ENERGA SA

Financial statements prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union for the year ended 31 December 2016

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31 December 2016 (PLN millions)

STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Revenue		68	60
Cost of sales	**9.1**	(51)	(55)
Gross profit on sales		**17**	**5**
Other operating income		12	13
General and administrative expenses		(81)	(86)
Other operating expenses		(15)	(8)
Dividend income		874	914
Other financial income	**9.3**	224	233
Financial costs	**9.4**	(266)	(263)
Profit before tax		**765**	**808**
Income tax	**10.1, 10.2**	19	33
Net profit		**784**	**841**
Earnings per share (in PLN)			
Earnings per share (basic and diluted)	**18**	1.89	2.03

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Net profit		**784**	**841**
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedges	**23.8**	38	12
Deferred tax		(7)	(2)
Net other comprehensive income		**31**	**10**
Total comprehensive income		**815**	**851**

31 December 2016 (PLN millions)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2016	As at 31 December 2015
ASSETS			
Non-current assets			
Intangible assets	**12**	24	58
Shares in subsidiaries and associates	**11**	6,780	5,996
Bonds	**23.5.1**	3,959	4,621
Deferred tax assets	**10.4**	5	24
Derivative financial instruments	**23.8**	147	48
Other non-current assets	**14**	158	118
		11,073	**10,865**
Current assets			
Cash pooling receivables		577	-
Trade receivables and other current financial receivables	**15**	52	34
Bonds	**23.5.1**	1,243	781
Current tax receivables		102	37
Portfolio of financial assets		-	314
Cash and cash equivalents	**13**	1,295	474
Other current assets	**16**	38	38
		3,307	**1,678**
TOTAL ASSETS		**14,380**	**12,543**

31 December 2016 (PLN millions)

STATEMENT OF FINANCIAL POSITION (cont.)

	Note	As at 31 December 2016	As at 31 December 2015
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Share capital	**17.1**	4,522	4,522
Reserve capital	**17.4**	1,018	447
Supplementary capital	**17.5**	728	661
Cash flow hedge reserve	**23.8**	41	10
Retained earnings	**17.6**	828	885
Total equity		**7,137**	**6,525**
Non-current liabilities			
Loans and borrowings	**23.5.2**	4,673	4,582
Bonds issued	**23.5.2**	1,000	1,000
Non-current provisions		1	2
Deferred income and non-current grants	**21**	94	111
Derivative financial instruments		-	8
		5,768	**5,703**
Current liabilities			
Cash pooling liabilities		1,009	-
Trade and other financial liabilities	**20.1**	19	22
Current loans and borrowings	**23.5.2**	290	207
Bonds issued	**23.5.2**	20	16
Deferred income and grants	**21**	23	27
Accruals		12	9
Other current liabilities	**20.2**	102	34
		1,475	**315**
Total liabilities		**7,243**	**6,018**
TOTAL EQUITY AND LIABILITIES		**14,380**	**12,543**

31 December 2016 (PLN millions)

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total equity
As at 1 January 2016		**4,522**	**447**	**661**	**10**	**885**	**6,525**
Cash flow hedges	**23.8**	-	-	-	31	-	**31**
Net profit for the period		-	-	-	-	784	**784**
Total comprehensive income for the period		**-**	**-**	**-**	**31**	**784**	**815**
Retained earnings distribution		-	571	67	-	(638)	**-**
Dividends	**19**	-	-	-	-	(203)	**(203)**
As at 31 December 2016		**4,522**	**1,018**	**728**	**41**	**828**	**7,137**
As at 1 January 2015		**4,522**	**447**	**606**	**-**	**695**	**6,270**
Cash flow hedges	**23.8**	-	-	-	10	-	**10**
Net profit for the period		-	-	-	-	841	**841**
Total comprehensive income for the period		**-**	**-**	**-**	**10**	**841**	**851**
Retained earnings distribution		-	-	55	-	(55)	**-**
Dividends	**19**	-	-	-	-	(596)	**(596)**
As at 31 December 2015		**4,522**	**447**	**661**	**10**	**885**	**6,525**

31 December 2016 (PLN millions)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Profit before tax		**765**	**808**
Adjustments for:			
Foreign currency losses		9	3
Amortization and depreciation	**9.1**	5	5
Net interest and dividends		(839)	(879)
(Profit)/loss on investing activities		8	(1)
Changes in working capital:			
Change in receivables		(22)	(12)
Change in liabilities excluding loans, borrowings and bonds		290	110
Change in prepayments and accruals		(17)	27
		199	**61**
Income tax paid		**(221)**	**(87)**
Net cash from operating activities		**(22)**	**(26)**
Cash flows from investing activities			
Disposal of property, plant and equipment and intangible assets		7	-
Purchase of property, plant and equipment and intangible assets		(74)	(34)
Proceeds from bond redemption by subsidiaries		889	1,025
Purchase of bonds issued by subsidiaries		(850)	(1,486)
Acquisition of shares in subsidiaries		(521)	-
Sale of participation units in the ENERGA Trading SFIO fund		306	309
Dividends received		874	914
Interest received		106	185
Other		15	20
Net cash from investing activities		**752**	**933**
Cash flows from financing activities			
Proceeds from loans and borrowings		626	267
Repayment of loans and borrowings		(564)	(170)
Cash pooling proceeds		432	-
Dividends paid to shareholders		(203)	(596)
Interest paid		(203)	(210)
Net cash from financing activities		**88**	**(709)**
Net increase in cash and cash equivalents		**818**	**198**
Cash and cash equivalents at the beginning of the period		**475**	**277**
Cash and cash equivalents at the end of the period	**13**	**1,293**	**475**

31 December 2016 (PLN millions)

ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION

1. General information

Company information:

a) Name:	ENERGA Spółka Akcyjna
b) Legal form:	Spółka Akcyjna (joint stock company)
c) Registered office:	80-309 Gdańsk, al. Grunwaldzka 472
d) Registry court:	District Court Gdańsk-Północ, 7th Commercial Division of the National Court Register in Gdańsk, under number KRS 0000271591.
e) Core business:	holding activity
f) Company's duration:	unspecified

ENERGA SA was established on 6 December 2006 by the State Treasury, ENERGA-OPERATOR SA (previously Koncern Energetyczny ENERGA SA) and ENERGA Elektrownie Ostrołęka SA (previously Zespół Elektrowni Ostrołęka SA).

As at 31 December 2016, the Company was controlled by the State Treasury. Since December 2013, the Company's shares have been publicly traded.

The core business of ENERGA SA is holding activity. The Company acts as a parent in the ENERGA SA Group and accordingly it prepares the consolidated financial statements of the Group.

The annual consolidated financial statements of the Group was prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") endorsed in the European Union ("EU"). In order to achieve full understanding of the financial position and results of the Company as the parent entity in the Group, these financial statements should be read in conjunction with the annual consolidated financial statements for the period ended 31 December 2016. These statements are available on the Company's website.

2. Composition of the Company's Management Board

In the period from 1 to 3 January 2016, the Management Board of the Parent Company was as follows:

- Roman Pionkowski – President of the Management Board,
- Seweryn Kędra – Vice-President of the Management Board for Financial Matters

On 29 December 2015, the Company's Supervisory Board adopted a resolution to appoint as of 4 January 2016 the Company's Management Board for the 5th term of office comprised of:

- Dariusz Kaśków – President of the Management Board,
- Mariusz Rędaszka – Vice-President of the Management Board for Financial Matters,
- Roman Pionkowski – Vice-President of the Management Board for Development Strategy, dismissed as of 26 February 2016.

On 1 February 2016, the Company's Supervisory Board adopted a resolution to appoint Mr. Grzegorz Ksepko to the Company's Management Board as of 1 February 2016 to serve as the Vice-President of the Management Board for Corporate Matters.

On 19 March 2016, the Company's Supervisory Board adopted a resolution to appoint to the Company's Management Board as of 21 March 2016: Ms. Mariola Zmudzińska to serve as the Vice-President of the Management Board for Investor Relations and Mr. Przemysław Piesiewicz to serve as the Vice-President of the Management Board for Development Strategy.

On 17 January 2017, the Company's Supervisory Board adopted a resolution to delegate Mr. Jacek Kościelniak to act as the President of the Management Board. At the same time, Mr. Dariusz Kaśków, the previous President of the Management Board, Mr. Mariusz Rędaszka, the Vice-President of the Management Board for Financial Matters and Mr. Przemysław Piesiewicz, the Vice-President of the Management Board for Development Strategy, were dismissed from their functions.

On 10 February 2017, the Company's Supervisory Board adopted a resolution to appoint the following to the Management Board: Mr. Daniel Obajtek (as President of the Management Board), Ms. Alicja Klimiuk (as Vice-President of the Management Board for Operations), Mr. Jacek Kościelniak (as Vice-President of the Management Board for Financial Matters).

On 16 February 2017, the Company's Supervisory Board adopted a resolution to dismiss from the Company's Management Board Ms. Mariola Zmudzińska, who served as the Vice-President of the Management Board for Investor Relations.

3. Approval of the financial statements

These financial statements and the consolidated financial statements of the ENERGA SA Group were approved for publication by the Company's Management Board on 29 March 2017.

4. Basis for preparation of the financial statements

These financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives.

These financial statements have been prepared based on the assumption that ENERGA SA would continue as a going concern in the foreseeable future. As at the date of these financial statements there is no evidence indicating significant uncertainty as to the ability of the Company to continue its business activities as a going concern.

4.1. Statement of compliance

These financial statements have been prepared in accordance with the IFRS endorsed in the EU.

4. Basis for preparation of the financial statements (cont.)

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

4.2. Functional and presentation currency

The functional currency of the Company and other Polish subsidiaries and the presentation currency of these financial statements is the Polish zloty and all the numbers are given in millions of Polish zloty ("PLN m") unless stated otherwise.

5. Material items subject to judgment and estimates

In the process of applying the accounting policies, one of the most important factors next to accounting estimates was the professional judgment of the management, which affected the amounts stated in the consolidated financial statements, including the notes. The assumptions adopted for the purposes of those estimates are based on the best knowledge of the Management Board regarding the current and future actions and events in individual areas. Detailed information on the assumptions is presented in the relevant notes in these financial statements.

The key assumptions for the future and other main sources of uncertainty occurring as at the end of the reporting period, which entail a significant risk of considerable adjustment of the carrying amount of assets and liabilities in the next financial year, are presented below.

Impairment of assets

No less frequently than at the end of every reporting period, the Company determines whether there is any evidence of impairment of any non-current asset. If such evidence is found or when an annual impairment test must be carried out, the Company estimates the recoverable amount of such asset. The amount of the impairment loss on investments in subsidiaries and associates is presented in Note 11, while the impairment loss on other financial assets in Note 23.6.

Deferred tax asset

Deferred tax assets are measured using the tax rates that will be applied at the moment when the asset is utilized, based on the tax regulations in force at the end of the reporting period. ENERGA SA recognizes a deferred tax asset based on the assumption that tax profit would be recorded in the future, allowing the Group to use the asset. This assumption may prove to be unjustified if tax results deteriorate in the future. The calculation of deferred tax is presented in Note 10.4, while information on the ENERGA Tax Group is provided in Note 10.3.

Fair value of financial instruments

The fair value of financial instruments, for which no active markets exist, is measured by using appropriate valuation techniques. The Company uses professional judgment when selecting such adequate methods and assumptions. The method used to determine fair value of individual financial instruments is presented in Note 23.4.

6. Changes in estimates

During the periods covered by these financial statements, no changes were made in the scope or methods used in determining significant estimates. The changes in the amounts of the estimates resulted from events that occurred during the reporting period.

7. New standards and interpretations

7.1. Standards and interpretations adopted for the first time in 2016

The following amendments to the existing standards published by the IASB and endorsed in the EU came into force in 2016:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions - endorsed in the EU on 17 December 2015 (applicable to annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Annual Improvements to IFRS (2010-2012 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) aimed mainly at removing inconsistencies agreeing on the wording - endorsed in the EU on 17 December 2015 (applicable to annual periods beginning on or after 1 February 2015),
- Amendments to IFRS 11 "Joint Arrangements" (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Acceptable methods of depreciation and amortization (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture – Bearer Plants" (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements (applicable to annual periods beginning on or after 1 January 2016)
- Amendments to various standards "Annual Improvements to IFRS (2012-2015 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) aimed mainly at removing inconsistencies agreeing on the wording (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2016).

These amendments to the standards have had no significant impact on the Company's accounting policies applied so far.

7. New standards and interpretations (cont.)

7.2. Standards and interpretations already published and endorsed in the EU, which have not come into effect

When approving these financial statements, the Company did not apply the following standards, amendments to standards and interpretations that were published and endorsed in the EU but have not yet become effective:

- IFRS 15 “Revenue from Contracts with Customers” (applicable to annual periods beginning on or after 1 January 2018).
- IFRS 9 “Financial Instruments” (applicable to annual periods beginning on or after 1 January 2018),

The Company estimates that the above amendments to standards would have had no material influence on the financial statements, had they been applied by the Company as at the end of this reporting period, except for the methodology for calculating impairment losses recognized on financial assets.

7.3. Standards and interpretations adopted by the IASB but not yet endorsed in the EU

IFRS as endorsed in the EU do not currently differ from the regulations adopted by the IASB, with the exception of the following standards, amendments to standards and interpretations, which as at the date of approving these financial statements have not yet been adopted for application:

- IFRS 14 “Regulatory Deferral Accounts” (applicable to annual periods beginning on or after 1 January 2016),
- IFRS 16 “Leases” (applicable to annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sales or contributions of assets between an investor and its associate/joint venture (no effective date specified),
- Amendments to IAS 12 “Income Taxes” – Detailed regulation of the recognition of deferred tax assets for unrealized losses (applicable to annual periods beginning on or after 1 January 2017).
- Amendments to IAS 7 “Statement of Cash Flows” – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 2 “Share-based Payment” – Classification and Measurement of Share-based Payment Transactions (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 “Insurance Contracts” – Applying changes introduced by IFRS 9 “Financial Instruments” (applicable to annual periods beginning on or after 1 January 2018),
- Explanations for IFRS 15 “Revenue from Contracts with Customers” (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IAS 40 “Investment Property” – Transfers of Investment Property to other asset groups (applicable to annual periods beginning on or after 1 January 2018),
- IFRIC 22 interpretation: “Foreign Currency Transactions and Advance Consideration” (applicable to annual periods beginning on or after 1 January 2018),
- Improvements to IFRSs (2014-2016 cycle) – Amendments to IFRS 1, IAS 28 (applicable to annual periods beginning on or after 1 January 2018) and IFRS 12 (applicable to annual periods beginning on or after 1 January 2017).

Also, in the event that the above-mentioned standards are implemented, the Company does not anticipate the related changes to have a significant impact on its statements.

8. Significant accounting policies

The key accounting policies used by the Company are presented below. These policies are applied on a continuous basis, except for the changes caused by amendments in IFRS EU, if such changes are identified in note 7.1.

8.1. Conversion of items in foreign currencies

Transactions denominated in currencies other than the Polish zloty are converted upon initial recognition into Polish zloty using the exchange rate applicable on the date of the transaction. At the end of the reporting period:

- cash is converted using the closing exchange (it is assumed that the closing exchange rate is the average exchange rate set for the currency by the National Bank of Poland for the day),
- non-cash items measured at historical cost in a foreign currency are converted using the exchange rate in effect on the initial transaction date (exchange rate of the company's bank), and
- non-cash items measured at fair value in a foreign currency are converted using the exchange rate from the date the fair value is determined.

Exchange differences resulting from this conversion are recognized respectively as financial income (cost) items or, in the cases identified in the accounting principles (policies), they are capitalized as assets.

8.2. Intangible assets

The Company classifies as intangible assets any identifiable non-pecuniary asset components devoid of physical form. On initial recognition, an intangible asset is measured at the purchase price or production cost. The purchase price of an intangible asset includes:

- the purchase price including import duties, non-deductible taxes included in the price, less any granted discounts and rebates and
- expenditures directly connected with preparing the asset component for use according to its planned purpose

After initial recognition, intangible assets are carried at purchase price or production cost, less accumulated amortization and impairment losses. The Company assesses whether useful life of an intangible asset component is definite or indefinite and, if definite, estimates the duration of that period. Amortization begins in the month following the month in which the asset becomes ready for use.

8. Significant accounting policies (cont.)

Intangible assets with a limited useful life are subjected to impairment tests each time when there are prerequisites indicating their impairment. The amortization period and method are reviewed at least at the end of each financial year.

Gains or losses arising upon derecognition of intangible assets from the statement of financial position are measured at the difference between net sales revenues and the carrying amount of the asset and are posted to the statement of profit or loss upon derecognition from the statement of financial position.

The Company applies the following amortization rates for intangible assets with specific useful lives: 20%, 25%, 50% and 100%.

8.3. Shares in subsidiaries and associates

The Company carries investments in subsidiaries and associates at historical cost less impairment losses.

8.4. Impairment of non-financial assets and shares in subsidiaries and associates

No less frequently than at the end of every reporting period, the Company determines whether there is any evidence of impairment of any non-financial non-current asset or investment in subsidiaries and associates. If such evidence is found or when an annual impairment test must be carried out, the Company estimates the recoverable amount of such asset or cash generating unit to which such asset is allocated. Impairment occurs when the recoverable amount (i.e. the higher of fair value less cost to sell or value in use) is lower than the carrying amount of the tested asset or cash generating unit.

Impairment losses for assets used in the continuing activity are recognized in those cost categories, which correspond to the function of the impaired asset.

At the end of each reporting period, the Company estimates whether there is any evidence that the impairment loss applied in previous periods to such asset is redundant or whether it should be decreased. If such evidence exists, the Company estimates the recoverable amount of the asset.

The previously recognized impairment allowance is reversed only when the estimated values used to determine the recoverable amount of the asset changed since the last impairment loss was recognized.

8.5. Cash and cash equivalents

Cash and other cash assets include:

- cash on current bank accounts,
- other cash, including bank deposits with maturities no longer than 3 months.

The balance of cash and cash equivalents shown in the statement of cash flows consists of the aforementioned cash and other cash less outstanding current account overdrafts.

Cash is measured at par value.

8.6. Lease

The Company as a lessee

Financial lease agreements, which transfer to the Company essentially the entire risk and benefits derived from the possession of the leased item, are recognized in the statement of financial position as at the lease commencement date, at the lower of: fair value of the property, plant and equipment component which constitutes the leased item, or the present value of minimum leasing fees. Leasing fees are allocated between financial costs and reduction of principal lease debt balance, in the manner that allows us to receive a fixed interest rate on the outstanding debt. Financial costs are posted directly to the statement of profit or loss.
Property, plant and equipment used under financial lease agreements are depreciated for the shorter of the two periods: estimated useful life of the asset or the term of the lease, if there is no certainty that the lessee obtains the ownership title before the end of the term of lease.
Lease agreements under which the lessor retains essentially all the risks and all the benefits derived from possession of the leased item are classified as operating lease agreements. .
Leasing fees under operating lease contracts and the subsequent leasing installments are recognized as expenses in the statement of profit or loss using the straight-line method throughout the term of lease.

The Company as a lessor

In the case of financial leases, the Company recognizes lease receivables in its statement of financial position and in its accounting records as non-current or possibly current financial assets. They are measured at amortized cost, using the interest rate of the lease.
The Company divides the base fee into the principal part and the interest part. The interest part of the base fee is income from financial leases recognized in financial income.
The principal portion of the leasing fee in a given reporting period constitutes repayment of liabilities from the lessee. The fee is divided using the interest rate of the lease.
Leases where the Company retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease receivables are recognized on a straight-line basis during the lease period. The initial direct costs incurred in the course of negotiating operating lease agreements are added to the carrying amount of the leased asset and are recognized as cost during the term of the lease.

8.7. Other assets

In other assets, the Company recognizes accrued costs if the following conditions are satisfied:

- they result from past events – an expenditure incurred for the entity's operational objectives,
- their amount may be measured reliably,
- they will bring economic benefits to the entity in the future,

8. Significant accounting policies (cont.)

- they refer to future reporting periods.

Prepayments are recorded at the level of incurred and reliably measured expenses that refer to future periods and will bring future economic benefits to the entity.

Prepayments may be written off in proportion to the passage of time or benefits received. The time and manner of settlement is justified by the nature of the cost being settled, in keeping with the conservative valuation principle.

At the end of a reporting period, the Company reviews prepayments to find whether the degree of certainty that the entity will achieve economic benefits after the elapse of the reporting period is sufficient to recognize the item as an asset component.

Other assets also include receivables on account of public and legal settlements (except for settlements on account of corporate income tax, presented as a separate item in the statement of financial position), surplus of assets over liabilities of the Company Social Benefit Fund and advances paid for future purchases of property, plant and equipment and intangible assets. Advances are presented in line with the type of assets to which they refer – as non-current or current assets respectively. As non-pecuniary assets, advances are not discounted.

8.8. Equity

Equity is carried at par value, broken down into types and according to the principles set forth by the law and by the Company's articles of association.

The retained earnings/accumulated losses item includes net result of the current year, results carried forward from previous years, as well as adjustments connected with the transition to IFRS EU.

8.9. Other liabilities

Other liabilities include in particular liabilities to the tax office on account of value added tax and liabilities on account of received advance payments to be settled by deliveries of goods, services or property, plant and equipment. Advances are recognized in the amount received and other liabilities are recognized in the amount of the required payment.

8.10. Deferred income and grants

Deferred income is recorded in keeping with the conservative valuation principle. Deferred income includes:

- government grants recognized while measuring preferential loans,
- cash received to finance a purchase or production of property, plant and equipment, and development works. These are settled by gradually increasing other operating income by an amount corresponding to depreciation on these assets, in the part financed by the mentioned cash.

Grants recognized while measuring preferential loans

If the Company receives a loan or borrowing on preferential terms then, on initial recognition, such financial instrument is measured at fair value equal to the value of discounted cash flows, using market interest rates for similar instruments. The difference between the valuation amount calculated using this method and at amortized cost is recognized in the statement of financial position as a grant and amortized on a straight-line basis during the repayment period of the liability, charged to other operating income in the statement of profit or loss.

8.11. Cash pooling

Transactions within the cash pooling system are recognized as related party transactions where the company acting as an agent is the other party to the transaction (Company). Cash pooling receivables are presented as short-term financial assets in the loans and receivables category, while cash pooling liabilities are presented as short-term financial liabilities in the category of financial liabilities measured at amortized cost. The Company presents its cash pooling settlements separately as assets and liabilities, while interest is shown at net amounts.

The Company presents its cash flows from the system on the net basis, as cash flows from investing or financing activities.

8.12. Financial instruments

8.12.1. Financial assets

The Company identifies the following categories of financial assets:

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

Financial assets held to maturity

Assets held to maturity include financial assets with specified or determinable payments and a set maturity date, which the Company intends and is able to hold until such time. Financial assets held to maturity are measured at amortized cost using the effective interest rate method. The Company does not hold any assets classified in this category.

8. Significant accounting policies (cont.)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss must meet one of the following conditions:

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

- they have been purchased primarily for sale in the near future,
- they are part of the portfolio of specified financial instruments managed together where there is high probability that gains would be achieved in the short term, or
- they are derivatives, except for derivatives under hedge accounting,

b) they have been classified as such upon purchase. Upon purchase, a financial asset may be classified as measured at fair value, with any changes in value recognized through profit or loss (except for equity securities whose prices are not quoted on an active market and whose fair value cannot be measured reliably) if the following criteria are satisfied:

- such classification eliminates or materially reduces inconsistencies in treatment, when both measurement and the rules for recognizing losses or gains are subject to other regulations; or
- assets are part of a group of financial assets managed and measured based on their fair value in accordance with a documented risk management strategy; or
- such financial assets contain embedded derivatives, which should be recognized separately.

The Company classifies as financial assets at fair value through profit or loss, in particular the participation units in the ENERGA Trading SFIO mutual fund ("Fund"), which are presented as "Portfolio of financial assets". At the end of a reporting period (month) the Company measures the value of participation units in the Fund as the product of the number of participation units held and the value of a single participation unit. Measurement is done by the fund management company.

Financial assets in this category are initially recognized at fair value. After the initial recognition, measurement is done at fair value and any gains/losses are posted to profit or loss.

Loans and receivables

Loans granted and receivables include financial assets with determined or determinable payments, not listed on an active market, which are not classified as derivative instruments. Loans and receivables are initially measured at fair value plus transaction costs and after initial recognition they are measured at amortized cost.

This category includes trade receivables, purchased bonds, capital contributions, cash pooling receivables and other receivables constituting financial assets.

Assets available for sale

All the remaining financial assets are assets available for sale. Assets available for sale are measured at fair value at the end of each reporting period. The fair value of investments with no listed market price is determined in reference to the current market value of another instrument with generally the same features or based on the expected cash flows from the asset comprising the investment (discounted cash flow valuation). The Company does not hold any assets classified in this category.

8.12.2. Impairment of financial assets

At the end of each reporting period, the Company evaluates whether there exists objective evidence of impairment of a financial asset or a group of financial assets. Such important objective evidence considered by the Company includes primarily: serious financial difficulties of the debtor, litigation against the debtor, significant or persisting decline of fair value below the purchase price, material adverse change in the economic, legal or market environment of the issuer of the financial instrument.

Assets recognized at amortized cost

If there exists objective evidence that a loss has been incurred on impairment of loans granted and receivables measured at amortized cost then the Company recognizes an impairment loss equal to the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses on defaulted receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. one determined on initial recognition). The amount of loss is recognized in the statement of profit or loss.

If impairment loss is reduced in the next period and the reduction may be objectively tied to an event occurring after the impairment loss was recognized then the previous impairment loss is reversed. A reversal of an impairment loss is recognized in the statement of profit or loss, provided however that the carrying amount of the asset on the reversal date must not exceed its amortized cost.

Financial assets available for sale

If there exists objective evidence that a financial asset available for sale has been impaired then the amount equal to the difference between the purchase price of that asset (less any principal repayments and, in the case of financial assets measured at amortized cost using the effective interest rate method, also amortization) and its present fair value, less any impairment losses previously recognized for this asset in the statement of profit or loss, is derecognized from equity and transferred to the statement of profit or loss. If the fair value of a debt instrument available for sale increases in the following period and the increase can be objectively tied to an event following the recognition of the impairment loss in the statement of profit or loss, the amount of the reversed charge is recognized in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale cannot be reversed in the statement of profit or loss.

8.12.3. Financial liabilities

At ENERGA SA, the only financial liabilities are those classified as held at amortized cost and measured at fair value.

Financial liabilities held at amortized cost include primarily trade liabilities, bank loans, borrowings and debt securities and cash pooling liabilities. On initial recognition, they are recognized at fair value less costs of with obtaining them. After initial recognition, they are measured at amortized cost using the effective interest rate method.

8. Significant accounting policies (cont.)

When calculating amortized cost, the cost of obtaining the loan or borrowing must be taken into account, as well as any discounts and bonuses obtained in connection with the liability.

Revenues and costs are recognized in the statement of profit or loss upon derecognition of the liability from the statement of financial position and also as a result of a settlement using the effective interest rate method.

The Company derecognizes a financial liability from its statement of financial position if the liability has expired, i.e. when the obligation defined in the respective agreement has been performed, has been canceled or has expired.

8.12.4. Hedge accounting

Hedging derivatives and hedge accounting

The Company may decide to designate selected derivatives as hedges under cash flow hedge accounting under any identified hedge relationship. The Company allows the use of cash flow hedge accounting only if the following criteria are met, i.e.:

- At the inception of the hedge the Company formally designates and documents the hedging relationship and the risk management objective as well as strategy for undertaking the hedge. The documentation includes the identification of the hedge instrument, the hedged position, the nature of risk and the method for a current assessment of the effectiveness of the hedge in offsetting the risk of changes in cash flows associated with the hedged risk;
- the hedge is expected to be highly effective in offsetting changes in cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- a planned transaction, which is the subject of a hedge must be highly probable and must be exposed to variations in cash flows that could ultimately affect the statement of profit or loss.
- effectiveness of the hedge can be reliably assessed, i.e. cash flows related to the hedged position resulting from the hedged risk and the fair value of the hedge can be reliably measured;
- the hedge is assessed on an ongoing basis and determined to have been highly effective throughout the reporting periods for which the hedge was designated.

Applicable accounting principles for derivatives designated as hedges under cash flow hedge accounting

Changes in the fair value measurement of derivative financial instruments designated as cash flow hedges are recognized in other comprehensive income and captured on a cumulative basis in the cash flow hedge reserve in proportion thereof that is an effective hedge, whereas any ineffective portion of the hedge is posted to the statement of profit or loss.

The accumulated amounts of hedging instrument revaluation to fair value, previously recognized in the cash flow hedge reserve, are transferred through other comprehensive income to the statement of profit or loss in the period or periods in which the hedged position affects the statement of profit or loss.

The Company ceases to use the cash flow hedge accounting principles in the event of one or more of the following events:

- The hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy). In this case, the cumulative gain or loss on the hedging instrument, which is posted to other comprehensive income and accumulated in equity in the period, in which the hedge was effective, remains recognized separately in equity until the planned transaction occurs;
- the hedge no longer meets the hedge accounting criteria. In this case, the cumulative gain or loss on the hedging instrument, which is posted to other comprehensive income and accumulated in equity in the period, in which the hedge was effective, remains recognized separately in equity until the planned transaction occurs;
- the planned transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument, which is posted to other comprehensive income and accumulated in equity in the period, in which the hedge was effective, is posted to the statement of profit or loss. A planned transaction, which is no longer highly probable, may still be expected;
- the Company cancels any hedging relationship. For hedges of planned transactions, the cumulative gain or loss on the hedging instrument, which is posted to other comprehensive income and accumulated in equity in the period when the hedge was effective remains recognized in a separate equity item until the planned transaction occurs or is no longer expected to occur. If the transaction is no longer expected to occur, the cumulative gain or loss accumulated in equity is posted to the statement of profit or loss.

Presentation

In connection with the use of cash flow hedge accounting, the Company applies the following presentation:

- the effective portion of any change in the valuation of hedges is posted to other comprehensive income and accumulated in revaluation reserve,
- interest on hedges is presented in the same item of the statement of profit or loss, which presents interest result on the hedged position,
- any revaluation of hedges transferred from other comprehensive income is presented in the same line of the statement of profit or loss in which the revaluation of the hedged position is presented in the same period in which the hedged item affects the financial result,
- the ineffective portion of changes in the valuation of hedging instruments is recognized in financial income/costs.

8.13. Revenues

Revenues are carried at fair value of the received remuneration (payment received or due), after deducting discounts, rebates and VAT.

31 December 2016 (PLN millions)

8. Significant accounting policies (cont.)

Revenues are recognized when the significant risks and benefits stemming from ownership title to products have been surrendered to the buyer and when the amount of revenues may be measured reliably and incurred costs may be reliably estimated.

The time of sale is recognized as the date of delivery of a given performance in accordance with the purchase-sale agreement (receipt of the service).

Revenues from the sale of products comprise revenues from the sale of services, including in particular revenues from the sale of the rights to use the ENERGA brand and revenues on account of the participation of subsidiaries in brand promotion expenses.

Rental revenues (operating leases) are recognized using the straight-line method for the entire term of lease, in relation to active agreements.

8.14. Costs

Operating expenses consist of the following:

- cost of sales incurred in the reporting period, adjusted for a change in products and adjusted for the cost of manufacturing products for own needs,
- general and administrative expenses

8.15. Other operating income and expenses

Other operating income and expenses include in particular items associated with:

- disposals of property, plant and equipment, intangible assets and investment property,
- recognition and reversal of provisions, except for provisions tied to financial operations or recognized in operating expenses,
- giving or receiving assets, including cash, free of charge, also as a donation,
- including compensations and other revenues and costs not associated with ordinary activity.

8.16. Financial income and costs

Financial income and costs include in particular income and costs associated with:

- disposal of financial assets,
- restatement of financial instruments, excluding financial assets available for sale, for which the effects of restatement are recognized in other comprehensive income,
- revenues from profit-sharing in other entities,
- interest,
- change in provision resulting from the approaching date of incurring the cost (unwinding discount effect),
- other items related to financing activity.

Interest income and interest expense are recognized gradually as they accrue (taking the effective interest rate method into account) in relation to the net carrying amount of the financial instrument and taking the materiality principle into account.

Dividends are recognized when the title to receive them is determined.

The Company nets income and costs from exchange differences.

8.17. Earnings per share

Earnings per share for each period are calculated by dividing the net profit allocated to shareholders of the Parent Company for the period by the weighted average number of shares in the reporting period. In the case of a split or reverse split of shares, the number of shares after the split or reverse split is applied to the calculation retrospectively.

NOTES TO STATEMENT OF PROFIT OR LOSS

9. Revenues and expenses

9.1. Costs by nature

	Year ended 31 December 2016	Year ended 31 December 2015
Amortization and depreciation of property, plant and equipment, intangible assets and investment property	5	5
Consumption of materials and energy	1	1
External services	57	59
Taxes and fees	3	9
Employee benefit expenses	27	22
Other costs by nature	39	45
TOTAL	**132**	**141**
including:		
Cost of sales	51	55
General and administrative expenses	81	86

31 December 2016 (PLN millions)

9. Revenues and expenses (cont.)

9.2. Employee benefit expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	21	17
Social security contributions	3	2
Other employee benefit expenses	3	3
TOTAL	**27**	**22**

9.3. Other financial income

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	216	218
Measurement of derivative instruments (IRS)	8	15
TOTAL	**224**	**233**

9.4. Financial costs

	Year ended 31 December 2016	Year ended 31 December 2015
Interest expenses	243	246
Revaluation of financial assets	8	-
Measurement of derivative instruments (IRS)	8	14
Foreign exchange differences	6	2
Other financial costs	1	1
TOTAL	**266**	**263**

10. Income tax

10.1. Tax liabilities

The key components of the tax liability for the years ended 31 December 2016 and 31 December 2015 are as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Statement of profit or loss		
Current income tax	31	17
Deferred tax	(12)	16
Tax gain recognized in the statement of profit or loss	**19**	**33**
Statement of comprehensive income		
Deferred tax	(7)	(2)
Tax expense recognized in other comprehensive income	**(7)**	**(2)**

10.2. Reconciliation of effective tax rate

Reconciliation of income tax calculated on the financial result before tax using the statutory tax rate to income tax calculated according to the Company's effective tax rate is as follows:

31 December 2016 (PLN millions)

10. Income tax (cont.)

	Year ended 31 December 2016	Year ended 31 December 2015
Profit before tax on continuing operations	**765**	**808**
Tax at Poland's statutory rate of 19%	**(145)**	**(154)**
Tax impact of permanently non-taxable income and non tax-deductible expenses:	164	187
- on dividends received	166	174
- other	(2)	13
Tax at the effective tax rate	**19**	**33**
Tax gain recognized in the statement of profit or loss	19	33

Current tax liability is calculated on the basis of the applicable tax regulations. Application of those regulations causes differences between the tax profit (loss) and accounting net profit (loss) because of non-taxable revenues and non-deductible expenses and items of income or expense which are never taxable. Tax liabilities are calculated on the basis of tax rates applicable in the given financial year. A 19% tax rate was used in 2015 and 2016. Current regulations do not provide for differentiated tax rates for future periods.

10.3. ENERGA Tax Group

On 27 January 2015, ENERGA SA and its related entities: ENERGA-OPERATOR SA, ENERGA-OBRÓT SA, ENERGA Wytwarzanie SA, ENERGA Informatyka i Technologie Sp. z o.o., ENERGA Centrum Usług Wspólnych Sp. z o.o., RGK Sp. z o.o., ENSA PGK1 Sp. z o.o., ENSA PGK2 Sp. z o.o., ENSA PGK3 Sp. z o.o., ENSA PGK4 Sp. z o.o., ENSA PGK5 Sp. z o.o., ENSA PGK6 Sp. z o.o., ENSA PGK7 Sp. z o.o., ENSA PGK8 Sp. z o.o., EOB PGK1 Sp. z o.o. and EOB PGK2 Sp. z o.o. entered into a tax capital group agreement under the name of ENERGA Tax Group (PGK ENERGA). The agreement was registered by the Head of the Pomorski Tax Authority on 27 February 2015. ENERGA SA was selected as the company representing the ENERGA Tax Group in respect to the duties arising from the Corporate Income Tax Act and the Tax Ordinance Act.

The launch date of ENERGA Tax Group's activity is 1 May 2015. The agreement was concluded for 3 fiscal years, that is until 31 December 2017. Income tax is calculated on income earned in the fiscal year equal to the surplus of aggregated income of all companies comprising the group over their aggregate losses.

The ENERGA Tax Group companies, which post tax profit transfer the appropriate income tax amount to ENERGA SA, which handles the settlements with the tax authority as the representative company. The ENERGA Tax Group companies, which post tax losses obtain a tax gain in the amount, which was used to reduce the tax amount of the entire Tax Group. Settlements on account of the ENERGA Tax Group do not affect deferred tax but only the current tax liability.

Cash flows between ENERGA Tax Group companies are carried out during the year on dates preceding the payment of advances towards income tax. Accordingly, at the end of the reporting period, ENERGA SA presents settlements with companies on account of Tax Group operations. The final settlement between Tax Group companies is conducted after the representing company files the annual tax returns.

10.4. Deferred tax

The deferred tax results from the following items:

	As at 31 December 2016	As at 31 December 2015
Deferred tax assets before set-off	**69**	**49**
on the difference between the tax and carrying value of financial liabilities measured at amortized cost	20	14
on the difference between the tax and carrying value of property, plant and equipment and intangible assets	15	1
on the difference between the tax and carrying value of loans and receivables	1	14
on the difference between the tax and carrying value of liabilities measured at fair value through profit or loss	1	2
on foreign exchange differences	24	9
on deferred income	6	6
other	2	3
Set-off	***(64)***	***(25)***
TOTAL	**5**	**24**

31 December 2016 (PLN millions)

10. Income tax (cont.)

	As at 31 December 2016	As at 31 December 2015
Deferred tax liability before set-off	**64**	**25**
on the difference between the tax and carrying value of loans and receivables	16	9
on the difference between the tax and carrying value of hedging instruments	29	8
on the difference between the tax and carrying value of assets measured at fair value through profit or loss	-	3
on the difference between the tax and carrying value of financial assets excluded from the scope of IAS 39	18	4
other	1	1
Set-off	***(64)***	***(25)***
TOTAL	**-**	**-**

The Company did not include in its statement of financial position the deferred income tax asset on the value of outstanding tax losses incurred in 2012 - 2013 for the total amount of PLN 109 m.

Changes in deferred tax assets and liabilities are presented in the table below:

	Year ended 31 December 2016	Year ended 31 December 2015
Deferred tax assets		
Opening balance before set-off:	**49**	**35**
Increases:	**36**	**14**
recognized in profit or loss	36	14
Decreases:	**(16)**	**-**
recognized in profit or loss	(16)	-
Set-off	**(64)**	**(25)**
Closing balance	**5**	**24**
Deferred tax assets	**5**	**24**
Deferred tax liabilities		
Opening balance before set-off:	**25**	**25**
Increases:	**40**	**2**
recognized in profit or loss	33	-
recognized in other comprehensive income	7	2
Decreases:	**(1)**	**(2)**
recognized in profit or loss	(1)	(2)
Set-off	**(64)**	**(25)**
Closing balance	**-**	**-**
Deferred tax liabilities	**-**	**-**

NOTES TO STATEMENT OF FINANCIAL POSITION

11. Shares in subsidiaries and associates

Name and legal form	Registered office	Value of shares in the books of ENERGA SA	Share of ENERGA SA in the share capitalin all votes and in management (%)	Net financial result in 2016 PLN m	Equity
ENERGA-OPERATOR SA	Gdańsk	4,471	100.00	739	6,840
ENERGA-OBRÓT SA	Gdańsk	330	100.00	(47)	451
ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	4	100.00	1	9
ENERGA Wytwarzanie SA	Gdańsk	1,055	100.00	(307)	960
RGK Sp. z o.o.	Gdańsk	1	100.00	(12)	44
ENERGA Informatyka i Technologie Sp. z o.o.	Gdańsk	37	100.00	4	44
ENERGA Finance AB (publ)	Stockholm	85	100.00	1	92
ENERGA Serwis Sp. z o.o.	Ostrołęka	2	14.09	2	9
ENERGA Kogeneracja Sp. z o.o.	Elbląg	521	60.85	(3)	763
Enspirion Sp. z o.o.	Gdańsk	5	100.00	(4)	2
Elektrownia Ostrołęka SA *	Ostrołęka	198	100.00	113	189
ENERGA Invest SA	Gdańsk	68	100.00	(142)	34
Other companies**	-	3	-	-	-
Total value of shares		**6,780**			

* as at the date of these financial statements, following the sale of 50% of shares in Elektrownia Ostrołęka SA to ENEA SA, the share of ENERGA SA in the share capital and in votes and in management is 50%
** including shares in an associate

On 27 April 2016, ENERGA SA made a cash contribution of PLN 510 m and in exchange it subscribed to newly-created shares in ENERGA Kogeneracja Sp. z o.o.The increase in the share capital of ENERGA Kogeneracja Sp. z o.o. was registered by the National Court Register on 22 June 2016.

On 28 September 2016, ENERGA SA acquired from ENERGA Wytwarzanie SA a 100% equity stake in Elektrownia Ostrołęka SA. The acquisition was effected through repayment, by ENERGA Wytwarzanie SA, of liabilities under domestic bonds issued (datio in solutum) in the amount of PLN 198 m.

On 21 December 2016, ENERGA SA made a contribution-in-kind to ENERGA Kogeneracja Sp. z o.o. in the form of non-current assets. Subsequently, the value of shares in ENERGA Kogeneracja Sp. z o.o. increased by PLN 11 m to PLN 521 m.

On 28 December 2016, ENERGA SA acquired from ENERGA Wytwarzanie SA a 100% equity stake in ENERGA Invest SA. The acquisition was effected through repayment, by ENERGA Wytwarzanie SA, of liabilities under domestic bonds issued (datio in solutum) in the amount of PLN 68 m.

The value of shares specified in the table above is the value at purchase price less impairment losses. As at 31 December 2016, the total amount of impairment losses on shares was PLN 29 m; the entire amount pertained to shares in RGK Sp. z o.o. No changes in impairment losses on shares were recognized in 2016.

31 December 2016 (PLN millions)

12. Intangible assets

	Licenses and patents	Other intangible assets	Intangible assets not in use	TOTAL
Gross value				
As at 1 January 2016	**9**	**20**	**51**	**80**
Purchase of intangible assets (including assets not in use)	-	-	68	**68**
Settlement of intangible assets not in use	93	1	(94)	**-**
Sale, disposal	-	-	(7)	**(7)**
Handed over for use under a lease agreement	(93)	-	-	**(93)**
As at 31 December 2016	**9**	**21**	**18**	**48**
Accumulated amortization				
As at 1 January 2016	**(8)**	**(14)**	**-**	**(22)**
Amortization for the period	-	(2)	-	**(2)**
As at 31 December 2016	**(8)**	**(16)**	**-**	**(24)**
Net value as at 1 January 2016	**1**	**6**	**51**	**58**
Net value as at 31 December 2016	**1**	**5**	**18**	**24**

	Licenses and patents	Other intangible assets	Intangible assets not in use	TOTAL
Gross value				
As at 1 January 2015	**8**	**19**	**29**	**56**
Purchase of intangible assets (including assets not in use)	-	-	25	**25**
Settlement of intangible assets not in use	1	2	(3)	**-**
Handed over for use under a lease agreement	-	(1)	-	**(1)**
As at 31 December 2015	**9**	**20**	**51**	**80**
Accumulated amortization				
As at 1 January 2015	**(8)**	**(11)**	**-**	**(19)**
Amortization for the period	-	(3)	-	**(3)**
As at 31 December 2015	**(8)**	**(14)**	**-**	**(22)**
Net value as at 1 January 2015	**-**	**8**	**29**	**37**
Net value as at 31 December 2015	**1**	**6**	**51**	**58**

13. Cash and cash equivalents

Cash in the bank earns interest at variable interest rates, the level of which depends on the interest rate applicable to overnight bank deposits. Short-term deposits are made for different periods, from one day to three months, depending on the Company's current cash requirements and earn interest at interest rates negotiated individually with banks.

The balance of cash and cash equivalents presented in the statement of cash flows comprises the following items:

	As at 31 December 2016	As at 31 December 2015
Cash in bank	460	31
Short-term deposits up to 3 months	835	443
Total cash and cash equivalents presented in the statement of financial position, including:	**1,295**	**474**
Unrealized foreign exchange differences and interest	(2)	1
Total cash and cash equivalents presented in the statement of cash flows	**1,293**	**475**

The Company does not have any restricted cash.

31 December 2016 (PLN millions)

14. Other non-current assets

	As at 31 December 2016	As at 31 December 2015
Capital contributions	60	68
Trade receivables	-	20
Receivables from sale of investment properties	12	12
Property, plant and equipment	8	9
Lease receivables	75	7
Other	3	2
TOTAL	**158**	**118**

15. Trade receivables and other current financial receivables

	As at 31 December 2016	As at 31 December 2015
Trade receivables	33	22
Lease receivables	19	11
Other	-	1
TOTAL	**52**	**34**

16. Other current assets

	As at 31 December 2016	As at 31 December 2015
Advances for deliveries	26	29
Accrued financial costs	7	7
Accrued costs by nature	4	1
Other current assets	1	1
TOTAL	**38**	**38**

17. Share capital and other capital

17.1. Share capital

As at 31 December 2016, ENERGA SA's share capital is PLN 4,522 m and has not changed in the current year.

The table below presents the ownership structure of the Company:

	As at 31 December 2016	As at 31 December 2015
State Treasury	51.52%	51.52%
Other shareholders	48.48%	48.48%
TOTAL	**100.00%**	**100.00%**

17.2. Par value per share

All the outstanding shares have the aggregated par value of PLN 4,522 m and have been fully paid up.

17.3. Shareholders' rights

As at 31 December 2016, the State Treasury held 213,326,317 shares of the Company, constituting 51.52% of its share capital and entitling to exercise 358,254,317 votes at the General Meeting, which makes up 64.09% of the total number of votes at the General Meeting (including 144,928,000 registered series BB shares, preferred with respect to the voting right at the General Meeting in such manner that one series BB share gives the right to two votes at the General Meeting).

According to the Company's articles of association in effect on the date of these statements, Supervisory Board members are appointed and dismissed by the General Meeting, but the State Treasury is personally entitled to appoint and dismiss Supervisory Board members so that the State Treasury has an absolute majority of the votes in the Supervisory Board. The above entitlement expires on the date on which the State Treasury's share in the share capital will fall below 20%.

17.4. Reserve capital

Reserve capital was created as a result of the share capital reduction by PLN 447 m made in connection with the reverse split of the parent company's shares in 2013 and distribution of the Company's 2015 net profit in the amount of PLN 571 m. Reserve capital may be used only to cover future losses or to raise the Company's share capital.

17. Share capital and other capital (cont.)

17.5. Supplementary capital

Pursuant to the requirements of the Commercial Company Code, joint stock companies are required to create supplementary capital to cover losses. At least 8% of the company's profit for a given financial year presented in the Company's financial statements is transferred to supplementary capital until the capital reaches at least one third of the company's share capital. The use of the supplementary capital is decided by the General Meeting, however, the portion of the supplementary capital representing one-third of the share capital may only be used to cover a loss posted in the financial statements and cannot be allocated to other purposes. As at 31 December 2016, supplementary capital amounts to PLN 728 m or 16.10% of the share capital.

17.6. Retained earnings and restrictions on dividend payment

Retained earnings include capital established and utilized according to the principles defined by provisions of law and the Company's articles of association as well as results of the current reporting period. As at 31 December 2016, there are no restrictions on dividend payment, other than those resulting from provisions of law.

18. Earnings per share

There were no diluting instruments in the Company and therefore diluted earnings per share are equal to basic earnings per share. The Company had not discontinued operations. The data used to calculate earnings per share are presented below.

	Year ended 31 December 2016	Year ended 31 December 2015
Net profit on continuing operations	784	841
Net profit	**784**	**841**
Number of shares at the end of the reporting period (millions)	**414**	**414**
Number of shares used to calculate earnings per share (millions)	**414**	**414**

19. Dividends

By the date of approval of these financial statements for publication, the proposed distribution of the 2016 profit has not been adopted.

On 24 June 2016, the Annual General Meeting adopted a resolution to distribute the 2015 profit, out of which PLN 203 m, i.e. PLN 0.49 per share, was allocated to a dividend for the Company's shareholders. The dividend was paid out in full, out of which PLN 71 m on preferred shares.

On 29 April 2015, the Annual General Meeting adopted a resolution to distribute the 2014 profit, out of which PLN 596 m, i.e. PLN 1.44 per share, was allocated to a dividend for the Company's shareholders. The dividend was paid out in full, out of which PLN 209 m on preferred shares.

20. Liabilities

20.1. Trade and other financial liabilities

	As at 31 December 2016	As at 31 December 2015
Liabilities to related parties	4	5
trade liabilities	1	2
other	3	3
Liabilities to other entities	15	17
trade liabilities	13	12
other	2	5
TOTAL	**19**	**22**

20.2. Other current liabilities

	As at 31 December 2016	As at 31 December 2015
Liabilities on account of taxes, customs duties, social security, and other benefits	2	2
Liabilities on account of settlements in the ENERGA Tax Group	98	30
Other	2	2
TOTAL	**102**	**34**

31 December 2016 (PLN millions)

21. Deferred income and grants

	As at 31 December 2016	As at 31 December 2015
Grants received	88	101
Financial income	6	6
Other	23	31
TOTAL, of which:	**117**	**138**
Long-term	94	111
Short-term	23	27

As at 31 December 2016, the Company recognizes as grants received: primarily, the valuation effect of the preferential loan from the European Investment Bank (EIB), which is recognized over the loan repayment period (see descriptions in Notes 8.10 and 23.7).

22. Information on related entities

Related party transactions are made based on market prices of goods, products or services delivered.

22.1. Transactions involving parties related to the State Treasury

The Company's parent entity is the State Treasury. ENERGA SA concludes transactions with other related entities and with the State Treasury associated with normal, daily business operations. These transactions are concluded on an arms' length basis and their terms and conditions do not deviate from transactions with other entities. They do not constitute material transactions. The Company does not keep records that would allow it to aggregate the value of all transactions concluded with all state institutions and with subsidiaries of the State Treasury.

22.2. Transactions with related entities (without State Treasury companies)

	Year ended 31 December 2016	Year ended 31 December 2015
Net income from the sale of products, goods and materials	68	60
Cost of purchase	16	16
Other operating income	7	41
Dividend income	874	914
Other financial income	204	200
Financial costs	83	86

	As at 31 December 2016	As at 31 December 2015
Assets		
Long-term receivables	87	39
Other non-current assets	2	-
Cash pooling receivables	577	-
Trade receivables	33	22
Other short-term financial receivables	19	12
Derivative financial instruments	-	8
Long-term bonds	3,959	4,621
Short-term bonds	1,243	781
Equity and liabilities		
Non-current liabilities on account of loans and borrowings	2,207	2,126
Cash pooling liabilities	1,009	-
Current trade liabilities	1	2
Other current liabilities	120	51

The tables above present transactions with subsidiaries within the ENERGA SA Group.

Transactions of subscribing to shares in subsidiaries are presented in note 11.

31 December 2016 (PLN millions)

22. Information on related entities (cont.)

22.3. Compensation paid or due to the Company's Management Board members and Supervisory Board members

	Year ended 31 December 2016	Year ended 31 December 2015
Management Board	6	3
Supervisory Board	<1	<1
TOTAL	**6**	**3**

22.4. Loans granted to, and other transactions with, Management Board and Supervisory Board members

During the reporting period, there were no loans granted to or other material transactions with members of the Management Board and of the Supervisory Board of ENERGA SA.

22.5. Compensation paid or due to senior management (except for members of the Company's Management Board and Supervisory Board)

The amount of benefits paid or due to the key management was PLN 6 m in 2016 and PLN 7 m in 2015.

31 December 2016 (PLN millions)

NOTES ON FINANCIAL INSTRUMENTS

23. Financial instruments

23.1. Carrying value of financial instruments by category and class

As at 31 December 2016	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
Assets						
Cash pooling receivables	577	-	-	-	-	**577**
Cash and cash equivalents	-	1,295	-	-	-	**1,295**
Derivative financial instruments	-	-	-	147	-	**147**
Shares in subsidiaries and associates	-	-	-	-	6,780	**6,780**
Bonds	5,202	-	-	-	-	**5,202**
Lease receivables	-	-	-	-	94	**94**
Trade receivables and other current financial receivables	33	-	-	-	-	**33**
Other financial assets	72	-	-	-	-	**72**
Capital contributions	60	-	-	-	-	**60**
Other	12	-	-	-	-	**12**
TOTAL	**5,884**	**1,295**	**-**	**147**	**6,874**	**14,200**
Liabilities						
Loans and borrowings	-	-	4,963	-	-	**4,963**
Preferential loans and borrowings	-	-	1,487	-	-	**1,487**
Loans and borrowings	-	-	3,476	-	-	**3,476**
Bonds issued	-	-	1,020	-	-	**1,020**
Trade and other financial liabilities	-	-	19	-	-	**19**
Cash pooling liabilities	-	-	1,009	-	-	**1,009**
TOTAL	**-**	**-**	**7,011**	**-**	**-**	**7,011**

31 December 2016 (PLN millions)

23. Financial instruments (cont.)

As at 31 December 2015	Financial assets at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
Assets								
Portfolio of financial assets	314	-	-	-	-	-	-	**314**
Cash and cash equivalents	-	-	474	-	-	-	-	**474**
Derivative financial instruments	8	-	-	-	-	40	-	**48**
Shares in subsidiaries and associates	-	-	-	-	-	-	5,996	**5,996**
Bonds	-	5,402	-	-	-	-	-	**5,402**
Lease receivables	-	-	-	-	-	-	18	**18**
Trade receivables and other short-term financial receivables	-	23	-	-	-	-	-	**23**
Other financial assets	-	100	-	-	-	-	-	**100**
Capital contributions	-	68	-	-	-	-	-	**68**
Other	-	32	-	-	-	-	-	**32**
TOTAL	**322**	**5,525**	**474**	**-**	**-**	**40**	**6,014**	**12,375**
Liabilities								
Loans and borrowings	-	-	-	-	4,789	-	-	**4,789**
Preferential loans and borrowings	-	-	-	-	1,549	-	-	**1,549**
Loans and borrowings	-	-	-	-	3,240	-	-	**3,240**
Bonds issued.	-	-	-	-	1,016	-	-	**1,016**
Derivative financial instruments	-	-	-	8	-	-	-	**8**
Trade and other financial liabilities	-	-	-	-	22	-	-	**22**
TOTAL	**-**	**-**	**-**	**8**	**5,827**	**-**	**-**	**5,835**

31 December 2016 (PLN millions)

23. Financial instruments (cont.)

23.2. Items of income, expenses, profits and losses recognized in the statement of comprehensive income by category of financial instruments

Year ended 31 December 2016	Assets measured at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
Dividends and profit sharing	-	-	-	-	-	874	**874**
Interest income/(cost)	3	204	8	(212)	(31)	1	**(27)**
Foreign exchange differences	-	-	5	(80)	69	-	**(6)**
Recognition of impairment losses	-	(8)	-	-	-	-	**(8)**
Other	-	-	-	(1)	-	-	**(1)**
Net profit/(loss)	**3**	**196**	**13**	**(293)**	**38**	**875**	**832**
Other comprehensive income	-	-	-	-	38	-	**38**
Comprehensive income	**3**	**196**	**13**	**(293)**	**76**	**875**	**870**

Year ended 31 December 2015	Assets measured at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
Dividends and profit sharing	-	-	-	-	-	914	**914**
Interest income/(cost)	10	199	8	(213)	(33)	1	**(28)**
Foreign exchange differences	-	-	(2)	-	-	-	**(2)**
Net profit/(loss)	**10**	**199**	**6**	**(213)**	**(33)**	**915**	**884**
Other comprehensive income	-	-	-	-	12	-	**12**
Comprehensive income	**10**	**199**	**6**	**(213)**	**(21)**	**915**	**896**

31 December 2016 (PLN millions)

23. Financial instruments (cont.)

23.3. Fair value of financial instruments

Some of the Company's financial assets and liabilities are measured at fair value at the end of each reporting period.

The table below analyses fair value measurements for financial assets and financial liabilities categorised into three level hierarchy:

- level 1 – fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- level 2 – fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3 – fair value based on unobservable inputs for the asset or liability.

	As at 31 December 2016 Level 2	As at 31 December 2015 Level 2
Assets		
Portfolio of financial assets	-	314
Hedging derivatives (CCIRS/IRS)	147	40
Derivatives (IRS)	-	8
Liabilities		
Derivatives (IRS)	-	8

Cross Currency Interest Rate Swaps (CCIRSs) and Interest Rate Swaps (IRSs) are measured at fair value by discounting future cash flows. The interest rates and the basis spread used in discounting are obtained from Bloomberg.

23.4. Fair value of financial instruments not measured at fair value on an ongoing basis

Except for the information given in the table below, the carrying amounts of financial assets and liabilities do not depart in a material way from their fair values.

Loan from ENERGA Finance AB (publ)	Carrying amount	Fair value Level 2
As at 31 December 2016	2,227	2,361
As at 31 December 2015	2,145	2,290

The fair value measurement of liabilities under loans has been estimated on the basis of an analysis of future cash flows discounted using market interest rates updated for 31 December 2016.

23.5. Description of material items in individual categories of financial instruments

23.5.1. Financial assets

Loans and receivables

Financial instruments classified by the Company as loans and receivables comprise: purchased bonds, cash pooling receivables, trade receivables, other receivables and capital contributions.

The purchased bonds, by issuer, are presented in the table below:

	As at 31 December 2016	As at 31 December 2015
ENERGA-OPERATOR SA	4,164	3,666
ENERGA Wytwarzanie SA	871	1,252
ENERGA Elektrownie Ostrołęka SA	116	140
ENERGA Kogeneracja Sp. z o.o.	51	94
ENERGA-OBRÓT SA	-	250
TOTAL, of which:	**5,202**	**5,402**
Long-term	3,959	4,621
Short-term	1,243	781

31 December 2016 (PLN millions)

23. Financial instruments (cont.)

Trade receivables and other current financial receivables	As at 31 December 2016	As at 31 December 2015
Not overdue	43	54
Overdue <30 days	2	1
Gross receivables	**45**	**55**
Impairment losses	-	-
Net receivables, of which	**45**	**55**
Long-term	12	32
Short-term	33	23

Capital contributions	As at 1 January 2016	Impairment loss recognized	As at 31 December 2016
RGK Sp. z o.o.	56	(8)	48
ENERGA Centrum Usług Wspólnych Sp. z o.o.	5	-	5
ENERGA Wytwarzanie SA	2	-	2
ENERGA Informatyka i Technologie Sp. z o.o.	5	-	5
Other	<1	-	<1
TOTAL	**68**	**(8)**	**60**

The value of the impairment losses on capital contributions is presented in note 23.6

Hedging derivatives

Hedging derivatives CCIRS are described in detail in Note 23.8.

Financial assets at fair value through profit or loss

The Company classifies as financial assets at fair value through profit or loss its investments in the portfolio of financial assets, which consists of participation units in the ENERGA Trading SFIO Fund.

Financial instruments excluded from the scope of IAS 39

The Company recognizes shares in subsidiaries and associates and financial lease receivables as the items of financial assets that are excluded from the scope of IAS 39.

Financial lease receivables related to the license were as follows, as at 31 December 2016 and 31 December 2015:

	As at 31 December 2016		As at 31 December 2015	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Up to 1 year	20	19	12	11
1 to 5 years	56	54	7	7
Over 5 years	21	21	-	-
TOTAL	**97**	**94**	**19**	**18**
Less financial income	(3)	-	(1)	-
TOTAL	**94**	**94**	**18**	**18**

The value of shares in subsidiaries and associates is presented in note 11.

23.5.2. Financial liabilities

All of the Company's financial liabilities are classified as financial liabilities measured at amortized cost, except for hedging derivatives. This category of the Company's financial instruments includes primarily contracted loans and borrowings, issued bonds and cash pooling liabilities.

Loans and borrowings

Loans and borrowings contracted as at 31 December 2016 and 31 December 2015 are presented in the table below:

31 December 2016 (PLN millions)

23. Financial instruments (cont.)

	As at 31 December 2016		As at 31 December 2015	
Currency	PLN	EUR	PLN	EUR
Reference rate	WIBOR	Fixed	WIBOR	Fixed
Value of the loan/borrowing				
in currency	2,736	503	2,644	504
in PLN	2,736	2,227	2,644	2,145
of which maturing in:				
up to 1 year (short-term)	270	20	188	19
1 to 2 years	297	-	218	-
2 to 3 years	310	-	256	-
3 to 5 years	625	2,207	557	2,126
over 5 years	1,234	-	1,425	-

Detailed information on contracted external financing is provided in Note 23.7.

Liabilities under bonds issued

Liabilities under bonds issued as at 31 December 2016 and 31 December 2015 are presented in the table below:

	As at 31 December 2016	As at 31 December 2015
Currency	PLN	PLN
Reference rate	WIBOR	WIBOR
Value of the issue		
in currency	1,020	1,016
in PLN	1,020	1,016
of which maturing in:		
up to 1 year (short-term)	20	16
2 to 3 years	1,000	-
3 to 5 years	-	1,000

Detailed information on bonds issued is provided in Note 23.7.

23.6. Impairment losses on financial assets

In 2016, impairment losses on the capital contributions to RGK Sp. z o.o. were increased by PLN 8 m. At the end of the reporting period, impairment losses on financial assets relating to the recapitalization of RGK Sp. z o.o. were PLN 34 m, while shares in RGK Sp. z o.o. were PLN 29 m. Impairment losses on shares are presented in Note 11.

23.7. Available external financing

In the current reporting period, within the framework of external financing from International Financial Institutions, on 19 December 2016 the last tranche in the amount of PLN 276 m of the loan from the European Bank of Reconstruction and Development ("EBRD") granted under the agreement of 29 April 2010.

In the current reporting period and as at the last day of the reporting period and as at the date of approving these financial statements for publication, there were no events of default on contractual obligations under the terms and conditions of any external funding acquired.

The external financing available as at 31 December 2016 is presented in the table below:

31 December 2016 (PLN millions)

23. Financial instruments (cont.)

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit (for the ENERGA SA Group)	Available financing amount (for the ENERGA SA Group)	Nominal indebtedness of ENERGA SA as at 31.12.2016 (for the ENERGA SA Group)	Repayment date
European Investment Bank	Loan	ENERGA-OPERATOR SA Investment Program	16-12-2009	1,050	-	720	15-12-2025
European Investment Bank	Loan	ENERGA-OPERATOR SA Investment Program	10-07-2013	1,000	-	800	15-09-2031
European Bank for Reconstruction and Development	Loan	ENERGA-OPERATOR SA Investment Program	29-04-2010	1,076	-	741	18-12-2024
European Bank for Reconstruction and Development	Loan	ENERGA-OPERATOR SA Investment Program	26-06-2013	800	-	302	18-12-2024
Nordic Investment Bank	Loan	ENERGA-OPERATOR SA Investment Program	30-04-2010	200	-	119	15-06-2022
ENERGA Finance AB (publ)	Loan	Current operations	21-03-2013	2,207	-	2,207*	19-03-2020
Bondholders	Domestic bonds	General corporate purposes	19-10-2012	1,000	-	442	19-10-2019
PKO Bank Polski SA	Credit limit	General corporate purposes	30-08-2011	3	-	3	31-12-2019
PKO Bank Polski SA	Credit limit	General corporate purposes	12-10-2011	300	300	-	07-06-2021
PKO Bank Polski SA	Bonds	ENERGA Elektrownie Ostrołęka SA Investment Program	30-05-2012	100	67	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	121	79**	19-09-2017
Bank PEKAO SA	Renewable loan	General corporate purposes	13-10-2011	500	500	-	29-05-2020
Bank PEKAO SA	Loan	ENERGA Elektrownie Ostrołęka SA Investment Program	30-05-2012	85	-	21	29-05-2022
Nordic Investment Bank	Loan	FW Myślino construction	23-10-2014	68	-	61	15-09-2026
TOTAL				**8,589**	**988**	**5,495**	

* liability in amount of EUR 499 m converted using the middle exchange rate for 31 December 2016 ** the limit amount has been used in the form of a bank guarantees

31 December 2016 (PLN millions)

23. Financial instruments (cont.)

23.8. Cash flow hedge accounting

The special purpose vehicle ENERGA Finance AB (publ) (the issuer of Eurobonds – see Note 23.7) and ENERGA SA signed two loan agreements denominated in EUR for the total amount of EUR 499 m. In order to hedge currency risk under these loans, in 2013 and in July 2014, the Company concluded cross-currency interest rate swap transactions with nominal values of EUR 400 m (CCIRS I) and EUR 25 m (CCIRS II), respectively.

As a hedged position under the above hedging relationships the Company designated the foreign currency risk arising from intra-group loans denominated in EUR. The foreign currency risk is hedged at the level of 85% of the total nominal amount of loans.

As the hedge the Company designated CCIRS transactions under which the Company receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Company correspond with the cash flows under the intra-group loans. The Company expects that the hedged cash flows will continue until March 2020.

In January 2016, the Company concluded interest rate swap transactions to hedge the interest rate risk arising from the financing used under (see Note 23.7):

- loan agreement concluded with EIB in 2013 – PLN 200 m;
- loan agreement concluded with EBRD in 2010 – PLN 200 m.

In August 2016, the Company additionally concluded IRS transactions with similar characteristics for the following:

- loan agreement concluded with EBRD in 2010 – PLN 150 m;
- loan agreement concluded with EBRD in 2013 – PLN 150 m;
- loan agreement concluded with EIB in 2013 – PLN 150 m.

As hedged positions under hedging relationships, the Company designated the risk related to the WIBOR 3M interest rate arising from interest payments on the financial liabilities stated above in the period no longer than 2 years from the date of the hedging transactions. In the case of the PLN 150 m transaction pertaining to the 2013 EIB loan agreement, this is a four-year period.
As the hedge the Company designated the IRS transactions under which the Company receives floating-rate cash flows in PLN and pays fixed-rate cash flows in PLN. Interest cash flows received by the Company correspond with interest cash flows under the hedged financial liabilities. The Company expects that the hedged cash flows will continue until June 2020 and not longer.

The fair value of hedging is as follows:

	Value	Recognition in the statement of financial position
As at 31 December 2016		
CCIRS I	135	Assets – Derivative financial instruments
CCIRS II	8	Assets – Derivative financial instruments
IRS	4	Assets – Derivative financial instruments
As at 31 December 2015		
CCIRS I	38	Assets – Derivative financial instruments
CCIRS II	2	Assets – Derivative financial instruments

Under cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge, less deferred tax) increased in the reporting period by PLN 31 m.

The table below presents changes in the cash flow hedge reserve resulting from the hedge accounting in the reporting period:

	Year ended 31 December 2016	Year ended 31 December 2015
At the beginning of the reporting period	**10**	**-**
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	107	12
Accrued interest transferred from the reserve to financial income/costs	-	-
Revaluation of hedging instruments transferred from the reserve to financial income/costs	(69)	-
Income tax on other comprehensive income	(7)	(2)
At the end of the reporting period	**41**	**10**

23. Financial instruments (cont.)

As at 31 December 2016, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

23.9. Collateral securing repayment of liabilities

As at the end of the reporting period, there was no collateral established on the Company's assets.

24. Financial risk management principles and objectives

The major financial instruments used by the Company include bank loans, bonds issued and purchased, cash, short-term investments, cash pooling receivables and liabilities and hedging instruments. The main purpose of these financial instruments is to secure funds to finance the Company's operations or to mitigate financial risks.

Key risks generated by the Company's financial instruments include:

- market risk,
- liquidity risk,
- credit risk.

The Management Board verifies and agrees the principles of managing these risks. In 2014, the Management Board of ENERGA SA approved and introduced in the Company the ENERGA Group Liquidity Management Policy and the ENERGA Group Market Risk Management Policy (applicable to FX risk and interest rate risk). The two documents have been introduced across the ENERGA Group, which allows the holding company to manage these risks effectively. Both documents define financial risk management procedures for individual Group companies and introduce appropriate reporting obligations.

24.1. Market risk

The Company identifies the following major market risks to which it is exposed:

- interest rate risk,
- foreign exchange risk.

For the purposes of sensitivity analysis to changes in market risk factors, the Company uses scenario analysis method, which uses expert scenarios reflecting the Company's subjective judgment on how individual market risk factors will develop in the future.

Scenario analyses presented in this item aim to analyze the impact of changes in market risk factors on the Company's financial results. Only those items, which satisfying the definition of financial instruments, are subject to analysis.

Interest rate risk

The Company is exposed to interest rate risk in connection with the fact that it holds assets and liabilities for which income and expenses are calculated on the basis of market interest rates, which are subject to change.

The Company identifies exposure to the risk of WIBOR interest rate changes, which involves primarily long-term financial debt and purchased bonds. The Company's financial policy envisages that the risk of changing interest rates is mitigated by keeping a portion of debt at fixed rates. As at 31 December 2016, 51% of financial debt recorded in the statement of financial position (loans and borrowings and bonds issued) bore a fixed interest rate or was hedged against interest rate risk with IRS transactions.

In interest rate risk sensitivity analysis, the Company uses a parallel shift of the interest rate curve by the possible change in reference interest rates in the coming year. The levels of reference interest rates on the final day of a reporting period were used for this purpose. The extent of potential changes to interest rates was assessed on the basis of volatility of implied options per interest rate quoted on the inter-bank market. in the case of WIBOR, due to the low liquidity of the interest rate option market, the shift of the yield curve has been assumed arbitrarily.

In the case of analysis of sensitivity to interest rate changes, the effect of changes to risk factors would be carried to:

- other comprehensive income for hedging derivatives,
- interest income/cost for other financial instruments.

The table below presents sensitivity of financial result before tax and other comprehensive income to reasonably possible interest rate changes, assuming that there are no variations in other risk factors for these financial instrument classes that are exposed to interest rate risk:

31 December 2016 (PLN millions)

24. Financial risk management principles and objectives (cont.)

Financial assets and liabilities	31 December 2016		Interest rate risk sensitivity analysis as at 31 December 2016			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR + 50 bp*	*WIBOR - 50 bp*	*EURIBOR + 20 bp*	*EURIBOR - 20 bp*
Assets						
Cash pooling receivables	577	577	3	(3)	-	-
Cash and cash equivalents	1,295	1,295	6	(6)	-	-
Bonds	5,202	4,422	22	(22)	-	-
Liabilities						
Cash pooling liabilities	1,009	1,009	(5)	5	-	-
Loans and borrowings	4,963	2,736	(14)	14	-	-
Bonds and debt securities issued	1,020	1,020	(5)	5	-	-
Change in profit before tax			**7**	**(7)**	-	-
Hedging derivatives (assets)	147	147	35	(35)	(14)	14
Change in other comprehensive income			**35**	**(35)**	**(14)**	**14**

Financial assets and liabilities	31 December 2015		Interest rate risk sensitivity analysis as at 31 December 2015			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR + 50 bp*	*WIBOR - 50 bp*	*EURIBOR + 20 bp*	*EURIBOR - 20 bp*
Assets						
Cash and cash equivalents	474	474	2	(2)	-	-
Bonds	5,402	4,260	21	(21)	-	-
Derivatives (IRS)	8	8	2	(2)	-	-
Liabilities						
Loans and borrowings	4,789	2,644	(13)	13	-	-
Bonds and debt securities issued	1,016	1,016	(5)	5	-	-
Derivatives (IRS)	8	8	2	(2)	-	-
Change in profit before tax			**9**	**(9)**	-	-
Hedging derivatives (assets)	40	40	38	(39)	(17)	18
Change in other comprehensive income			**38**	**(39)**	**(17)**	**18**

Foreign exchange risk

With regard to financial transactions, the Company is exposed to foreign exchange risk because of loans from a subsidiary – ENERGA Finance AB (publ). To hedge that risk, the Company has entered into cross-currency interest rate swap (CCIRS) transactions and has implemented hedge accounting (see the description in Note 8.12.4). In addition, the Company identifies foreign exchange risk relating to its cash.

In the foreign exchange risk sensitivity analysis, the possible fluctuations of currency exchange rates were calculated on the basis of annual variability implied for currency options quoted on the inter-bank market for the given currency pair at the date ending the reporting period.

The table below presents sensitivity of the financial result before tax and other comprehensive income to reasonably possible changes of exchange rates, assuming that there are no changes of other risk factors for such classes of financial instruments which are exposed to the exchange rate change risk:

31 December 2016 (PLN millions)

24. Financial risk management principles and objectives (cont.)

Financial assets and liabilities	31 December 2016		FX risk sensitivity analysis as at 31 December 2016	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	*PLN*	*EUR/PLN rate + 8%*	*EUR/PLN rate - 8%*
Assets				
Cash and cash equivalents	1,295	124	10	(10)
Hedging derivatives (assets)	147	2,120	170	(170)
Liabilities				
Loans and borrowings	4,963	2,227	(178)	178
Change in profit before tax			**(17)**	**17**
Change in other comprehensive income*			**19**	**(19)**

* in respect to hedging derivatives

Financial assets and liabilities	31 December 2015		FX risk sensitivity analysis as at 31 December 2015	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	*PLN*	*EUR/PLN rate + 7%*	*EUR/PLN rate - 7%*
Assets				
Cash and cash equivalents	474	445	31	(31)
Hedging derivatives (assets)	40	2,084	146	(146)
Liabilities				
Loans and borrowings	4,789	2,145	(150)	150
Change in profit before tax			**8**	**(8)**
Change in other comprehensive income*			**19**	**(19)**

* in respect to hedging derivatives

24.2. Credit risk

The income and receivables generated mainly in transactions with subsidiaries follow from the specific line of ENERGA SA's business. The financial standing of Capital Group companies is monitored on an ongoing basis by appropriate task forces of ENERGA SA, and therefore exposure to bad debt risk is insignificant.

With respect to other financial assets, such as cash and cash equivalents, credit risk arises when the other party to a contract is unable to make a payment and the maximum exposure to this risk equals the carrying amount of such instruments.

In accordance with the adopted Financial Policy of the ENERGA Group, ENERGA SA is responsible for arranging debt financing on financial market for all Group companies and for distributing such funds to operating companies using the mechanism of internal bond issues. ENERGA SA acts here in the capacity of an investor purchasing long-term securities issued by ENERGA Group companies. This structure generates credit risk for ENERGA SA associated with the service of bonds issued by the company.

As at 31 December 2016, the par value of the bonds purchased by ENERGA SA and issued by ENERGA Group companies was as follows:

- ENERGA-OPERATOR SA – PLN 4,125 m,
- ENERGA Wytwarzanie SA – PLN 842 m,
- ENERGA Kogeneracja Sp. z o.o. – PLN 51 m,
- ENERGA Elektrownie Ostrołęka SA – PLN 114 m.

24.3. Liquidity risk

The Company monitors the risk of insufficient funds, which are required to settle the liabilities at maturity dates, using a tool for periodic liquidity planning. This tool is based on projected cash flows from operating, investing and financing activities, which are prepared by all Group companies. Additionally regular reviews are conducted to test reliability of the projections.

On 4 January 2016, a one-way zero-balancing cash pooling service was launched in the ENERGA Group for funds in Polish zloty. This tool allows the holding company to manage the Group's liquidity in an efficient fashion. According to the assumptions about the structure, at the end of each business day, cash owned by the Group's companies is consolidated on ENERGA SA's accounts and on the following day it may be used to finance payment liabilities of the individual participants. This tool makes it possible to finance the operations first of all with the funds generated by the Group and only then with debt financing.

31 December 2016 (PLN millions)

24. Financial risk management principles and objectives (cont.)

In respect to liquidity risk management, the Company aims at maintaining the balance between continuity and flexibility of financing through use of various sources of financing, such as overdrafts, bank loans, bonds, Eurobonds and financial lease agreements.

Detailed information on contracted external financing obtained by the Company is set out in Note 23.7.

The table below presents the Company's financial liabilities by maturity dates, based on contractual, undiscounted payments (at nominal values, including payments of possible interest).

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	TOTAL
31 December 2016					
Loans and borrowings	118	313	3,733	1,336	**5,500**
Bonds and debt securities issued	9	26	1,074	-	**1,109**
Cash pooling liabilities	1,009	-	-	-	**1,009**
Trade liabilities	19	-	-	-	**19**
Other financial liabilities	1	-	-	-	**1**
TOTAL	**1,156**	**339**	**4,807**	**1,336**	**7,638**

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	TOTAL
31 December 2015					
Loans and borrowings	106	243	3,734	1,588	**5,671**
Bonds and debt securities issued	8	23	1,117	-	**1,148**
Trade liabilities	22	-	-	-	**22**
Other financial liabilities	1	-	-	-	**1**
TOTAL	**137**	**266**	**4,851**	**1,588**	**6,842**

The Company's financial assets are highly liquid. They are comprised mainly of cash and cash equivalents. The structure of cash and cash equivalents is presented in Note 13.

OTHER NOTES

25. Capital management

The Company manages its capital in order to maintain investment-grade credit rating and safe financial ratios to support the Group's operating activity and increase its value for shareholders. This goal is achieved through the internal regulations adopted in the Group. The Company is the only entity that is responsible for running the Group's debt policy and for entering into hedging transactions.

The Company monitors its basic debt ratio, that is net debt to EBITDA, estimated on the consolidated basis. As at the balance sheet date, this ratio was 2.3, while the financing agreements called for the level of 3.5.

The level of the ratio is also regularly monitored by institutions financing the Company and by rating agencies; therefore, it has a significant influence on the evaluation of the Company's credit rating and consequently the availability and cost of debt financing.

The EBITDA calculation method, i.e. operating profit /(loss) (calculated as the profit /(loss) before tax adjusted for the participation in the profit/(loss) of entities accounted for under the equity method, financial income and financial costs) plus amortization and depreciation and impairment losses on non-financial non-current assets, was changed in the current reporting period. In the previous periods, EBITDA was not adjusted for impairment losses on non-financial non-current assets. This modification chiefly aims to enhance transparency and simplify analyses by ensuring comparability for the key parameter in the industry in which the Group operates. Comparative data have been restated accordingly.

The data below originate from the consolidated financial statements of the ENERGA Group for the year ended 31 December 2016.

31 December 2016 (PLN millions)

25. Capital management (cont.)

	As at 31 December 2016	As at 31 December 2015 (restated)
Interest-bearing loans and borrowings	3,420	2,678
Bonds and debt securities issued	2,717	3,192
Cash and cash equivalents	(1,471)	(1,669)
Net debt	**4,666**	**4,201**
EBITDA	**2,027**	**2,216**
Net debt / EBITDA	**2.30**	**1.90**

26. Contingent assets and liabilities

There are no significant contingent assets and liabilities in the Company.

27. Employment structure

The average headcount in the Company in the year ended 31 December 2016 and 31 December 2015 was 124 and 101, respectively.

28. Other information significantly affecting the assessment of assets, financial position and the financial result of the Company

On 30 November 2016, ENERGA SA together with PGE S.A., Enea S.A. and PGNiG Termika S.A. submitted a new proposal to EDF International SAS ("EDF") to purchase shares in EDF companies in Poland holding conventional generation assets and carrying out service activities. The new proposal was submitted in connection with the approaching date of expiry of the proposal submitted on 16 September 2016. The new proposal will be valid for 90 days of the date of submission and will be conditional on, among others, the outcome of the due diligence process, which will provide the basis for making further decisions regarding the transaction, if any.

On 8 December 2016, ENERGA SA, ENEA SA and Elektrownia Ostrołęka SA signed an investment agreement regarding the execution of the new power unit construction project in Ostrołęka. The condition precedent to the transaction was obtaining, an approval from the President of the Office of Competition and Consumer Protection ("UOKiK") for the concentration involving the purchase of 50% of shares in the special-purpose vehicle Elektrownia Ostrołęka SA by ENEA SA. On 11 January 2017, the President of UOKiK issued an unconditional approval, which means that the condition precedent has been fulfilled.

29. Subsequent events

On 18 January 2017, the Management Board of ENERGA SA along with ENEA SA, PGE SA, PGNiG Technologie SA ("Investors") and Polimex-Mostostal SA ("Polimex") signed an investment agreement under which the Investors undertook to make a capital investment in Polimex. ENERGA SA subscribed to 37.5 million newly-issued shares with the par value of PLN 2 each, for the total amount of PLN 75 m and 1.5 million Polimex shares from SPV Operator sp. z o.o. approved for trading on the Warsaw Stock Exchange in a block transaction for the total amount of PLN 6 m. As a result of this transaction, its stake in the Company reached approximately 16%.

Management Board Members

Daniel Obajtek ……………………………………………...
President of the Management Board

Jacek Kościelniak ……………………………………………...
Vice-President of the Management Board for Financial Matters

Grzegorz Ksepko …………………………….…………..
Vice-President of the Management Board for Corporate Matters

Alicja Klimiuk …………………………….…………..
Vice-President of the Management Board for Operations

ENERGA Centrum Usług Wspólnych Sp. z o.o. ……………………………………………
Entity responsible for keeping accounting ledgers and for preparing the financial statements

ENERGA Centrum Usług Wspólnych Sp. z o.o.
al. Grunwaldzka 472, 80-309 Gdańsk
KRS 0000049425, NIP 879-229-21-45, REGON 871566320 ……………………………………………

Gdańsk, 29 March 2017