CAPITAL GROUP OF GRUPA KĘTY S.A.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY THE EUROPEAN UNION

(in thousand PLN)

Consolidated Financial Statements for the period from 01.01.2016 to 31.12.2016 (in thousand PLN)

CONSOLIDATED INCOME STATEMENT

INCOME STATEMENT	Note	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Total operating income, including:		**2,293,113**	**2,045,446**
Sales revenue	12.1	2,267,427	2,027,146
- including from the sales to an associate		383	1,232
Other operating income	12.3	25,686	18,300
Share of net profit of entities accounted for using the equity method	21	**2,641**	**1,515**
Change of inventories of finished goods and work in progress		**38,502**	**(8,321)**
Cost of manufacturing products for own needs		**13,175**	**12,065**
Total operating costs, including:		**(2,065,104)**	**(1,806,264)**
Depreciation/Amortisation	16/19	(111,833)	(91,711)
Consumption of materials, energy and the value of goods and materials sold	12.8	(1,374,678)	(1,222,086)
External services		(194,071)	(173,597)
Taxes and charges		(13,626)	(13,831)
Employee benefits		(331,883)	(272,177)
Other operating costs	12.4	(39,013)	(32,862)
Net profit on operating activities		**282,327**	**244,441**
Finance income	12.5	1,790	1,120
Finance costs	12.6	(16,637)	(16,079)
Profit before tax		**267,480**	**229,482**
Income tax expense	13	10,410	(19,669)
Net profit on continuing operations		**277,890**	**209,813**
Attributable to non-controlling interests		0	0
Attributable to equity holders of the parent		277,890	209,813
Earnings per share attributable to equity holders of the parent (PLN)	14		
Basic		29.40	22.27
Diluted		29.34	22.25

In 2016 and 2015, the Group did not discontinue any operations.

Consolidated Financial Statements for the period from 01.01.2016 to 31.12.2016 (in thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Net profit for the period		**277,890**	**209,813**
Other comprehensive income to be charged to profit or loss		**9,054**	**(7,084)**
Cumulative translation adjustment		411	(324)
Valuation of cash flow hedging instruments	36.1.1	7,540	(4,256)
Result from cash flow hedge		2,608	(3,310)
Income tax related to other comprehensive income to be charged to profit or loss		(1,505)	806
Other comprehensive income not to be charged to profit or loss		**846**	**156**
Revaluation of property, plant and equipment		1,658	0
Actuarial gains/losses	23.3	(590)	192
Income tax related to other comprehensive income not to be charged to profit or loss		(222)	(36)
Comprehensive income for the period		**287,790**	**202,885**
Comprehensive income attributable to:			
Non-controlling interests		0	0
Equity holders of the parent		287,790	202,885

Consolidated Financial Statements for the period from 01.01.2016 to 31.12.2016 (in thousand PLN)

CONSOLIDATED BALANCE SHEET

ASSETS	Note	31.12.2016 (audited)	31.12.2015 (audited)
I. Non-current assets		**1,395,571**	**1,140,961**
Property, plant and equipment	16	1,176,582	947,657
Intangible assets	19	49,173	57,883
Goodwill	12.7	19,954	19,866
Investment properties	18	6,490	11,927
Other investments	22	4,217	1,823
Long-term receivables	25	13,573	29,243
Deferred income tax assets	13.1	125,582	72,562
II. Current assets		**927,264**	**817,731**
Inventories	24	393,632	323,330
Current tax receivables	13.3	863	4,315
Trade and other receivables	26	452,584	415,183
Short-term investments	22	219	71
Derivative financial instruments	36	5,024	2,128
Cash and cash equivalents	27	74,942	72,704
Total assets		**2,322,835**	**1,958,692**

EQUITY AND LIABILITIES	Note	31.12.2016 (audited)	31.12.2015 (audited)
I. Equity		**1,405,361**	**1,278,843**
Share capital	28.1	67,534	67,505
Share premium	28.2	23,385	22,043
Non-registered capital from the issue of shares	28.3	2,890	0
Capital from share based payments	28.5	18,592	13,959
Result from cash flow hedging transactions	28.7	337	(1,872)
Capital from the revaluation of hedging instruments	28.6	2,509	(3,925)
Capital from the revaluation of property, plant and equipment	28.4	3,787	3,003
Retained earnings	28.8	1,313,762	1,205,976
Cumulative translation adjustment	28.9	(27,435)	(27,846)
Equity attributable to equity holders of the parent		**1,405,361**	**1,278,843**
Equity of non-controlling interests	28.8	0	0
II. Long-term liabilities		**227,631**	**171,553**
Liabilities due to borrowings and finance lease	29.1	138,541	90,601
Other liabilities	31.1	1,834	2,098
Provisions	30	2,791	1,188
Provisions due to employee benefits	23.2	10,081	5,559
Deferred income	32	36,111	37,230
Deferred income tax liability	13.1	38,273	34,877
III. Short-term liabilities		**689,843**	**508,296**
Liabilities due to borrowings and finance lease	29.1	333,865	224,219
Income tax liabilities	13.3	14,471	11,800
Trade and other payables	31.2	298,254	239,070
Provisions and accruals	30	37,737	21,769
Derivative financial instruments	36	1,844	7,857
Deferred income	32	3,672	3,581
Total equity and liabilities		**2,322,835**	**1,958,692**

Consolidated Financial Statements for the period from 01.01.2016 to 31.12.2016 (in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent											
	Share capital	Share premium	Non-registered capital from the issue of shares	Capital from share based payments	Result from cash flow hedging transactions	Capital from the revaluation of hedging instruments	Capital from the revaluation of property, plant and equipment	Retained earnings	Cumulative translation adjustment	**Equity of equity holders of the parent**	Equity of non-controlling interests	**Total equity**
Equity as at 1 January 2016 (audited)	**67,505**	**22,043**	**0**	**13,959**	**(1,872)**	**(3,925)**	**3,003**	**1,205,976**	**(27,846)**	**1,278,843**	**0**	**1,278,843**
Comprehensive income for the period:	0	0	0	0	2,209	6,434	1,343	277,393	411	**287,790**	0	**287,790**
Net profit for the period	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*277,890*	*0*	***277,890***	*0*	***277,890***
Other comprehensive income	*0*	*0*	*0*	*0*	*2,209*	*6,434*	*1,343*	*(497)*	*411*	***9,900***	*0*	***9,900***
Valuation of share based payments	0	0	0	4,633	0	0	0	0	0	**4,633**	0	**4,633**
Transfer due to depreciation/amortisation	0	0	0	0	0	0	(559)	559	0	**0**	0	**0**
Payment of dividend	0	0	0	0	0	0	0	(170,166)	0	**(170,166)**	0	**(170,166)**
Issue of shares	29	1,342	2,890	0	0	0	0	0	0	**4,261**	0	**4,261**
Equity as at 31 December 2016 (audited)	**67,534**	**23,385**	**2,890**	**18,592**	**337**	**2,509**	**3,787**	**1,313,762**	**(27,435)**	**1,405,361**	**0**	**1,405,361**

Consolidated Financial Statements for the period from 01.01.2016 to 31.12.2016 (in thousand PLN)

	Attributable to equity holders of the parent											
	Share capital	Share premium	Non-registered capital from the issue of shares	Capital from share based payments	Result from cash flow hedging transactions	Capital from the revaluation of hedging instruments	Capital from the revaluation of property, plant and equipment	Retained earnings	Cumulative translation adjustment	**Equity of equity holders of the parent**	Equity of non-controlling interests	**Total equity**
Equity as at 1 January 2015 (audited)	**67,352**	**14,512**	**1,601**	**11,244**	**1,438**	**(475)**	**3,174**	**1,131,908**	**(27,522)**	**1,203,232**	**0**	**1,203,232**
Comprehensive income for the period:	0	0	0	0	(3,310)	(3,450)	0	209,969	(324)	**202,885**	0	**202,885**
Net profit for the period	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*209,813*	*0*	***209,813***	*0*	***209,813***
Other comprehensive income	*0*	*0*	*0*	*0*	*(3,310)*	*(3,450)*	*0*	*156*	*(324)*	***(6,928)***	*0*	***(6,928)***
Valuation of share based payments	0	0	0	2,715	0	0	0	0	0	**2,715**	0	**2,715**
Transfer due to depreciation/amortisation	0	0	0	0	0	0	(171)	171	0	**0**	0	**0**
Payment of dividend	0	0	0	0	0	0	0	(136,072)	0	**(136,072)**	0	**(136,072)**
Issue of shares	153	7,531	(1,601)	0	0	0	0	0	0	**6,083**	0	**6,083**
Equity as at 31 December 2015 (audited)	**67,505**	**22,043**	**0**	**13,959**	**(1,872)**	**(3,925)**	**3,003**	**1,205,976**	**(27,846)**	**1,278,843**	**0**	**1,278,843**

Consolidated Financial Statements for the period from 01.01.2016 to 31.12.2016 (in thousand PLN)

CONSOLIDATED CASH FLOW STATEMENT

Cash flow statement	Note	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Cash flow from operating activities			
Profit before tax		**267,480**	**229,482**
Adjustments:		**126,758**	**95,246**
Share of net profit of entities accounted for using the equity method		(2,641)	(1,515)
Depreciation/Amortisation	16.19	111,833	91,711
Recognition/(reversal) of write-downs		1,023	519
Profit from net currency translation differences		1,603	(184)
Change in the valuation of investment properties		1,009	656
(Profit) / loss from sales of property, plant and equipment		(184)	(243)
Interest and share of profits		7,444	5,096
Proceeds/(expenses) related to hedging instruments charged to equity		2,209	(3,307)
Costs of share based payments		4,634	2,715
Valuation of currency forwards/futures		(397)	(302)
Gain from a bargain purchase		(1,176)	0
Other items (net)		1,401	100
Cash flow from operating activities before the change of working capital		**394,238**	**324,728**
Change in inventories		(58,532)	(14,847)
Change in net receivables		(30,207)	(11,706)
Change in short-term liabilities, except for loans		39,351	4,448
Change in provisions		8,257	(662)
Change in deferred income		(1,581)	(1,988)
Net cash generated from operating activities		**351,526**	**299,973**
Tax paid		(36,404)	(32,581)
Net cash from operating activities		**315,122**	**267,392**
Cash flow from investing activities			
(+) Proceeds:		**1,159**	**1,267**
Sales of intangible assets and property, plant and equipment		1,147	1,232
Sales of financial assets		0	0
Interest received		0	14
Other proceeds		12	21
(-) Expenses:		**(271,261)**	**(207,302)**
Acquisition of intangible assets and property, plant and equipment		(261,307)	(194,981)
Expenditure on acquisitions of other entities		(9,796)	(12,321)
Cash loans granted		(158)	0
Net cash from investing activities		**(270,102)**	**(206,035)**
Cash flow from financing activities			
(+) Proceeds:		**276,959**	**213,863**
Net proceeds from the issue of shares		4,261	7,685
Proceeds from borrowings		272,698	206,178
(-) Expenses:		**(319,742)**	**(268,946)**
Dividends and other payments to owners		(170,167)	(136,059)
Repayments of borrowings		(142,112)	(127,442)
Finance lease rentals		(568)	(216)
Interest		(6,895)	(5,229)
Net cash from financing activities		**(42,782)**	**(55,083)**
Total net cash flow:		**2,238**	**6,274**
- change in cash due to currency translation differences		0	0
Cash and cash equivalents at the beginning of the period		**72,704**	**66,430**
Cash and cash equivalents at the end of the period	**27**	**74,942**	**72,704**

COMPLEMENTARY INFORMATION AND EXPLANATIONS

1. General information

The Capital Group of Grupa Kęty S.A. ('the Group') comprises the parent company, namely Grupa Kęty S.A. ('the parent', 'the parent company', 'the Company') and its subsidiaries (see note 4).

Grupa Kęty S.A. is:
- a joint-stock company incorporated in Poland with its registered office in **Kęty, at ul. Kościuszki 111.**
- registered in the District Court in Kraków, XII Economic Division of the National Court Register (KRS) in the Register of Entrepreneurs under No. **KRS 0000121845**;
- listed on Warsaw Stock Exchange under No. **ISIN PLKETY000011** and classified in the metal sector.

The effective period of the operation of the parent company and of the entities of the Capital Group, except for the entities being liquidated, is indefinite.

The Group's basic range of activity includes the production, trade and the rendering of services related to the processing of aluminium and its alloys and related to the manufacturing of plastic and paper packaging materials. In addition, the Group is involved in activities related to the provision of specialist construction services associated with the preparation and assembly of aluminium systems, and also in the trade intermediation, supplies, marketing and other activities.

2. The Management Board of the parent company

The parent company's Management Board, as at the balance sheet date, comprised:

1. Dariusz Mańko – President of the Management Board/Chief Executive Officer
2. Adam Piela – Member of the Management Board/Chief Financial Officer

In the reporting period and by the date of the approval of these financial statements for publication, there were no membership changes in the Company's Management Board.

3. The approval of the financial statements

These consolidated financial statements were approved for publication by the Management Board on 16 March 2017.

4. Group composition

The Group comprises Grupa Kęty S.A. as well as the following subsidiaries:

Complementary information and explanations (in thousand PLN)

Company name	Registered office	Core business	Parent's name	Shares in the basic capital as at 31-12-2016	Shares in the basic capital as at 31-12-2015	Date of control take-over	Reporting segment
Alupol Packaging S.A.	Tychy, Poland	Production of and trade in plastic packaging	Grupa Kęty S.A.	100.00%	100.00%	04/1998	FPS
Aluprof S.A.	Bielsko-Biała, Poland	Production of construction woodwork	Grupa Kęty S.A.	100.00%	100.00%	06/1998	ASS
Alutech Sp. z o.o. w likwidacji	Kęty, Poland	Production, trade and provision of services	Grupa Kęty S.A.	100.00%	100.00%	03/1999	Other
Dekret Sp. z o.o.	Kęty, Poland	Accounting and bookkeeping services	Grupa Kęty S.A.	100.00%	100.00%	09/1999	Other
Alu Trans System Sp. z o.o.	Wrocław, Poland	Production	Grupa Kęty S.A.	100.00%	100.00%	04/2000	Other
Aluprof Hungary	Dunakeshi, Hungary	Trade and provision of services	Aluprof S.A.	100.00%	100.00%	07/2000	ASS
Metalplast-Stolarka sp. z o.o.*	Bielsko-Biała, Poland	Production of construction joinery	Grupa Kęty S.A.	100.00%	100.00%	07/2000	ASS
Alupol LLC	Borodianka, Ukraine	Production of aluminium sections	Aluform Sp. z o.o.	100.00%	100.00%	12/2004	EPS
Aluprof Deutschland GmbH	Schwanewede, Germany	Sales of aluminium systems	Aluprof S.A.	100.00%	100.00%	02/2005	ASS
Aluprof System Romania s.r.l	Bucharest, Romania	Sales of aluminium systems	Aluprof S.A.	100.00%	100.00%	05/2005	ASS
Aluprof System Czech s.r.o.	Ostrava, Czech Republic	Sales of window and door joinery from aluminium and PVC	Aluprof S.A.	100.00%	100.00%	05/2005	ASS
Aluprof UK Ltd.	Altrincham, UK	Sales of aluminium systems	Aluprof S.A.	100.00%	100.00%	05/2006	ASS
ROMB S.A. *	Złotów, Poland	Production and provision of services	Aluprof S.A.	100.00%	100.00%	04/2007	ASS
Alupol Packaging Kęty Sp. z o.o.	Kęty, Poland	Production and trade	Alupol Packaging S.A.	100.00%	100.00%	05/2009	FPS
Aluform Sp. z o.o.	Tychy, Poland	Production and trade	Grupa Kęty S.A.	100.00%	100.00%	06/2009	EPS
Aluprof System Ukraina	Kiev, Ukraine	Trade – sales of aluminium systems	Aluprof S.A.	100.00%	100.00%	11/2009	ASS
Aluprof Serwis Sp. z o.o.	Bielsko-Biała, Poland	Scientific research and development works	Aluprof S.A.	100.00%	100.00%	1/2012	ASS
Grupa Kęty Italia s.r.l.	Milan, Italy	Trading intermediation	Grupa Kęty S.A.	100.00%	100.00%	5/2014	EPS
Marius Hansen Facader A/S	Viborg, Denmark	Production and assembly of woodwork	Aluprof S.A.	100.00%	100.00%	6/2014	ASS
Aluprof System USA, Inc	Wilmington, USA	Distribution of aluminium systems for the building industry	Aluprof S.A.	100.00%	100.00%	7/2014	ASS
Alupol Films Sp. z o.o.	Oświęcim, Poland	Production and trade	Alupol Packaging Kęty Sp. z o. o.	100.00%	100.00%	12/2014	FPS
Aluprof Schelfhaut N.V.	Dendermonde, Belgium	Sales of aluminium systems	Aluprof S.A.	100.00%	100.00%	6/2015	ASS
Aluminium Kety Emmi d.o.o.	Slovenska Bistrica, Slovenia	Processing of aluminium profiles	Aluform Sp. z o.o.	100.00%	-	6/2016	EPS
Aluminium Kety Deutschland GmbH	Dortmund, Germany	Trade and marketing	Aluform Sp. z o.o.	100.00%	-	6/2016	EPS

*As part of the implementation of Strategy 2020, Metalplast Stolarka Sp. z o.o., which so far has been a part of the Building Services Segment, and Romb S.A., which so far has been a part of the Building Accessories Segment, have become a part of the Aluminium Systems Segment.

As at the balance sheet date and as at the previous balance sheet date, the Group's share in the total number of votes in subsidiaries equalled the Group's share in the capitals of these entities.

5. The basis for the preparation of the consolidated financial statements

The consolidated financial statements have been prepared on the basis of the historical cost concept, except for investment properties and derivative financial instruments which are valued at fair value; property, plant and equipment classified as 'energy-related assets' which are valued at a revalued amount; and equity revalued with regard to the periods subject to hyperinflation in accordance with IAS 29.

The consolidated financial statements have been prepared assuming that the Group's companies will continue as a going concern in the foreseeable future for the period of at least 12 months from the balance sheet date, except for the companies being wound-up. As at the date of authorising these consolidated financial statements for publication, there are no circumstances implying that the Group's companies will not continue as a going concern.

5.1. Declaration of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS') adopted by the EU. As at the date of authorising these financial statements for publication, having regard for the IFRS implementation process in progress in the EU, there are no differences between IFRSs applicable to these financial statements and the EU's IFRSs.

IFRS comprise standards and interpretations adopted by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee ('IFRIC').

All subsidiaries prepare their financial statements according to IFRSs.

5.2. Statement concerning the true and fair preparation of the consolidated financial statements

The Management Board of Grupa Kęty S.A. hereby declares that, according to their best knowledge, these consolidated financial statements and comparable data were prepared according to the accounting principles applicable in Grupa Kęty S.A. (presented in these financial statements) and they present a true and fair view of the assets, the financial standing and the financial result of Grupa Kęty S.A.; and the Management Board's Report presents a true view of the situation of Grupa Kęty S.A., including the description of basic risks and threats.

5.3. Functional currency and the presentation currency for these financial statements

The Polish zloty is the functional currency for the parent company as well as other companies based in Poland included in these consolidated financial statements; it is also the presentation currency for these consolidated financial statements.

Subsidiaries based outside the Polish territory use functional currencies other than the Polish zloty. These currencies, depending on the country of a given company's registered office, are as follows: EUR – euro, GBP – British pound, CZK – Czech koruna, HUF – Hungarian forint, UHR – Ukrainian hryvnia, RON – Romanian leu, USD – US dollar.

6. Significant accounting judgements and estimates

6.1. Professional opinion

In the process of the application of accounting principles (policy) with regard to the issues specified in note 5.2, the professional opinion of the management was the most significant aspect, besides accounting estimates.

6.2. Uncertainty of estimates

The preparation of the financial statements according to IFRS requires the adoption of specific estimates and assumptions, which affect the amounts disclosed in these financial statements. The majority of estimates are based on analyses and the best knowledge of the Management Board. Although the adopted estimates and assumptions are based on the Management Board's best knowledge of the current events and developments, the actual results may differ from the estimates.
The change of accounting estimates is recognised in the period in which an estimate was changed or in current and future periods if a change in the estimate is related both to the current period and future periods.

In the following parts, basic assumptions related to the future as well as other key sources of uncertainty as of the balance sheet date were discussed, including a significant risk of considerable correction of carrying amounts for assets and liabilities in the next financial year.

Impairment of assets

Impairment tests carried out by the Group in the current and in the previous year under IAS 36 did not show the need to recognise write-downs of goodwill and intangible assets with an indefinite useful life. Recognised write-downs concerning previous years are presented in note 12.7.

Impairment tests are developed on the basis of macro- and microeconomic assumptions whose realisation is not certain and is often beyond the Group's control.

Valuation of provisions for employee benefits

The provisions for employee benefits comprise only jubilee bonuses, retirement and disability benefits, and death in service benefits. They were measured by a licensed actuary with the application of actuarial methodology. The assumptions adopted for that purpose are specified in note 23.2.

The analysis of the sensitivity of the valuation of provisions for employee benefits to the change of key assumptions is presented in note 23.3.

Valuation of other provisions and accruals

The valuation of other provisions and accruals, including provisions for annual bonuses, for unused employee holiday and warranty repairs is based on the estimates of the Management Board. If the effect of the change of money in time is material, the provision amount corresponds to the present value of expenditure which, as expected, will be necessary to satisfy the obligation.

Deferred income tax asset

The Group recognises the deferred income tax asset on the basis of the assumption that, in the future, tax profit is to be obtained enabling its utilisation. The worsening of attained tax results could cause these assumptions to become unjustified in the future. The improvement of attained tax results because of carrying out business in special economic zones in the future may cause an increase in the related recognised asset. Details concerning deferred income tax assets related to the tax abatement associated with the operations in special economic zones are presented in notes 10.33.2, 13.1 and 13.2.

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is measured with the application of appropriate valuation techniques. In order to select the applicable methods and assumptions, the Group is guided by a professional opinion. The method of fair value determination for individual financial instruments is specified in notes 10.13 and 36.

Fair value of investment properties and energy-related assets

The fair value of investment properties and the fair value of energy-related assets is determined on the basis of the valuation of a professional expert based on the prices on an active market.

Write-downs of inventories

The Group assesses the value and the probability of the inflow of future economic benefits from the inventories of tangible current assets held by it. In the case of circumstances substantiating that the inflow will be lower than the value of the said tangible assets, the Group recognises write-downs of inventories up to the realisable value. The information about the method of determining the value of inventories is presented in note 10.12.

Write-downs of receivables

The Group assesses the value and the probability of generating economic benefits from its receivables. In the case of indicators that the future inflows will not cover the value of the receivables, the Group recognises a write-down of receivables up to the realisable value. The information about the method of determining the value of receivables is presented in note 10.14.

Fair value of the share options programme for the management staff

The Group has the share options programme for the management staff. The fair value of the programme is determined as of the date of launching the programme by a licensed actuary with the application of actuarial methodology. In addition, as at each balance sheet date, the Group assesses the probability of the accomplishment of particular non-market conditions for the take-up of shares by making an appropriate adjustment of the number of the share options assumed for the valuation.

The assumptions adopted for that purpose are specified in note 23.1.

Revenue recognition

The Group applies the percentage-of-completion method for the settlement of long-term contracts. The application of this method requires the Group to estimate the proportion of the works already completed to the total budgeted costs. If the percentage of completion were higher by 1% than the percentage estimated by the Company, the revenue would increase by 1,216 thousand PLN (previous year: 1,195 thousand PLN). If the actual costs of construction contracts in progress as at the balance sheet date at the time of their completion were higher than the budgeted costs by 1%, gross result would decrease by 1,115 thousand PLN (previous year: 1,034 thousand PLN).

Depreciation/amortisation rates

Depreciation/amortisation rates are determined on the basis of the projected useful lives of property, plant and equipment and intangible assets. The assumptions adopted for that purpose are specified in notes 10.5 and 10.10. For the majority of acquired trademarks, the Group determined the useful life as indefinite. When determining the useful life for trademarks, the Group took into account the following factors:

- the anticipated period of generating economic benefits from the utilisation of the trademarks;

- the anticipated period of having control over the trademarks;
- the level of future benefits from the utilisation of the trademarks;
- anticipated activities of competitors and potential competitors.

When analysing the aforementioned factors, the Group determined that the useful life of trademarks under IAS 38 was indefinite.

Each year, the Group verifies assumed useful lives based on current estimates.

Uncertainty related to tax settlements

Regulations concerning VAT tax, corporate income tax and social security contributions are subject to frequent changes. Such frequent changes result in the absence of appropriate points of reference, inconsistent interpretations and few established precedents that could be applied. Applicable regulations are also unclear, which results in different opinions as to legal interpretation of tax regulations both between government authorities and government authorities and enterprises.

Tax settlements and other areas of activities (e.g. customs or foreign exchange issues) may be subject to inspections of authorities that are entitled to impose high penalties and fines, and any additional tax obligations resulting from such inspections must be paid with high interest. As a result, the tax risk in Poland is higher than in the countries where tax systems are more mature.

Consequently, the amounts recognised and disclosed in financial statements may change in the future as a result of final decisions of tax inspection authorities.

On 15 July 2016, amendments were introduced to the Polish General Tax Code to account for the provisions of the General Anti-Abuse Rule (‘GAAR’). GAAR is to prevent the establishment and use of artificial legal arrangements created in order to avoid payment of tax in Poland. GAAR defines tax avoidance as an act did primarily to achieve a tax advantage contrary, in given circumstances, with the subject and purpose of the provisions of the Tax Act. According to GAAR, such act does not result in a tax advantage if the mode of operation was artificial. Any occurrence of (i) unjustified transactions sharing; (ii) the involvement of intermediaries, despite the absence of economic or business justification; (iii) elements that mutually cancel or set-off themselves, and (iv) other acts with the effects similar to the effect of the aforementioned acts, may be treated as proof of the existence of artificial activities subject to GAAR. The new regulations will call for a much more insightful judgement when assessing tax implications of individual transactions.

The GAAR clause should be applied to transactions made after its effective date and to transactions made prior to the effective date of the GAAR clause, but for which, after the effective date of the clause, the advantages have been or are still achieved. The implementation of the aforementioned regulations will enable Polish tax inspection authorities to challenge legal arrangements and agreements between taxpayers such as a group’s restructuring and reorganisation.

The Group recognises and measures current and deferred income tax assets or liabilities according to IAS 12 *Income Taxes* on the basis of taxable profit (loss), the tax base, unused tax losses, unused tax credits and tax rates, taking into account the evaluation of the uncertainty related to tax settlements.

When there is uncertainty whether or not and to what extent a tax authority approves of individual tax settlements of transactions, the Group recognises such settlement taking into account the evaluation of the uncertainty.

7.Changes in applied accounting policies and changes in presentations

From 1 January 2016, the Group is obliged to apply the following standards:

- Amendments to IAS 1 *Presentation of Financial Statements — Disclosure Initiative*
- *Defined Benefit Plans: Employee Contributions* – amendments to IAS 19
- Amendments to IFRS 11 concerning acquisitions of interests in joint operations
- Amendments to IAS 16 and IAS 38 concerning amortisation and depreciation
- Amendments to IAS 16 and IAS 41 concerning bearer plants
- Amendments to IAS 27 concerning the equity method in separate financial statements
- Annual Improvements to IFRSs: 2012-2014 Cycle
- Annual Improvements to IFRSs: 2010-2012 Cycle
- IAS 1 *Presentation of Financial Statements* concerning presentations of disclosures
- IFRS 8 *Operating Segments* concerning the disclosure of judgements made by management in applying operating segments aggregation criteria.

The application of the aforementioned amendments did not affect the Group’s accounting policy and the figures disclosed in these financial statements.

8.New standards and interpretations issued, but not yet effective

- IFRS 9 *Financial Instruments* (published on 24 July 2014) – effective for annual periods beginning on or after 1 January 2018
- IFRS 14 *Regulatory Deferral Accounts* (published on 30 January 2014) – according to the decision of the European Commission, the approval of the standard in its preliminary version will not be initiated prior to the release of the standard in its final version – by the date of the approval of these financial statements, not approved by the EU – effective for annual periods beginning on or after 1 January 2016
- IFRS 15 *Revenue from Contracts with Customer*s (published on 28 May 2014), including the amendment to IFRS 15 *Effective Date of IFRS 15* (published on 11 September 2015) – effective for annual periods beginning on or after 1 January 2018
- Amendments to IFRS 10 and IAS 28 *Sales or contributions of assets between an investor and its associate/joint venture venture* (published on 11 September 2014) – the works leading to the approval of these amendments have been deferred indefinitely by the EU – the effective date has been deferred by the IASB indefinitely
- IFRS 16 *Leases* (published on 13 January 2016) – by the date of the approval of these financial statements, not approved by the EU – effective for annual periods beginning on or after 1 January 2019
- Amendments to IFRS 4 *The Adoption of IFRS 9 Financial Instruments with IFRS 4 Insurance Instruments* (published on 12 September 2016) – by the date of the approval of these financial statements, not approved by the EU – effective for annual periods beginning on or after 1 January 2018
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (published on 19 January 2016) – by the date of the approval of these financial statements, not approved by the EU – effective for annual periods beginning on or after 1 January 2017
- Amendments to IAS 7 *Disclosure Initiative* (published on 29 January 2016) – by the date of the approval of these financial statements, not approved by the EU – effective for annual periods beginning on or after 1 January 2017
- Clarifications to IFRS 15 *Revenue from Contracts with Customer*s (published on 12 April 2016) – by the date of the approval of these financial statements, not approved by the EU – effective for annual periods beginning on or after 1 January 2018
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (published on 20 June 2016) – by the date of the approval of these financial statements, not approved by the EU – effective for annual periods beginning on or after 1 January 2018
- *Annual Improvements to IFRS Standards: 2014–2016 Cycle* (published on 8 December 2016) – by the date of the approval of these financial statements, not approved by the EU – amendments to IFRS 12 and IFRS 1 are effective for annual periods beginning on or after 1 January 2017, while amendments to IAS 28 are effective for annual periods beginning on or after 1 January 2018
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (published on 8 December 2016) – by the date of the approval of these financial statements, not approved by the EU – effective for annual periods beginning on or after 1 January 2018
- Amendments to IAS 40: *Transfers of Investment Property* (published on 8 December 2016) – by the date of the approval of these financial statements, not approved by the EU – effective for annual periods beginning on or after 1 January 2018.

As estimated by the Group, the application of the aforementioned amendments, except for the amendments described below regarding *IFRS 15* and *IFRS 9,* will not materially affect the data disclosed in the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers
The standard was published on 28 May 2014 and will be effective for annual periods beginning on or after 1 January 2018. The standard was adopted by the European Union on 22 September 2016.
IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. According to the standard, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.
The new standard will supersede all current revenue recognition requirements under IFRS.
Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018.
Early adoption is permitted.
The Capital Group of Grupa Kęty S.A. plans to adopt the new standard on the required effective date.

As at the date of these consolidated financial statements, the Management Board of the Parent Company of the Capital Group of Grupa Kęty S.A. has not yet completed the impact analysis.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Capital Group of Grupa Kęty S.A. plans to adopt the new standard on the required effective date.
IFRS 9 provides for new requirements and guidelines for the classification and measurement of financial assets and modifies the recognition of hedging transactions. Having regard for the nature of the transactions made by the companies of the Capital Group of Grupa Kęty S.A., no material changes are expected. In addition, IFRS 9 provides for a new impairment model based on expected and not incurred credit losses.
As at the date of these consolidated financial statements, the Management Board of the Parent Company has not yet completed the impact analysis.

There are no other IFRS or IFRIC not yet effective, and which, according to expectations, might have significant impact upon the Group.

9. Error correction

These consolidated financial statements do not contain error corrections.

10. Significant accounting principles

Adopted accounting principles were applied in a continuous manner in all presented periods.

10.1. Consolidation principles

The consolidated financial statements cover the financial statements of Grupa Kęty S.A. and the financial statements of its subsidiaries prepared for the present year. Financial statements of subsidiaries are prepared for the same reporting period as the ones of the parent company applying coherent accounting principles based on uniform accounting principles applied for transactions and economic events of similar nature.

All the Group's companies prepare their financial statements according to IFRS. All significant balances and transactions between the Group's companies, including the unearned profits from transactions within the Group, have been completely eliminate. Unrealised losses are eliminated, unless they are evidence of impairment.

Subsidiaries are fully consolidated from the date of taking control over them by the Group. The consolidation is terminated on the date of ceasing to exercise control.

The transactions of taking over the control of entities are settled with the purchase method. The remuneration paid for the acquisition of a subsidiary is determined as the fair value of transferred assets and incurred liabilities or equity instruments issued by the Group. The paid remuneration comprises the fair value of assets or liabilities resulting from the determination of the conditional element of the contractual remuneration. The costs related to the acquisition are recognised in the profit or loss at the time they are incurred. Identifiable assets acquired and liabilities assumed in the process of the combination of business entities are measured initially at their fair value as at the acquisition date. For each acquisition, the Group recognises non-controlling interests in the acquiree at the fair value or at the value per non-controlling interests proportionally to the part of net assets of the acquiree.

The surplus of the paid remuneration, the fair value of any possible, previously held interests in the equity of the acquiree as at the acquisition date and of the non-controlling interest over the fair value of identifiable net assets acquired, is recognised as goodwill. If the value is lower than the fair value of net assets of the subsidiary, the differences are recognised directly in profit or loss.

The consolidated financial statements have been prepared with the use of the full consolidation method. The consolidation covered all the entities of the Group (the composition of the Capital Group is presented in note 4).

In order to carry out the consolidation with the full method, the Group applies the following procedures:

- adding up all items of assets, equity and liabilities, revenue and expenses from financial statements of the parent company and of subsidiaries;
- excluding, as at the acquisition date, the book value of the Parent Company's investment in each subsidiary and the part of the equity which corresponds to the parent company's interest;
- determining the non-controlling interest in the net profit or loss of subsidiaries for a given reporting period;
- determining and presenting, separately from the equity of the Parent Company, the non-controlling interest in net assets of subsidiaries;

- excluding the balance of internal transactions between the entities of the Group;
- excluding all unrealised gains or losses on intra-Group transactions;
- excluding revenue and costs related to intra-Group transactions.

Changes in the ownership interest of the parent company which do not result in the loss of control over a subsidiary are recognised as equity transactions. In such cases, in order to reflect the changes in relative interests in a subsidiary, the Group adjusts the carrying amount of non-controlling interests. Any differences between the amount of the adjustment of the non-controlling interests and the fair value of the amount paid or received are charged to equity and attributed to the owners of the parent company.

10.2. Investments in associates and joint ventures

Associates are entities in which the parent company has significant influence directly or through subsidiaries, and which are neither its subsidiaries nor joint ventures.

Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control.

The financial year of associates, joint ventures, and the parent company is the same. Associates and joint ventures apply accounting principles consistent with the Group's principles. Before calculating the share of associates and joint ventures in net assets, relevant adjustments are made to make the financial figures of these entities comply with IFRS applied by the Group.

The Group's investments in associates and joint ventures are recognised in the consolidated financial statements using the equity method. According to the equity method, the investment in an associate or joint venture is initially recognised at cost and then adjusted to reflect the Group's share in the financial result and other comprehensive income of the associate or joint venture. If the Group's share in losses of the associate or joint venture exceeds the value of its shares in this entity, the Group discontinues recognising its share in further losses. Additional losses are recognised only to the extent corresponding to legal or customary obligations adopted by the Group or payments made on behalf of the associate or joint venture.

The investment in an associate or joint venture is recognised using the equity method from the date on which the entity acquired the status of a joint venture or associate. On the date of making the investment in an associate or joint venture, the amount by which the investment costs exceed the Group's share in the net fair value of identifiable assets and liabilities of this entity is recognised as goodwill and charged to the carrying amount of the investment. The amount by which the Group's share in net fair value of identifiable assets and liabilities exceeds the cost of the investment is directly recognised in profit or loss in the period in which the investment was made.

When assessing the need for the recognition of the impairment of the Group's investment in an associate or joint venture, IAS 39 applies. If necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 *Impairment of Assets* as an individual asset, comparing its recoverable amount with the carrying amount. The recognised impairment is part of the carrying amount of the investment. A reversal of the impairment is recognised in accordance with IAS 36 to the extent corresponding to the further increase in the recoverable amount of the investment.

The Group ceases to apply the equity method on the day when the investment is no longer an associate or joint venture and when it is classified as held for sale. The difference between the carrying amount of an associate or joint venture at the date of cessation of the use of the equity method and the fair value of the retained shares and profits from the partial sale of shares in the entity is taken into account when calculating the profit or loss on the sales of the associate or joint venture.

The Group continues to apply the equity method, if the investment in a associate becomes an investment in a joint venture, or the other way round: if the investment in a joint venture becomes an investment in an associate.

If the Group reduces its interest in an associate or joint venture, but it still accounts for it using the equity method, it transfers to profit or loss a part of profit or loss recognised previously in other comprehensive income, corresponding to the decrease in the interest, if the profit or loss is subject to reclassification to profit or loss at the time of the sales of related assets or liabilities.

10.3. Interests in joint operations

Joint operation is a type of a joint arrangement whereby the parties that have joint control have rights to net assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control over an economic activity, and exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

If an entity being a part of the Group participates in a joint operation, the Group, as a party to such an operation, recognises the following in connection with its interest in such an operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output of the joint operation;
- its share of the revenue from the sale of the output by the joint operation;
- its expenses, including its share of any expenses incurred jointly.

Complementary information and explanations (in thousand PLN)

The Group accounts for the assets, liabilities, revenue and expenses relating to its interests in joint operations in accordance with the relevant IFRSs related to individual components of the assets, liabilities, revenue and expenses.

If an entity from the Group enters into transactions with a joint operation to which a different entity not being part of the Group is a party, it is deemed that the Group entered into transactions with other parties to the joint operation, and gains and losses arising from the transactions are recognised in the Group's consolidated financial statements only to the extent related to the interest of the other party in the joint operation.

If an entity from the Group enters into transactions with a joint operation to which a different entity also being part of the Group is a party, the Group does not recognise its share of profits and losses until the resale of these assets to a third party.

10.4. The translation of items in foreign currency

As of the balance sheet date, monetary assets and liabilities expressed in foreign currencies are translated into the functional currency according to the exchange rate for a given currency applicable as at the end of the reporting period. Currency translation differences resulting from the settlement of items and from the translation are recognised in finance income (costs) respectively or, in the cases provided for in the accounting principles (policy), capitalised in the value of assets. Non-monetary assets and liabilities recognised at the historical cost expressed in a foreign currency are disclosed at the historical exchange rate as of the transaction date. Non-monetary assets and liabilities recognised at the fair value expressed in a foreign currency are revalued to the fair value at the exchange rate as of the valuation date.

As of the balance sheet date, the assets and liabilities of foreign subsidiaries are translated into the Group’s statement currency at the exchange rate as at the balance sheet date, and statements of comprehensive income are translated at the weighted average exchange rate for a given reporting period. Currency translation differences resulting from such a translation are recognised in other comprehensive income and accumulated in a separate item of equity. At the time of disposal of a given foreign company, the deferred currency translation differences accumulated in the equity corresponding to a given foreign entity are recognised in the income statement.

The table below presents the applied exchange rates:

Currency	Exchange rate at the end of the reporting period		Average exchange rate in the reporting period	
	31 December 2016	31 December 2015	2016	2015
EUR*	4.4240	4.2615	4.3757	4.1848
100 HUF	0.14224	1.3601	0.14034	1.3500
UAH	0.1542	0.1622	0.1542	0.1722
RON	0.9749	0.9421	0.9739	0.9421
CZK	0.1637	0.1577	0.1618	0.1534
GBP	5.1445	5.7862	5.3355	5.7846
USD	4.1793	3.9011	3.9680	3.7928
DKK	0.5951	0.5711	0.5877	0.5609

* In 2015, the average exchange rate for Aluprof Schelfhaut from the period of the last six months of 2015 (due to the acquisition of the company on 30 June 2015). In 2016, the average exchange rate for Aluminium Kety Emmi and Aluminium Kety Deutschland from the period of the last six months of 2016 (the acquisition of the companies in June 2016).

10.5. Property, plant and equipment

Property, plant and equipment are disclosed in accordance with the purchase price/generation cost less depreciation and impairment losses, except for property, plant and equipment classified as ‘energy-related assets’ which are measured according to the revalued amount model, i.e. at the fair value as of the revaluation date less depreciation and any possible impairment losses. The Group’s ‘energy-related assets’ are property, plant and equipment related to the transmission and distribution of electrical energy. The initial value of property, plant and equipment includes their purchase price increased with all costs directly related to the purchase and the adjustment of a given asset to usable conditions. Costs also include the cost of spare parts replacement in plant and machinery at the moment of the incurrence, provided that the recognition criteria have been met. The costs incurred after the date of the commissioning of a given component of property, plant and equipment, such as running costs of maintenance and repair works, are charged to the income statement at the moment of their incurrence.

Property, plant and equipment, at the moment of their purchase, are divided into individual components constituting items of significant value to which separate useful lives can be assigned. Each time, when making overhauls, their costs are reported in the carrying amount of property, plant and equipment, if the recognition criteria are met, and are charged to the next planned periodical repairs.

Complementary information and explanations (in thousand PLN)

Depreciation is calculated with the application of the straight line method for the estimated useful life of a given asset which amounts to:

Type	Period	
Buildings and structures	25-100	years
Plant and machinery, including:	10-40	years
- crucial components	15-25	years
Energy-related assets	15-91	years
Means of transport	7-15	years
Other property, plant and equipment	5-10	years

A given item of property, plant and equipment can be derecognised from the balance sheet after having been sold or in the case when no economic benefits are expected to occur as a result of the further utilisation of such an asset. Any gains or losses resulting from the derecognition of a given asset from the balance sheet (calculated as a difference between potential net proceeds from sales and the carrying amount of this item) are recognised in the income statement for the period in which such derecognition took place.

Property, plant and equipment under construction are property, plant and equipment currently under construction or assembly and are disclosed in accordance with the purchase prices or generation costs. Property, plant and equipment under construction are not depreciated until the termination of the construction, i.e. by the time when they become available for use.

The final value, the useful life and the depreciation method for the assets are reviewed on an annual basis and, if necessary, corrected effective from the beginning of the next financial year.

10.6. Leases

Group as a lessee

Finance leases that transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item are recognised in the balance sheet at the commencement of the lease at the lower of: the fair value of the leased property or at the present value of the minimum lease payments. Lease payments are apportioned between finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to the income statement, unless the capitalisation requirements are met.

The property, plant and equipment used under finance leases are depreciated over the shorter of: the estimated useful life of an item of property, plant and equipment or the lease term.

Leases under which the lessor retains substantially all the risks and rewards of ownership of the leased item are operating leases. Lease payments under operating leases as well as further lease instalments are recognised in the income statement as costs with the application of the straight line method over the lease term.

Group as a lessor

Leases under which the Group retains substantially all the risks and rewards of ownership of the leased item are operating leases. The initial direct costs incurred in the course of negotiating operating leases are added to the carrying amount of the asset being the leased item and disclosed over the entire lease term on the same basis as the rental income. Conditional lease payments are recognised as revenue within the period when they become due.

10.7. Impairment of non-financial non-current assets

As at each balance sheet date, the Group assesses whether there are any indicators of impairment of any non-financial non-current asset. In the event of the determination that such indicators exist or a necessity of conducting an annual impairment test, the Group estimates the recoverable amount for a given asset or a cash-generating unit the asset is allocated to. Disregarding the existence of the indicators, each year, the Group carries out impairment tests for intangible assets with an indefinite useful life and intangible assets not put into use.

The recoverable amount of an asset or of a cash-generating unit reflects the fair value of this asset or cash-generating unit less the costs of sale or value in use, whichever is higher. This recoverable amount is determined for individual assets, unless a given asset does not individually generate cash inflows being primarily independent from those generated by other assets or asset groups. Should the carrying amount of an asset be higher than its recoverable amount, impairment occurs and a write-down up to the determined recoverable amount is recognised. For the estimation of the value in use, the projected cash flows are discounted to their present value with the application of a discount rate prior to entailing the effects of taxation reflecting the current estimated value of money in time as well as the risk typical for a given asset. Impairment losses for tangible assets utilised in the course of continuing operations are disclosed in a separate item: 'other operating costs'.

As at each balance sheet date, the Group assesses whether there are indicators implying that the impairment loss for assets other than goodwill disclosed in previous periods with regard to a given asset is unnecessary or should be decreased. Should such indicators occur, the Group estimates the recoverable amount for this asset. The impairment loss recognised beforehand is reversed only and exclusively if, from the time when the last impairment loss was recognised, there has been a change of the estimated values applied to determine the recoverable amount of a given asset. In such a case, the carrying amount of the asset is increased up to the level of its recoverable amount. The increased amount cannot exceed the carrying amount of a given asset that would be determined (after deducting the depreciation) if, in the previous years, the impairment loss for this asset was not recognised at all. The reversal of the impairment loss for an asset is recognised immediately as revenue in the income statement. Following the reversal, in the following periods, the depreciation charge for a given asset is adjusted in a manner which allows for, within the remaining useful life of the asset in question, systematic write-down of its verified carrying amount decreased with the exit value. The impairment loss recognised for goodwill is not reversed in further periods.

10.8. Borrowing costs

Borrowing costs that may be directly attributed to the acquisition, construction or production of a qualifying asset affect its initial value as a part of the cost of that asset. The costs are capitalised when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. Other borrowing costs are recognised as costs in the income statement in the period in which they were incurred. Borrowing costs include interest calculated using the effective interest rate, financial charges in respect of finance leases and currency translation differences arising from borrowings up to the amount corresponding to an adjustment of interest costs. Borrowing costs which were incurred without any specific purpose and used for the purpose of financing the acquisition or production of a qualifying asset affect the initial value of this asset in the amount determined by applying the capitalisation rate to the expenditure made on this asset. The capitalisation rate is the weighted average of all borrowing costs applicable to loans, credits and lease that are outstanding during the period, other than loans taken specifically for the purpose of obtaining a qualifying asset.
Currency translation differences arising from foreign currency loans and credits (both special-purpose and general ones) affect the initial value of a qualifying asset to the extent that they are regarded as an adjustment of interest costs. The value of currency translation differences adjusting the interest cost is the difference between the interest cost on similar borrowings that the Group would incur in its functional currency and the cost incurred for the foreign currency borrowings.

10.9. Investment properties

The initial recognition of investment properties is based on the purchase price entailing the transaction costs. The carrying amount of an asset includes costs of the replacement of a component of an investment property on the date of its incurrence, provided that the applicable recognition criteria have been met, and does not include the costs related to the current maintenance of these properties.

After the initial recognition, investment properties are recognised at their fair value. Gains and losses resulting from the changes of the fair value of investment properties are recognised in the income statement in the period in which they occurred.

Investment properties are derecognised from the balance sheet in the event of their disposal or a permanent withdrawal of a given investment property from use, if no future benefits resulting from the sale are expected. All gains or losses resulting from the derecognition of an investment property from the balance sheet are recognised in the income statement in the period of such a derecognition.

Assets are transferred to investment properties only if a change of their utilisation method took place, which must be confirmed with the termination of the proprietor's use of a given asset, the conclusion of an operating lease.

If an asset is utilised by its proprietor, i.e. the Group, it becomes an investment property and the Group applies the principles specified in the part 'Property, plant and equipment' until the day of changing the manner of the property utilisation. In the event of transferring assets from inventories to investment properties, the difference between the fair value of the property as of the transfer date and its previous carrying amount is recognised in the income statement. In the event of a transfer of investment properties to the assets utilised by the proprietor or to inventories, the alleged cost of such an asset assumed for the disclosure in another category equals the fair value of the property determined as of the date of the change of its utilisation.

10.10. Intangible assets

Intangible assets purchased in a separate transaction are initially measured at the purchase price, whereas the development costs, which meet the recognition criteria, are measured at their generation cost. The purchase price of intangible assets acquired in a business combination amounts to their fair value as at the combination date. After initial recognition, intangible assets are disclosed at their purchase price or generation cost less amortisation and impairment losses. Expenditure on intangible assets generated internally, except for capitalised expenditure on development works, are not capitalised and are recognised in the costs of the period in which they were incurred.

The Group determines whether the useful life of intangible assets is finite or indefinite. Intangible assets with finite useful lives are amortised for the useful life and tested for impairment each time the indicators implying their impairment occur. The period and the amortisation method for intangible assets with finite useful lives are verified at least at the end of each financial year. Changes in the assumed useful life or the assumed manner of consuming economic benefits generated from a given asset are recognised through a change of the period or amortisation method respectively, effective from the beginning of the next financial year. The amortisation charge for intangible assets with finite useful lives is recognised in the income statement under the 'depreciation/amortisation' item. Intangible assets with indefinite useful lives and intangible assets not put into use are tested for impairment at the end of each financial year and every six months, if indicators of impairment occur.

Costs of research and development works

The Group capitalises costs of development works only if all of the following aspects can be evidenced:

- the technical feasibility to finish an intangible asset;
- the intention to finish the intangible asset and utilise or sell it;
- the ability to utilise or sell it;
- future economic benefits acquired by the Company owing to the utilisation of the intangible asset;
- availability of adequate technical, financial and other resources to complete the development works;
- the ability to reliably measure the expenditure attributable to the intangible asset incurred in the course of development works.

Other development costs are recognised in the income statement upon their incurrence.
The development costs are recognised as intangible assets according to the historical cost concept and are subject to amortisation charges and impairment losses.

Other

Other intangible assets (including software) acquired by the Group are recognised at their purchase cost less amortisation (see below) and impairment losses. Expenditure made on goodwill generated internally or trademarks is recognised in the income statement upon its incurrence.

Subsequent expenditure

Subsequent expenditure on the components of existing intangible assets is subject to capitalisation only when it is probable that expected future economic benefits related to a given component will flow in. Other expenditure is recognised in the income statement upon its incurrence.

Amortisation

Intangible assets are subject to amortisation on a straight-line basis taking into account their useful life unless it is indefinite. Intangible assets other than intangible assets with indefinite useful lives are amortised from the day they become available for utilisation. The estimated useful life is as follows:

Software	5-7 years
Capitalised development costs	5-10 years
Database of Aluprof's customers	15 years

Any gains or losses resulting from the derecognition of intangible assets from the balance sheet are measured based on the difference between the net proceeds from sales and the carrying amount of a given asset and are recognised in the income statement upon their derecognition from the balance sheet.

10.10.1 Goodwill

Goodwill from the acquisition of an entity is initially recognised at the amount of the surplus of

- the amount of:

(i) the payment made;
(ii) the amount of all non-controlling interests in the acquired entity and
(iii) in the case of a business combination achieved in stages, of the fair value as of the date of the acquisition of the interest in the capital of the acquired entity which previously belonged to the acquiring entity.

- over the net amount determined as of the date of the acquisition of the amounts of the identifiable assets acquired and the liabilities assumed.

After the initial recognition, goodwill is recognised at the initial value less all accumulated impairment losses. The impairment test is conducted once a year or more frequently, if any indicators of impairment occur. Goodwill is not subject to amortisation.
As of the date of the acquisition, the acquired goodwill is allocated to each of the cash-generating units which may take advantage of the merger synergy. Each unit or a group of units the goodwill has been allocated to:

- corresponds to the lowest level in the Group at which the goodwill is monitored due to internal managing needs, and
- is not larger than one operating segment defined pursuant to IFRS 8 *Operating Segments*.

The impairment loss is determined through the valuation of the recoverable amount of the cash-generating unit to which given goodwill has been allocated. In the case when the recoverable amount of a cash-generating unit is lower than the carrying amount, the impairment loss is recognised. In the case when goodwill constitutes a part of a cash-generating unit and part of the business within that unit is sold, for the determination of gains or losses from the sale of such business, the goodwill related to the business sold is included in its carrying amount. In such circumstances, the goodwill sold is determined based on the relative value of the business sold and the value of the retained part of the cash-generating unit.

10.11. Advance payments for the purchase of property, plant and equipment

In this item, the Group presents advance payments for the purchase of property, plant and equipment. The period for the completion of the deliveries for which advance payments were made is usually shorter than 12 months; however, due to the nature of the acquired asset, they are recognised as long-term receivables. The advance payments, as non-monetary assets, are measured at their historical cost less any possible impairment losses.

10.12. Inventories

Inventories are measured at the lower of: cost and net realisable value.

Costs incurred to bring each component of inventories to its current location and condition, both with regard to the present and the previous year, are recognised in the following manner:

Materials	at purchase price. The value of outgoing materials is determined by 'first-in first-out' method.
Finished goods and work in progress	costs of direct materials and workmanship as well as the appropriate surcharge for the indirect production costs determined assuming the normal utilisation of the production capacity, and excluding the borrowing costs. The value of outgoing products and semi-finished products is determined by 'first-in first-out' method.
Trade goods	at purchase price. The value of outgoing trade goods is determined by 'first-in first-out' method.

Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and the estimated costs necessary to make the sale.

10.13. Financial instruments

At initial recognition, the Group measures a financial asset or liability at fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, with transaction costs that may be directly attributable to the acquisition or issue of the financial asset or liability. As at the balance sheet date, the Group measures loans and receivables at amortised cost using the effective interest rate. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument, and, in justified cases, for a shorter period, to the net carrying amount of the financial asset or liability.

10.14. Trade and other receivables

Receivables, including trade receivables, are measured as at the date of their occurrence, at fair value plus transaction costs, and then at amortised cost using the effective interest rate, having regard for write-downs of non-performing receivables. Impairment losses for receivables are recognised on the basis of individual analyses, having regard for held security and the amount that can be set-off. The recognition and reversal of write-downs of receivables is recognised in other operating activities for main receivables and in financing activities for receivables due to interest on past due payments.

10.15. Trade and other payables

Short-term trade payables are recognised in the payable amounts due.

Financial liabilities not constituting financial instruments measured at their fair value through profit or loss are measured at amortised cost with the application of the effective interest rate method. The Group excludes a financial liability from its balance sheet when the liability expires, i.e. when the obligation set forth in the contract is satisfied, cancelled or expired. The replacement of the existing debt instrument by an instrument with substantially different terms and conditions between the same entities is recognised by the Group as the expiration of the original financial liability and the recognition of a new financial liability. Similarly, significant modifications of the terms and conditions of an agreement concerning an existing financial liability are recognised by the Group as the expiration of the original financial liability and the recognition of a new financial liability. The differences of respective carrying amounts related to the exchange are recognised in the income statement.

Other non-financial liabilities comprise, in particular, VAT liabilities towards the tax office and liabilities related to received advance payments, which will be settled through the supply of goods, services or property, plant and equipment. Other non-financial liabilities are recognised in the payable amount due.

10.16. Bank loans

Upon the initial recognition, all bank loans and credits are recognised at fair value less the costs of obtaining such a loan or credit.

After the initial recognition, interest bearing credits and loans are measured at amortised cost with application of the effective interest rate. When determining the amortised cost, the costs of obtaining a credit or loan as well as discounts or premiums attained during the settlement of a liability are taken into consideration.

Gains and losses are recognised in the income statement upon the derecognition of a given liability from the balance sheet as well as as a result of the settlement using the effective interest rate.

10.17. Derivative financial instruments and hedging

Derivative instruments are recognised in the balance sheet as financial assets or financial liabilities and measured at fair value. The Group uses forwards, futures and IRS's.

The main purpose of concluding forwards on the FX market is to hedge future cash flows against the currency risk resulting from operating, investing and financing activities.

The main purpose of concluding futures for the purchase of aluminium is to hedge future cash flows related to the determination of future expenditure on the purchase of aluminium.

The purpose of hedging the price of aluminium involves the minimisation of the economic risk of business activities as a result of changes occurring in the macroeconomic environment related to the changes of the prices of the main raw material.

The main objective of the IRS's is to hedge the interest rate of the loans held by the Group.

Forward/futures and derivative instruments are accounted for at the purchase price and measured as of the balance sheet date at fair value and recognised in the consolidated financial statements as financial assets or financial liabilities. Gains and losses from the measurement at fair value of the financial instruments which do not comply with the hedge accounting principles are recognised directly in the income statement. The fair value of futures or forwards is calculated on the basis of the present net value of future cash flows related to these contracts, quoted market prices of forwards calculated with the application of the present interest rates. Forwards/futures and derivative instruments which cannot be classified as hedging instruments are recognised as instruments held for trading.

Fair value of currency forwards is determined by reference to the present forward rates for contracts with similar maturity.

The valuation is based on market valuations of identical transactions in commercial banks.

The hedging of the currency risk for the probable future liability is recognised as cash flow hedge.

Upon the establishment of the hedge, the Group formally assigns and documents the hedging relation as well as the purpose of risk management and the strategy for hedge establishment. The documentation contains the identification of the hedging instrument, of the hedged item or transaction, the nature of the risk being hedged as well as the manner of assessing the effectiveness of a given hedging instrument in compensating for the risk of changes of fair value of the item being hedged or cash flows related to the hedged risk. It is expected that the hedging will be highly effective in compensating for changes of fair value or cash flows resulting from the risk being hedged. The effectiveness of hedging is assessed on an ongoing basis to check whether it is highly effective in all reporting periods for which it was established.

The Group holds the following hedging instruments:

Cash flow hedging instruments

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. A portion of gains or losses on the hedging instrument that is an effective hedge is recognised in other comprehensive income, and the ineffective portion is recognised in the profit or loss.

If a hedged forecast transaction subsequently results in the recognition of a financial asset or a financial liability, any gains or losses related to it that were recognised in other comprehensive income and accumulated in equity are moved to the income statement in the same period(s) in which the acquired asset or assumed liability affects profit or loss.

If a hedge of a planned transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction related to a non-financial asset or a non-financial liability becomes a probable future liability to which fair value hedge will apply, then gains or losses that were recognised in other comprehensive income are reclassified from equity to profit or loss in the same period(s) in which the acquired non-financial asset or assumed liability affects profit or loss.

Gains and losses resulting from the change of the fair value of derivative instruments which do not meet the conditions enabling the application of special hedge accounting principles are recognised directly in the net profit or loss for the period.

The Group ceases to apply the hedge accounting principles when the hedging instrument expired or was sold, its utilisation ended or it was exercised, or when the hedging ceased to meet the conditions enabling the application of special hedge accounting principles with regard to it. In such a case, total profit or loss on a hedging instrument recognised in other comprehensive income and accumulated in equity are still recognised in equity until the forecast transaction occurs. If the Group no longer expects the forecast transaction to take place, total net profit or loss accumulated in equity are charged to the net profit or loss for the period.

10.18. Cash and cash equivalents

Cash and short-term term deposits recognised in the balance sheet comprise cash at bank and cash in hand as well as short-term term deposits with the original maturity not exceeding three months.

The balance of cash and cash equivalents recognised in the cash flow statement comprises the aforementioned cash and cash equivalents. The Group does not have any overdraft facilities which would be related to cash management.

10.19. Equity

Until the end of 1996, the parent company had operated in the conditions of hyperinflation. Upon the transition to IFRS, i.e. on 1 January 2004, in accordance with the requirements of IAS 29, the parent company restated the equity components except for retained earnings from the previous years with the application of the general price index starting from the dates when the given equity items were contributed or otherwise emerged until 31 December 1996.

Share capital

Share capital is recognised at the value resulting from the restatement of the nominal value in accordance with the requirements of IAS 29 described above.

Share premium

Differences between the fair value of the payment received and the nominal value of shares are recognised in the share premium.

Non-registered capital from the issue of shares

The Group issues shares, and financial resources from the issue of shares until the date of the registration of the increase in share capital by the National Court Register are accounted for in a separate item of equity.

Dividends

Dividends are recognised as liabilities in the period when they were approved by virtue of a resolution.

Capital from share based payments

The Group's key employees are entitled to subscribe for the parent company's shares at the fixed price. The capital from share based payments reflects the fair value of the options granted.

Capital from the revaluation of hedging instruments and capital from the result on cash flow hedging transactions

As specified in detail in note 10.15, the Group is a party to forwards/futures hedging future cash flows. The portion of gains or losses on the hedging instrument being an effective hedge is recognised directly in other comprehensive income in 'capital from the valuation of hedging instruments'.

If the result on the hedged transaction refers to a transaction subsequently resulting in the recognition of a financial asset or a financial liability, the related gains or losses remain in a separate item of capitals from the result on completed cash flow hedging transactions until the item or transaction being hedged influences the profit or loss, and then the result in question is charged to profit or loss.

Retained earnings

In this item, the Group presents retained earnings (loss), the profits which, according to the owners' decision, are retained in the Group and actuarial gains (losses) related to post-employment benefits.

Currency translation differences for subsidiaries

The financial result, the assets and the financial situation of subsidiaries whose functional currency is different than PLN, are translated by the Group according to the following procedures:

- assets and liabilities – at the exchange rate as of the balance sheet date;
- revenue and costs – at the average weighted exchange rate from a given period.

All related currency translation differences are recognised in a separate item of equity: 'Currency translation differences for subsidiaries'.

10.20. Accruals

Accruals are amounts due payable for goods or services which were received or provided, but have not been paid for, invoiced or formally agreed with a supplier yet, including amounts due to employees.
Accruals comprise, e.g.:

- remunerations with add-ons paid once, related to annual periods;
- short-term provisions for unused holiday.

10.21. Grants

Grants comprise cash obtained to finance the acquisition or production of property, plant and equipment under construction and development works. They are settled similarly to depreciation charges for property, plant and equipment financed from these sources.

10.22. Provisions

Provisions are recognised only when the Group has a current liability resulting from past events and when it is probable that the satisfaction of such a liability will necessitate the outflow of economic benefits, and when it is possible to conduct a reliable estimation of the amount of the liability. If the Group expects that the costs covered by the provision are to be reimbursed, e.g. pursuant to an insurance agreement, the reimbursement is recognised as a separate asset, yet only when it is virtually certain that the reimbursement will actually take place. Costs related to a given provision are recognised in the income statement less any reimbursements. Should the influence of the money value in time be significant, the value of the provision is determined by discounting the forecasted future cash flows to the present value at the gross discount rate reflecting the current market valuations of the money value in time as well as an optional risk related to a given liability. In the event of the application of a discounting method, the increase in the provision related to the lapse of time is recognised as finance costs.

10.23. Provisions for warranty repairs

The Group recognises a provision for the costs of expected warranty repairs related to the construction services rendered by the Group. The assumptions made for the calculation of the provision for warranty repairs are based on the current levels of sale and available up-to-date information concerning the risk and costs of warranty repairs.

10.24. Provisions for employee benefits

In accordance with the corporate remuneration systems, the Group's employees are entitled to retirement benefits and disability benefits. In addition, the employees of certain companies are entitled to jubilee bonuses and death in service benefits. Jubilee bonuses are paid to employees after having worked a specific number of years. Retirement benefits and disability benefits are paid once, upon a given employee's retirement. Death in service benefit is paid in the case of an employee's death during his employment. The amount of jubilee bonuses, retirement benefits, disability benefits and death in service benefits depends on the employee's seniority and his average remuneration. The Group recognises a provision for future liabilities due to retirement benefits, disability benefits, jubilee bonuses and death in service benefits with the purpose of assigning costs to the periods they refer to. In accordance with IAS 19, jubilee bonuses constitute other long-term employee benefits whereas retirement and disability benefits and death in service benefits are defined benefit plans applicable after the employment period. The present value of these liabilities as at each balance sheet date is calculated by an independent actuary. The accrued liabilities equal the discounted payables to be made in the future having regard for the staff turnover and they refer to the period ending on the balance sheet date. Demographic data as well as information about the staff turnover are based on historical data. The discounting is applied with the use of interest rates for Treasury bonds expressed in the currency of the future payment of benefits with maturity dates close to the dates of the payment of liabilities. According to IAS 19, the discount rate should be based on the return of highly liquid commercial bonds with a low level of risk. If a developed market for such bonds is missing, as in Poland, the market rates of return for Treasury bonds recorded at the end of a given reporting period are applied.

Actuarial gains and losses related to post-employment benefits are charged to other comprehensive income. Actuarial gains and losses related to jubilee bonuses are recognised in the income statement.

10.25. Contingent liabilities and other liabilities not recognised in the balance sheet

A contingent liability is:

a) a possible obligation that may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events beyond the Group's control;
b) a present obligation that arises from past events but is not recognised in the consolidated financial statements because:
   - the amount of the obligation cannot be reliably measured;
   - it is not probable that spending cash to satisfy the obligation is necessary.

10.26. Income statement

The natural classification is the basic reporting classification of costs in the income statement. Profit or loss is the aggregate amount resulting from the deduction of costs from revenue after adjustment with the change in the level of products and adjustment with the costs of the production of benefits for own needs, except for the components of other comprehensive income. Change in the level of products comprises the balance sheet change of the level of finished goods and work in progress adjusted with write-downs of finished goods and work in progress.

10.27. Statement of comprehensive income

The statement of comprehensive income comprises net profit from the income statement and other comprehensive income in breakdown into other comprehensive income which can be charged to profit or loss and other comprehensive income which will not be charged to profit or loss.

10.28. Cash flow statement

The cash flow statement from operating activities is prepared with the indirect method.

10.29. Capital management

The capital is managed at the level of the Group and aims at preserving the ability to continue the operations having regard for the accomplishment of investment plans so that the Group can generate return for shareholders and benefits to other stakeholders.

10.30. Share based payments

The Group's employees (including the members of the Management Board) receive remunerations in the form of treasury shares; as a result, they provide services in return for shares or rights to shares ('transactions cleared in equity instruments').

10.30.1 Transactions cleared in equity instruments

The cost of transactions cleared with the employees in equity instruments is measured by reference to fair value as of the date of granting rights. The fair value is determined by an independent expert as at the date of granting the rights on the basis of the binominal model further discussed in note 23.1 of the complementary information and explanations. The valuation of transactions cleared in equity instruments takes into account market conditions of acquiring rights (related to the price of the parent company's shares).

The costs of transactions cleared in equity instruments are recognised together with the corresponding increase in equity in the period when the conditions concerning the effectiveness/results and the provision of work were met, ending on the day of acquiring full rights to given benefits ('entitlement date') by particular employees. The cumulated cost recognised due to the transactions cleared in equity instruments as at each balance sheet date until the entitlement date reflects the lapse of the period for acquiring the rights and the number of awards the rights to which – in the opinion of Group's Management Board as of that day, based on the best possible estimates of the number of equity instruments – are finally acquired.

No costs are recognised for not finally qualified awards, except for those awards for which the qualification depends on market conditions and which are treated as qualified regardless of the fact of meeting the market conditions, provided, however, that all other non-market conditions are met.

In the event of modifications of the conditions governing the granting of awards cleared in equity instruments, in order to comply with the minimum requirements, the costs are recognised as if the conditions have not been modified. Furthermore, the costs related to each increase in the transaction value as a result of the modification are recognised at the date of the change.

In the event of cancelling an award cleared in equity instruments, it is treated as if it was qualified on the cancellation date and all the award related costs not yet recognised are immediately recognised. However, in the event of replacing the cancelled award with a new one, specified as a substitution award on the date of its granting, the cancelled award and the new one are treated as if they constituted a modification of the original award, i.e. in accordance with the provisions of the paragraph above.

10.31. Revenue

Revenue is recognised in the amount equalling the economic benefits which the Group is likely to achieve in relation to the given transaction and which can be reliably measured. Revenue is recognised at fair value of received or due payments less VAT, excise tax and rebates. When recognising revenue, the criteria specified below apply as well.

10.31.1 Sales of products, trade goods, materials and services

Revenue from the sale of products, trade goods, materials and services is recognised when the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Company; and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from the sale of products, trade goods and materials is recognised when significant risk and rewards of their ownership were transferred to the buyer and when the Company is no longer permanently engaged in the management of the sold goods to the extent to which such a function is usually performed for goods owned by someone, and when the Company has no effective control over them. Revenue from services (except for long-term contracts related to construction services described below) is recognised following the completion of a given service. Revenue comprises amounts received and due for delivered products, trade goods, materials and services less any discounts related to deliveries and services as well as VAT, excise duty and fuel duty. The amount of the revenue is determined at fair value of received or due payment. Revenue obtained from the settlement of cash flow hedging transactions adjusts the revenue from the sale of products, trade goods, materials and services.

Revenue and costs related to construction services for which their commencement and termination dates fall in different reporting periods are recognised on the basis of the percentage of a service completion (measured with the degree of the cost-based progress), if the result from the transaction can be measured reliably, i.e. when one can determine the amount of the revenue from the service contract and the costs of the service, and when it is probable that the Company will generate economic benefits from the contract and the degree of the contract completion can be determined reliably. When meeting the conditions is not possible, revenue is recognised only to the level of the costs incurred by a given date; however, not higher than the costs that the Company expects to recover.

10.31.2 Interest

Interest income is recognised on an ongoing basis as the interest accrues (using the effective interest rate method constituting the discount rate for future cash flows throughout the estimated useful life of financial instruments) with regard to the net carrying amount of a given financial asset.

10.31.3 Dividends

Dividends are recognised upon the determination of the shareholders' and partners' rights to obtain them.

10.31.4 Rental income

Income from the rental of investment properties is recognised on a straight-line basis throughout the rental period with regard to contracts in progress.

10.31.5 Other operating income

This is income indirectly related to the operations, in particular:

- profit from the sale of property, plant and equipment and intangible assets;
- the surplus of reversed provisions charged previously to other operating costs over their recognition in a given period;
- received fines and damages;
- the surplus of reversed write-downs of receivables over their recognition in a given period;
- the surplus of reversed write-downs of inventories over their recognition in a given period;
- the surplus of reversed write-downs of property, plant and equipment and intangible assets over their recognition in a given period.

10.31.6 Grants

Should a reasonable certainty exist that a grant is to be obtained and all related conditions are met, the governmental grants are recognised at their fair value.

If a given grant is related to a cost item, then it is recognised as revenue proportionally to the costs the grant is intended to compensate for. If the grant is related to an asset, then its fair value is recognised in the 'deferred income' account and then gradually, by means of equal annual write-downs, written down to the income statement throughout the estimated useful life of the related asset.

10.31.7 Other finance income

This is mainly interest income and gains from net currency translation differences on receivables and liabilities in foreign currencies.

10.32. Costs

Costs are probable decreases in economic benefits during the period determined reliably in the form of a decrease in the value of assets or an increase in the value of liabilities or provisions which will result in a decrease in equity or an increase in its shortage in a manner other than the withdrawal of funds by shareholders or owners. The costs are recognised in the income statement according to the matching principle. In order to ensure the principle of the matching of revenue and costs, the assets or liabilities for a given period comprise prepayments or accruals including costs or revenue referring to future periods and the costs for that period which have not been incurred yet.

10.32.1 Operating costs

They comprise costs directly and indirectly related to the operations of the Group in breakdown into particular types of costs.

10.32.2 Other operating costs

These are costs indirectly related to the operations of the Group, in particular:

- recognised provisions for disputes;
- donations granted;
- accrued or paid fines and damages;
- losses in tangible current or non-current assets;
- losses from the disposal of property, plant and equipment and intangible assets;
- recognised write-downs of inventories;
- recognised write-downs of receivables, except for interest receivables.

10.32.3 Finance costs

Finance costs comprise:

- interest on bank overdraft facilities;
- interest on loans, credits and other borrowings, including the discount of liabilities;
- changes in the provisions resulting from the approaching of the maturity of a liability (so called 'unwinding of the discount' effect);
- losses from net currency translation differences on receivables and liabilities expressed in foreign currencies.

10.33. Taxes

10.33.1 Current income tax

Current tax liabilities and receivables for the current period and for previous periods are measured at the amounts of the expected payment to tax authorities (reimbursable from the tax authorities) with the application of the tax rates and tax regulations already legally or practically binding on the balance sheet date.

10.33.2 Deferred income tax

For the sake of financial reporting, the deferred income tax is calculated based on the balance sheet liabilities method in relation to the temporary differences as of the balance sheet date between the tax value of assets and liabilities and their carrying amount stated in the consolidated financial statements.

Deferred income tax liability is recognised with regard to all taxable temporary differences:

- save for cases when the deferred income tax liability is recognised as a result of the initial recognition of goodwill or the initial recognition of an asset or a liability for the transaction which neither constitutes a business combination nor, upon its conclusion, influences the gross financial result or the revenue to be taxed or tax loss; and
- in the event of taxable temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures, except for situations when the dates of reversing temporary differences are subject to the investor's control and when it is probable that temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised on all deductible temporary differences as well as unused tax abatements and unused tax losses carried forward to the following years in an amount of probable future taxable revenue which will allow for using the aforementioned differences, assets and losses:

- save for cases when deferred income tax assets on deductible temporary differences are recognised as a result of the initial recognition of an asset or a liability for the transaction which neither constitutes a business combination nor, upon its conclusion, influences the gross financial result or the revenue to be taxed or tax loss; and
- in the event of deductible temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures, deferred income tax asset is recognised in the balance sheet only in an amount for which it is probable that the aforementioned temporary differences will be reversed in the foreseeable future and taxable income will be generated allowing for the deduction of deductible temporary differences.

The carrying amount of the deferred income tax asset is verified as at each balance sheet date and is subject to a relevant decrease by the amount corresponding to the lack of likelihood of generating taxable revenue in the amount sufficient to partly or fully realise the deferred income tax asset. The non-recognised deferred income tax asset is subject to revaluation as at each balance sheet date and is recognised up to the amount reflecting the likelihood of generating future taxable revenue in an amount enabling the recovery of this asset.

Deferred income tax assets and deferred income tax liabilities are measured with the application of tax rates forecasted for the period when the asset will be realised or the liability reversed, applying, as the basis, the tax rates (and tax regulations) in force on the balance sheet date or those which will certainly be in force in the future on the balance sheet date.

Income tax related to items recognised outside profit or loss is recognised outside profit or loss: in other comprehensive income in relation to items included in other comprehensive income, or directly in equity in relation to items recognised directly in equity.

The Group sets off deferred income tax assets against deferred income tax liabilities only and exclusively when it has an enforceable legal title to set off the receivables against liabilities due to the current tax and the deferred income tax is related to the same tax-payer and the same tax authority.

Tax exemptions related to operations in Special Economic Zones

Certain subsidiaries, i.e. Alupol Packaging S.A., Aluform Sp. z o.o. and Alupol Films sp. z o.o., carry out business activities in Special Economic Zones pursuant to appropriate authorisations.

The Group recognises the benefits resulting from the obtained public assistance in accordance with IAS 12 *Income Taxes*. The Group recognises deferred income tax assets in the amount of the available public assistance granted to the Group as at particular balance sheet dates.

10.33.3 VAT

Revenue, costs and assets are recognised less VAT, except:

- when VAT paid upon the purchase of assets or services is not recoverable from the tax authorities; then, it is recognised accordingly as a part of the purchase price of a given asset or a part of the cost item; and
- for receivables and liabilities recognised including VAT.

Net VAT amount recoverable from or payable to the tax authorities is recognised in the balance sheet as a part of receivables or liabilities.

10.34. Net earnings per share

Net earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares in the given reporting period.

The Group calculates diluted net earnings per share including potential shares. Potential shares are related to the options programme run by the Group. See note 23.1 for more information about the share options programme.

10.35. Measurement at fair value

The Group measures financial instruments such as available-for-sale instruments and derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

The fair value is defined as the price that would be received from sale of an asset or paid in order to transfer a liability in the transaction conducted on normal sale conditions of a component of assets between market participants at the valuation date in the current market conditions. The valuation of fair value is based on the assumption that the sale transaction of a component of assets or the transfer of a liability occurs either:

- In the principal market for the asset or liability;
- In the absence of a principal market, in the most advantageous market for the asset or liability.

Both the principal and the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Management Board determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

Independent appraisers are engaged to measure significant assets such as properties or available-for-sale assets.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

11. Information on business segments

The Management Board of the parent company is the main operating decision-maker for the Group. The Management Board determined business segments on the basis of reports they read, which are used when making strategic decisions. The Group's management reporting is based on operating segments. The organisation and management of the Group are based on the segment division having regard for the type of products and services offered. Each of the segments constitutes a strategic business unit or a set of business units offering different products and handling different markets.

The Group settles transactions between individual segments as if they referred to non-related entities, namely with the application of the present market prices.

An operating segment is a component of the Group:

a) which is engaged in business activities from which it may generate revenue and incur costs;

b) whose business results are regularly reviewed by the Group's management staff in order to make decisions about resources allocated to a given segment and to assess the activities of the segment; and

c) for which separate financial information is available.

Operating segments presented by the Group are identical with reporting segments presented in these consolidated financial statements.

The Capital Group's operations comprise four basic operating areas and are divided into:

- Extruded Products Segment (EPS)
- Flexible Packaging Segment (FPS)
- Aluminium Systems Segment (ASS)
- the item 'Other' contains figures for the so-called Centre, i.e. units responsible for the centrally managed areas (IT, finances, PR and IR, risk management, equity investments, HR) and figures of companies not organizationally grouped in the core business segments such as Alu Trans System Sp. z o.o. as well as companies performing auxiliary activities not related directly to the core activities of particular segments, including Alutech Sp. z o.o. and Dekret Sp. z o.o.

As compared to the most recent annual financial statements, the Group has changed the management and consolidation method for the following segments: BAS (the Building Accessories Segment) and BSS (the Building Services Segment). From the first half of 2016, these Segments have been a part of the Aluminium Systems Segment (ASS).

Particular segments are engaged in the following activities:

EPS – the production and sale of aluminium profiles;

FPS – the production and sale of packaging for the food industry;

ASS – the production and sales of systems for the construction industry and the provision of construction services related to their assembly.

Note 2 presents the assignment of particular subsidiaries to business segments.

11.1. Financial results of segments

The operating segments' results are assessed on the basis of revenue, EBIT, EBITDA and capital expenditure. EBIT is operating profit. EBITDA is operating profit less depreciation and amortisation.

The Group's financing is managed at the Group's level and is not allocated to operating segments.

The tables below present revenue and profits as well as assets and liabilities of particular operating segments of the Group.

Complementary information and explanations (in thousand PLN)

12 months ended on 31.12.2016:

Operating segments	FPS	EPS	ASS	Other	Eliminations	Total
Income statement						
Sales	498,535	932,302	1,038,966	13,824	(216,200)	2,267,427
- outside the Group	498,340	734,504	1,034,365	218	0	2,267,427
- to other segments	195	197,798	4,601	13,606	(216,200)	0
Write-down of inventories	84	(602)	(707)	0	0	(1,225)
Write-down of receivables	(178)	1,132	(2,756)	0	1	(1,801)
Write-downs of property, plant and equipment and intangible assets	(78)	(1,269)	0	0	0	(1,347)
Write-down of goodwill	0	0	0	0	0	0
Operating profit (EBIT)	84,126	85,895	124,570	128,627	(140,891)	282,327
Depreciation/Amortisation	20,325	53,332	35,631	2,447	98	111,833
EBITDA	104,451	139,227	160,201	131,074	(140,793)	394,160
Interest income	160	491	540	378	(34)	1,535
Interest costs	(2,824)	(1,939)	(2,973)	(490)	34	(8,192)
Profit before tax	78,713	84,519	117,094	128,045	(140,891)	267,480
Income tax expense	47,784	(14,644)	(25,003)	2,341	(68)	10,410
Net profit	126,497	69,875	92,091	130,386	(140,959)	277,890
Balance sheet						
Total assets	804,519	735,993	724,557	33,532	24,234	2,322,835
Segment’s trade payables	75,402	62,056	104,856	1,493	(43,678)	200,129
Unallocated liabilities (joint)				717,345	0	717,345
Total liabilities	75,402	62,056	104,856	718,838	(43,678)	917,474
Other						
Capital expenditure on property, plant and equipment	185,145	97,693	40,689	2,981	0	326,508

Complementary information and explanations (in thousand PLN)

12 months ended on 31.12.2015:

Operating segments	FPS	EPS	ASS	Other	Eliminations	Total
Income statement						
Sales	434,982	820,746	959,598	26,103	(214,283)	2,027,146
- outside the Group	434,795	617,078	959,876	26,103	(10,706)	2,027,146
- to other segments	187	203,668	(278)	0	(203,577)	0
Write-down of inventories	(3)	(1,498)	66	(534)	(0)	(1,969)
Write-down of receivables	(9)	(229)	(4,121)	1,574	(1,310)	(4,095)
Write-downs of property, plant and equipment and intangible assets	0	(345)	0	0	0	(345)
Write-down of goodwill	0	0	0	0	0	0
Operating profit (EBIT)	76,009	53,345	132,483	116,662	(134,058)	244,441
Depreciation/Amortisation	18,444	45,563	25,535	2,178	(9)	91,711
EBITDA	94,453	98,908	158,018	118,840	(134,067)	336,152
Interest income	130	520	400	162	(107)	1,104
Interest costs	(1,038)	(1,278)	(2,332)	(1,100)	107	(5,640)
Profit before tax	70,616	50,005	128,093	114,826	(134,058)	229,482
Income tax expense	3,925	(9,163)	(25,811)	10,561	819	(19,669)
Net profit	74,541	40,842	102,282	125,387	(133,239)	209,813
Balance sheet						
Total assets	583,662	621,392	692,539	23,672	37,427	1,958,692
Segment’s trade payables	61,262	29,117	112,000	979	(35,597)	167,761
Unallocated liabilities (joint)				512,088	0	512,088
Total liabilities	61,262	29,117	112,000	513,067	(35,597)	679,849
Other						
Capital expenditure on property, plant and equipment	45,667	83,370	64,357	3,790	3,425	200,609

- a segment’s assets comprise: non-current assets (except for shares and interests in subsidiaries which are reclassified to ‘Other’ item), inventories, trade and other receivables (except for public law receivables) and derivative financial instruments.

- The column ‘Eliminations’ contains inter-segment transactions and consolidation eliminations. In the income statement, it is mainly related to the sale of aluminium profiles from the EPS to the ASS. The elimination items for assets and liabilities comprise mainly investments and inter-segment settlements.

All above transactions are concluded on market terms.

11.2. Geographical structure of non-current assets

Non-current assets by territories	**31.12.2016** (audited)	**31.12.2015** (audited)
Poland	1,179,133	1,003,631
EU, excluding Poland	61,639	21,906
Other European countries	11,427	11,796
Other countries	0	0
TOTAL ASSETS	**1,252,199**	**1,037,333**

Above non-current assets comprise property, plant and equipment, intangible assets, goodwill and investment properties.

12. Revenue and costs

12.1. Geographical and item-by-item structure of revenue

Sales by territories	**01.01.2016 – 31.12.2016** (audited)	**01.01.2015 – 31.12.2015** (audited)
Poland	1,228,447	1,159,176
EU, excluding Poland	812,652	717,189
Other European countries	143,031	107,967
Other countries	83,297	42,814
including to related parties*	383	1,232
TOTAL SALES REVENUE	**2,267,427**	**2,027,146**
including to related parties*	**383**	**1,232**

Complementary information and explanations (in thousand PLN)

*for an associate, see note 21

The sale in the table above is recognised for the country of the counterparty being a party to a sale transaction.

Sales by items	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Products	1,831,803	1,616,135
including to related parties*	244	1,056
Services	57,370	40,276
including to related parties*	17	176
Construction services	47,558	96,905
Trade goods	51,961	43,889
Materials	278,735	229,941
including to related parties*	122	0
TOTAL SALES REVENUE	**2,267,427**	**2,027,146**
including to related parties	**383**	**1,232**

*for an associate, see note 21

12.2. Revenue from construction contracts

Long-term construction contracts are the main source of sales revenue. The tables below present the impact of construction contracts on the presented revenue and financial result of the Group.

	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Incurred costs	55,480	84,691
Revenue in the income statement, including:	**47,559**	**96,905**
Invoiced revenue	56,072	88,509
Revenue estimated using the percentage-of-completion method	(8,513)	8,396

The table below presents the effects of the valuation of construction services contracts in progress as at the balance sheet date (including contracts in progress from previous periods):

	31.12.2016 (audited)	31.12.2015 (audited)
Sales revenue calculated using the percentage-of-completion method as at the balance sheet date	121,636	119,530
Incurred costs of contracts and recognised losses from contracts in progress as at the balance sheet date	11,494	103,371
Gross amount due from the Contracting Party for works resulting from a contract – asset/(liability)	11,303	19,816

12.3. Other operating income

	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Reversed provisions and write-downs:	404	2,243
- provisions for damages	0	2050
- other	404	193
Gains from the disposal of property, plant and equipment	253	281
Grants	1,707	2,045
Received fines and damages	16,254	8,439
Surplus inventory	664	1,874
Past due liabilities	2,844	128
Supplies received free of charge	383	276
Received bonuses from suppliers	431	65
Other	2,746	2,949
TOTAL OTHER OPERATING INCOME	**25,686**	**18,300**

Complementary information and explanations (in thousand PLN)

12.4. Other operating costs

	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Write-down of inventories	(1,225)	(1,969)
Write-down of receivables	(1,801)	(4,095)
Write-down of property, plant and equipment and intangible assets	(1,347)	(345)
Other write-downs	(157)	(5)
Provision for costs of damages	(5,105)	(964)
Promotion and publicity	(13,994)	(10,910)
Business trips	(5,094)	(4,646)
Disposal of inventories	(1,384)	(2,153)
Retirement of property, plant and equipment	(1,247)	(420)
Inventory shortages	(1,127)	(1,735)
Property damage	(364)	(288)
Paid fines and damages	(596)	(448)
Donations	(384)	(307)
Court costs related to lawsuits for the payment of receivables	(72)	(184)
Revaluation of investment properties	(1,009)	(656)
Other	(4,107)	(3,737)
TOTAL OTHER OPERATING COSTS	**(39,013)**	**(32,862)**

12.5. Finance income

	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Interest	1,535	1,104
Profit on investments	230	0
Other	25	16
TOTAL FINANCE INCOME	**1,790**	**1,120**

12.6. Finance costs

	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Interest on leases and loans	(7,789)	(5,148)
Discount of provisions for employee benefits	(173)	(167)
Other interest	(230)	(325)
Surplus of currency translation losses over currency translation gains	(6,695)	(9,126)
Loss on investments	0	(144)
Discounts granted	(162)	(1)
Bank commissions	(1,353)	(1,095)
Other	(235)	(73)
TOTAL FINANCE COSTS	**(16,637)**	**(16,079)**

12.7. Impairment

Due to the nature of the business, the majority of single non-current assets of the Group do not generate cash inflows which would be independent of inflows generated by other assets. Individual cash-generating units are the companies belonging to particular operating segments.

Complementary information and explanations (in thousand PLN)

The table below presents the allocation of goodwill:

	31.12.2016	31.12.2015
Aluprof S.A. – Aluminium Systems Segment	17,102	17,102
Other companies in the Aluminium Systems Segment*	2,441	2,353
Extruded Products Segment	61	61
Flexible Packaging Segment	350	350
Total goodwill	**19,954**	**19,866**

*Change in goodwill in other companies stems from currency translation differences from the conversion of currency.

Write-downs of goodwill

Company name	Operating segment	31.12.2016	31.12.2015
Aluprof S.A.	ASS	650	650
Aluprof System Węgry	ASS	121	121
Romb S.A.	BAS	185	185
Total write-downs of goodwill		**956**	**956**

In the presented periods, the Group performed annual impairment tests for units to which goodwill and intangible assets with indefinite useful lives were assigned.

The tests carried out in the presented years did not show any need to recognise write-downs.

Apart from aforementioned write-downs, there were no other changes in goodwill.

Below, we present impairment tests in breakdown into companies belonging to particular operating segments.

Recognised write-downs are presented below:

Cash-generating units	Aluprof Schelfhaut N.V (a part of the Aluminium Systems Segment)	MHF (a part of the Aluminium Systems Segment)	Aluprof S.A. (a part of the Aluminium Systems Segment)	Other companies in the Aluminium Systems Segment	Other segments*
Basis for recoverable amount	Value in use	Value in use	Value in use	Value in use	Value in use
Goodwill	2,305	0	17,102	48	411
Value of intangible assets with indefinite useful lives (trademarks)	0	2,465	22,500	0	0
Impairment	Not found	Not found	Not found	Not found	Not found
Source of data	Forecast	Forecast	Forecast	Forecast	Forecast
Estimate basis	6-year cash-flow projection	5-year cash-flow projection	5-year cash-flow projection	5-year cash-flow projection	5-year cash-flow projection
Marginal growth rate	2%	1%	0%	0%	0%
Applied discount rate(1)	9.00%	9.00%	9.10%	9.10%	9.10%

1) The applied discount rate is based on the pre-tax discount rate defined in IAS 36

* Aggregate figures for the FPS and the EPS; the tests were carried out for each segment separately.

Complementary information and explanations (in thousand PLN)

12.8. Costs of materials and energy, and the value of goods and materials sold

	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Consumption of materials	(1,059,394)	(957,905)
Energy consumption	(59,916)	(59,485)
Value of resold materials and goods	(243,684)	(178,432)
Result from hedging transactions	(11,684)	(26,264)
Costs of materials and energy, and the value of goods and materials sold	**(1,374,678)**	**(1,222,086)**

13. Income tax expense

Main components of income tax expense are as follows:

Income tax structure	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Current income tax	(41,752)	(31,836)
Deferred income tax	52,162	12,167
Income tax recognised in the income statement	**10,410**	**(19,669)**

The reconciliation of the income tax on gross financial result prior to taxation at the statutory tax rate with the income tax calculated at the Group's effective tax rate is as follows:

Effective tax rate	**%**	01.01.2016 – 31.12.2016 (audited)	**%**	01.01.2015 – 31.12.2015 (audited)
Gross financial result		**267,480**		**229,482**
Tax at the national rate of 19%	19%	(50,821)	19%	(43,602)
Effect of differences in tax rates of subsidiaries operating in other countries	0%	(347)	1%	(1,459)
Impact of tax losses	0%	(714)	0%	95
Change in the estimate of deferred income tax asset related to the operations in the SEZ (for the authorisation effective until August 2016)	-1%	1,755	-2%	4,067
Change in the estimate of deferred income tax asset related to the operations in the SEZ (for the authorisations effective until the end of 2026)	-24%	65,831	-8%	17,288
Impact of tax-exempt revenue and non-tax costs	2%	(5,294)	-2%	3,942
Income tax expense recognised in the income statement	**-3%**	**10,410**	**16%**	**(19,669)**

Complementary information and explanations (in thousand PLN)

13.1. Deferred income tax

	01.01.2016	Deferred income tax in the income statement	Deferred income tax in other comprehensive income	Deferred income tax due to the acquisition of a company	Cumulative translation adjustment	31.12.2016
Assets	**99,165**	**51,612**	**(1,100)**	**0**	**24**	**149,701**
Employee benefits (remunerations)	1,289	1,219	0	0	0	2,508
Provisions for employee benefits (holidays, bonuses, pensions and disability benefits)	3,551	1,076	93	0	0	4,720
Other provisions and accruals	3,812	(117)	0	0	0	3,695
Write-downs of receivables	5,067	1,994	0	0	2	7,063
Write-downs of inventories	4,509	(22)	0	0	0	4,487
Write-downs of non-current assets	2,896	1,214	0	0	0	4,110
Currency translation differences from the revaluation of items in foreign currencies (receivables, liabilities, loans)	349	255	0	0	0	604
CIT abatement due to the operations in SEZ	57,200	50,668	0	0	0	107,868
Tax loss to be deducted in the future (realised)	7,928	(4,853)	0	0	0	3,075
Derivative financial instruments	1,235	(13)	(1,193)	0	0	29
Difference between the carrying amount and the tax value of property, plant and equipment	9,513	1,446	0	0	0	10,959
Interest on loans	89	46	0	0	0	135
Outstanding invoices	621	(621)	0	0	0	0
Other	1,106	(680)	0	0	22	448
Set-off for presentation purposes	*(26,603)*					*(24,119)*
Deferred income tax assets in the balance sheet	**72,562**					**125,582**
Liability	**61,480**	**(550)**	**627**	**854**	**(19)**	**62,392**
Difference between the carrying amount and the tax value of property, plant and equipment	54,896	(227)	315	475	(15)	55,444
Valuation of investment properties	1,129	606	0	379	3	2,117
Valuation of construction works under the percentage-of-completion (POC) method	857	(110)	0	0	0	747
Currency translation differences from the revaluation of items in foreign currencies (receivables, liabilities, loans)	800	(442)	0	0	0	358
Derivative financial instruments	145	99	312	0	0	556
Cash flow hedge	261	(261)	0	0	0	0
Other	3,392	(215)	0	0	(7)	3,170
Set-off for presentation purposes	*(26,603)*					*(24,119)*
Deferred income tax liability in the balance sheet	**34,877**					**38,273**

According to the Group's estimates, the following amounts recognised above were of long-term nature:

Complementary information and explanations (in thousand PLN)

	31.12.2016 (audited)	31.12.2015 (audited)
Deferred income tax assets due to tax exemption related to SEZ	96,961	44,541
Deferred income tax assets due to provisions and accruals	1,136	989
Deferred income tax assets due to tax losses	0	3,005
Deferred income tax liability due to investment properties	(560)	(1,129)
Deferred income tax liability due to property, plant and equipment	(35,397)	(37,326)
Total long-term assets (liabilities)	**62,140**	**10,080**

Other amounts and items of deferred income tax asset and liability other than the ones mentioned above are of short-term nature.

The table below presents the periods and amounts of the settlement of tax losses for which the Group did not recognise any deferred income tax asset:

Items for which no deferred income tax asset was recognised	31.12.2016 (audited)	31.12.2015 (audited)
Loss from 2012; deduction by the end of 2017	0	2
Loss from 2013; deduction by the end of 2018	5,585	686
Loss from 2015; deduction by the end of 2020	711	0
CIT exemption due to the operations in SEZ to be used until 08 August 2016	0	31,389
CIT exemption due to the operations in SEZ to be used until 31 December 2026	6,570	0
Total non-recognised deferred income tax assets	**12,866**	**32,077**

The companies of the Group have unsettled tax losses from previous years. Due to uncertainty regarding the possibility of their deduction in subsequent years, no deferred income tax assets were recognised for such losses. The period for the settlement of tax losses in Poland is 5 years from the year of suffering the loss; however, not more than 50% of the loss in a given year (for other countries, in accordance with the law of a given country).

In addition, some companies of the Group operate on the basis of authorisations in special economic zones and, according to the law, taxable income of such companies due to the operations in such zones is exempt from income tax in the validity period of a given authorisation. The exemption limit depends on the capital expenditure made under particular authorisations. Taking into account limited validity periods of authorisations and the forecasts of profits to be generated by these companies, the estimated deferred income tax asset due to operations in special economic zones is lower than the maximum level of available public assistance.

The reconciliation of the change in deferred income tax asset (liability) charged to net profit and other comprehensive income.

	2016 (audited)	2015 (audited)
Assets (liability) as at 01.01.2016 / 01.01.2015	**37,685**	**27,710**
Change in the asset (liability) due to the valuation of derivative financial instruments charged to other comprehensive income	(1,505)	806
Actuarial valuation	93	(36)
Deferred income tax charged to profit or loss	52,162	12,167
Cumulative translation adjustment	43	(31)
Deferred income tax liability charged to goodwill	0	(2,931)
Change in liability due to the revaluation of energy-related assets charged to other comprehensive income	(315)	0
Liability due to a company acquisition	(854)	0
Assets (liability) as at 31.12.2016 / 31.12.2015	**87,309**	**37,685**

Complementary information and explanations (in thousand PLN)

13.2. Tax exemptions related to operations in Special Economic Zones

Alupol Packaging S.A., Alupol Films sp. z o.o. (the Flexible Packaging Segment) and Aluform Sp. z o.o. (the Extruded Products Segment) operate in Special Economic Zones on the basis of authorisations. As a result, the companies, as regards their income from the operations defined in respective authorisations, may take advantage of corporate income tax exemptions. The maximum level of exemptions (public assistance limit) depends on the amount of eligible capital expenditure made under each authorisation to operate in an economic zone. The deadlines to take advantage of tax exemptions are determined in particular authorisations and these are 8 August 2016 for authorisations obtained prior to 2001 and 31 December 2026 for the remaining authorisations.
The table below presents the amounts of available discounted public assistance (public assistance limit):

Amounts of available discounted public assistance (public assistance limit)	**31.12.2016** (audited)	**31.12.2015** (audited)
Authorisations expiring on 8 August 2016; assistance limit 75%	119,141	119,141
Authorisations expiring on 31 December 2026; assistance limit 40%	43,609	35,580
Authorisations expiring on 31 December 2026; assistance limit 35%	44,173	2,330
TOTAL	**206,923**	**157,051**

Pursuant to respective regulations, the public assistance limit is determined on the basis of discounted expenditure made to purchase property, plant and equipment as part of obtained authorisations. The discount is applied as of the date of obtaining an authorisation, using the discount rate published by the Office of Competition and Consumer Protection. The table below presents the amounts of used discounted public assistance:

Amounts of used discounted public assistance	**31.12.2016** (audited)	**31.12.2015** (audited)
Authorisations expiring on 8 August 2016; assistance limit 75%	49,230	46,205
Authorisations expiring on 31 December 2026; assistance limit 40%	2,967	0
Authorisations expiring on 31 December 2026; assistance limit 35%	0	0
TOTAL	**52,197**	**46,205**

Pursuant to respective regulations, nominal amounts of obtained tax exemptions are discounted as of the date of obtaining the authorisation for which they are settled, using the discount rate published by the Office of Competition and Consumer Protection. Such discounted amounts cannot exceed public assistance limits.

The table below shows the value of used nominal public assistance:

Nominal value of used public assistance (the value of used tax exemptions)	**31.12.2016** (audited)	**31.12.2015** (audited)
Authorisations expiring on 8 August 2016; assistance limit 75%	101,489	91,480
Authorisations expiring on 31 December 2026; assistance limit 40%	4,008	0
Authorisations expiring on 31 December 2026; assistance limit 35%	0	0
TOTAL	**105,497**	**91,480**

13.3. Income tax receivables (liabilities)

Income tax receivables (liabilities) comprise the differences between paid tax advances and the current income tax for the given year.

	31.12.2016 (audited)	**31.12.2015** (audited)
Current tax receivables	863	4,315
Income tax payables	(14,471)	(11,800)

Complementary information and explanations (in thousand PLN)

14. Earnings/(loss) per share

Below, we present the data related to earnings and the number of shares applied to calculate basic and diluted earnings per share:

	01.01.2016 – 31.12.2016 (audited)	**01.01.2015 – 31.12.2015** (audited)
Net profit attributable to equity holders of the parent	277,890	209,813
Weighted average number of ordinary shares assumed for the calculation of earnings per share	9,453,332	9,422,210
Weighted average number of ordinary shares assumed for the calculation of diluted earnings per share*	9,470,926	9,431,124
Basic earnings per share from the basic profit for the period attributable to equity holders of the parent (in PLN)	29.40	22.27
Diluted earnings per share from the basic profit for the period attributable to equity holders of the parent (in PLN)	29.34	22.25

In 2016, eligible persons acquired the rights to subscribe for 49,150 shares from the second part of the 2012 programme for 117.10 PLN (until the balance sheet date, 24,683 shares were subscribed for from this part).

Until the balance sheet date, 7,500 shares from the third part of the 2012 programme, 11,604 shares from the first part of the 2012 programme and 24,467 shares from the second part of the 2012 programme had not been subscribed for.

In addition, during 2016, the eligible persons subscribed for: 11,705 shares at 117.10 PLN from the first part of the 2012 programme.

The said figures were taken into consideration in the calculation of the weighted average number of (subscribed for) shares and of the weighted average number of potential shares.

The period of exercising the rights to acquire shares will have expired after 36 months from the date of acquiring the rights. See note 23.1 for more information about the options programme.

The average market price for the Company's share during 2016 was 356.62 PLN (2015: 298.86 PLN).

The potential number of ordinary shares associated with the employee options programme increasing the number of shares and assumed for the calculation of diluted earnings per share is 17,594 shares (previous year: 8,914 shares).

15. Dividends paid and proposed for payment

	Year ended on 31.12.2016	Year ended on 31.12.2015
Dividend from ordinary shares declared for the previous year and paid in the period:	170,166	136,072
TOTAL	**170,166**	**136,072**

In 2016, the Company paid dividend amounting to 170,166 thousand PLN (18.00 PLN per share). In 2015, the Company paid dividend amounting to 136,072 thousand PLN (14.41 PLN per share).

The Management Board intends to allocate the profit for the year amounting to 176,333,398.14 PLN for the payment of dividend. As recommended by the Management Board, the dividend is to amount to ca. 80% of the consolidated profit of the Capital Group, which amounted to 278 million PLN. As a result, the dividend should amount to ca. 223 million PLN. Therefore, as intended by the Management Board, the dividend per share is to amount to ca. 23.50 PLN for assumed 9,489,980 shares (previous year: 18.00 PLN per share).

16. Property, plant and equipment

Property, plant and equipment	**31.12.2016** (audited)	**31.12.2015** (audited)
Gross value of property, plant and equipment	**1,934,029**	**1,555,811**
Land (including the right of perpetual usufruct)	41,005	30,607
Buildings and structures	545,556	426,695
Plant and machinery	970,282	784,011
Energy-related assets	17,113	12,145

Complementary information and explanations (in thousand PLN)

Means of transport	42,323	35,566
Other property, plant and equipment	241,164	208,322
Property, plant and equipment under construction	76,586	58,465
Accumulated depreciation of property, plant and equipment	**735,156**	**592,919**
Land (including the right of perpetual usufruct)	0	0
Buildings and structures	114,829	91,220
Plant and machinery	426,053	334,995
Energy-related assets	8,987	5,731
Means of transport	21,569	18,354
Other property, plant and equipment	163,718	142,619
Write-downs of property, plant and equipment	**22,291**	**15,235**
Land	0	0
Buildings and structures	8,123	888
Plant and machinery	13,737	13,724
Energy-related assets	13	13
Means of transport	6	5
Other property, plant and equipment	412	605
Property, plant and equipment under construction	0	0
Net value of property, plant and equipment	**1,176,582**	**947,657**
Land (including the right of perpetual usufruct)	41,005	30,607
Buildings and structures	422,604	334,587
Plant and machinery	530,492	435,292
Energy-related assets	8,113	6,401
Means of transport	20,748	17,207
Other property, plant and equipment	77,034	65,098
Property, plant and equipment under construction	76,586	58,465

Property, plant and equipment	As at 01.01.2016 (audited)	Increases	Decreases	Shifts	Company acquisition	Currency translation differences	As at 31.12.2016 (audited)
Gross value of property, plant and equipment	**1,555,811**	**284,792**	**(34,451)**	**0**	**128,875**	**(998)**	**1,934,029**
Land	30,607		0	396	9,969	33	41,005
Buildings and structures	426,695		(2,519)	81,014	40,676	(310)	545,556
Plant and machinery	784,011		(10,871)	133,443	67,725	(928)	973,380
Energy-related assets	12,145		(18)	886	1,002	0	14,015
Means of transport	35,566		(3,077)	8,990	795	49	42,323
Other property, plant and equipment	208,322		(17,425)	41,402	8,708	157	241,164
Property, plant and equipment under construction	58,465	284,792	(541)	(266,131)	0	1	76,586
Accumulated depreciation of property, plant and equipment	**592,919**	**97,992**	**(30,308)**	**0**	**75,046**	**(493)**	**735,156**
Land	0	0	0	0	0	0	0
Buildings and structures	91,220	11,433	(1,743)	0	14,045	(126)	114,829
Plant and machinery	334,995	50,379	(9,539)	140	52,936	(424)	428,487
Energy-related assets	5,731	837	(15)	0	0	0	6,553
Means of transport	18,354	4,773	(2,362)	22	762	20	21,569
Other property, plant and equipment	142,619	30,570	(16,649)	(162)	7,303	37	163,718
Write-downs of property, plant and equipment	**15,235**	**7,590**	**(534)**	**0**	**0**	**0**	**22,291**
Land	0	0	0	0	0	0	0
Buildings and structures	888	7,356	(121)	0	0	0	8,123
Plant and machinery	13,724	18	(5)	0	0	0	13,737

Complementary information and explanations (in thousand PLN)

Energy-related assets	13	0	0	0	0	0	13
Means of transport	5	1	0	0	0	0	6
Other property, plant and equipment	605	215	(408)	0	0	0	412
Property, plant and equipment under construction	0	0	0	0	0	0	0
Net value of property, plant and equipment	**947,657**	**179,210**	**(3,609)**	**0**	**53,829**	**(505)**	**1,176,582**
Land	30,607	0	0	396	9,969	33	41,005
Buildings and structures	334,587	(18,789)	(655)	81,014	26,631	(184)	422,604
Plant and machinery	435,292	(50,397)	(1,327)	133,303	14,789	(504)	531,156
Energy-related assets	6,401	(837)	(3)	886	1,002	0	7,449
Means of transport	17,207	(4,774)	(715)	8,968	33	29	20,748
Other property, plant and equipment	65,098	(30,785)	(368)	41,564	1,405	120	77,034
Property, plant and equipment under construction	58,465	284,792	(541)	(266,131)	0	1	76,586

Property, plant and equipment	**As at 01.01.2015** (audited)	**Increases**	**Decreases**	**Shifts**	**Other**	**Currency translation differences**	**As at 31.12.2015** (audited)
Gross value of property, plant and equipment	**1,401,642**	**186,030**	**(24,605)**	**55**	**(699)**	**(6,612)**	**1,555,811**
Land	26,032		0	18	4,551	6	30,607
Buildings and structures	393,821		(25)	35,851	226	(3,178)	426,695
Plant and machinery	711,317		(10,153)	86,385	(234)	(3,304)	784,011
Energy-related assets	12,143		(17)	19	0	0	12,145
Means of transport	29,912		(1,889)	7,648	15	(120)	35,566
Other property, plant and equipment	187,537		(12,203)	33,363	(359)	(15)	208,322
Property, plant and equipment under construction	40,880	186,030	(318)	(163,229)	(4,898)	0	58,465
Accumulated depreciation of property, plant and equipment	**533,755**	**84,484**	**(23,137)**	**17**	**72**	**(2,273)**	**592,919**
Land	0	0	0	0	0	0	0
Buildings and structures	81,678	10,225	(6)	0	104	(781)	91,220
Plant and machinery	305,459	41,005	(10,044)	0	(26)	(1,399)	334,995
Energy-related assets	5,182	554	(11)	0	6	0	5,731
Means of transport	16,279	3,909	(1,750)	0	(4)	(80)	18,354
Other property, plant and equipment	125,157	28,791	(11,325)	17	(8)	(13)	142,619
Write-downs of property, plant and equipment	**15,942**	**345**	**(1,052)**	**0**	**0**	**0**	**15,235**
Land	0	0	0	0	0	0	0
Buildings and structures	888	0	0	0	0	0	888
Plant and machinery	13,721	3	0	0	0	0	13,724
Energy-related assets	13	0	0	0	0	0	13
Means of transport	5	0	0	0	0	0	5
Other property, plant and equipment	1,315	342	(1,052)	0	0	0	605
Property, plant and equipment under construction	0	0	0	0	0	0	0
Net value of property, plant and equipment	**851,945**	**101,201**	**(416)**	**38**	**(771)**	**(4,339)**	**947,657**
Land	26,032	0	0	18	4,551	6	30,607
Buildings and structures	311,255	(10,225)	(19)	35,851	121	(2,397)	334,587
Plant and machinery	392,137	(41,008)	(109)	86,385	(208)	(1,906)	435,292
Energy-related assets	6,948	(554)	(6)	19	(6)	0	6,401
Means of transport	13,628	(3,909)	(139)	7,648	19	(40)	17,207
Other property, plant and equipment	61,065	(29,133)	174	33,346	(351)	(3)	65,098
Property, plant and equipment under construction	40,880	186,030	(318)	(163,229)	(4,898)	0	58,465

Complementary information and explanations (in thousand PLN)

The ‘Increases’ item for gross amounts comprises acquisitions, and the ‘Increases’ item for depreciation is related to the depreciation of particular groups of property, plant and equipment. The column ‘Shifts’ presents the values of property, plant and equipment put into use in the reporting period.

Changes of estimates concerning useful lives, and the capitalisation of finance costs

In the reporting period, the Group retired property, plant and equipment with the following values:

	2016 (audited)	**2015** (audited)
Net value of retired property, plant and equipment	818	890

Retirements of property, plant and equipment resulted directly from the sale of property, plant and equipment or faster-than-expected wear and tear of property, plant and equipment when compared to their useful lives.

Capitalisation of finance costs

The Group capitalised interest related to the financing of the acquisition of property, plant and equipment

	2016 (audited)	**2015** (audited)
Interest charged to property, plant and equipment	693	744

Restrictions on the disposal of property, plant and equipment

Restricted property, plant and equipment	**31.12.2016** (audited)	**31.12.2015** (audited)
Land	9,152	9,152
Buildings and structures	68,448	47,821
TOTAL property, plant and equipment securing loans*	**77,600**	**56,973**
Buildings and structures	34,085	42,746
Plant and machinery	38,177	43,159
Means of transport	114	122
Other property, plant and equipment	1,392	2,520
TOTAL property, plant and equipment financed with grants**	**73,768**	**88,547**
Total restricted property, plant and equipment	**151,369**	**145,520**

Pursuant to projects co-financing contracts with the European Union, the Group may not dispose of such assets, in any form, for the period of five years from the project termination date.
*The information about loans secured with property, plant and equipment is presented in note 29.
**The information about received grants for property, plant and equipment is presented in note 32.

Contractual liabilities

Contractual liabilities related to the purchase of non-current assets by segments	**31.12.2016** (audited)	**31.12.2015** (audited)
Extruded Products Segment	11,620	3,374
Flexible Packaging Segment	15,436	29,784
Aluminium Systems Segment	13,291	6,730
Joint expenditure	0	575
TOTAL	**40,347**	**40,463**

At the end of the present year, the most important items of the said liabilities were related to:
- the construction of new production and storage halls in the Aluminium Systems Segment;
- the purchase and assembly of new production devices in the Flexible Packaging Segment;
- the purchase of machinery in the Extruded Products Segment.

Impairment losses

The companies within particular operating segments are cash-generating units for impairment tests (details of the companies of the Group and their business segments are included in note 2). As at the balance sheet date, there were no indicators of the impairment of assets. Recognised impairment losses are related to the individual assessment of the usefulness of individual items of property, plant and equipment and the possibility of generating positive cash flows by them.

Property, plant and equipment used under finance leases

In the reporting year and in the previous year, the Group did not use any material property, plant and equipment under finance leases.

Land used under the right of perpetual usufruct

The Group uses land on which industrial building are situated pursuant to the right of perpetual usufruct of land.

	31.12.2016 (audited)	**31.12.2015** (audited)
Land area used pursuant to the right of perpetual usufruct (in *000* m^2)	637	637
Buildings and structures (in *000* m^2)	568	568

The Group recognises the obtained rights of perpetual usufruct as land and discloses them in the consolidated financial statements as property, plant and equipment.

Energy-related assets carried at revalued amount

	31.12.2016 (audited)	**31.12.2015** (audited)
Value at cost less depreciation charges	2,011	2,701

The valuation was classified at Level 3 of the fair value hierarchy under IFRS 13. The valuation was based on nationwide pricing catalogues, having regard for the regional division. According to its accounting policy, the Group will revalue energy-related assets in the periods of 5 years.

On 1 January 2016, the Group performed another revaluation of energy-related assets. As a result of the valuation, the Group charged 1,658 thousand PLN to the revaluation reserve accounting for an increase in the fair value of energy-related assets, at the same time recognising a deferred income tax liability of 315 thousand PLN decreasing the reserve. In addition, the Group charged 655 thousand PLN to other operating costs accounting for a decrease in the fair value of energy-related assets.

Pursuant to the Code of Commercial Companies, the amounts of the capital from the revaluation of property, plant and equipment cannot be allocated to the payment of the dividend for shareholders.

According to its accounting policy, the Company will revalue energy-related assets in the periods of 5 years. The next valuation of energy-related assets is scheduled on 1 January 2021.

The energy-related assets comprise buildings, structures and systems related to the transmission of electrical energy and power grids with transformers.

17. Leases

17.1. Liabilities due to operating lease – the Group as a lessee

The Group is not a party to any important operating leases.

17.2. Receivables from operating lease – the Group as a lessor

The Group is an owner of an office building the premises of which are rented to third parties. Standard rental and lease agreements with the Group as one of the parties thereto are concluded for an indefinite period of time and provide for a one-month notice of termination.

In the present year, the Group's income from rental and lease agreements concerning office premises amounted to 1,051 thousand PLN (previous year: 887 thousand PLN).

17.3. Liabilities due to finance leases and hire purchase contracts

As at the balance sheet date and the previous balance sheet date, the Group was not a party to any significant sale and lease back contract as a lessee.

As at the balance sheet date, future minimum payments and the net present value of the minimum lease payments under finance leases are as follows:

Payment year	**31.12.2016**		**31.12.2015**	
	Instalments	**Interest**	**Instalments**	**Interest**
Up to 1 year	1,233	86	573	40
Over 1 year	2,109	148	432	30
Total	**3,342**	**234**	**1,005**	**70**

18. Investment properties

	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Gross value at the beginning of period	**11,927**	**12,398**
Acquisition	975	0
Transfer to/from property, plant and equipment	(5,403)	185
Change of goodwill resulting from valuation	(1,009)	(656)
Gross value at the end of period	**6,490**	**11,927**
Net value of investment properties		
Net value at the beginning of period:	**11,927**	**12,398**
Net value at the end of period:	**6,490**	**11,927**

The investment properties as of the balance sheet date are related to the administration and office building rented or leased to third parties, and a residential building acquired in 2012.
The Group revalues investment properties at the end of each financial year.
The carrying amount of investment properties is based on fair values determined on the basis of the valuation performed by a qualified independent expert experienced in the valuation of investment properties (fair value hierarchy – 3). The approach applied by the expert was based on compared market prices of rents in accordance with the income method and straight capitalisation of gross revenue technique.

Data used for the valuation	31.12.2016 (audited)	31.12.2015 (audited)
Usable area in m^2	2,285	5,019
Percentage of vacancies	10%	10%
Monthly rent per 1 m^2	36	33.71
Annual rental income	886	1,295
Maintenance costs	580	720
Assumed yield rate	10%	10%
Valuation amount	5,028	11,059

The administration and office building owned by a subsidiary Aluprof S.A. is rented to third parties.
Standard rental agreements for the real properties of Aluprof S.A. are concluded for an indefinite period of time and provide for the possibility of their termination by each of the parties thereto against a one-month notice period.

19. Intangible assets (except for goodwill)

Intangible assets	31.12.2016 (audited)	31.12.2015 (audited)
Gross value of intangible assets	**122,583**	**119,216**
Development costs	7,647	8,062
Computer software	31,136	28,576
Aluprof trademark	22,500	22,500
Database of customers	43,927	43,927
ROMB trademark	1,900	1,900
MHF trademark	2,553	2,465
Schelfhaut trademark	9,282	8,941
Other intangible assets	1,139	184
Intangible assets not put into use	2,499	2,661
Accumulated amortisation of intangible assets	**71,510**	**59,405**
Development costs	5,754	5,400
Computer software	23,800	23,384
Database of customers	31,964	29,036
Schelfhaut trademark	9,282	1,492

Complementary information and explanations (in thousand PLN)

Other intangible assets	710	93
Write-downs of intangible assets	**1,900**	**1,928**
Development costs	0	12
Computer software	0	16
ROMB trademark	1,900	1,900
Net value of intangible assets	**49,173**	**57,883**
Development costs	1,893	2,650
Computer software	7,336	5,176
Aluprof trademark	22,500	22,500
Database of customers	11,963	14,891
ROMB trademark	0	0
MHF trademark	2,553	2,465
Schelfhaut trademark	0	7,449
Other intangible assets	429	91
Intangible assets not put into use	2,499	2,661

Intangible assets	As at 01.01.2016	Increases	Decreases	Shifts	Company acquisition	Currency translation differences	As at 31.12.2016
Gross value of intangible assets	**119,216**	**4,556**	**(4,560)**	**0**	**2,986**	**385**	**122,583**
Production technologies, patents	8,062	0	0	(708)	346	(53)	7,647
Computer software	28,576	0	(2,443)	2,497	2,502	4	31,136
Aluprof trademark	22,500	0	0	0	0	0	22,500
Database of customers	43,927	0	0	0	0	0	43,927
ROMB trademark	1,900	0	0	0	0	0	1,900
MHF trademark	2,465	0	0	0	0	88	2,553
Schelfhaut trademark	8,941	0	0		0	341	9,282
Other intangible assets	184	0	(2,108)	2,990	67	6	1,139
Intangible assets not put into use	2,661	4,556	(9)	(4,779)	71	(1)	2,499
Accumulated amortisation of intangible assets	**59,405**	**13,844**	**(4,491)**	**0**	**2,684**	**68**	**71,510**
Production technologies, patents	5,400	631	0	(578)	324	(23)	5,754
Computer software	23,384	2,549	(4,491)	0	2,360	(2)	23,800
Database of customers	29,036	2,928	0	0	0	0	31,964
Schelfhaut trademark	1,492	7,700	0	0	0	90	9,282
Other intangible assets	93	36	0	578	0	3	710
Write-downs of intangible assets	**1,928**	**0**	**(28)**	**0**	**0**	**0**	**1,900**
Production technologies, patents	12	0	(12)	0	0	0	0
Computer software	16	0	(16)	0	0	0	0
ROMB trademark	1,900	0	0	0	0	0	1,900
Net value of intangible assets	**57,883**	**(9,288)**	**(41)**	**0**	**302**	**317**	**49,173**
Production technologies, patents	2,650	(631)	12	(130)	22	(30)	1,893
Computer software	5,176	(2,549)	2,064	2,497	142	6	7,336
Aluprof trademark	22,500	0	0	0	0	0	22,500
Database of customers	14,891	(2,928)	0	0	0	0	11,963
ROMB trademark	0	0	0	0	0	0	0
MHF trademark	2,465	0	0	0	0	88	2,553
Schelfhaut trademark	7,449	(7,700)	0	0	0	251	0
Other intangible assets	91	(36)	(2,108)	2,412	67	3	429
Intangible assets not put into use	2,661	4,556	(9)	(4,779)	71	(1)	2,499

Complementary information and explanations (in thousand PLN)

Intangible assets	As at 01.01.2015	Increases	Decreases	Shifts	Other	Currency translation differences	As at 31.12.2015
Gross value of intangible assets	**107,324**	**12,308**	**(305)**	**(276)**	**0**	**165**	**119,216**
Production technologies, patents	6,090	0	0	1,952	0	20	8,062
Computer software	28,347	0	(80)	312	0	(3)	28,576
Aluprof trademark	22,500	0	0	0	0	0	22,500
Database of customers	43,927	0	0	0	0	0	43,927
ROMB trademark	1,900	0	0	0	0	0	1,900
MHF trademark	2,471	0	0	0	0	(6)	2,465
Schelfhaut trademark	0	0	0	8,800	0	141	8,941
Other intangible assets	598	0	(220)	(207)	0	13	184
Intangible assets not put into use	1,491	12,308	(5)	(11,133)	0	0	2,661
Accumulated amortisation of intangible assets	**52,557**	**7,227**	**(383)**	**(17)**	**0**	**21**	**59,405**
Production technologies, patents	4,275	1,118	0	0	0	7	5,400
Computer software	21,746	1,702	(75)	(17)	0	28	23,384
Database of customers	26,108	2,928	0	0	0	0	29,036
Schelfhaut trademark	0	1,479	0	0	0	13	1,492
Other intangible assets	428		(308)	0	0	(27)	93
Write-downs of intangible assets	**1,928**	**0**	**0**	**0**	**0**	**0**	**1,928**
Production technologies, patents	12	0	0	0	0	0	12
Computer software	16	0	0	0	0	0	16
ROMB trademark	1,900	0	0	0	0	0	1,900
Net value of intangible assets	**52,839**	**5,081**	**78**	**(259)**	**0**	**144**	**57,883**
Production technologies, patents	1,803	(1,118)	0	1,952	0	13	2,650
Computer software	6,585	(1,702)	(5)	329	0	(31)	5,176
Aluprof trademark	22,500	0	0	0	0	0	22,500
Database of customers	17,819	(2,928)	0	0	0	0	14,891
ROMB trademark	0	0	0	0	0	0	0
MHF trademark	2,471	0	0	0	0	(6)	2,465
Schelfhaut trademark	0	(1,479)	0	8,800	0	128	7,449
Other intangible assets	170	0	88	(207)	0	40	91
Intangible assets not put into use	1,491	12,308	(5)	(11,133)	0	0	2,661

Amortisation of intangible assets

All amortisation charges for intangible assets are recognised in full in 'Depreciation/Amortisation' item of operating costs in the income statement. Aluprof and ROMB trademarks, due to the indefinite useful life, are not amortised. The Group carries out annual impairment tests for these trademarks.

Impairment losses

The Group carried out impairment tests for intangible assets with indefinite useful lives. Intangible assets with indefinite useful lives comprise Aluprof, MHF and Romb trademarks. The impairment tests carried out at the end of the present year and at the end of the previous year did not show any impairment of Aluprof and MHF trademarks. Romb trademark was subject to a 100% impairment loss in 2011. Aluprof, MHF and Schelfhaut trademarks are assigned to 'Aluminium Systems Segment' cash-generating unit and the description of assumptions for the impairment test that was carried out are presented in note 12.7.

Contractual liabilities

As at the end of the present year and at the end of the previous year, the Group did not have any contractual liabilities related to the acquisition of intangible assets.

20. Business combinations

On 14 June 2016, the subsidiary Aluform Sp. z o.o. acquired in Slovenia 100% of shares of a subsidiary AHA EMMI Predelava aluminija, d.o.o. with its registered office in Slovenia from its owner, i.e. BAMC d.d. (Bank Assets Management Company).
In November 2016, the company's name was changed to Aluminium Kety Emmi d.o.o.
The company's core business comprises the surface and mechanical CNC processing of aluminium profiles for customers from the household appliances, furniture and interior finishing industries. ALUFORM operates in Grupa Kęty in the Extruded Products Segment (EPS), which, as part of its strategy, regularly increases the share of processed profiles in total sales. Owing to the transaction, the EPS will increase its sales to the customers from sales areas key for Aluminium Kety Emmi.
In 2015, AHA EMMI generated sales revenue of 23.3 million EUR and EBITDA (earnings before interest, taxes, depreciation and amortisation) of 0.7 million EUR. The company's total financial liabilities at the end of 2015 amounted to 7.1 million EUR and the company employed 343 employees. In 2016, until the acquisition date, AHA EMMI had 51.4 million PLN (11.6 million EUR) of sales revenue and 3.8 million PLN (0.9 million EUR) of net result.
Since the acquisition date until the end of 2016, the company generated 49.3 million PLN of sales revenue and 2.6 million PLN of net result.

The settlement of the fair value of all identified assets and liabilities as of the company acquisition day was as follows:

Assets, and equity and liabilities	**Fair value of acquired assets and liabilities (in '000' PLN)**
Property, plant and equipment	39,737
Intangible assets	288
Investment properties	850
Long-term receivables	31
Inventories	11,780
Receivables	13,112
Cash	1,084
Loans and borrowings	(23,876)
Liabilities	(16,011)
Provisions	(13,285)
Deferred income tax liability	(761)
Deferred income	(801)
Net assets	**12,148**
Total acquisition price (paid cash)	**(10,972)**
Negative goodwill (other operating income)	**1,176**
Cash spent on the acquisition (less acquired cash)	**(9,796)**

As a result of the recognition of the gain from the bargain purchase of AHA EMMI, other operating income in the first half of 2016 increased by 1,176 thousand PLN.
The costs of the business acquisition charged to profit or loss amounted to 575 thousand PLN.

21. Investments in associates

On 11.09.2014, a subsidiary Aluprof System USA, Inc with its registered office in the USA entered into a joint venture agreement with two US partners and a new company was established for this purpose, i.e. Aluprof USA, LLC with its registered office in New York. The initial capital of the new company amounts to 220 thousand USD, and Grupa Kęty, through its subsidiary Aluprof System USA, Inc., has 45.5% of shares in the company, contributing 100.1 thousand USD.

The company is involved in the distribution of aluminium systems. The establishment of the company is an element of the Group's strategy of systematically increasing the share of export sale in total sale in all segments of the Group. In the Aluminium Systems Segment (ASS), this strategy is implemented additionally through the establishment of subsidiaries on the markets to which products are exported, which allows the Group to better adjust the products offer to the specific nature of particular markets and meet the technical and legal requirements on particular markets more precisely.

In the Group's financial statements, this company is recognised using the equity method. The Group presents net operating profit, as the nature of the investment complies with its business.

The company's basic financial figures:

Complementary information and explanations (in thousand PLN)

INCOME STATEMENT	01.01.2016 – 31.12.2016	01.01.2015 – 31.12.2015
Operating income	**11,873**	**6,518**
Total operating costs, including:	**(6,076)**	**(3,094)**
Net profit on operating activities	**5,797**	**3,424**
Finance income	0	0
Finance costs	0	0
Profit before tax	**5,797**	**3,424**
Income tax expense	0	0
Net profit on continuing operations	**5,797**	**3,424**

ASSETS	31.12.2016	31.12.2015
I. Non-current assets	**213**	**35**
Property, plant and equipment	213	35
II. Current assets	10,039	4,**549**
Trade and other receivables	4,067	4,416
Cash and cash equivalents	5,972	133
Total assets	**10,252**	**4,584**

EQUITY AND LIABILITIES	31.12.2016	31.12.2015
I. Equity	**9,249**	**4,003**
Share capital	920	858
Retained earnings	8,329	3,143
Cumulative translation adjustment	0	2
II. Long-term liabilities	**0**	**0**
III. Short-term liabilities	**1,003**	**581**
Trade and other payables	167	581
Provisions and accruals	836	0
Total equity and liabilities	**10,252**	**4,584**

22. Other investments

(A) Long-term

	31.12.2016 (audited)	31.12.2015 (audited)
Gross value of long-term investments, including:	**5,203**	**2,809**
- available for sale	5,203	2,809
Shares and interests	997	997
Interests in associates	4,206	1,812
Write-down of long-term investments, including:	**986**	**986**
- available for sale	986	986
Shares and interests	986	986
Interests in associates	0	0
Net value of long-term investments, including:	**4,217**	**1,823**
- available for sale	4,217	1,823
Interests or shares in other entities	11	11
Interests in associates	4,206	1,812

(B) Short-term

	31.12.2016	31.12.2015
Cash loans	219	71

Complementary information and explanations (in thousand PLN)

23. Employee benefits

23.1. Employee shares programmes

The Group has been implementing two option programmes for the management staff:
the programmes from 2012 and from 2015. Each programme is divided into three parts. Periods to acquire rights to options for first parts start in the programme launch year, and for subsequent parts — in further years. Each part is divided into four sub-parts: A, B, C, and D.

23.1.1Basic information about programmes

	2015 program, 2016 part	2015 program, 2015 part	2012 program, 2014 part	2012 program, 2013 part	2012 program, 2012 part
Number of share options in the programme	60,000	60,000	61,500	61,500	61,500
No. of shares in sub-part A	9,000	9,000	9,225	9,225	9,225
No. of shares in sub-part B	15,000	15,000	15,375	15,375	15,375
No. of shares in sub-part C	18,000	18,000	18,450	18,450	18,450
No. of shares in sub-part D	18,000	18,000	18,450	18,450	18,450
Sub-part A - return on shares	=WIG	=WIG	=WIG	=WIG	=WIG
Sub-part B - return on shares	WIG+15%	WIG+15%	WIG+9%	WIG+9%	WIG+9%
Sub-part C – EBITDA increase **	29%-33%	29%-33%	36%-52%	36%-52%	36%-52%
Sub-part D – net earnings increase **	39%-44%	39%-44%	45%-64%	45%-64%	45%-64%

* parts from the 2015 programme will be launched in 2017.

** in the case of sub-parts C and D of the 2012 programme and of the 2015 programme, the accomplishment of conditions below the bottom limit does not give right to shares, and the accomplishment of conditions up to the upper limit, gives the right to the appropriate part of shares from a given sub-part. The accomplishment of conditions C and D above the upper limit gives the right to 100% of shares from a given sub-part.

Three-year employment period in the Capital Group calculated separately for each sub-part from the launch date of a given part is the common condition for all aforementioned programmes.

‘Return on shares’ for a given part of a programme means the quotient of the average share price of Grupa Kęty S.A. in the first quarter of the third year following the launch year of a given part increased with the value of dividends paid by the Company in the period of three years from 1 April of the launch year and the average share price of the Company at Warsaw Stock Exchange in the first quarter of the part launch year.
‘EBITDA per share increase’ for a given part of a programme means the quotient of consolidated EBITDA per share attained by the Capital Group in the second year following the launch year of a given part and consolidated EBITDA per share attained by the Capital Group in the year directly preceding the part launch year.
‘Net earnings per share increase’ for a given part means the quotient of consolidated net earnings per share attained by the Capital Group in the second year following the launch year of a given part and consolidated net earnings per share attained by the Capital Group in the year directly preceding the part launch year.

The right to acquire share options will arise following the satisfaction of the programme conditions.
The purchase price of the shares from a given programme equals the average price of the share of Grupa Kęty S.A. for the period of three months preceding the General Meeting of Shareholders that adopts the resolution concerning a given programme.

Stronger motivation of a larger group of employees to increase the shareholder value and the introduction of a factor making it possible to retain the Capital Group’s key employees for a longer time are the main objectives of share option programmes.

23.1.2Fair value of share options

	2015 program, 2016 part	2015 program, 2015 part	2012 program, 2014 part	2012 program, 2013 part	2012 program, 2012 part
Date of granting options	19 September 2016	11 September 2015	8 September 2014	8 September 2013	24 September 2012
Expected dividends	114.05 PLN	69.53 PLN	30 PLN	15 PLN	15 PLN
Assumed volatility index for the underlying instrument	16%	16%	21%	23%	25%
Historical volatility index (%)	28%	28%	31%	32%	35%
Risk-free interest rate (%)	2.30%	2.50%	2.30%	3.71%	4.30%
Expected period of options validity (in months)	68 months	68 months	68 months	68 months	68 months
Weighted average share price (PLN)	306.10	306.10	117.10	117.10	117.10
Programme fair values at launch date in ‘000’ PLN	6,017	**3,272**	**6,432**	**2,837**	**1,285**
Parameter A accomplishment	YES*	YES*	YES*	YES*	YES
Parameter B base	YES*	YES*	YES*	YES*	YES
Parameter C accomplishment	0%*	100%	100%*	65.625%	6.875%
Parameter D base	0%*	0%*	100%*	100%	1.578%

* The Management Board’s estimate

The fair value of employee shares programmes is estimated as of the options granting day based on a binominal model. The table below presents the values assumed for the launch of particular parts of the programme.

The expected period of options validity is determined on the basis of historical data and does not need to explicitly imply the possible ways of exercising them. The assumed volatility index reflects the assumption that the historical volatility index indicates future trends which, naturally, may actually be completely different.

Upon the measurement of the fair value, no other characteristics concerning the granting of options were taken into consideration.

The Group monitors the probability of attaining the non-market parameters on an ongoing basis and takes them into account in the number of share options assumed for the valuation of particular parts as of the balance sheet date.

The Group recognises the programme costs proportionally to the period of acquiring rights to options granted to the Company’s employees.

The amounts recognised below increased remuneration costs in the period as well as the Group’s equity.

Costs of the options programme	2016	2015
First part of the 2012 programme	0	157
Second part of the 2012 programme	359	1,383
Third part of the 2012 programme	3,246	1,051
First part of the 2015 programme	817	124
Second part of the 2015 programme	211	0
Total options costs in the period	**4,633**	**2,715**

Future costs of share options programmes are as follows:

Future costs of the options programme	2017	2018	2019
Third part of the 2012 programme	1,489	0	0
First part of the 2015 programme	1,041	521	0
Second part of the 2015 programme	746	743	559
Total future options costs	**3,276**	**1,264**	**559**

In 2016, eligible persons subscribed for 36,388 shares from the 2012 programme. The subscription price for the shares was 117.10 PLN per share.

In 2015, eligible persons subscribed for 48,450 shares from the 2009 programme. The subscription price for the shares was 125.27 PLN.

Complementary information and explanations (in thousand PLN)

23.2. Retirement benefits and jubilee bonuses

	31.12.2016 (audited)	31.12.2015 (audited)
Long-term provision for jubilee bonuses, retirement benefits and death in service benefits	10,081	5,559
TOTAL	**10,081**	**5,559**

Basic actuarial estimates as at the balance sheet date

	2016	2015
Discount rate as at 31 December	3.59%	2.91%

Assumptions concerning the increase in future remunerations as at 31 December 2016:

	2017	2018	2019	2020	2021	Other years
Extruded Products Segment	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Flexible Packaging Segment	5%	5%	5%	5%	5%	2.5%
Aluminium Systems Segment	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Other companies	3%	3%	3%	3%	3%	2.5%

Assumptions concerning the increase in future remunerations as at 31 December 2015:

	2016	2017	2018	2019	2020-2023	Other years
Extruded Products Segment	3%	3%	3%	3%	2.5%	2.5%
Flexible Packaging Segment	5%	5%	5%	5%	5%	2.5%
Aluminium Systems Segment	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Building Services Segment*	5%	5.9%	6.6%	7%	5.2%	2.5%
Building Accessories Segment*	3%	3%	4%	4%	4%	2.5%
Other companies	3%	3%	3%	3%	2.5%	2.5%

*Since 2016, the BSS and BAS have been a part of the Aluminium Systems Segment.

The short-term part of the provision for jubilee bonuses and retirement benefits is recognised in other short-term provisions.
The provisions for retirement and disability benefits, and for jubilee bonuses were calculated using an individual method, for each employee separately. The provision was calculated using the present value of the Company's future long-term liabilities due to the retirement and disability benefits. The provision calculated in such a way is discounted according to the actuarial methodology. The actuarial discount is the product of the financial discount and the probability for a given employee to reach the retirement age during the employment in the Company. The aforementioned probability was determined using the Multiple Decrement Model, where the following three risks were taken into account:

- the possibility of dismissal;
- the risk of the total disability to work;
- the risk of death.

The financial discount rate was determined on the basis of market rates of return from Treasury bonds, whose currency and maturity dates are the same as the currency and the estimated maturity of obligations related to employee benefits.

Complementary information and explanations (in thousand PLN)

23.3. Actuarial gains/losses

The table below presents the statement of changes in liabilities due to employee benefits by particular items:

2016	Retirement benefits	Disability benefits	Jubilee bonuses	Death in service benefits	Total
As at 01.01.2016	**5,591**	**317**	**246**	**379**	**6,533**
Company acquisition	2,278		978		3,256
Current service cost	630	52	86	54	822
Interest costs	190	9	16	11	226
Actuarial losses (gains) charged to other comprehensive income	655	(45)	0	(20)	590
Actuarial losses (gains) charged to profit or loss	0	0	(79)	0	(79)
Past service cost	667	(9)	(230)	(60)	368
(Payments)	(627)	(39)	(185)	(20)	(871)
As at 31.12.2016	**9,384**	**285**	**832**	**344**	**10,845**
short-term	713	31	0	20	764
long-term	8,671	254	832	324	10,081

2015	Retirement benefits	Disability benefits	Jubilee bonuses	Death in service benefits	Total
As at 01.01.2015	**5,923**	**289**	**698**	**352**	**7,262**
Current service cost	410	44	107	48	609
Interest costs	138	7	13	9	167
Actuarial losses (gains) charged to other comprehensive income	(173)	(14)	0	(5)	(192)
Actuarial losses (gains) charged to profit or loss	0	0	(88)	0	(88)
(Payments)	(707)	(9)	(484)	(25)	(1,225)
As at 31.12.2015	**5,591**	**317**	**246**	**379**	**6,533**
short-term	678	32	246	18	974
long-term	4,913	285	0	361	5,559

The table below presents the analysis of the sensitivity of the valuation of the liability to the change of basic actuarial assumptions.

2016	**Financial discount rate**		**Planned increases in the bases**	
Change	**-1 p.p.**	**+ 1 p.p.**	**-1 p.p.**	**+ 1 p.p.**
Retirement benefits	1,037	(835)	(343)	408
Disability benefits	28	(23)	(23)	14
Death in service benefits	42	(34)	(34)	42
Total change in provision	**1,107**	**(892)**	**(400)**	**464**

2015	**Financial discount rate**		**Planned increases in the bases**	
Change	**-1 p.p.**	**+ 1 p.p.**	**-1 p.p.**	**+ 1 p.p.**
Retirement benefits	875	(701)	(342)	410
Disability benefits	34	(27)	(15)	19
Jubilee bonuses	6	(5)	(5)	6
Death in service benefits	49	(39)	(45)	46
Total change in provision	**964**	**(772)**	**(407)**	**481**

Complementary information and explanations (in thousand PLN)

24. Inventories

	31.12.2016 (audited)	31.12.2015 (audited)
Materials	178,359	142,893
Work in progress	95,086	78,032
Finished products	112,895	91,634
Trade goods	7,292	10,771
TOTAL	**393,632**	**323,330**

Inventories did not secure loans or other debts.

In the present year, the Group recognised write-downs of inventories amounting to 2,190 thousand PLN (previous year: 4,902 thousand PLN) and reversed a write-down of inventories amounting to 3,415 thousand PLN (previous year: 2,933 thousand PLN). The reversal of the write-down resulted from the sales of inventories covered by the write-down:

Write-downs of inventories are as follows:

Write-down	31.12.2016 (audited)	31.12.2015 (audited)
Materials	6,617	9,022
Work in progress	1,114	745
Finished products	6,094	4,746
Trade goods	2,691	1,365
Total write-downs of inventories	**16,516**	**15,878**

Below, we present the information about inventories recognised as cost upon their sale:

	01.01.2016 – 31.12.2016 (audited)	01.01.2015 – 31.12.2015 (audited)
Value of sold products	1,453,324	1,310,023
Value of resold materials and goods	243,684	178,432
TOTAL	1,697,008	**1,488,455**

25. Long-term receivables

	31.12.2016 (audited)	31.12.2015 (audited)
Advance payments for the purchase of property, plant and equipment	10,003	23,573
Building security deposits	1,353	3,864
Lease receivables	1,891	1,593
Other	326	213
Total other long-term receivables	**13,573**	**29,243**

Advance payments for property, plant and equipment comprise down payments made for the purchase of property, plant and equipment.

In addition, the Group, through its subsidiaries, operates in other countries.

Pursuant to the law and practice of tax authorities in Ukraine, VAT refunds were not applied. As a result, having regard for the planned current sales, the Group decided to account for a part of VAT receivables as long-term receivables. The total amount of VAT receivables in the companies located in Ukraine was subject to a write-down. At the end of the present year, the write-down of VAT amounted to 661 thousand PLN (previous year: 2,767 thousand PLN).

Complementary information and explanations (in thousand PLN)

As performance bond for construction services for a part of construction contracts, the Company submits security deposits. In the event of any defects that the Company fails to eliminate pursuant to such a bond, the customer may retain the security deposit and use it to repair such defects. Each security deposit has a strictly defined validity period. If no defects occur, the full amount of the security deposit is returned as per the agreement.

Aluprof S.A. is a party to leases under which the company gave passenger cars to be used for a consideration for the period of four years. In its assets, the Group recognises a receivable equal to the total amount of lease payments payable to the Group less unearned finance income.

26. Trade and other receivables

	Note	31.12.2016 (audited)	31.12.2015 (audited)
Gross receivables:		**525,341**	**468,480**
Trade receivables		484,932	431,160
- including from related parties*		397	445
Settlements related to transactions hedging the aluminium price		4,474	494
Valuation of construction contracts		11,585	19,816
Receivables from employees		101	114
Other		6,279	4,075
Total gross financial receivables (under IFRS 7)		**507,371**	**455,659**
Public law receivables (except for the income tax)		9,357	6,294
Prepayments (trade-related) for suppliers		4,230	3,327
Prepaid expenses		4,383	3,200
Total gross non-financial receivables		**17,970**	**12,821**
Write-down of financial receivables:		**72,756**	**53,297**
Trade receivables		70,242	50,501
Other		2,514	2,796
Net receivables:		**452,584**	**415,183**
Trade receivables		414,690	380,660
- including from related parties*		397	445
Settlements related to transactions hedging the aluminium price		4,474	494
Valuation of construction contracts		11,585	19,816
Receivables from employees		101	113
Other		3,820	1,856
Total net financial receivables (under IFRS 7)	**35(b)**	**434,670**	**402,939**
Public law receivables (except for the income tax)		9,357	6,294
Prepayments (trade-related) for suppliers		4,175	2,751
Prepaid expenses		4,382	3,199
Total net non-financial receivables		**17,914**	**12,244**

*for an associate; see note 21

The conditions of related party transactions are presented in note 34.2 of the complementary information and explanations.

Trade receivables do not bear interest and usually have 30- up to 90-day maturity.

The Group has implemented an appropriate policy related to sales only to verified customers and applies receivables insurance related to export. Consequently, according to the management's opinion, there is no additional credit risk exceeding the level established by the write-down of uncollectible receivables applicable to the Group's trade receivables.

Complementary information and explanations (in thousand PLN)

Changes in the write-down of trade receivables were as follows:

	Year ended on 31 December 2016	Year ended on 31 December 2015
At the beginning of the period	**50,501**	**50,818**
Increase	31,556	7,310
Utilisation	(11,815)	(7,627)
At the end of the period	**70,242**	**50,501**

Below, we present the analysis of trade receivables which were overdue, but were not deemed impaired:

	Total	Not overdue	Overdue, but not impaired			
			up to 3 months	up to 6 months	up to 12 months	over 12 months
31.12.2016	414,690	321,941	84,034	7,060	661	994
31.12.2015	380,660	282,402	87,258	6,576	3,919	506

Overdue receivables not covered by write-downs are insured or subject to other securities. As a result, the Group expects that they will be paid. In the Group's opinion, the credit quality of the receivables, which are overdue but not covered by write-downs, described above is good.

27. Cash and cash equivalents

Cash at bank bears interest at variable interest rates; the level of such rates depends on the interest rate of one-day bank term deposits. Short-term term deposits are made for periods of various length from one day to one month depending on the Group's current demand for cash, and bear interest at applicable interest rates.

Fair value of cash and cash equivalents is presented in the table below.

	31.12.2016 (audited)	31.12.2015 (audited)
Bank deposits (current accounts) and short-term deposits	74,897	72,485
Cash in hand	44	22
Other cash	1	197
Cash recognised in the balance sheet	**74,942**	**72,704**

At the end of the present year, the Group had undrawn granted credit funds amounting to 185,475 thousand PLN with regard to which all conditions precedent had been complied with (180,842 thousand PLN at the end of the previous year).

28. Share capital and reserve capitals

28.1. Share capital

	31.12.2016 (audited)	31.12.2015 (audited)
Share capital, including:	**67,534**	**67,505**
Value registered in the National Court Register	23,634	23,605
Revaluation in accordance with IAS 29	43,900	43,900
The number of shares registered in the National Court Register	*9,453,693 shares**	*9 441,988 shares*

* the number of shares includes 24,683 shares subscribed for in December 2016 and registered by the Polish National Securities Deposit (KDPW) and the National Court Register (KRS) in 2017.

Nominal value of shares

Due to the requirements of IAS 29 *Financial Reporting in Hyperinflationary Economies*, the Company's share capital was subject to revaluation as of the date of the first adoption of the IFRS. The increase in the share capital due to the revaluation as of the balance sheet date amounted to 43,900 thousand PLN.

Complementary information and explanations (in thousand PLN)

On 15 February 2005, the court registered the decrease in the Company's share capital through the redemption of 1,575,117 shares with the value at cost of 71,108 thousand PLN acquired by the Company with the purpose of redeeming them by way of a public notice in 2002. The redemption took place by decreasing the share capital by 13,965 thousand PLN, share premium by 43,453 thousand PLN and retained earnings by 13,690 thousand PLN.

On 30 May 2005, the court registered the increase in the Company's share capital through the issue of 300,000 series D shares taken up by eligible persons in August 2004 under the Company's incentive programme initiated in 2003.

After these changes, the nominal value of the registered share capital amounted to 23,064 thousand PLN. Share capital was divided into 9,225,663 shares with the nominal value of 2.50 PLN each.

During 2016, the National Court Register registered the increase in the capital due to the subscription of 11,705 series G employee shares.

During 2015, the National Court Register registered the increase in the capital due to the subscription of 61,210 series F employee shares.

During 2014, the National Court Register registered the increase in the capital due to the subscription of 68,700 series F employee shares and 16,675 series E employee shares.

During 2013, the National Court Register registered the increase in the capital due to the subscription of 68,700 series F employee shares and 1,050 series E employee shares.

The Company's shareholders are entitled to dividend in the declared amount, if such amount is declared. A single ordinary share entitles its holder to one vote at the Company's General Meeting of Shareholders.

Rights of shareholders

All shareholders have equal rights and there are no preference shares.

28.2. Share premium

	31.12.2016 (audited)	**31.12.2015** (audited)
Share premium	23,385	22,043
Share premium	**23,385**	**22,043**

During 2016, 11,705 shares with the nominal value of 29 thousand PLN and with the issue value of 1,371 thousand PLN were registered in the National Court Register.

During 2015, 61,210 shares with the nominal value of 153 thousand PLN and with the issue value of 7,684 thousand PLN were registered in the National Court Register.

28.3. Capital from the issue of shares not registered in the National Court Register

	31.12.2016 (audited)	**31.12.2015** (audited)
Value of non-registered shares at issue price	2,890	0
Value of non-registered shares at issue price	**2,890**	**0**

In 2016, eligible persons subscribed for 24,683 shares with the nominal value of 62 thousand PLN and at the issue price of 2,890 thousand PLN. The said shares had not been registered by the National Court Register until the end of 2016.

28.4. Capital from the revaluation of property, plant and equipment

	31.12.2016 (audited)	**31.12.2015** (audited)
Fair value of property, plant and equipment	4,673	3,706
Deferred income tax liability	(886)	(703)
Capital from the revaluation of property, plant and equipment at period end	**3,787**	**3,003**

28.5. Capital from the valuation of share based payments

The Group has implemented programmes of granting share options under which certain members of the management staff and of the senior management were granted options to subscribe for the Company's shares (more information about the programme of options for the management staff can be found in note 23.1 of the complementary information and explanations).

Complementary information and explanations (in thousand PLN)

	31.12.2016 (audited)	31.12.2015 (audited)
Capital at the beginning of the period	13,959	11,244
Costs of the period	4,633	2,715
Capital from the valuation of share based payments at period end	**18,592**	**13,959**

The capital reflects the fair value of the options granted to the Group's employees, proportionally to the period of acquiring rights, according to the valuation as at the programme launch date.

28.6. Capital from the revaluation of hedging instruments

	31.12.2016 (audited)	31.12.2015 (audited)
Futures hedging cash flows due to the purchase of aluminium	1,246	(2,847)
Forwards hedging cash flows due to exchange rate changes	1,844	(1,917)
Valuation of the IRS's hedging loan interest rates	4	(82)
Deferred income tax	(585)	921
Capital from the revaluation of hedging instruments at period end	**2,509**	**(3,925)**

28.7. Result from cash flow hedging transactions

The Group applies hedge accounting to transactions hedging future cash flows due to the purchase of aluminium. The result on such transactions constitutes a separate item of equity as long as the item being hedged influences the result.

The related capital is presented below:

	31.12.2016 (audited)	31.12.2015 (audited)
Realised result on futures hedging cash flows	535	(2,073)
Realised result on forwards hedging cash flows due to exchange rate changes	(198)	201
Result from cash flow hedging transactions at period end	**337**	**(1,872)**

28.8. Retained earnings

	31.12.2016 (audited)	31.12.2015 (audited)
Profit from previous years	1,034,372	994,711
Transfer from the revaluation reserve due to the depreciation of assets carried at fair value	1,857	1,296
Net actuarial gains (losses)	(357)	156
Net profit attributable to equity holders of the parent for the period	277,890	209,813
Retained earnings at period end	**1,313,762**	**1,205,976**

28.9. Cumulative translation adjustment

Reserve capital from currency translation differences

The balance of the reserve capital from currency translation differences is adjusted having regard for currency translation differences relating to the translation of financial statements of foreign subsidiaries.

	31.12.2016 (audited)	31.12.2015 (audited)
Cumulative translation adjustment	(27,435)	(27,846)

Complementary information and explanations (in thousand PLN)

29. Liabilities related to loans and borrowings, and other long-term liabilities

29.1. Interest-bearing bank loans and finance lease obligations

Maturity date	**31.12.2016** (audited)	**31.12.2015** (audited)
Short-term	333,865	224,219
From 1 to 2 years	47,337	20,710
From 2 to 5 years	91,204	65,891
More than 5 years	0	4,000
Total	**472,406**	**314,820**

2016:

LONG-TERM

Borrower	**Lender**	**Loan currency**	**Security**	**31.12.2016**
Grupa Kęty S.A.	BGŻBNP PARIBAS Bank Polska SA	PLN	First capped mortgage on real properties owned by Grupa Kęty S.A. and Alupol Packaging Kęty sp. z o.o. up to 50 million PLN, including the assignment of rights from insurance policies for the said real properties up to 35 million PLN.	15,181
Alupol Packaging Kęty Sp. z o.o.	BGŻBNP PARIBAS Bank Polska SA	PLN	Surety of Alupol Packaging S.A. up to the drawn amount of the loan and the statement on the submission to execution; a mortgage on real properties of Alupol Films sp. z o.o. up to 120 million PLN and the assignment of rights under an insurance policy. statement on the submission to execution from Alupol Packaging sp. z o.o. and Alupol Films sp. z o.o.; joint and several liability of Alupol Packaging Kęty sp. z o.o. and Alupol Films sp. z o.o.	99,720
Aluprof S.A.	BGŻBNP PARIBAS Bank Polska SA	PLN	Collective mortgage up to 48,000 thousand PLN; assignment of debts under an insurance policy for a real property; the statement on the submission to execution; joint and several liability of the companies of the Capital Group.	16,692
Aluminium Kety Emmi d.o.o.	Bank PEKAO	EUR		4,866
Aluminium Kety Emmi d.o.o.	AK Servicing	EUR		849
	Long-term loans			**137,308**
Aluprof Romania	Finance lease obligations	RON		102
Metalplast Stolarka sp. z o.o.	Finance lease obligations	PLN		386
Aluprof UK	Finance lease obligations	GBP		31
Aluminium Kety Emmi d.o.o.	Finance lease obligations	EUR		668
Marius Hansen Facader A/S	Finance lease obligations	DKK		46
	Total lease			**1,233**
			TOTAL	**138,541**

Complementary information and explanations (in thousand PLN)

SHORT-TERM

Borrower	Lender	Loan currency	Security	31.12.2016
Grupa Kęty S.A.	Bank PKO BP	PLN, EUR	Joint and several liability of the companies of Grupa KĘTY S.A. and of other companies from the Capital Group.	3,843
Grupa Kęty S.A.	BGŻBNP PARIBAS Bank Polska SA	PLN	Short-term part of long-term loans – the same securities as in the case of the long-term loan.	11,072
Grupa Kęty S.A.	BGŻBNP PARIBAS Bank Polska SA	PLN	Joint and several liability of the companies of the Capital Group; statement on the submission to bank execution	5,608
Grupa Kęty S.A.	ING Bank Polska	PLN	Joint and several liability of the following companies: Grupa KĘTY S.A. and Metalplast Stolarka Sp. z o.o.	3
Grupa Kęty S.A.	Bank PeKaO S.A.	PLN	Joint and several liability of the companies of the Capital Group; authorisation to use current accounts; statement on the submission to bank execution	22,205
Grupa Kęty S.A.	Bank Societe Generale	EUR	Surety of Aluprof S.A. up to 5 million PLN	13,771
Alupol Packaging S.A.	BGŻBNP Paribas	PLN	Joint and several liability of the companies of the Capital Group; statement on the submission to bank execution	9,580
Alupol Packaging S.A.	PEKAO S.A.	PLN	Joint and several liability of the companies of the Capital Group; authorisation to use current accounts; joint and several liability of the companies of the Capital Group	23,342
Alupol Packaging Kęty Sp. z o.o.	Bank PKO BP	PLN, EUR	Joint and several liability of the companies of the Capital Group	11,542
Alupol Packaging Kęty Sp. z o.o.	PEKAO S.A.	PLN, EUR	Statement on the submission to bank execution; authorisation to use current accounts; Joint and several liability of the companies of the Capital Group	16,945
Alupol Packaging Kęty Sp. z o.o.	BGŻBNP PARIBAS Bank Polska SA	PLN	Joint and several liability of the companies of the Capital Group; statement on the submission to bank execution	14,304
Alupol Packaging Kęty Sp. z o.o.	BGŻBNP PARIBAS Bank Polska SA	PLN	Short-term part of long-term loans – the same securities as in the case of the long-term loan.	11,770
Aluprof S.A.	PEKAO S.A.	PLN, EUR	Statement on the submission to bank execution and authorisation to use bank accounts; Joint and several liability of the companies of the Capital Group	43,757
Aluprof S.A.	Societe Generale S.A.	GBP	Statement on the submission to bank execution and authorisation to use bank accounts.	3,756
Aluprof S.A.	BGŻBNP Paribas	PLN	Joint and several liability of the companies of the Capital Group; Statement on the submission to bank execution	19,665
Aluprof S.A.	BGŻBNP Paribas	PLN	Short-term part of long-term loans – the same securities as in the case of the long-term loan.	9,753
Aluprof S.A.	Alior Bank S.A.	PLN	Authorisation to use current accounts	12,356
Metalplast Stolarka Sp. z o.o.	Bank PEKAO S.A.	PLN, EUR	Statement on the submission to bank execution; authorisation to use current accounts; Joint and several liability of the companies of the Capital Group	32,074
Metalplast Stolarka sp. z o.o.	ING Bank Polska	PLN, EUR	Statement on the submission to bank execution and authorisation to use bank accounts.	24,951
ROMB S.A.	BGŻBNP Paribas	PLN	Joint and several liability of the companies of the Capital Group; statement on the submission to bank execution	7,949
ROMB S.A.	Bank PKO BP			4,066
Alupol Films sp. z o.o.	PEKAO S.A.	PLN, EUR	Joint and several liability of the companies of the Capital Group; Joint and several liability of the	5,899

Complementary information and explanations (in thousand PLN)

			companies of the Capital Group	
Alupol Films sp. z o.o.	BGŻBNP Paribas	PLN	Joint and several liability of the companies of the Capital Group; statement on the submission to bank execution	6,805
Aluminium Kety Emmi d.o.o.	Delavska Hranilnica d.d.	EUR		3,468
Aluminium Kety Emmi d.o.o.	Unicredit	EUR		13,272
	Short-term loans			**331,756**
Aluprof Romania, Marius Hansen Facader A/S, Aluprof Shelfhaut, Aluprof UK	Finance lease obligations	RON, DKK, EUR, GBP		92
Aluminium Kety Emmi d.o.o.	Finance lease obligations	EUR		1,730
Metalplast Stolarka sp. z o.o.	Finance lease obligations	PLN		287
	Total lease			**2,109**
			TOTAL	**333,865**

2015

LONG-TERM

Borrower	**Lender**	**Loan currency**	**Security**	**31.12.2015**
Grupa Kęty S.A.	BGŻBNP PARIBAS Bank Polska SA	PLN	First capped mortgage on real properties owned by Grupa Kęty S.A. and Alupol Packaging Kęty sp. z o.o. up to 50 million PLN, including the assignment of rights from insurance policies for the said real properties up to 35 million PLN.	23,798
Alupol Packaging Kęty Sp. z o.o.	BGŻBNP PARIBAS Bank Polska SA	PLN	Surety of Alupol Packaging S.A. A mortgage on real properties of Alupol Films sp. z o.o. with the assignment of rights under an insurance policy.	40,000
Aluprof S.A.	BGŻBNP PARIBAS Bank Polska SA	PLN	Collective mortgage up to 48,000 thousand PLN; assignment of debts under an insurance policy; and the statement on the submission to bank execution.	26,230
	Long-term loans			**90,028**
Aluprof Romania	Finance lease obligations	RON		110
Metalplast Stolarka sp. z o.o.	Finance lease obligations	PLN		463
	Total lease			**573**
			TOTAL	**90,601**

Complementary information and explanations (in thousand PLN)

SHORT-TERM

Borrower	Lender	Loan currency	Security	31.12.2015
Grupa Kęty S.A.	Bank PKO BP	PLN	Joint and several liability of the companies of Grupa KĘTY S.A. and of other companies from the Capital Group.	3,312
Grupa Kęty S.A.	BGŻBNP PARIBAS Bank Polska SA	PLN	Short-term part of long-term loans – the same securities as in the case of the long-term loan.	22,308
Grupa Kęty S.A.	ING Bank Polska	PLN	Joint and several liability of the following companies: Grupa KĘTY S.A. and Metalplast Stolarka Sp. z o.o.	3
Grupa Kęty S.A.	Bank PeKaO S.A.	PLN	Joint and several liability of companies	42,026
Grupa Kęty S.A.	Bank Societe Generale	EUR	Surety of Aluprof S.A. up to 5 million PLN	3,705
Alupol Packaging S.A.	Bank PKO BP	PLN	Collective mortgage on real properties up to 15,000 thousand PLN.	2,307
Alupol Packaging S.A.	BGŻBNP Paribas	PLN	Joint and several liability of the companies of the Capital Group	5,962
Alupol Packaging S.A.	PEKAO S.A.	PLN	Joint and several liability of the companies of the Capital Group	10,088
Alupol Packaging Kęty Sp. z o.o.	Bank PKO BP	PLN, EUR	Joint and several liability of the companies of the Capital Group	4,618
Alupol Packaging Kęty Sp. z o.o.	PEKAO S.A.	PLN, EUR	Joint and several liability of the companies of the Capital Group	2,489
Alupol Packaging Kęty Sp. z o.o.	BGŻBNP PARIBAS Bank Polska SA	PLN	Joint and several liability of the companies of the Capital Group	13,377
Aluprof S.A.	PEKAO S.A.	PLN, EUR	Statement on the submission to bank execution and authorisation to use bank accounts.	4,561
Aluprof S.A.	Societe Generale S.A.	USD, EUR	Statement on the submission to bank execution and authorisation to use bank accounts.	2,650
Aluprof S.A.	BGŻBNP Paribas	PLN, EUR	Statement on the submission to bank execution and authorisation to use bank accounts.	24,827
Aluprof S.A.	Bank PKO BP	EUR	Statement on the submission to bank execution and authorisation to use bank accounts.	2,131
Aluprof S.A.	BPH S.A.	PLN	Authorisation to use current accounts	13,935
Metalplast Stolarka Sp. z o.o.	Bank PEKAO S.A.	PLN, EUR	Statement on the submission to bank execution and authorisation to use bank accounts.	33,573
Metalplast Stolarka sp. z o.o.	BGŻBNP Paribas	PLN	Statement on the submission to bank execution and a blank promissory note.	2,127
Metalplast Stolarka sp. z o.o.	ING Bank Polska	PLN, EUR	Statement on the submission to bank execution and authorisation to use bank accounts.	21,186
ROMB S.A.	BGŻBNP Paribas	PLN	Joint and several liability of the companies of the Capital Group	4,931
ROMB S.A.	Bank PKO BP			48
Alupol Films sp. z o.o.	PEKAO S.A.	EUR	Joint and several liability of the companies of the Capital Group.	3,623
	Short-term loans			**223,787**
Aluprof Romania, Marius Hansen Facader A/S, Aluprof Shelfhaut	Finance lease obligations	RON, DKK, EUR		173
Metalplast Stolarka sp. z o.o.	Finance lease obligations	PLN		259
	Total lease			**432**
			TOTAL	**224,219**

All the Group's loans bear interest at variable interest rates determined on market terms on the basis of WIBOR/EURIBOR/LIBOR rates plus the bank's margin.

Complementary information and explanations (in thousand PLN)

30. Provisions and accruals

	31.12.2016 (audited)	31.12.2015 (audited)
Long-term provisions	**2,791**	**1,188**
warranty repairs	499	1,188
provision for costs	2,292	0
Short-term provisions:	**1,448**	**1,020**
provision for jubilee bonuses and retirement benefits	764	975
warranty repairs	684	45
Short-term accruals:	**36,289**	**20,749**
provision for the costs of unused holiday	6,800	5,210
costs of annual bonus	14,643	9,082
costs of environmental protection and land reclamation	0	7
costs of damages	5,074	430
for incurred costs	4,039	4,261
for costs of auditing financial statements	217	241
provision for costs	4585	0
other items	931	1,518

Complementary information and explanations (in thousand PLN)

30.1. Changes in provisions and accruals

	As at 01.01.2016	Increases	Utilisation	Company acquisition	Currency translation differences	As at 31.12.2016
Long-term provisions	**1,188**	**281**	**(3,263)**	**4,585**	**0**	**2,791**
warranty repairs	1,188	281	(970)	0	0	499
provision for costs	0	0	(2,293)	4,585	0	2,292
Short-term provisions	**1,020**	**873**	**(771)**	**326**	**0**	**1,448**
provision for jubilee bonuses and retirement benefits	975	226	(763)	326	0	764
warranty repairs	45	647	(8)	0	0	684
Short-term accruals:	**20,749**	**25,018**	**(14,232)**	**4,755**	**(1)**	**36,289**
provision for the costs of unused holiday	5,210	5,968	(4,859)	474	7	6,800
costs of annual bonus	9,082	14,357	(8,478)	(321)	3	14,643
environmental protection costs	7	(7)	0	0	0	0
costs of damages	430	4,644	0	0	0	5,074
for incurred costs	4,261	(123)	(125)	26	0	4,039
for costs of auditing financial statements	241	179	(185)	(18)	0	217
provision for costs	0	0	0	4,585	0	4,585
other items	1,518	0	(585)	9	(11)	931

	As at 01.01.2015	Increases	Utilisation	Currency transla-tion differen-ces	As at 31.12.2015
Long-term provisions	**760**	**428**	**0**	**0**	**1,188**
warranty repairs	760	428	0	0	1,188
Short-term provisions	**1,512**	489	(982)	1	1,020
provision for jubilee bonuses and retirement benefits	1,462	489	(977)	1	975
warranty repairs	50	0	(5)	0	45
Short-term accruals:	**21,332**	**19,920**	**(20,475)**	**(28)**	**20,749**
provision for the costs of unused holiday	5,002	4,846	(4,637)	(1)	5,210
costs of annual bonus	12,020	8,731	(11,676)	7	9,082
environmental protection costs	344	7	(344)	0	7
costs of damages	2,560	0	(2,130)	0	430
for incurred costs	10	5,112	(862)	1	4,261
for costs of auditing financial statements	206	231	(197)	1	241
other items	1,190	993	(629)	(36)	1,518

31. Trade and other payables

31.1. Long-term liabilities

As a performance bond for construction services for a part of construction contracts, the Company submits security deposits. In the event of any defects that the supplier fails to eliminate pursuant to a bond, the Group may retain the security deposit and use it to repair such defects.

Complementary information and explanations (in thousand PLN)

	31.12.2016 (audited)	31.12.2015 (audited)
Building security deposits	1,825	2,098

31.2. Short-term trade and other payables

	Note	31.12.2016 (audited)	31.12.2015 (audited)
Short-term liabilities:		**298,254**	**239,070**
Trade payables*		200,129	167,761
Liabilities due to the purchase of property, plant and equipment		38,004	27,731
Remuneration liabilities		14,189	11,826
Total financial liabilities (under IFRS 7)		**252,322**	**207,318**
Public law liabilities (except for the income tax liabilities)		30,357	23,576
Down payments (trade-related) from customers		10,194	5,519
Other liabilities		5,381	2,657
Total non-financial liabilities		**45,932**	**31,752**

*Including trade payables owed to an associate: 1,854 thousand PLN; note 21

Principles and conditions of the payment of the aforementioned financial liabilities:

The conditions of related party transactions are presented in note 34.2 of the complementary information and explanations. Trade payables do not bear interest and are usually settled within 30-60 days. Other liabilities do not bear interest and their average payment period is one month.
The said liabilities are not secured with the Company's assets.

32. Deferred income

	31.12.2016 (audited)	31.12.2015 (audited)
Long-term grants	35,865	37,187
Other	246	43
Long-term deferred income	**36,111**	**37,230**
Short-term grants	1,503	1,771
Other	2,169	1,810
Total short-term deferred income	**3,672**	**3,581**

The majority of received grants are related to the projects co-financed under assistance programmes of the European Union and to the co-financing of development costs.

The Group is carrying out three large projects co-financed from the EU's funds related to the purchase and construction of property, plant and equipment:
The first project is related to the co-financing under the measure: "4.5 Support for investment of considerable importance to the economy in Priority Axis 4 'Investments in innovative undertakings' under Operational Programme Innovative Economy". The project implementation period is 2009-2011.
Eligible costs: 12,900,000 PLN, where 50% is the grant. Under this programme, the Group received grants of 6,389 thousand PLN. In this period, the Company cannot dispose of or otherwise transfer the ownership of the property, plant and equipment financed with the grant.
In addition, the Group is obliged to carry out business activities defined by it in the application until 03.10.2017.

The project aimed at the establishment in the Group of its own Research and Development Centre. The project resulted in the launch of formalised and centralised R&D activities in the Company. The new Research and Development Centre also affects the current operations of the Group mainly through the optimisation of conducted R&D processes and the diversification of the production.

The main measurables for the project are as follows:

The value of purchased new property, plant and equipment/intangible assets used to implement the project = 12,900,000.00

The number of purchased new property, plant and equipment/intangible assets used to implement the project = 21

The number of implemented technologies

The number of new jobs

The number of new products
The number of new services
The number of new products and produced technologies introduced to the market
The implementation of organisational or marketing innovation
The establishment of proprietary R&D department
The number of new R&D projects carried out by the beneficiary
The number of enterprises from the SME sector cooperating with the Applicant
The number of employees with higher education among new employees
The number of hired graduates from schools of higher education
The number of subcontractors selected using environmental criteria
As at the balance sheet date, the Group met all conditions for the grant. The Group must meet the said conditions on average for 5 years from the date of project completion.

The second project is related to the co-financing under the measure: "4.4 New investments of high innovation potential in Priority Axis 4 'Investments in innovative undertakings' under Operational Programme Innovative Economy". The project implementation period is 2009-2011.
Eligible costs: 69,609,000 PLN, where 50% is the grant. Under this programme, the Group received grants of 33,942 thousand PLN. In this period, the Company cannot dispose of or otherwise transfer the ownership of the property, plant and equipment financed with the grant. In addition, the Company is obliged to carry out business activities defined by it in the application.
In addition, the Group is obliged to carry out business activities defined by it in the application until 30.08.2018.
The project was related to the purchase, assembly and launch of an innovative aluminium profiles production line.
The project comprised the construction of a production hall and the purchase of an innovative production line along with associated devices.
The main measurables for the project are as follows:
An innovative aluminium profiles production line = 1
A set of devices accompanying the innovative aluminium profiles production line = 1
Production hall = 1
The number of new jobs
The number of new products
The implementation of organisational or marketing innovation
The establishment of proprietary R&D department or the establishment of permanent cooperation with an R&D unit
The value of export revenue generated solely from the sale of products (goods and services) resulting from the project
An increase in revenue resulting from the implementation of the project
An increase in output
As at the balance sheet date, the Group met all conditions for the grant. The Group must meet the said conditions on average for 5 years from the date of project completion.

The third project is related to the co-financing for the Aluminium Systems Segment under the measure: "*4.4 New investments of high innovation potential in Priority Axis: 'Investments in innovative undertakings' under Operational Programme Innovative Economy.*" The project implementation period is 2007-2013. Eligible costs: 15,049 thousand PLN, where 50% is the grant. Under this programme, the Group received grants of 6,085 thousand PLN.
Under the EU's Operational Programme Innovative Economy 2007-2013, the Group established a new production and storage hall along with an office and amenity building in the plant in Opole, and launched a manufacturing process based on innovative concepts.
Owing to the purchase and assembly of the innovative production line, the Group is able to manufacture, in a fully automated production process, various types of aluminium boxes, including oval and semi-oval ones.
In addition, the Group is obliged to carry out business activities defined by it in the application until 31.12.2017.
Output indicators:
Production hall
An innovative line for the production of aluminium boxes for roller-shutters
A set of high-bay racks
A set of devices accompanying the innovative line for the production of aluminium boxes for roller-shutters
Staff facilities for employees operating production lines
The assembly of solar collectors
Result indicators:
The number of new jobs = 9 in total, including 2 jobs for women with one of them in the R&D department

Complementary information and explanations (in thousand PLN)

The number of new products = 3
The implementation of organisational or marketing innovation
The establishment of permanent cooperation with an R&D unit
An increase in revenue resulting from the implementation of the project
Percentage increase in revenue from the export of trade goods resulting from the implementation of the project = 21.02%
An increase in output = 4.46%
Annual reduction of the demand for conventional heat energy = 6,214 kWh p.a.
Reduced CO_2 emissions to air = 1,864 kg p.a.
As at the balance sheet date, the Group met all conditions for the grant. The Group must meet the said conditions on average for 5 years from the date of project completion.

33. Contingent liabilities

Item	31.12.2016	31.12.2015
Building bank guarantees granted by Metalplast Stolarka sp. z o.o.*	35,669	30,342
Insurance performance bond from the ASS	1,294	72,772
Banking performance bond for a rental contract (expires in the first quarter of 2017)	434	411
Total granted guarantees	**37,397**	**103,525**

*Building guarantees are related to the proper performance of construction services contracts, and their validity dates depend on the terms and conditions of particular contracts.

Apart from aforementioned liabilities, there are no other contingent liabilities.

33.1. Tax accounts

Tax accounts as well as other areas of activity subject to the applicable regulations (e.g. customs and exchange issues) can be controlled by administrative authorities entitled to impose high penalties. The lack of reference to well-established legal regulations in Poland and Ukraine, where the Group has significant assets, results in inconsistencies and inaccuracies in the regulations in force. Differences in opinions with regard to the interpretation of tax regulations both in tax authorities and between individual governmental bodies and enterprises cause uncertainty and conflicts. As a result, the tax risk in Poland and Ukraine is much higher than usual tax risk in the countries where tax systems are more developed.

Tax accounts may be subject to audits in the period until the date when such tax accounts are lapsed according to tax regulations (5 years in Poland) starting from the end of the year in which a given tax was paid. As a result of the control procedures, the Group’s current tax settlements may be increased with additional tax liabilities. According to the Group, as at the balance sheet date, there was no risk justifying the creation of provisions for tax settlements.

34. Shareholding structure and related party transactions

34.1. Shareholding structure

The shareholding structure of Grupa Kęty S.A. is as follows:

Entity	Number of shares 31-12-2016	Interest in capital	Number of shares 31-12-2015	Interest in capital
Aviva OFE Aviva BZ WBK	1,691,276	17.84%	1,691,276	17.91%
Nationale Nederlanden PTE (formerly ING PTE)	1,610,534	16.99%	1,610,534	17.06%
OFE PZU “Złota Jesień”	921,000	9.72%	921,000	9.75%
PTE Allianz Polska	499,748	5.27%	499,748	5.29%
Others	4,755,818	50.18%	4,719,430	49.99%
Total*	**9,478,376**	**100%**	**9,441,988**	**100%**

* the number of shares includes 24,683 shares subscribed for in December 2016 and registered by the Polish National Securities Deposit (KDPW) and the National Court Register (KRS) in 2017.

34.2. Terms of related party transactions

All related party transactions are concluded at arm’s length.

Complementary information and explanations (in thousand PLN)

Apart from the transactions described in notes 12, 26, 31 and 34, the Group did not enter into any other related party transactions.

34.3. Other transactions with members of the Management Board

The Group did not enter into any transactions with the members of the Management Board apart from those specified in notes 34.4 and 34.5.

34.4. Remuneration of the Group's senior management

Parent's Management Board:	2016	2015
Costs of short-term employee benefits	1,646	1,642
Costs of the provision for annual bonuses and other benefits	2,938	1,785
Total costs of remunerations of the members of the Management Board	**4,584**	**3,427**
The valuation of the costs of options for treasury shares due when the programme is implemented*	2,085	1,214
Total payments to the members of the Management Board	**6,669**	**4,641**

* The details of the programme are described in note 23.1. If the market conditions for the allocation of options are not fulfilled, despite the recognition of the costs of the programme, eligible persons will not acquire the right to subscribe for shares.

In addition, there are no agreements between the parent company and managing persons which provide for a compensation in the case of their resignation or dismissal from their positions with no important reason or where their dismissal is related to the Issuer's merger by acquisition, except for the conditions included in the term of notice and conditions included in non-competition agreements.
By the senior management, the Group means management boards of subsidiaries and proxies of the parent company.
Remunerations and benefits under the options programme due to the members of the Management Board, the senior management and members of the Company's Supervisory Board are as follows:

	12 months of 2016	12 months of 2015
Parent's Management Board*	6,669	4,641
Senior management*	12,948	8,628
Supervisory Board	598	576
TOTAL	**20,215**	**13,845**

* The presented remunerations cover the costs of provisions for annual bonuses for the management staff and share options costs recognised in the income statement. The details of the share options programme are described in note 23.1. Pursuant to the principles of the programme and IFRS 2, the costs of share options constitute the valuation of the options programme as at the date of its launch. The costs of options are recognised in the income statement on a straight line basis throughout the validity period of the programme, i.e. 36 months. According to IFRS 2, the costs presented in such a way constitute the cost of remunerations for the Company, but do not reflect the value of possible benefits that employees may obtain in the future on this account. Employees' possible benefits depend on the level of share prices in the future as compared to the acquisition price resulting from the conditions for particular parts of the options programme.

In addition, there are no agreements between Grupa KĘTY S.A. and the management which provide for a compensation in the case of their resignation or dismissal from their positions with no important reason or where their dismissal is related to the Issuer's merger by acquisition, except for the conditions included in the term of notice and conditions included in non-competition agreements

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34.5. Participation of the senior management in the employee shares programme

As described in details in note 23.1, the Company has implemented an options programme for the management staff.

Under the programme, the members of the Management Board hold options entitling them to purchase 11,604 shares from the first part of the 2012 programme and options to purchase 24,467 shares from the second part of the 2012 programme. In 2016, the Management Board did not subscribe for shares from the share options programme.

In addition, upon meeting the programme conditions, the members of the Management Board will acquire the right, according to the terms and conditions of the programme, to purchase up to 28,000 shares from the third part of the 2012 programme; up to 15,000 shares from the first part of the 2015 programme; and up to 15,000 shares from the second part of the 2015 programme.

Complementary information and explanations (in thousand PLN)

The options for the shares of Grupa Kęty S.A. were granted to members of the senior management. The costs of options for members of the senior management charged to the result amounted in the period of 12 months of 2016 to 2,550 thousand PLN (previous year: 1,314 thousand PLN).

35. Objectives and principles of financial risk management

Basic risks which may affect the Group's financial result include: the risk of changes of the prices of basic raw materials, interest rate risk, currency risk, credit risk and exceptional occurrences risk. The Management Board verifies and agrees on the principles of the management of each of the aforementioned risks and these principles are briefly discussed below. The Group also monitors the risk of market prices applicable to all financial instruments managed by it. The Group's accounting principles related to derivative instruments are discussed in note 10.16 of complementary information and explanations.

The basic objectives of the Company's financial risk management process are as follows:

- ensuring financial liquidity;
- limiting the direct impact of interest rates, exchange rates and the primary aluminium prices on the company's results;
- limiting the negative impact of exceptional occurrences.

(a) Sensitivity analysis

By managing interest rate risk and currency risk, the Group aims to reduce the impact of short-term fluctuations on the Group's profits. However, persisting changes of exchange rates and interest rates will have an impact on the Group's profits.

The tables below present the estimates of the Company's risks related to changes in interest rates and exchange rates of the main currencies.
For items affecting the income statement

Risk	Change	Change of gross profit − 2016	Change of gross profit − 2015
Increase in interest rates	1%	(4,724)	(3,148)
Increase in EUR/PLN exchange rate	5%	(12)	1,145
Increase in USD/PLN exchange rate	5%	(1,410)	504
Increase in GBP/PLN exchange rate	5%	1,656	1,822
Increase in USD/UHR exchange rate	10%	4	(1,038)

For items affecting equity

Risk	Change	31.12.2016	31.12.2015
Increase in EUR/PLN exchange rate for hedging instruments	5%	269	506
Increase in EUR/USD exchange rate for hedging instruments	5%	700	2,759
Increase in USD/PLN exchange rate for hedging instruments	5%	1,183	4,835
Increase in GBP/PLN exchange rate for hedging instruments	5%	319	444
Increase in aluminium price for hedging instruments	5%	3,456	6,178

(b) Fair values

Below, we present the detailed information concerning fair values of financial instruments that can be estimated:

- Cash and cash equivalents, short-term bank term deposits and short-term bank loans. The fair value of the said instruments is close to their carrying amounts due to their short maturity.
- Trade receivables, other receivables, trade payables and other liabilities. The fair value of the said instruments is close to their carrying amounts due to their short-term nature.
- Long-term interest-bearing bank loans, bank credits and lease. The fair value of the said instruments is close to their carrying amounts due to the fluctuating nature of their interest rates as well as the market level of the margin.
- Financial derivatives at fair value as at the balance sheet date

Complementary information and explanations (in thousand PLN)

Financial assets	Under IAS 39	31.12.2016	31.12.2015
Financial receivables	LR	436,561	402,939
Hedging instruments*		5,024	2,128
Cash	LR	74,942	72,704

Financial liabilities	Under IAS 39	31.12.2016	31.12.2015
Financial liabilities	OFLatAC	238,133	195,491
Hedging instruments*		1,844	7,857
Finance lease and bank loans	OFLatAC	472,406	314,820

* Derivative hedging instruments which meet the requirements of hedge accounting.
Abbreviations:
HtMI – Held-to-maturity investments
LR – Granted loans and receivables
OFLatAC – Other financial liabilities at amortised cost

Fair values of all financial assets and liabilities presented above are close to their carrying amounts.

35.1. Risk related to changes in the prices of basic raw materials

35.1.1Aluminium, aluminium scrap and aluminium film

Primary aluminium, ingots, aluminium scrap and aluminium film are the basic raw materials used by the Group. Primary aluminium is mainly purchased on the basis of annual contracts and the price is determined on a monthly basis individually for each delivery. Prices of aluminium scrap purchased on the market are not based on the price formulas directly related to the aluminium quotations at the London Metal Exchange; however, there is a significant correlation of the scrap prices with movements of metals at the London Metal Exchange. Aluminium film is purchased mainly on the basis of contracts and the price is determined individually for each delivery.
The risk of changes in the prices of basic raw materials is mitigated by futures for the purchase of aluminium. The information about the hedging of aluminium price can be found in note 36.1.1.

35.1.2Plastics (polyethylene, polyester, polypropylene)

Plastics constitute one of the basic raw materials of the Flexible Packaging Segment within the Group. These raw materials are primarily purchased based on SPOT type orders at the fixed price from the suppliers from the list of qualified suppliers. There are no price formulas based on the stock exchange quotations of a given raw material. However, it does not mean the maintenance of constant prices for longer periods of time (exceeding the order period), as the suppliers respond to changes of the raw materials prices at the stock exchange as well as changes in the competitive environment by increasing the prices in the event of the increase in the raw materials prices or a significant increase in demand for a given product. Hence, also in this area, the Group faces the risk of changes of prices which is beyond its control.

35.1.3Paper

Paper is another group of raw materials (several types of paper are purchased) important for the Flexible Packaging Segment. Prices of this raw material are regulated analogously to plastics, which means a similar exposure to price fluctuations.

35.2. Interest rate risk

The Group records a surplus of financial resources or uses borrowings through long- and short-term bank loans. Interest on bank term deposits and loans is variable and depends on interest rates applicable on the interbank market such as WIBOR (for loans in PLN), LIBOR and EURIBOR (for foreign currency loans). As a result, the company faces the risk of interest rates fluctuations, which may result in the decrease in the rate of return from financial term deposits or an increase in costs of borrowed loans.

Variable interest	Maturity periods			
31-12-2016	< 1 year	1-2 years	2-3 years	More than 3 years
Cash	74,942	0	0	
Bank loans in PLN	(217,794)	(44,531)	(30,938)	(55,400)
Lease and bank loans in EUR	(99,305)	(1,516)	(4,866)	0
Lease and bank loans in USD	(14,920)	0	0	0
Lease and bank loans in GBP	(2,876)	(31)	0	0
Other loans in DKK and RON	(185)	(44)	0	

Variable interest	Maturity periods			
31-12-2015	< 1 year	1-2 years	2-3 years	More than 3 years
Cash	72,704	0	0	
Bank loans in PLN	(192,900)	(22,530)	(41,891)	(28,000)
Lease and bank loans in EUR	(29,382)	0	0	0
Other loans in DKK	(117)	0	0	

35.3. Liquidity risk

The Group monitors the risk of the lack of funds using the periodical liquidity planning tool. The tool takes into account maturity dates both for investments and financial assets (e.g. accounts of receivables, of other financial assets) and forecasted cash flows from operating activities.

The Group aims to maintain the balance between the continuity and flexibility of financing using various financing sources such as overdraft facilities, bank loans, bonds, preference shares, finance leases and hire purchase contracts.

The table below presents the Group's financial liabilities by maturity periods on the basis of contractual non-discounted payments.

31-12-2016	**Maturities**				
	On demand	Less than 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years
Lease and bank loans	44,937	4,819	268,683	75,566	55,400
Other financial liabilities	89,604	148,440	66	23	0
Off-balance sheet liabilities	0	1657	4714	15263	15763
Derivative financial instruments	0	1,085	700	0	0
TOTAL	**134,541**	**156,001**	**274,163**	**90,852**	**71,163**

31-12-2015	**Maturities**				
	On demand	Less than 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years
Lease and bank loans	16,050	9,195	197,154	64,421	28,000
Other financial liabilities	21,004	174,389	76	23	0
Off-balance sheet liabilities	0	2,975	63,163	28,264	9,123
Derivative financial instruments	0	2,195	4,967	260	0
TOTAL	**37,054**	**188,754**	**265,360**	**92,968**	**37,123**

35.4. Currency risk

The Group records revenue and expenses in three basic currencies (PLN, EUR and USD). Revenue and expenses in other currencies do not exert significant influence on the Group's risk. The balance of revenue and expenses in foreign currencies is positive for EUR and negative for USD, but the EUR surplus exceeds the USD deficit. It results in an exposure to changes in EUR/USD and PLN/EUR relations.

The Group's exposures to the currency risk as at the balance sheet date are presented in the table below:

	31.12.2016		**31.12.2015**	
	Amount in a foreign currency	**Amount translated to thousand PLN**	**Amount in a foreign currency**	**Amount translated to thousand PLN**
Cash in thousand EUR	5,358	23,702	2,752	11,729
Cash in thousand GBP	983	5059	1,627	9,412
Cash in thousand USD	736	3,074	3,079	12,011
Receivables in thousand EUR	39,157	173,232	32,583	138,851
Receivables in thousand GBP	4,038	20,771	2,968	17,175
Receivables in thousand USD	3,921	16,385	3,079	15,706
Lease and bank loans in thousand EUR	(23,867)	(105,587)	(6,336)	(26,999)

Lease and bank loans in thousand GBP	(565)	(2,907)	0	0
Lease and bank loans in thousand USD	(3,570)	(14,920)	0	0
Liabilities in thousand EUR	(26,365)	(116,639)	(20,448)	(87,138)
Liabilities in thousand GBP	(668)	(3,436)	(630)	(3,648)
Liabilities in thousand USD	(7,025)	(29,338)	(4,521)	(17,635)
Liabilities in thousand UHR denominated in USD	(5)	(20)	(2,767)	(10,793)
Receivables in thousand UHR denominated in USD	24	100	107	417
Total exposure to risk - EUR	**(5,717)**	**(25,292)**	**8,551**	**36,443**
Total exposure to risk - USD	**3,788**	**19,487**	**3,965**	**22,939**
Total exposure to risk - USD	**(5,938)**	**(24,799)**	**1,637**	**10,082**
Total exposure to risk – UHR to USD	**19**	**80**	**(2,660)**	**(10,376)**

Information about the hedging of the Company’s exchange position is presented in note 36.1.1

The Group, through its subsidiaries, also carries out business activities in Ukraine; as a result, the Group is subject to the risk of the depreciation of Ukrainian hryvnia (UHR) against convertible currencies.

35.5. Trade credit risk

Trade credit

In cooperation with the customers, the companies of the Group apply deferred payment terms with payment periods from several to several dozen days (trade credit). The credit is usually not secured by the borrower in a manner ensuring 100% guarantee of obtaining the funds. Consequently, the Group is exposed to the risk of complete or partial insolvency of a given customer or a significant delay of the liabilities payment.

Sale to reliable, tested customers helps minimise this risk. In addition, the Group insures the trade credit in professional companies providing such types of services. As at the balance sheet date, over 60% of the Group’s trade receivables not covered by write-downs were insured.

There is no customer whose balance of receivables or liabilities would exceed 10% of receivables or liabilities disclosed in the balance sheet.

Cash

The Group cooperates only with the biggest Polish banks and, abroad, with the biggest banks in those foreign countries which are related in equity terms with the banks providing services to the Group in Poland. The banks have a high capital adequacy standing. To minimise the risk of the loss of liquidity, the Group uses the services of a few banks; in addition, the Group monitors the financial positions of the banks providing services to the Group on an ongoing basis.

35.6. Exceptional occurrences risk

35.6.1Property damage risk

The Group is in possession of industrial property of considerable value. The property in question in exposed to a number of risks related to exceptional occurrences such as: fire, deluge, flooding, construction and assembly risk related to projects, etc. The Company’s production assets are insured.

35.6.2Profit loss risk

Not only can exceptional occurrences decrease the Group’s assets, but also, to a considerable extent, its capability to generate profit. Such a situation can occur in the case of excluding the whole or a part of any of the Group’s production plants from the production process.

35.6.3Risk of damage to third parties

Business activities are associated with the risk of causing damage to third parties. Such a case may occur as a result of direct damage done to the third party during their visit at the production facility which belongs to the Group as well as a result of defective operation of the products manufactured by the Group. Moreover, the shares of Grupa Kęty S.A. are quoted at Warsaw Stock Exchange. Damage caused to the company due to wrong decisions of the Management Board (and consequently, a possible decrease in the share price) may result in the shareholders’ claims to remedy the damage or reimburse the profits lost by shareholders.

35.6.4Geopolitical risk in the countries in which the Group operates

The Group’s activities and the Group‘s main assets are located mainly in Poland. In addition, the Group operates in other countries, including Ukraine. As at the balance sheet date, net assets accounted for in the consolidated financial statements were related to the operations of Alupol Ukraina LLC and they amounted to 16,934 thousand PLN (previous year: 10,183 thousand PLN) and the operations of Aluprof System Ukraina, which, as at the balance sheet date, amounted to minus 2,962 thousand PLN (previous year: minus 5,490 thousand PLN).

Complementary information and explanations (in thousand PLN)

The unstable political and economic situation in Ukraine results in the exposure of the said assets to the risk exceeding the usual economic risk. The Management Board has been analysing the situation of subsidiaries in Ukraine on an ongoing basis. Any possible future write-downs related to the deteriorating economic situation and potential military actions in Ukraine as events after the reporting period may be deducted from the result for 2017 or further years.

In addition, the Group cooperates with multiple partners from other countries as regards the purchase and sale of trade goods. Increasing geopolitical risk related to the unstable political situation in certain countries may have adverse impact upon the Group by breaking the supply chain for raw materials (mainly aluminium) or due to the loss of some customers. In addition, in recent years, the greater risk of the impairment of assets (receivables) related to the areas where political situation is unstable increased as compared to previous years.

36. Derivative financial instruments

Financial assets	**31.12.2016** (audited)	**31.12.2015** (audited)
Currency forwards hedging cash flows	2,126	1,646
Futures for the purchase of aluminium hedging cash flows	1,955	447
Ineffective currency forwards	939	35
IRS’s hedging interest rates	4	0
TOTAL FINANCIAL ASSETS	**5,024**	**2,128**

Financial liabilities	**31.12.2016** (audited)	**31.12.2015** (audited)
Currency forwards hedging cash flows	282	4,303
Futures for the purchase of aluminium hedging cash flows	709	3,294
Ineffective currency forwards	853	179
IRS’s hedging interest rates	0	81
TOTAL FINANCIAL LIABILITIES	**1,844**	**7,857**

Currency forwards and futures for the purchase of aluminium are measured either on the basis of the stock exchange quotations or, in the case of the lack of stock exchange quotations, by discounting values based on the forward rate resulting from the contract and deduction of the amount in the given currency translated at the current exchange rate.

In the event of the application of the discounted cash flows method, the estimated value of the future cash flows is based on the most reliable estimates of the Management Board, whereas the discount rate is the market interest rate for a similar instrument as of the balance sheet date. In the event of the application of other valuation models, the output data are based on the market data as of the balance sheet date.

36.1. Forwards and futures

The Company applies the principles of hedge accounting to mitigate the adverse impact of the currency risk and of the risk related to aluminium prices. As at the balance sheet date, the Group recognised in equity:

	31.12.2016 (audited)	**31.12.2015** (audited)
Open currency forwards	1,844	(1,917)
Open futures for the purchase of aluminium	1,246	(2,847)
Exercised futures for the purchase of aluminium	535	(2,073)
Exercised currency forwards	(198)	201
Open interest rate IRS's	4	(81)
TOTAL FINANCIAL LIABILITIES	**3,431**	**(6,717)**

The aforementioned items will affect the Company’s result in 2017.

In addition, the Group recognised directly in profit or loss for 2016, the amount of 854 thousand PLN as a loss from the ineffective part of open currency forwards (previous year: a loss of (740) thousand PLN).

36.1.1Cash flow hedge

As at 31 December 2016, the Group had the following hedging contracts that were subject to hedge accounting principles. The items below were recognised as a component of equity:

Futures for the purchase (sales) of aluminium in USD

Exercise date	Fair value	Number of tonnes	Nominal value	Average USD price
First quarter of 2017	146	2,725	4,459	1,636.33
Second quarter of 2017	93	1,725	2,829	1,640.00
Third quarter of 2017	101	1,800	2,938	1,632.22
Fourth quarter of 2017	(42)	3,600	6,312	1,753.33
TOTAL	**298**	**9,850**	**16,538**	**1,678.98**

Futures for the purchase of aluminium in PLN (after translation)

Exercise date	Fair value	Number of tonnes	Nominal value in PLN	Average USD price
First quarter of 2017	612	2,725	18,635	6,838.72
Second quarter of 2017	387	1,725	11,823	6,854.05
Third quarter of 2017	422	1,800	12,279	6,821.55
Fourth quarter of 2017	(175)	3,600	26,380	7,327.71
TOTAL	**1,246**	**9,850**	**69,117**	**7,016.98**

The Group hedges itself against commodity risk using futures, with the prices of aluminium at the London Metal Exchange as the underlying asset. These futures are standardised and provide for 25 tonnes of aluminium, whereas they are settled on the third Wednesday of each month.

Currency:

In the reporting periods, the Group, to hedge the currency risk, used only forwards for the purchase/sale of currencies.

As the Group's currency position for EUR is long (which means the dominance of revenue denominated in this currency over expenses), whereas for USD, it is short (which means the dominance of expenses denominated in this currency over revenue), the hedging transactions were aimed at the sale of EUR and the purchase of USD. It took place through the direct sale of EUR for USD, sale of EUR for PLN.

Amounts and settlement dates for the transactions are not standardised and they are subject to individual agreements with a bank. However, the Group adopted a principle that the currency transactions aimed at hedging cash flows in a given month are concluded with the date of delivery on the last working day of a given month and closed (through the conclusion of opposite transactions) in a given month or realised through a delivery.

The table below presents a statement of transactions concluded by the Group.

Sale of EUR for USD

Delivery date	Fair value in '000' PLN	Amount in the underlying currency	Amount in quoted currency	Average exchange rate
First quarter of 2017	366	1,110	1,266	1.1405
Second quarter of 2017	260	810	925	1.1420
Third quarter of 2017	151	580	659	1.1362
Fourth quarter of 2017	121	450	514	1.1422
TOTAL	**898**	**2,950**	**3,364**	**1.1403**

Sale of EUR for PLN

Delivery date	Fair value in '000' PLN	Amount in the underlying currency	Amount in quoted currency	Average exchange rate
First quarter of 2016	18	600	2,683	4.4717
Second quarter of 2016	16	600	2,696	4.4933
Third quarter of 2016	14	600	2,709	4.5150
Fourth quarter of 2016	13	600	2,721	4.5350
TOTAL	**61**	**2,400**	**10,809**	**4.5038**

Sale of USD for PLN

Delivery date	Fair value in '000' PLN	Amount in the underlying currency	Amount in quoted currency	Average exchange rate
First quarter of 2017	896	4,080	16,227	3.9772
Second quarter of 2017	123	1,712	7,013	4.0964
Fourth quarter of 2017	(5)	100	424	4.2400
TOTAL	**1,014**	**5,892**	**23,664**	**4.0163**

Sale of GBP for PLN

Delivery date	Fair value in '000' PLN	Amount in the underlying currency	Amount in quoted currency	Average exchange rate
First quarter of 2017	(127)	740	3,691	4.9878
Second quarter of 2017	(61)	530	2,684	5.0642
TOTAL	**(188)**	**1,270**	**6,375**	**5.0201**

Purchase of EUR for PLN

Delivery date	Fair value in '000' PLN	Amount in the underlying currency	Amount in quoted currency	Average exchange rate
First quarter of 2017	43	1,200	5,358	4.4650
Second quarter of 2017	39	1,200	5,385	4.4875
Third quarter of 2017	32	600	2,720	4.5333
Fourth quarter of 2017	31	600	2,733	4.5550
TOTAL	**145**	**3,600**	**16,196**	**4.4989**

The purchase of EUR for PLN aimed at hedging expenditure related to the purchase of production machinery for the Flexible Packaging Segment.

Forwards/futures hedging interest rates of loans

The Group hedges itself against the interest rate risk for loans by entering into IRS's. As at the balance sheet date, the Group had a contract hedging the fixed interest rate of 1.7% for a loan with the value of 20,000 thousand PLN with the maturity date of 01.03.2018. The fair value of this contract as at the balance sheet date amounted to 4 thousand PLN.

The effectiveness of hedging transactions is monitored on an ongoing basis and there is no non-effective hedging whose result or part of the result should be recognised in the income statement.

Complementary information and explanations (in thousand PLN)

37. Revenue, costs and losses by categories of financial instruments

2016	Hedging instruments	Own loans and receivables	Financial liabilities carried at amortised cost	Total financial instruments
Write-downs	0	(7,948)	0	(7,948)
Interest income (expense)	0	0	0	0
Profit (loss) from currency translation differences	0	1,535	(8,192)	(6,657)
Profit (loss) from hedging financial instruments	(83)	4,231	(6,511)	(2,363)
Total profit (loss)	**(793)**	**0**	**0**	**(793)**

2015	Hedging instruments	Own loans and receivables	Financial liabilities carried at amortised cost	Total financial instruments
Write-downs	0	(4,095)	0	(4,095)
Interest income (expense)	0	1,104	(5,640)	(4,536)
Profit (loss) from currency translation differences	570	2,738	(5,397)	(2,089)
Profit (loss) from hedging financial instruments	(26,264)	0	0	(26,264)
Total profit (loss)	**(25,694)**	**(253)**	**(11,037)**	**(36,984)**

38. Capital management

The main aim of the Group's capital management process is to retain good credit rating and safe equity ratios which would support the Group's operating activities and increase shareholder value.

The Group manages the capital structure and, as a result of changes in economic conditions, amends it. To retain or adjust the capital structure, the Group may change the payment of dividend to shareholders, return the capital to shareholders or issue new shares. In the reporting periods, no changes were introduced to objectives, principles and processes in this area.

The Group monitors equity using the leverage ratio which is the ratio of net debt to total equity increased with net debt. According to the Group's principles, the ratio should not exceed 50%. The Group's net debt includes interest-bearing borrowings, trade and other payables, less cash and cash equivalents.

	31.12.2016	31.12.2015
Interest-bearing loans and borrowings	472,406	314,820
Trade and other payables	300,088	241,168
Less cash and cash equivalents	(74,942)	(72,704)
Net debt	697,552	483,284
Equity	1,408,674	1,278,843
Equity and net debt	2,106,226	1,762,127
Leverage ratio	33.12%	27.43%

Leverage ratio = net debt / (net debt + equity)

39. Fair value measurement methods (fair value hierarchy)

The Group measures at fair value investment properties and derivative financial instruments.

The carrying amount of investment properties is based on fair values determined on the basis of the valuation conducted by a qualified independent expert experienced in the valuation of investment properties. The approach applied by the expert was based on compared market prices of rents in accordance with the income method and straight capitalisation of gross revenue technique. Fair value of investment properties is classified at the so-called ‘Level 3’.

Complementary information and explanations (in thousand PLN)

The fair value of futures and forwards is calculated on the basis of the present net value of the future cash flows related to these contracts, quoted market prices of forwards calculated with the application of the present interest rates.

Fair value of currency forwards is determined by reference to the present forward rates for contracts with similar maturity.

As compared to the previous financial year, the Group did not change the method of measuring derivatives.

Derivatives are recognised as assets when their measurement is positive, and as liabilities when their measurement is negative. Gains and losses due to changes in the fair value of derivatives which do not meet the principles of hedge accounting are recognised in profit or loss for the reporting year.

In the case of determining fair value on the basis of market quotations, it is classified at the so-called ‘Level 1’. In the case of derivatives held by the Group, fair value is determined on the basis of other inputs that are observable either directly or indirectly. As a result, the value is classified at the so-called ‘Level 2’ of the fair value hierarchy.

Fair value hierarchy	**Fair value hierarchy level**	**31.12.2016** (audited)	**31.12.2015** (audited)
Assets			
Investment properties	3	6,490	11,927
Hedging derivatives	2	5,024	2,128
TOTAL ASSETS		**11,514**	**14,055**
Liabilities			
Hedging derivatives	2	1,844	7,857
TOTAL LIABILITIES		**1,844**	**7,857**

40. The auditor’s remuneration

Figures in PLN	**2016**	**2015**
Remuneration for the audit of annual separate and consolidated financial statements	68,000 PLN	54,000 PLN
Remuneration for the audit of financial statements of subsidiaries	202,000 PLN	182,000 PLN
Remuneration for semi-annual reviews	30,000 PLN	30,000 PLN
Additional procedures related to works on financial statements (energy-related assets)	0 PLN	15,000 PLN
Auditor’s total remuneration for the period	**300,000 PLN**	**281,000 PLN**

Apart from the above-mentioned services, the Group did not take advantage of other services rendered by the auditor auditing the financial statements of the parent company.

41. Events after the reporting period

After the reporting period, there were no significant events which should be included in the consolidated financial statements for 2016.

Signatures of all Members of the Management Board

Dariusz Mańko	**Adam Piela**
President of the Management Board	*Member of the Management Board*
…………………………………………..	……………………………..

Kęty, 16 March 2017

Signatures of the person responsible for the preparation of these consolidated financial statements

Andrzej Stempak
President of the Management Board
Dekret Centrum Rachunkowe Sp. z o.o. ………………………………………………

Kęty, 16 March 2017