recognized, the fair value of these financial instruments increased as a result of events occurring after recognition of the impairment allowance.

(e) Hedge accounting and derivative instruments

Derivative instruments used by the Group to hedge against the risks related to changes in interest rates and foreign exchange rates are measured at fair value. Derivative instruments are shown as assets when their value is positive and as liabilities - when their value is negative.

The fair value of currency contracts is determined by reference to current forward rates on contracts with the same maturity or on the basis of the valuation obtained from financial institutions. The fair value of Interest Rate Swap contracts can be determined based on the valuation received from independent financial institutions.

The Group applies hedge accounting to a part of the hedged exposure.

The Group defines certain hedges of the foreign exchange risk, including derivative instruments, embedded derivatives and other instruments as fair value hedges or cash flows hedges. The hedges of the exchange rate risk with respect to probable future liabilities are settled as cash flow hedges.

At the start of the hedging relationship, the Group documents this relationship between the hedging instrument and the hedged item and the risk management objectives as well as the strategy for the execution of various hedging transactions.

Derivative instruments are recognized in accordance with the principles of fair value hedge accounting or cash flow hedge if the following conditions are met simultaneously:

- at the establishment of the hedge, the hedging relationship, as well as the Group's risk management objective and hedging strategy were officially designated and documented,
- the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, in line with the originally documented risk management strategy for that particular hedging relationship,
- in the case of cash flow hedges, the planned transaction being the object of the hedge must be highly probable and must be subject to the risk of changes in cash flows, which as a result may affect the financial result,
- the effectiveness of the hedge can be reliably assessed,
- the hedge is assessed on an ongoing basis and its high effectiveness is stated in all reporting periods for which the hedge was established.

In the event of applying fair value hedge accounting, the Group:

- recognizes profits or losses resulting from revaluation of the fair value of the derivative hedging instrument in the profit/loss and
- adjusts the book value of the hedged item by the profit or loss related to the hedged item resulting from the risk being hedged and recognizes it in the profit or loss of the current period (also in relation to available-for-sale financial assets whose valuation effects are recognized in revaluation capital).

The Group ceases to apply fair value hedge accounting principles if:

- the hedging instrument expires, is sold, terminated or executed,
- the hedge no longer meets the criteria for hedge accounting or
- the Group cancels the hedging relationship.

Cash flow hedge is a hedge against a threat of cash flow volatility, which can be attributed to a specific risk associated with a recognized asset or liability or a highly probable planned transaction and which could affect the financial result. A planned transaction is a non-binding but anticipated future transaction.

When using cash flow hedge accounting, the Group:

- recognises the effective part of changes in the fair value of derivatives designated as cash flow hedges in revaluation capital,
- recognises the profit or loss related to the ineffective part in the financial result for the current period.

If the hedged planned transaction results in the recognition of a financial asset or financial liability, the related profit or loss that was included in the revaluation capital is transferred to the profit or loss in the same period or periods in which the acquired asset or liability affects the financial result. However, if the Group expects that all or some of the losses recognized in the revaluation capital will not be recovered in one or more future periods, it recognizes in the financial result the amount that is not expected to be recovered.

If the hedging of the planned transaction results in the recognition of a non-financial asset or non-financial liability or a planned transaction involving a non-financial asset or a non-financial liability becomes a probable future liability

to which fair value hedging applies, the Group excludes the related profit or loss that was recognized in the revaluation capital and incorporates it into the initial cost of acquisition or into another carrying amount of an asset or liability.

The Group ceases to apply cash flow hedge accounting if the hedging instrument expires, is sold, terminated or realized or does not meet the criteria for hedge accounting. In this situation, the cumulative profit or loss on the hedging instrument included in the revaluation reserve capital remains in them until the hedged transaction is executed. If the hedged transaction is not carried out, the cumulative net result included in the revaluation capital is transferred immediately to the profit or loss.

In addition, the Group documents the effectiveness with which the hedging instrument offsets changes in the fair value or cash flows of the hedged item, both at the time of the creation of the link and on a regular basis in subsequent periods.

50.14. CO2 emission allowances

CO2 emission allowances granted free of charge as part of the National Allocation Plan and additional CO2 emission allowances purchased for redemption, i.e. fulfilment of the obligation to account for CO2 emissions, are recognized as short-term intangible assets that are not subject to depreciation but are analysed for impairment and they are recognized in a separate item in current assets.

CO2 emission allowances granted free of charge for a given financial year are recognized at their nominal value, i.e. zero value. Any additional CO2 emission allowances purchased are recognized at the purchase price reduced by possible impairment allowances.

Records of CO2 emission allowances are kept in the following groups of rights:

- green certificates (CER),
- EUAs received free of charge and purchased.

In the above-mentioned groups, expenditures are accounted using the first-in, first-out method ("FIFO").

In connection with the CO2 emission, which accompanies the production of electricity, the Group is obliged to settle it by presenting a specified number of CO2 emission allowances to be redeemed. The costs associated with the fulfilment of the above obligations are recognized in the books of account systematically during the annual reporting period in proportion to the actual and planned production of electricity.

A provision is created against the costs of core operations for the estimated CO2 emission in the reporting period. The amount of the provision, recognized in the liabilities of the financial statements, is determined in accordance with the following principles:

- the amount for which the provision is created is the most appropriate estimation of the outlays necessary to fulfil the current obligation as at the reporting date settled in annual periods
- in the first place, the provision is created on the basis of the value of the allowances held as at the reporting date,

- if the demand for allowances is not covered by the number of owned or due allowances, a provision is created for the amount of uncovered estimated emission based on purchase prices of allowances specified in concluded forward contracts (if the delivery date was established before the date of the actual settlement of the obligation, i.e. redemption of allowances),
- if the demand for the allowances is not met by the number of emission allowances presented in the financial statements and term allowances, a provision based on market quotes (Bluenext) is created for the volume of not covered estimated emission as at the reporting date.

The liability (provision) due to CO₂ emissions is settled by way of redemption of the allowances.

Revenues from sales and the value of CO₂ emission allowances sold are recognized in operating revenues and costs, respectively.

The value of the allowances sold is determined in accordance with the FIFO method in a given group of allowances:

- green certificates (CER),
- EUA free of charge and purchased.

50.15. Inventories

The components of inventories are measured at the acquisition price, which consists of the purchase price increased by the costs incurred for their purchase, i.e. in particular transport costs to the place of storage or at the production cost not higher than the net sale price.

Inventory consumption is determined:

- using the weighted average purchase price, or
- using the method of detailed identification of the actual prices (costs) of those assets that relate to well-defined projects, regardless of the date of their purchase or manufacture.

Inventories presented by the Group consist of energy origin certificates acquired for redemption, acquired for the purpose of re-sale, and created by the Group.

Certificates of origin of energy are a confirmation of energy production in a renewable energy source (energy coming from, e.g. wind, water, sun, biomass - so-called green certificates, energy from agricultural biogas - so-called blue certificates) or energy generated in cogeneration (from three types of sources, i.e. gas sources or sources with a capacity of less than 1 MW - so-called yellow certificates, sources with a capacity above 1 MW other than those fired with gaseous fuels, methane and gas from biomass processing - so-called red certificates and gas-fired sources obtained from biomass processing or methane released in the process of methane removal from mines - so-called purple certificates). They are issued by the President of the Energy Regulatory Office at the request of an energy company involved in the production of energy in renewable sources and cogeneration.

Energy efficiency certificates, i.e. white certificates, are a confirmation of the declared energy savings resulting from the undertakings aimed at improving energy efficiency in three areas, i.e. increasing energy savings by end users,

increasing energy savings by energy producers' own devices operated for own needs and reducing losses of electricity, heat or natural gas in transmission and distribution. For the aforementioned categories of undertakings, tenders for the so-called white certificates are held. The certificates are issued by the President of the Energy Regulatory Office at the request of the entity that won the tendering procedure.

Property rights arising from energy certificates and energy efficiency certificates are established when energy certificates of origin and energy efficiency certificates are registered in the registers maintained by Towarowa Giełda Energii S.A. (TGE S.A.). These rights are transferable and constitute a commodity. The transfer of rights takes place at the moment of making an appropriate entry in the register of certificates of energy origin or in the register of energy efficiency certificates. Property rights expire upon redemption.

Acquired certificates of origin are valued at the purchase price less any impairment allowances.

Certificates of origin of energy generated in house are recognized at the moment of generating energy (or on the day on which obtaining the certificates became probable) unless there is justified doubt as to the possibility of their issuance by the President of the Energy Regulatory Office. Certificates are recognized as inventory and measured at market prices in force on the last day of the month in which energy was generated.

Pursuant to the provisions of the Energy Law Act and the Energy Efficiency Act, an energy undertaking dealing in energy trading and selling this energy to end users shall be obliged to:

- a) obtain energy certificates and energy efficiency certificates and present them to the President of the Energy Regulatory Office for redemption, or
- b) pay the substitution fee.

The Group is obligated to obtain and present for redemption:

- a) certificates of origin of energy corresponding to the amounts set in the regulations enacted on the basis of the Energy Law as a percentage of total energy sales to end consumers,
- b) energy efficiency certificates with a value expressed in tonnes of oil equivalent [toe], no more than 3% of the amount of revenue from the sale of electricity to end users, achieved for a given year in which this obligation is met and a single substitution fee. The amount of revenue from the sale of electricity to end users achieved for a given accounting year is reduced by the amounts and costs referred to in Article 12 section 4 of the Energy Efficiency Act. The amount of the obligation in individual accounting years is determined in a regulation enacted on the basis of the Energy Efficiency Act.

The deadline for fulfilling the obligation to redeem certificates of energy origin and energy efficiency certificates or to pay the substitution fees for a given year expires on the dates resulting from the applicable provisions of the energy efficiency law.

The Group presents certificates of energy origin and energy efficiency certificates to the President of the Energy Regulatory Office for redemption, on a monthly basis, in order to fulfil the obligation for a given financial year. In the books of account, redemption of energy origin certificates and energy efficiency certificates is recognised on the basis of the redemption decision issued by the President of the Energy Regulatory Office, the redeemed certificates being subject to detailed identification.

In the absence of a sufficient number of certificates required to fulfil the obligations imposed by the Energy Law and

the Energy Efficiency Act as at the reporting date, the Group creates provisions for redemption of certificates of energy origin and energy efficiency certificates or for payment of the substitution fees.

50.16. Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash at bank, bank deposits payable on demand and other short-term

investments with the original maturity of up to three months and with high liquidity. Cash is measured at the end of the reporting period in the nominal value.

50.17. Share capital

The share capital of the Capital Group is the share capital of the parent company disclosed in the amount specified and entered in the court register, adjusted accordingly for the effects of hyperinflation and settlement of the effects of the separation, merger, and acquisition of companies. An increase in the share capital, which was covered at the end of the reporting period and which is awaiting registration in the National Court Register, is also presented as the share capital.

50.18. Loans, borrowings and debt securities

Financial liabilities are initially recognized at fair value less transaction costs incurred.

After initial recognition, financial liabilities due to loans, borrowings and debt securities are measured at depreciated cost using the effective interest rate. When determining the depreciated cost, the costs related to obtaining a credit or a loan as well as discounts or bonuses obtained in connection with the liability are taken into account.

50.19. Income tax (including deferred income tax)

Income tax presented in the statement of profit and loss and other comprehensive income consists of the current tax and deferred tax.

The current tax liability is calculated based on the taxable profit (tax base) for a given reporting period. Taxable profit/loss is different from the accounting net profit/loss due to the exclusion of taxable income and expenses that are deductible in subsequent years, as well as cost and revenue items that will never be subject to tax. Tax liabilities are calculated based on tax rates applicable in a given reporting period.

Deferred tax is the tax result of events in a given period, recognized in accordance with the accrual basis in the books of account of that period, but realized in the future. It arises when the tax effect of revenues and costs is the same as the balance sheet one, but occurs in other periods.

50.20. Employee benefits

There are the following types of employee benefits in the Capital Group:

A. Short-term employee benefits

Short-term employee benefits in the Group include, among others: monthly salaries, annual bonus payments, reduced payment for energy purchase, short-term paid leave of absence with social insurance contributions due, the Energy Sector Day award and liabilities resulting from the Voluntary Redundancies Programme.

Liabilities due to short-term (accumulated) paid leave (remuneration for unused holidays) are recognized even if paid leave does not entitle the employee to a cash equivalent.

The Group determines the expected cost of accumulated paid leave as an additional amount that it is expected to pay as a result of unused entitlement established as at the balance sheet date.

B. Defined benefit schemes

The defined benefit schemes of the Group include:

1) Retirement benefits

Employees who retire are entitled to receive retirement benefits in the form of cash. The amount of these benefits depends on the length of service and the amount of remuneration received by the employee. Actuarial methods are used to estimate liabilities in this respect.

2) Right to a reduced electricity price after retirement

Retiring employees who have worked for at least one year in the Group have the right to a reduced payment for the purchase of energy. Pensioners have the right to a monetary equivalent of 3,000 kWh x 80% of the electricity price and the variable component of the transmission charge as well as 100% of the fixed network charge and subscription charge according to the single-zone tariff generally applicable to households. The cash equivalent is paid out twice a year, in an amount representing half of the annual equivalent each time. The value of the equivalent is adjusted by the increase in the price of electricity according to the tariff generally applicable to households in the year preceding the payment.

This right passes on to the spouse of the deceased employee, provided the spouse receives a family pension.

3) Contribution to the Company Social Benefits Fund for pensioners covered by welfare provided by the Group

The contribution to the Company Social Benefits Fund for pensioners covered by welfare provided by the Group is made in the amount resulting from legal regulations in force.

Employee benefits are recognized in the financial statements in liabilities due to employee benefits and the change in provisions is presented in the profit and loss account and other comprehensive income.

4) Coal allowances

Former employees of Lubelski Węgiel Bogdanka S.A., whose contracts of employment have been terminated due to old age or disability retirement, or their spouses or close relatives, are entitled to an annual coal allowance. The Projected Unit Credit method requires that as at the reporting date provisions be also created with regard to the current employees of the Company, however only with regard to the amount of the aforementioned cash equivalent that will be paid as of the date of death or of the old age/ disability retirement.

The estimation of liabilities on account of these benefits referred to in items 1-4, is made by the actuary using the "Projected Unit Credit Method" method. Actuarial profits and losses are fully recognized in other comprehensive income.

C. Other long-term employee benefits***Jubilee bonuses***

Other long-term employee benefits include jubilee bonuses. The amount of these bonuses depends on the length of service and the amount of remuneration received by the employee. Actuarial methods are used to estimate liabilities in this respect. Actuarial profits and losses are recognized in full in the profit or loss of the current period.

D. Defined contributions programme**1) Social insurance contributions**

The social insurance system operates on the basis of a state programme, according to which the Group is obliged to pay social security contributions for employees when they become due. The Group is not required either legally or customarily to pay future social security benefits. The Group recognizes the cost of contributions concerning the current period in the profit or loss of the current period as the cost of employee benefits.

2) Employee Pension Scheme

Pursuant to Appendix to the Collective Labour Agreement, the 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 labour unions.

The Employee Pension Scheme is available to all employees of the 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:

- insurance is concluded in the form of group life assurance with insurance protection,
- the basic premium is set at 7% of the participant's remuneration,
- 90% of the basic premium goes to the investment premium and 10% towards insurance protection.

The Group recognizes the cost of premiums under the Employee Pension Scheme for the current period in the profit or loss as the cost of employee benefits.

E. Payments in shares

The fair value of the shares purchase options granted is recognized as costs due to remuneration in correspondence with the increase in equity. Fair value is determined as at the date of award of the option to purchase shares by employees and spread over the period during which employees will unconditionally acquire the right to exercise their options (due to the fact that the fair value of employee benefits cannot be directly assessed, their value is determined based on the fair value of the equity instruments granted). The amount charged into costs is adjusted to reflect the current number of options granted, for which the work conditions and non-market conditions for the acquisition of rights are met.

50.21. Provisions

Provisions are created when the Group's companies are under a present obligation (legal or customary) resulting from past events and it is probable that the fulfilment of this obligation will result in the necessity to disburse resources embodying economic benefits and a reliable estimate of the amount of this obligation can be made. The amount for which the provision is created is the most appropriate estimate of the outlays necessary to fulfil the current obligation, discounted as at the balance sheet date.

The use of a previously created provision for certain or highly probable future liabilities is recognized when the liabilities arise to decrease the provision. Unused provisions, if the risk justifying their creation decreases or ceases, increase financial revenues or other operating revenues, respectively.

The Group also creates provisions for pre-litigation claims filed by owners of properties where distribution networks and equipment are located, as well as other potential claims related to the foundation of the Group's grid assets on properties to which the Group has no legal title. The estimation of the value of claims covers the potential payment of compensation for the so-called non-contractual use of land or rent and is performed by technical services.

Provision for certificates of energy origin and energy efficiency certificates

The Group creates provisions for certificates of energy origin and energy efficiency certificates or for payment of the substitution fees.

The basis for determining the provisions for the redemption of certificates of energy origin for each item is the number of certificates that constitutes the difference between the number of certificates required for redemption

in accordance with the Energy Law and the number of certificates redeemed as at a given reporting day.

The basis for determining the provisions for the redemption of energy efficiency certificates is the number of certificates expressed in tonnes of oil equivalent which is the difference between the number of certificates required for redemption in accordance with the Energy Efficiency Act and the number of certificates redeemed as at the reporting date.

The provision is valued:

1. in the first place on the basis of the purchase price for energy efficiency certificates held but not redeemed as at the balance sheet date,
2. in the second place on the basis of the purchase price resulting from the contracts of sale concluded by the Group, as regards the part of the certificates that the Group intends to receive in the first place,
3. in the third place, on the basis of the weighted average price in session transactions concluded on the Property Rights Market maintained by Towarowa Giełda Energii S.A. during the month in which the reporting day on which the value of the provision is determined falls,
4. and in the absence of these transactions or in the event of a shortage in the market preventing the Group from purchasing the sufficient number of rights required for the fulfilment of the obligation, the outstanding provision is valued on the basis of the one-off substitution fee payable in a given financial year.

Provision for the decommissioning of a mine

The provision for future costs related to the decommissioning of a mining plant is established on the basis of obligations under the "Geological and Mining Law" imposing on the mining company the obligation to liquidate mining plants after the end of operation, in the amount of anticipated costs related to:

- securing or liquidation of mining excavations as well as facilities and equipment of the mining plant;
- securing the unused part of the mineral deposit;
- securing neighbouring mineral deposits;
- securing excavations of neighbouring mining plants;
- undertaking the necessary measures to protect the environment and reclaim the land and develop areas affected by past mining activities.

The costs of mine decommissioning are calculated by an independent consulting firm using historical data concerning mine decommissioning costs in the coal mining sector in Poland.

50.22. Revenue recognition

Sales revenues are recognized at the fair value of the consideration received or due, net of the goods and services tax, rebates, and discounts.

Revenues from the sale of energy and distribution services are recognized at the moment of energy delivery. For the purpose of determining the amount of revenues for the period between the last invoicing date and the balance sheet date, an estimate of revenues is made, which is shown in the statements of financial position under trade and other receivables.

Revenues from the sale of certificates of origin of energy acquired for resale are presented in accordance with the rules described in 51.15.

Revenues from the sale of products, goods, and materials are recognized when the entity has transferred significant risks and benefits of ownership of products, goods, and materials and is likely to obtain economic benefits from transactions.

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 recognised 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 where the connections were commissioned after 1 January 2010, are recognized in 100% directly as revenues, in accordance with IFRIC 18, introduced from 1 January 2010 by the International Financial Reporting Interpretations Committee.

Revenues from the lease of investment real estate are recognized in the profit or loss using the straight-line method over the term of the contract.

Interest income is recognized on an accrual basis using the effective interest rate.

Dividend revenue is recognized when the right to receive payment is acquired.

50.23. Assets received free of charge and subsidies

The Group receives tangible fixed assets of energy infrastructure free of charge. Until 31 December 2009, such assets were recognized as tangible fixed assets, and their equivalent was recognized in the financial statements as deferred income, settled over time in the profit or loss proportionally to the depreciation costs charged on the tangible fixed assets received. Revenues from tangible fixed assets of the energy infrastructure received free of charge after 1 January 2010 are recognized on a one-off basis at the time of receipt of these assets in revenues in the profit or loss of the period.

Subsidies (other tangible fixed assets, reimbursements of expenses incurred on fixed assets) are recognized in the financial statements as deferred income if there is a sufficient certainty of their receipt and the Group meets the conditions related to them. Subsidies received as a reimbursement of costs already incurred by the Group are systematically recognized as revenue in the profit or loss in periods in which related costs are incurred. Subsidies

received as reimbursement of investment expenditures incurred by the Group are systematically recognised as other operating revenue in the profit or loss for the useful life of the asset, in proportion to depreciation write-offs.

50.24. Connection fees

Revenues 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, these fees are presented as long-term liabilities. At the end of each reporting period, the fees up to 1 year are reclassified to short-term liabilities.

Advances on the connection fees received by the Group by 31 December 2009, concerning connections commissioned after 1 January 2010, are presented on a one-off basis in revenues.

50.25. Dividend payment

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

50.26. Non-current assets held for sale

Non-current assets intended for sale are assets that meet the following criteria:

- their carrying amount will be recovered through sales transactions and not through further use;
- the Management Board of the Company submitted a sales declaration and an active search for a potential buyer was initiated;
- assets are available for immediate sale in their current condition;
- the sale transaction is highly probable and it can be settled within 12 months of making the decision;
- the selling price is reasonable in relation to the current fair value;
- there is a low probability of introducing changes to the plan for the sale of these assets.

If the criteria are met after the end of the reporting period, the classification of assets at the end of the financial year preceding the event is not changed. The change in classification is reflected in the reporting period in which the criteria have been met. When the asset is designated for disposal, depreciation is discontinued.

Assets held for sale are valued at the lower of two values: the net carrying amount or fair value less costs of sale.

50.27. Statement regarding the new standards and interpretation of the International Financial Reporting Standards

The following new Standards, amendments to Standards and Interpretations have not been adopted by the EU or are not yet effective for annual periods ending on 31 December 2017 and have not been applied in the consolidated financial statements:

- IFRS 15 Revenue from contracts with customers - for periods beginning on 1 January 2018,
- Amendments to IFRS 15 Revenue from contracts with customers - for periods beginning on 1 January 2018,
- IFRS 9 Financial Instruments - for periods beginning on 1 January 2018,
- Amendments to IFRS 9 Financial Instruments - for periods beginning on 1 January 2019,
- IFRS 16 Leases - for periods beginning on 1 January 2019,
- IFRS 14 Regulatory prepayments and accruals - for periods beginning on 1 January 2016 - the European Commission has decided not to approve this interim Standard pending the Standard proper,
- Sale or Transfer of Assets between the Investor and the Associated Company or Joint Undertaking (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Associates) - for periods beginning on 1 January 2016 - The European Commission has decided to postpone the approval of these amendments indefinitely,
- Amendments to IFRS 2 Share-based Payments - for periods beginning on 1 January 2018,
- Amendments to International Financial Reporting Standards 2014-2016 - for periods beginning on 1 January 2018 (except for amendments to IFRS 12 that are effective in relation to annual periods starting on 1 January 2017 or later),
- IFRIC 22 Foreign Currency Transactions and Advances - for periods beginning on 1 January 2018,
- Amendments to IAS 40 Investment Property - for periods beginning on 1 January 2018.,
- IFRIC 23 Uncertainty Related to the Income Tax Approach - for periods beginning on 1 January 2019,
- Amendments to IAS 28 Investments in Associates and Joint Ventures - for periods beginning on 1 January 2019,
- Amendments to the International Financial Reporting Standards 2015-2017 - for periods beginning on 1 January 2019.

The Group intends to apply them to the periods in which they will be effective for the first time.

As of 1 January 2018, IFRS 9 Financial Instruments came into force. The published standard introduces new principles of classification and measurement of financial assets and financial liabilities, determination of impairment allowances on financial assets and hedge accounting. In connection with the entry into force of IFRS 9 and the resulting new classification of financial assets, the Group is considering a change in the presentation of financial assets in the consolidated financial statements and, respectively, financial liabilities. The analysis carried out for the purposes of applying IFRS 9 indicates that as at 1 January 2018, additional write-offs will be recognized amounting to PLN 5,610 thousand for trade receivables. A write-off will be introduced in correspondence with retained earnings. The Group will apply IFRS 9 retrospectively with the recognition of adjustments to its requirements as at 1 January 2018.

As of 1 January 2018, IFRS 15 Income from contracts with customers came into force. In accordance with the new Standard, the Group will use a five-stage model to determine the moment of recognition of revenues and their amount. The analysis conducted to determine the needs of applying IFRS 15 indicates significant differences between the requirements of this Standard and the current accounting practice when it comes to recognizing revenues from sales. The major changes anticipated by the Group are:

- recognition of revenues from the distribution network connection fees for projects completed until 31 December 2009 - until now they were recognized as deferred income and accounted for during the period of depreciation of the connections amounting to 35 years; revenues from connection fees settled so far over time will be recognized as an adjustment of the initial balance of retained earnings in the amount of approximately PLN 417,000 thousand. At the same time, from 2018, the Group will not show PLN 16,000 thousand in the consolidated income statement as an annual write-off;
- recognition of revenues from received cash or assets - similarly as in the case of the connection fees, assets received by 31 December 2009, will be recognized as an adjustment to the initial balance of retained earnings of approximately PLN 71,000 thousand and as of 2018, the Group will not show approximately PLN 5,500 thousand in the consolidated income statement as an annual write-off;
- the Group acting as an intermediary/agent:
 - in comprehensive agreements regarding sale of gaseous fuels to the extent of distribution services (as a result of netting, a reduction of sales revenues and corresponding costs by approximately PLN 29,000 thousand);
 - in electricity sale contracts to the extent of additional services (as a result of netting, a reduction of sales revenues and corresponding costs by approximately PLN 1,500 thousand);
 - in contracts for the provision of electricity distribution services with regard to the interim fee, the quality fee and the fee for renewable energy (as a result of netting, a reduction of sales revenues and corresponding costs by approximately PLN 630,000 thousand);
 - in contracts for the provision of coal transport services (as a result of netting, a reduction in sales revenues and corresponding costs by approximately PLN 8,500 thousand);

which will not change the consolidated financial result reported by the Group.

The Group will apply IFRS 15 retrospectively with the presentation of the total effect of the first application of this Standard as an adjustment to the initial balance of retained earnings in the annual reporting period in which the first application date falls.

As of 1 January 2019, IFRS 16 Leases enters into force. With regard to lessees, the new Standard eliminates the current distinction between financial and operational leases. The recognition of an operational lease in the consolidated statement of financial position will result in the recognition of a new asset - the right to use the leased asset - and a new liability - the liability to make a lease payment. The rights to use leased assets will be subject to amortisation, while interests will accrue on the liability. This will result in higher costs in the initial leasing phase, even if its parties have agreed on fixed annual fees. Recognition of lease agreements with the lessor will in most cases remain unchanged due to the retained division into operational and financial leases. Currently, the Group is reviewing Standard with an aim to determine the value of adjustments. The Group expects that upon initial recognition the

ENEA Capital Group

Consolidated financial statements prepared in accordance with IFRS-EU for the financial year ended on 31 December 2017

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

Standard will have a significant impact on its consolidated financial statements. The new standard will increase the balance sheet total, change the classification of costs in the profit and loss account and the presentation of cash flows. In the profit and loss account, expenses due to renting and leasing, recognized under the new regulation as a lease, will be replaced by depreciation costs and interest cost (similar to the current recognition of financial leasing in accordance with IAS 17). As a result, the lease cost will appear at an early stage of the contract, which will reduce the revenue and equity immediately after the initial recognition of the lease, which is now recognized as operational lease. The new requirements eliminate the concept of operational lease, and consequently the off-balance sheet recognition of assets used on this basis. All assets used and the corresponding liabilities to pay rent will be included in the statement of financial position. This will change the basis for calculating commonly used financial indicators, such as debt ratios or EBITDA. This will increase the comparability of data between companies, but it will also have an impact on covenants in loan agreements, credit ratings, financial costs and stakeholder perception of the company.

With respect to the other new Standards, amendments to Standards and Interpretations, the Group has not yet analysed their impact on its financial position and business results.