TAURON Polska Energia S.A.

Condensed interim financial statements

prepared in accordance with the International Financial Reporting Standards,

as endorsed by the European Union

for the 3-month period ended 31 March 2018

(in PLN '000)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Sales revenue	**11**	1 924 505	1 908 605
Cost of sales	**12**	(1 918 532)	(1 681 922)
Profit on sale		**5 973**	**226 683**
Selling and distribution expenses	**12**	(4 570)	(6 992)
Administrative expenses	**12**	(29 582)	(25 162)
Other operating income and expenses		(1 903)	(1 347)
Operating profit (loss)		**(30 082)**	**193 182**
Interest income on bonds and loans	**13**	102 047	141 192
Interest expense on debt	**13**	(73 733)	(75 475)
Other finance income and costs	**13**	(39 035)	65 024
Profit (loss) before tax		**(40 803)**	**323 923**
Income tax expense	**14.1**	(1 699)	(46 210)
Net profit (loss)		**(42 502)**	**277 713**
Measurement of hedging instruments	**28.4**	(13 108)	(4 217)
Income tax expense	**14.1**	2 490	801
Other comprehensive income subject to reclassification to profit or loss		**(10 618)**	**(3 416)**
Actuarial gains/(losses)		80	(11)
Income tax expense	**14.1**	(15)	2
Other comprehensive income not subject to reclassification to profit or loss		**65**	**(9)**
Other comprehensive income, net of tax		**(10 553)**	**(3 425)**
Total comprehensive income		**(53 055)**	**274 288**
Earnings (loss) per share (in PLN):			
- basic and diluted, for net profit		(0.02)	0.16

(in PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
ASSETS			
Non-current assets			
Property, plant and equipment	**16**	351	449
Investment property	**17**	20 797	21 701
Intangible assets	**18**	1 149	1 263
Shares	**19**	20 909 784	20 912 679
Bonds	**20**	5 248 123	6 009 920
Loans granted	**21**	193 527	382 989
Derivative instruments	**22**	16 664	26 704
Deferred tax assets	**14.2**	88 220	-
Other financial assets	**23**	352 747	2 724
Other non-financial assets		15 786	13 255
		26 847 148	**27 371 684**
Current assets			
Inventories	**24**	202 340	198 428
Receivables from buyers	**25**	642 334	719 133
Receivables arising from taxes and charges	**26**	22 223	36 094
Bonds	**20**	106 035	562 776
Loans granted	**21**	1 557 298	520 191
Derivative instruments	**22**	106 203	54 994
Other financial assets	**23**	269 149	131 640
Other non-financial assets		6 875	4 857
Cash and cash equivalents	**27**	289 164	721 577
		3 201 621	**2 949 690**
TOTAL ASSETS		**30 048 769**	**30 321 374**

(in PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION — CONTINUED

	Note	As at 31 March 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
EQUITY AND LIABILITIES			
Equity			
Issued capital	**28.1**	8 762 747	8 762 747
Reserve capital	**28.3**	7 657 086	7 657 086
Revaluation reserve from valuation of hedging instruments	**28.4**	12 433	23 051
Retained earnings / (Accumulated losses)	**28.3**	504 034	935 022
		16 936 300	**17 377 906**
Non-current liabilities			
Debt	**29**	9 439 898	9 472 454
Other financial liabilities	**30**	17 626	20 126
Derivative instruments	**22**	5 893	5 217
Deferred tax liabilities	**14.2**	-	29 843
Provisions for employee benefits		3 246	3 147
		9 466 663	**9 530 787**
Current liabilities			
Debt	**29**	2 426 090	2 725 763
Liabilities to suppliers	**32**	325 426	413 265
Other financial liabilities	**30**	469 728	62 590
Derivative instruments	**22**	112 411	57 249
Liabilities arising from taxes and charges	**33**	223 569	70 119
Other non-financial liabilities		607	-
Provisions for employee benefits		334	330
Other provisions	**31**	69 867	68 771
Accruals, deferred income and government grants		17 774	14 594
		3 645 806	**3 412 681**
Total liabilities		**13 112 469**	**12 943 468**
TOTAL EQUITY AND LIABILITIES		**30 048 769**	**30 321 374**

(in PLN '000)

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2018 (*unaudited*)

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 31 December 2017		**8 762 747**	**7 657 086**	**23 051**	**935 022**	**17 377 906**
Impact of IFRS 9	**8**	**-**	**-**	**-**	**(388 551)**	**(388 551)**
As at 1 January 2018		**8 762 747**	**7 657 086**	**23 051**	**546 471**	**16 989 355**
Net profit (loss)		-	-	-	(42 502)	**(42 502)**
Other comprehensive income		-	-	(10 618)	65	**(10 553)**
Total comprehensive income		**-**	**-**	**(10 618)**	**(42 437)**	**(53 055)**
As at 31 March 2018 *(unaudited)*		**8 762 747**	**7 657 086**	**12 433**	**504 034**	**16 936 300**

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2017 (*unaudited*)

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2017	**8 762 747**	**7 823 339**	**29 660**	**(85 478)**	**16 530 268**
Net profit	-	-	-	277 713	**277 713**
Other comprehensive income	-	-	(3 416)	(9)	**(3 425)**
Total comprehensive income	**-**	**-**	**(3 416)**	**277 704**	**274 288**
As at 31 March 2017 *(unaudited)*	**8 762 747**	**7 823 339**	**26 244**	**192 226**	**16 804 556**

(in PLN '000)

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Cash flows from operating activities			
Profit (loss) before taxation		(40 803)	323 923
Depreciation and amortization		1 314	1 490
Interest and dividends, net		(11 068)	(66 415)
Foreign exchange difference		29 601	(74 729)
Other adjustments of profit before tax		(54 542)	11 880
Change in working capital	**34.1**	47 384	118 902
Income tax paid		86	-
Net cash from operating activities		**(28 028)**	**315 051**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(304)	(532)
Purchase of bonds		-	(350 000)
Purchase of shares	**34.2**	(11 000)	(160 000)
Loans granted	**34.2**	(31 800)	(292 742)
Total payments		**(43 104)**	**(803 274)**
Redemption of bonds	**34.2**	910 000	-
Repayment of loans granted		120 000	-
Interest received	**34.2**	79 810	73 449
Total proceeds		**1 109 810**	**73 449**
Net cash from investing activities		**1 066 706**	**(729 825)**
Cash flows from financing activities			
Payment of finance lease liabilities		(899)	(838)
Repayment of loans and borrowings	**34.3**	(35 205)	(20 455)
Interest paid	**34.3**	(9 659)	(12 179)
Commission paid		(5 931)	(7 452)
Total payments		**(51 694)**	**(40 924)**
Issue of debt securities		-	500 000
Total proceeds		**-**	**500 000**
Net cash from financing activities		**(51 694)**	**459 076**
Net increase / (decrease) in cash and cash equivalents		**986 984**	**44 302**
Net foreign exchange difference		3 175	161
Cash and cash equivalents at the beginning of the period	**27**	**(1 559 232)**	**(1 045 441)**
Cash and cash equivalents at the end of the period, *of which:*	**27**	**(572 248)**	**(1 001 139)**
restricted cash	**27**	54 646	43 597

INFORMATION ABOUT TAURON POLSKA ENERGIA S.A. AND BASIS OF PREPARATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. General information about TAURON Polska Energia S.A.

These condensed interim financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna ("Company") with its registered office at ul. ks. Piotra Ściegiennego 3 in Katowice, Poland, whose shares are publicly traded.

The Company was established by a notarized deed on 6 December 2006 under the name of Energetyka Południe S.A. On 8 January 2007, the Company was registered at the District Court for Katowice-Wschód, Business Division of the National Court Register, under number KRS 0000271562. The change of its name to TAURON Polska Energia S.A. was registered with the District Court on 16 November 2007.

The Company was assigned statistical number (REGON) 240524697 and tax identification number (NIP) 9542583988.

TAURON Polska Energia S.A. was established for an unlimited period.

The core business of TAURON Polska Energia S.A. is:

- head office and holding operations, except for financial holdings →PKD 70.10 Z;
- sales of electricity → PKD 35.14 Z;
- sales of coal → PKD 46.71.Z;
- sales of gaseous fuels in a network system → PKD 35.23.Z.

TAURON Polska Energia S.A. is the parent of the TAURON Polska Energia S.A. Capital Group (the "Group", the "TAURON Group").

The Company's condensed interim financial statements cover the 3-month period ended 31 March 2018 and present comparative data for the 3-month period ended 31 March 2017 as well as figures as at 31 December 2017. The data for the 3-month period ended 31 March 2018 and the comparative data for the 3-month period ended 31 March 2017, as contained herein, have not been audited or reviewed by a certified auditor. The comparative data as at 31 December 2017 were audited by a certified auditor.

These condensed interim financial statements for the 3-month period ended 31 March 2018 were approved for publication on 16 May 2018.

The Company also prepared condensed interim consolidated financial statements for the 3-month period ended 31 March 2018, which were approved by the Management Board for publication on 16 May 2018.

These condensed interim financial statements are part of the consolidated report, which also includes the condensed interim consolidated financial statements for the 3-month period ended 31 March 2018.

2. Shares in related parties

As at 31 March 2018, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

(in PLN '000)

Item	Company name	Registered office	Core business	Share of TAURON Polska Energia S.A. in the entity's capital	Share of TAURON Polska Energia S.A. in the governing body
1	TAURON Wydobycie S.A.	Jaworzno	Hard coal mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation, transmission and distribution of electricity and heat	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno	Generation, transmission and distribution of electricity and heat and sale of electricity	100.00%	100.00%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Production, transmission and sale of electricity	100.00%	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100.00%	100.00%
7	TAURON Serwis Sp. z o. o.	Katowice	Services	95.61%	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.74%	99.75%
9	TAURON Dystrybucja Serwis S.A.	Wrocław	Services	100,00%	100,00%
10	TAURON Dystrybucja Pomiary Sp. z o.o.[1]	Tarnów	Services	99.74%	99.75%
11	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%	100.00%
12	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%	100.00%
13	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Limestone quarrying and stone quarrying	100.00%	100.00%
16	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Sale of electricity	100.00%	100.00%
17	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Services	100.00%	100.00%
18	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Wholesale of waste and scrap	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o.[1]	Tarnów	Services	99.74%	99.75%

[1] TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses shares in TAURON Dystrybucja Pomiary Sp. z o.o.

As at 31 March 2018, TAURON Polska Energia S.A. held direct and indirect interest in the following jointly-controlled entities:

Item	Company name	Registered office	Core business	Share of TAURON Polska Energia S.A. in the entity's capital and governing body
1	Elektrociepłownia Stalowa Wola S.A.[1]	Stalowa Wola	Generation of electricity	50.00%
3	TAMEH HOLDING Sp. z o.o.[2]	Dąbrowa Górnicza	Head office and holding operations	50.00%
4	TAMEH POLSKA Sp. z o.o.[2]	Dąbrowa Górnicza	Generation, transmission, distribution and sale of electricity and heat	50.00%
5	TAMEH Czech s.r.o.[2]	Ostrawa, Czech Republic	Production, trade and services	50.00%

[1] TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. through a subsidiary, TAURON Wytwarzanie S.A.
[2] TAURON Polska Energia S.A. holds direct interest in the issued capital and the governing body of TAMEH HOLDING Sp. z o.o., which holds 100% interest in the issued capital and the governing bodies of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

3. Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"), as endorsed by the European Union ("EU").

The condensed interim financial statements do not contain all information and disclosures required for annual financial statements and they should be read jointly with the Company's financial statements prepared in accordance with IFRS for the year ended 31 December 2017.

4. Going concern

These condensed interim financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of approval of these condensed interim financial statements for publication, no circumstances had been identified which would indicate a risk to the Company's ability to continue as a going concern.

5. Functional and presentation currency

Polish zloty is the functional currency of the parent and the presentation currency of these condensed interim financial statements. These condensed interim financial statements have been presented in the Polish zloty ("PLN") and all figures are in PLN thousand, unless stated otherwise.

6. Material figures based on professional judgement and estimates

When applying the accounting policy to the issues mentioned below, professional judgement of the management, along with accounting estimates, have been of key importance; they have impacted the figures disclosed in these condensed interim financial statements and in the explanatory notes. The assumptions underlying the estimates have been based on the Management Board's best knowledge of current and future actions and events in individual areas. In the period covered by these condensed interim financial statements, there were no significant changes in estimates or estimation methods applied, which would affect the current or future periods, other than those presented below or mentioned further in these condensed interim financial statements.

The items of the financial statements which are exposed to the risk of material adjustment of the carrying amounts of assets and liabilities have been presented below. Detailed information regarding assumptions has been presented in notes to these condensed interim financial statements, in line with the table below.

Item	Note	Estimates and assumptions
Shares	Note 19	As at every balance sheet date the Company assesses if there is any objective indication that the shares may be impaired. If any significant indications of impairment are identified, the Company has to carry out impairment tests for shares and to recognize an impairment loss or to reverse an impairment loss recognized before. In line with IFRS 9 *Financial Instruments* the Company adequately classifies shares in entities other than subsidiaries and jointly-controlled entities and remeasures them to fair value, as discussed in detail in Note 8 to these condensed interim financial statements.
Intra-group bonds	Note 20	At each balance sheet date the Company classifies intra-group bonds to current or non-current assets. Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. In accordance with IFRS 9 *Financial Instruments* the Company estimates impairment losses for intra-group bonds, as discussed in more detail in Note 8 to these condensed interim financial statements.
Loans granted	Note 21	In line with IFRS 9 *Financial Instruments* the Company adequately classifies and measures originated loans and estimates impairment allowances, as discussed in detail in Note 8 to these condensed interim financial statements.
Derivative instruments	Note 22	The Company measured derivative financial instruments at fair value at the end of each reporting period. Derivative instruments acquired and held for internal purposes are not measured at the end of the reporting period.
Receivables from buyers	Note 25	In line with IFRS 9 *Financial Instruments* the Company estimates impairment allowances on receivables from buyers, as discussed in detail in Note 8 to these condensed interim financial statements.
Deferred tax assets	Note 14	As at the end of each reporting period, the Company asses the realisation of deferred tax assets and verifies deferred tax assets which were not recognized.
Provisions	Note 31	The value of provisions is determined based on assumptions made by the Company as well as a methodology and calculation method that is appropriate for a specific provision. To this end, the Company verifies the probability of an outflow of resources embodying economic benefits and estimates reliably the amount necessary to fulfil the obligation. The Company recognized provisions if the probability of an outflow of resources embodying economic benefits is higher than 50%.

Apart from the above, the Company makes significant estimates as regards the contingent liabilities is discloses, and in particular as regards court cases the Company is party to. Contingent liabilities have been presented in detail in Note 37 hereto.

7. New standards and interpretations which have been published but are not yet effective

The Company did not choose an early application of any standards, revised standards or interpretations, which were published, but are not yet mandatorily effective.

- **Standards issued by the International Accounting Standards Board ("IASB") which have been endorsed by the European Union, but are not yet effective**

According to the Management Board, the following new standard may materially impact the accounting policies applied thus far:

(in PLN '000)

IFRS 16 *Leases*

Effective date in the EU: annual periods beginning on or after 1 January 2019.

Under IFRS 16 *Leases*, the lessee recognizes the right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the present value of the lease payments due over the lease term, discounted at the rate implicit in the lease, if that can be readily determined. If that rate cannot be readily determined, the lessee uses the incremental borrowing rate Lessors continue to classify leases as operating or finance leases, i.e. in line with IAS 17 *Leases*. A lease is classified by a lessor as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. A lessor recognizes finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Impact on the financial statements

A preliminary analysis of the impact of IFRS 16 *Leases* on the applied accounting policies has shown a change material for the Company, i.e. the need to recognize lease assets and liabilities for leases currently classified as operating leases in these condensed interim financial statements. The Company analyses all its lease agreements to identify leases which require recognition of assets and liabilities in the financial statements. As at the date these condensed interim financial statements were authorized for issue, the Company had not completed the analyses that would determine the impact of planned changes on the financial statements. Such analysis will be completed at a later date.

According to the Management Board the revised IFRS 9 *Financial Instruments* effective as from 1 January 2019 will not materially impact the accounting policies applied.

- **Standards, revised standards and interpretations issued by the International Accounting Standards Board (IASB) which have not been endorsed by the European Union and are not yet effective**

According to the Management Board, the following standards, revised standards and interpretations will not materially impact the accounting policies applied thus far:

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
IFRS 17 *Insurance contracts*	1 January 2021
Revised IFRS 10 *Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* with subsequent amendments	the effective date has been postponed
Annual Improvements to IFRS (cycle 2015-2017):	
IAS 12 *Income Taxes*	1 January 2019
IAS 23 *Borrowing Costs*	1 January 2019
IFRS 3 *Business Combinations*	1 January 2019
IFRS 11 *Joint Arrangements*	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Revised IAS 19 *Employee Benefits*	1 January 2019
Revised IAS 28 *Investments in Associates and Joint Ventures*	1 January 2019
Amendments to References to the Conceptual Framework in IFRS	1 January 2020

* *The European Commission decided not to launch the process of endorsement of the interim standard for use in the EU until the publication of the final version of IFRS 14.*

Hedge accounting principles applicable to the portfolio of financial assets and liabilities also remain outside the scope of the regulations adopted by the EU, as they have not been approved for use in the EU.

8. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these condensed interim financial statements are consistent with those used for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2017, except for the application of the following new standards and revised standards and changes in the Accounting Principles applied by the Company as presented below.

According to the Management Board, the following new standards and revised standards have a material impact on the accounting policies applied thus far:

IFRS 9 *Financial Instruments*

Effective date in the EU: annual periods beginning on or after 1 January 2018.

Key changes introduced by IFRS 9 *Financial Instruments*:

- **Change in the classification and measurement of financial assets**

Instead of the four classes of financial assets identified by IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 9 *Financial Instruments* identifies three categories of financial assets:

– financial assets measured at amortized cost,

– financial assets measured at fair value through other comprehensive income,

– financial assets measured at fair value through profit or loss.

Pursuant to IFRS 9 *Financial Instruments*, financial assets are classified upon initial recognition based on:

– cash flow characteristics (SPPI test; Solely Payments of Principal and Interest),

– a business model underlying the management of financial assets.

- **Introduction of a new impairment testing model based on expected credit losses**

IFRS 9 *Financial Instruments* replaces the incurred credit losses with the concept of expected credit losses, resulting in recognition of a loss allowance upon initial recognition of an asset. The requirements regarding impairment of financial assets apply to financial assets measured at amortized cost and at fair value through other comprehensive income.

Impact on the financial statements as at 1 January 2018

The Company decided to apply IFRS 9 *Financial Instruments* with the effect as of 1 January 2018. The Company decided not to restate the comparable data, as permitted by IFRS. The data as at 31 December 2017 and for the 3-month period ended 31 March 2017 were presented in line with IAS 39 *Financial Instruments: Recognition and Measurement*.

Impact of the application of IFRS 9 *Financial instruments* on retained earnings as at 1 January 2018:

(in PLN '000)

Categories and classes of financial instruments in line with IAS 39	IAS 39		IFRS 9			Estimated effect of change
	At amortised /at historical cost	At fair value	At amortised cost	Fair value through: Profit/loss	Fair value through: Other comprehensive income	Increase/ (decrease)
1 Financial assets at fair value through profit or loss, held for trading	**-**	**154 574**	**-**	**154 574**	**-**	**-**
Derivative instruments	-	53 216	-	53 216	-	-
Investment fund units	-	101 358	-	101 358	-	-
2 Financial assets available for sale	**39 244**	**-**	**-**	**25 351**	**-**	**(13 893)**
Long-term shares	39 244	-	-	25 351	-	(13 893)
3 Loans and receivables	**8 228 015**	**-**	**7 551 955**	**177 275**	**-**	**(498 785)**
Receivables from buyers	719 133	-	717 558	-	-	(1 575)
Gross value	720 057	-	720 057	-	-	-
Impairment loss	(924)	-	(2 499)	-	-	(1 575)
Bonds	6 572 696	-	6 176 103	-	-	(396 593)
Gross value	6 572 696	-	6 572 696	-	-	-
Impairment loss	-	-	(396 593)	-	-	(396 593)
Loans granted under cash pool agreement	190 526	-	190 526	-	-	-
Other loans granted	712 654	-	461 077	150 960	-	(100 617)
Gross value	712 654	-	471 887	150 960	-	(89 807)
Impairment loss	-	-	(10 810)	-	-	(10 810)
Other financial receivables	33 006	-	6 691	26 315	-	-
4 Hedging derivative instruments	**-**	**28 482**	**-**	**28 482**	**-**	**-**
5 Cash and cash equivalents	**-**	**721 577**	**-**	**721 577**	**-**	**-**
Total estimated effect of the application of IFRS 9 on financial assets						**(512 678)**
1 Financial liabilities measured at amortised cost	**470 239**	**-**	**437 184**	**-**	**-**	**33 055**
Loan granted by European Investment Bank	470 239	-	437 184	-	-	33 055
Total estimated effect of the application of IFRS 9 on financial liabilites						**33 055**
Estimated effect on retained earnings						**(479 623)**
Deferred tax						**91 072**
Estimated effect on retained earnings after deferred tax						**(388 551)**

The data presented above, which are assessed by the Company as complied in all material respects with the regulations of IFRS 9 *Financial instruments*, have not been audited or reviewed by a certified auditor. Therefore there is a possibility that the data enclosed in the financial statements for the year ended 31 December 2018 may differ from the data presented in these condensed interim financial statements.

- **Change in the classification and measurement of financial assets**

The categories of financial assets identified in IAS 39 *Financial Instruments: Recognition and Measurement* cannot be directly translated into those identified in IFRS 9 *Financial instruments* and therefore the Company has developed a method of classification of financial assets which sets the terms of the SPPI and the business model tests. On such basis the Company carried out the business model and SPPI tests for all financial assets material as at 1 January 2018.

The analysis revealed that a considerable portion of financial assets presented in the above table generates cash flows corresponding solely to the repayment of principal and interest and they are maintained under a business model based solely on acquiring cash flows, which translates into classification as financial assets measured at amortized cost.

The subordinated loan and the loans used for the purposes of debt repayment originated to the joint venture Elektrociepłownia Stalowa Wola S.A., measured at amortized cost in line with IAS 39 *Financial Instruments: Recognition and Measurement*, with the carrying amount as at 1 January 2018 of PLN 240 767 thousand, have been classified to financial assets measured at fair value through profit or loss at PLN 150 960 thousand, since the cash flows they generated do not correspond solely to the repayment of principal and interest. The application of IFRS 9 *Financial instruments* reduced the Company's retained earnings as at 1 January 2018 by PLN 89 807 thousand.

IFRS 9 *Financial Instruments* requires that interests in other entities be measured at fair value, also with respect to those interests which — due to a limited availability of information — have so far been measured at cost less any impairment losses, the Company estimated the fair value of shares held in PGE EJ 1 Sp. z o.o. using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments. As the key factors affecting the value of the assumed shares had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Company assumes that the historical cost is an acceptable approximation of the fair value. The application of IFRS 9 *Financial instruments* to measurement of equity investments reduced the Company's retained earnings as at 1 January 2018 by PLN 13 893 thousand. The above instruments will comply with IFRS 9 *Financial Instruments* are measured at fair value through profit or loss.

- **Introduction of a new impairment testing model based on expected credit losses**

The Company has identified the following categories of financial assets for which it has verified the impact of the calculation of expected credit losses in line with IFRS 9 *Financial Instruments* on the financial statements:

  - receivables from buyers and
  - held bonds of subsidiaries and originated loans.

As far as the receivables from buyers are concerned, the Company has designated a portfolio of strategic counterparties in the case of which it is expected that the historical performance (lack of material delinquencies) does not provide full information on the expected credit losses that the Company may be exposed to. The risk of insolvency on the part of the strategic counterparties has been assessed based on the ratings assigned to the counterparties using an internal scoring model and appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, will be calculated based on the estimated potential recovery due to the security lodged. It is expected that the historical performance information concerning the receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for such a group of counterparties have been estimated through an analysis of ageing of receivables and percentage ratios assigned to individual ranges and groups (such as receivables claimed at court, receivables from counterparties in bankruptcy) which help estimate the value of receivables from buyers which are not expected to be paid.

Based on the analyses, the total value of the loss allowance for expected credit losses due to receivables from buyers, following the application of IFRS 9 *Financial Instruments* increased compared to the value of the allowance calculated based on previous terms, which resulted in a decrease in retained earnings as at 1 January 2018 by PLN 1 575 thousand.

As far as originated loans and held bonds are concerned, the Company assesses the risk of insolvency on the part of the borrowers and issuers based on the ratings assigned to the counterparties using an internal scoring model, appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, is calculated based on the estimated potential recovery due to the security lodged and the time value of money.

The application of IFRS 9 *Financial instruments* to the expected credit losses under held bonds and originated loans measured at amortized cost resulted in a decrease of the Company's retained earnings as at 1 January 2018 by PLN 396 593 thousand and PLN 10 810 thousand, respectively.

- **Change in the basis of measurement for liabilities in the event of modification of contractual cash flows**

IFRS 9 *Financial Instruments* also introduces a change in the basis of measurement for liabilities if the contractual cash flows have been modified. The Company has liabilities due to loans from the European Investment Bank and the liabilities have been modified through a change in interest rates at an agreed date. The application of IFRS 9 *Financial instruments* increased the Company's retained earnings as at 1 January 2018 by PLN 33 055 thousand.

- **Hedge accounting**

As at 1 January 2018 the Company held instruments hedging fluctuations in cash flows related to issued bonds and resulting from the interest rate risk. These interest rate swaps are subject to hedge accounting.

An analysis of risks and rewards related to the adoption of the hedge accounting solutions introduced by IFRS 9 *Financial Instruments* in light of the Company's portfolio of financial instruments revealed that the principles defined in IAS 39 *Financial Instruments: Recognition and Measurement* should still be applied. It is not expected that the application of the provisions of IFRS 9 *Financial Instruments* concerning hedge accounting will have a material impact on the Company's financial statements as regards its transactions. The Company has been monitoring on an ongoing basis the work carried out by the International Accounting Standards Board in the scope of IFRS 9 *Financial Instruments*, to the area of the hedge accounting provisions, also with respect to the date of their obligatory application.

- **Measurement of financial guarantee liabilities**

The Company has analysed the impact of IFRS 9 *Financial Instruments* on the measurement of financial guarantee liabilities. The analysis did not reveal any significant impact of IFRS 9 *Financial Instruments* on the measurement of liabilities using in the amount of the loss allowance for expected credit losses.

IFRS 15 *Revenue from Contracts with Customers*

Effective date in the EU: annual periods beginning on or after 1 January 2018.

The standard specifies how and when to recognize revenue as well as requires more informative, relevant disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and a number of interpretations concerning revenue recognition.

The key principles introduced by IFRS 15 *Revenue from Contracts with Customers* are:

- five steps of revenue recognition: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to each performance obligation; and recognize revenue when (or as) the entity satisfies a performance obligation;
- revenue is recognized when (or as) the Company satisfies the obligation to transfer an asset. The asset has been transferred as control has passed;
- the transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

The new standard requires significantly extended disclosures regarding sales and revenue to enable users of financial statements to understand the nature, timing, amount as well as risk and uncertainty of revenue and cash flows arising from contracts with customers. In particular, an entity should disclose quantitative and qualitative information about: its contracts with customers, its significant judgements and estimates and any assets recognized from the costs to obtain or fulfil a contract with a customer.

Impact on the financial statements as at 1 January 2018

The Company has decided to apply the modified retrospective approach IFRS 15 *Revenue from Contracts with Customers*, i.e. with the cumulative effect of initially applying this Standard recognized at the date of initial application. The Company decided not to restate the comparable data, as permitted by IFRS. The data as at 31 December 2017 and for the 3-month period ended 31 March 2017 were prepared in line with IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and interpretations related to revenue recognition issued before IFRS 15 *Revenue from Contracts with Customers* was endorsed.

The Company has conducted a five-step analysis of its contracts with customers, which is necessary for proper measurement of its revenue in accordance with IFRS 15 *Revenue from Contracts with Customers* — from identification of contracts (or contract groups), through selection of liability items and determination of prices, their allocation to individual liability items to revenue recognition.

As part of the analysis, the Company reviewed concluded contracts, in terms of the amount of variable compensation, a guarantee for the sold goods, fulfilment of the conditions for recognizing combined contracts and the existence of elements of financing in the contracts.

Based on an analysis of contracts with customers the Company concludes that the implementation of IFRS 15 *Revenue from Contracts with Customers* does not have an impact on the Company's equity as at 1 January 2018.

(in PLN '000)

Clarifications to IFRS 15 *Revenue from Contracts with Customers*

Effective date in the EU: annual periods beginning on or after 1 January 2018.

The amendment provides additional clarifications as to some requirements in addition to introducing a new exemption for entities applying IFRS 15 *Revenue from Contracts with Customers* for the first time.

According to the Management Board, the introduction of the following revised standards and interpretations has not materially impacted the accounting policies applied thus far:

Standard	Effective date in the EU *(annual periods beginning on or after the date provided)*
Revised IFRS 4 *Insurance Contracts*	1 January 2018
Revised IFRS 2 *Share-based Payments: Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Revised IAS 40 *Investment Property – Transfers of Investment Property*	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Annual Improvements to IFRS (cycle 2014-2016):	
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2018
IAS 28 *Investments in Associates and Joint Ventures*	1 January 2018

Other changes in accounting principles applied by the Company

As of 1 January 2018, the Company has presented the measurement effects and the gain or loss on forward transactions - derivative financial instruments separately in assets and liabilities, disclosing gains or losses on individual contracts. Previously, the Company applied a simplified approach involving the recognition of the effects of measurement and realized transaction gain or loss taking into account a long and a short position of a given transaction.

The impact of the describe above change in presentation on the statement of financial position for the year ended 31 December 2017 has been presented in the table below. The change not had any effect on the Company's profit/loss.

	As at 31 December 2017 *(authorised figures)*	Change in presentation of derivative instruments	As at 31 December 2017 *(restated figures)*
ASSETS			
Non-current assets	**27 371 425**	**259**	**27 371 684**
Derivative instruments	26 445	259	26 704
Current assets	**2 901 667**	**48 023**	**2 949 690**
Derivative instruments	6 971	48 023	54 994
TOTAL ASSETS	**30 273 092**	**48 282**	**30 321 374**
EQUITY AND LIABILITIES			
Non-current liabilities	**9 530 528**	**259**	**9 530 787**
Derivative instruments	4 958	259	5 217
Current liabilities	**3 364 658**	**48 023**	**3 412 681**
Derivative instruments	9 226	48 023	57 249
TOTAL EQUITY AND LIABILITIES	**30 273 092**	**48 282**	**30 321 374**

9. Seasonality of operations

The Company's operations related to electricity sales are not seasonal in nature, hence the Company's performance in this area shows no significant fluctuations during the year. As the Company carries out holding operations, may report significant dividend income recognized under finance income as at the dates of the resolutions on dividend payment, unless such resolutions set other record dates. In the 3-month period ended 31 March 2018 and the comparative period, the Company did not recognize any dividend income.

OPERATING SEGMENTS

10. Operating segments

The Company carries out its business in two operating segments, that is "Sales" and "Holding activity".

The assets of the "Holding activity" segment are:

- shares in subsidiaries and jointly-controlled entities;
- bonds acquired from subsidiaries;
- cash pool loan receivables, including a cash pool deposit;
- receivables arising from other loans granted to related parties;
- assets arising from valuation of hedging instruments relating to issued bonds.

The liabilities of the "Holding activity" segment are:

- bonds issued by the Company, including liabilities arising from valuation of hedging instruments relating to such bonds;
- loans from the European Investment Bank to carry out investment projects in subsidiaries;
- liabilities due to loans from related parties, including under the cash pool agreement.

The "Holding activity" segment includes intra-group receivables and liabilities arising from income tax settlements of the Tax Capital Group companies.

Finance income and finance costs include dividend income as well as net interest income and expense earned/incurred by the Company in relation to the central financing model adopted by the Group.

General and administrative expenses are presented under unallocated expenses, as they are incurred for the Group as a whole and are not directly attributable to a specific operating segment.

EBIT is the profit/loss on continuing operations before tax, finance income and finance costs, i.e. operating profit (loss).

EBITDA is the profit/loss on continuing operations before tax, finance income and finance costs, increased by amortization/depreciation and impairment of non-financial assets.

(in PLN '000)

For the 3-month period ended 31 March 2018 or as at 31 March 2018 *(unaudited)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	186 651	-	-	**186 651**
Sales within the Group	1 737 849	5	-	**1 737 854**
Segment revenue	**1 924 500**	**5**	**-**	**1 924 505**
Profit/(loss) of the segment	**(505)**	**5**	**-**	**(500)**
Unallocated expenses	-	-	(29 582)	**(29 582)**
EBIT	**(505)**	**5**	**(29 582)**	**(30 082)**
Net finance income/(costs)	-	(11 910)	1 189	**(10 721)**
Profit/(loss) before income tax	**(505)**	**(11 905)**	**(28 393)**	**(40 803)**
Income tax expense	-	-	(1 699)	**(1 699)**
Net profit/(loss) for the period	**(505)**	**(11 905)**	**(30 092)**	**(42 502)**
Assets and liabilities				
Segment assets	1 360 691	28 497 357	-	**29 858 048**
Unallocated assets	-	-	190 721	**190 721**
Total assets	**1 360 691**	**28 497 357**	**190 721**	**30 048 769**
Segment liabilities	555 718	11 855 262	**-**	**12 410 980**
Unallocated liabilities	-	-	701 489	**701 489**
Total liabilities	**555 718**	**11 855 262**	**701 489**	**13 112 469**
EBIT	**(505)**	**5**	**(29 582)**	**(30 082)**
Depreciation/amortization	**(1 314)**	**-**	**-**	**(1 314)**
Impairment	**58**	**-**	**-**	**58**
EBITDA	**751**	**5**	**(29 582)**	**(28 826)**
Other segment information				
Capital expenditure *	198	-	-	**198**

** Capital expenditure includes expenditures for property, plant and equipment and non-current intangible assets, except for energy certificates acquired by the Company.*

For the 3-month period ended 31 March 2017 *(unaudited)* or as at 31 December 2017 *(restated figures)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	263 653	-	-	**263 653**
Sales within the Group	1 644 946	6	-	**1 644 952**
Segment revenue	**1 908 599**	**6**	**-**	**1 908 605**
Profit/(loss) of the segment	**218 338**	**6**	**-**	**218 344**
Unallocated expenses	-	-	(25 162)	**(25 162)**
EBIT	**218 338**	**6**	**(25 162)**	**193 182**
Net finance income (costs)	-	139 111	(8 370)	**130 741**
Profit/(loss) before income tax	**218 338**	**139 117**	**(33 532)**	**323 923**
Income tax expense	-	-	(46 210)	**(46 210)**
Net profit/(loss) for the period	**218 338**	**139 117**	**(79 742)**	**277 713**
Assets and liabilities				
Segment assets	1 796 606	28 423 410	-	**30 220 016**
Unallocated assets	-	-	101 358	**101 358**
Total assets	**1 796 606**	**28 423 410**	**101 358**	**30 321 374**
Segment liabilities	591 436	12 115 606	**-**	**12 707 042**
Unallocated liabilities	-	-	236 426	**236 426**
Total liabilities	**591 436**	**12 115 606**	**236 426**	**12 943 468**
EBIT	**218 338**	**6**	**(25 162)**	**193 182**
Depreciation/amortization	**(1 490)**	**-**	**-**	**(1 490)**
Impairment	**218**	**-**	**-**	**218**
EBITDA	**219 610**	**6**	**(25 162)**	**194 454**
Other segment information				
Capital expenditure *	32	-	-	**32**

** Capital expenditure includes expenditures for property, plant and equipment and non-current intangible assets, except for energy certificates acquired by the Company.*

In the 3-month period ended 31 March 2018, revenue from sales to two major clients, being members of the TAURON Group, represented 75% and 10% of the Company's total revenue in the "Sales" segment, amounting to PLN 1 447 159 thousand and PLN 201 775 thousand, respectively. In the 3-month period ended 31 March 2017, revenue from sales to two major clients, being members of the TAURON Group, represented 70% and 11% of the Company's total revenue in the "Sales" segment, amounting to PLN 1 338 223 thousand and PLN 215 833 thousand, respectively.

(in PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Revenue from sales of goods for resale and materials	**1 912 228**	**1 890 165**
Electricity	1 833 836	1 804 885
Gas	77 064	71 399
Property rights arising from energy certificates	242	11 721
Emission allowances	107	495
Other	979	1 665
Rendering of services	**12 277**	**18 440**
Trading income	13 282	13 165
Other	(1 005)	5 275
Total	**1 924 505**	**1 908 605**

TAURON Polska Energia S.A. acts as an agent coordinating and supervising purchases, supplies and transportation of fuels. The Company purchases raw materials from third parties and from the TAURON Group companies, which are subsequently sold to related parties. It recognizes revenue from agency services (supply management).

In the 3-month period ended 31 March 2018, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 203 366 thousand. The Company recognized revenue from agency services of PLN 8 118 thousand.

The revenue from sale of other services include adjustments for the financial year 2017.

12. Expenses by type

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Depreciation of property, plant and equipment and amortization of intangible assets	(1 314)	(1 490)
Materials and energy	(296)	(362)
Consultancy services	(1 171)	(1 613)
IT services	(3 129)	(3 106)
Rental services	(2 480)	(2 573)
Stock market services	(2 147)	(2 622)
Other external services	(2 525)	(2 758)
Taxes and charges	(1 163)	(1 171)
Employee benefits expense	(23 192)	(23 928)
Advertising expenses	(4 675)	(3 842)
Other	(108)	(196)
Total costs by type	**(42 200)**	**(43 661)**
Selling and distribution expenses	4 570	6 992
Administrative expenses	29 582	25 162
Cost of goods for resale and materials sold	(1 910 484)	(1 670 415)
Cost of sales	**(1 918 532)**	**(1 681 922)**

The increase in the value of goods and materials sold during the 3-month period ended 31 March 2018 versus the comparable period arises mainly from the recognition of the effects of the release of provisions for onerous contracts with a joint venture in the amount of PLN 190 265 thousand, recognized in the comparable period, as described in Note 31 to these condensed interim financial statements.

(in PLN '000)

13. Finance income and costs

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Income and costs from financial instruments	**(10 018)**	**133 057**
Interest income on bonds and loans	102 047	141 192
Other interest income	1 846	1 182
Interest expense	(73 733)	(75 475)
Commissions due to external financing	(1 982)	(1 925)
Gain/(loss) on derivative instruments	(703)	(6 489)
Exchange gains/(losses)	(32 509)	74 124
Revaluation of bonds and loans	(5 654)	-
Other	670	448
Other finance income and costs	**(703)**	**(2 316)**
Interest on discount	-	(2 214)
Other	(703)	(102)
Total, *including recognized in the statement of comprehensive income:*	**(10 721)**	**130 741**
Interest income on bonds and loans	102 047	141 192
Interest expense on debt	(73 733)	(75 475)
Other finance income and costs	(39 035)	65 024

In the 3-month period ended 31 March 2018, exchange losses exceeded exchange gains by PLN 32 509 thousand. The exchange losses are mainly the exchange difference related to the Company's debt in the euro, i.e. loans obtained from a subsidiary, subordinated bonds and eurobonds. The relative exchange losses was PLN 32 775 thousand. In the comparative period, exchange gains exceeded exchange losses.

14. Income taxes

14.1. Tax expense in the statement of comprehensive income

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Current income tax	**(26 214)**	**(4 096)**
Current income tax expense	(19 433)	(4 361)
Adjustments of current income tax from prior years	(6 781)	265
Deferred tax	**24 515**	**(42 114)**
Income tax expense in profit or loss	**(1 699)**	**(46 210)**
Income tax expense in other comprehensive income	**2 475**	**803**

(in PLN '000)

14.2. Deferred income tax

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
due interest on bonds and loans	22 452	29 275
difference between tax base and carrying amount of other financial assets	21 468	9 694
valuation of hedging instruments	2 992	5 412
other	10 207	4 812
Deferred tax liabilities	**57 119**	**49 193**
provision for employee benefits	680	660
other provisions and accruals	2 529	2 270
difference between tax base and carrying amount of fixed and intangible assets	749	821
difference between tax base and carrying amount of financial assets	98 756	258
difference between tax base and carrying amount of financial liabilities	37 419	13 299
other	5 206	2 042
Deferred tax assets	**145 339**	**19 350**
Deferred tax assets/(liabilities), net, *of which:*	**88 220**	**(29 843)**
Deferred tax assets/(liabilities), net - recognized in profit or loss	112	(24 403)
Deferred tax assets/(liabilities), net - recognized in other comprehensive income	(2 965)	(5 440)
Deferred tax assets/(liabilities), net - recognized with retained profits	91 073	-

Deferred tax assets on deductible temporary differences arising from investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences. According to the Company, deductible temporary differences related to recognition of impairment losses on shares in subsidiaries of PLN 6 675 915 thousand will not be reversed in the foreseeable future, as the investments are not intended for sale. Consequently, no related deferred tax asset has been recognized.

As taxable profit is forecast for 2018 for the Tax Capital Group ("TCG") of which the Company is a member, and taxable profit is forecast for the subsequent years, the deferred tax asset on all deductible differences, except those described above, has been recognized in these financial statements in the full amount.

The increase in the deferred tax assets arising from the difference between the tax and balance sheet values of financial assets is mainly the effect of the impairment loss on the value of bonds, loans and receivables under a cash-pooling agreement recognized as at 31 March 2018 in line with IFRS 9 *Financial instruments* in the amount of PLN 95 684 thousand.

15. Dividends paid and proposed

On 12 March 2018, the Management Board of TAURON Polska Energia S.A. adopted a resolution to file a motion with the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. to allocate the Company's net profit the 2017 financial year of PLN 854 351 thousand to the Company's reserve capital. On 16 April 2018, the Ordinary General Shareholders' Meeting of the Company adopted a resolution following the recommendation of the Management Board.

On 13 March 2017, the Management Board of TAURON Polska Energia S.A. adopted a resolution to file a motion with the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. to offset the Company's net loss for the 2016 financial year of PLN 166 253 thousand against the reserve capital. The Management Board of the Company decided not to put forward a recommendation to the Ordinary General Shareholders' Meeting of the Company, concerning the adoption of a decision to use the Company's reserve capital for purposes of payment of dividend for 2016 to the Company's shareholders. On 29 May 2017, the Ordinary General Shareholders' Meeting of the Company adopted a resolution following the recommendation of the Management Board.

(in PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

16. Property, plant and equipment

For the 3-month period ended 31 March 2018 *(unaudited)*

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
COST					
Opening balance	**5 918**	**6 277**	**10 735**	**98**	**23 028**
Direct purchase	-	-	-	158	**158**
Allocation of assets under construction	-	121	135	(256)	**-**
Liquidation	(31)	-	-	-	**(31)**
Closing balance	**5 887**	**6 398**	**10 870**	**-**	**23 155**
ACCUMULATED DEPRECIATION					
Opening balance	**(5 918)**	**(5 999)**	**(10 662)**	**-**	**(22 579)**
Depreciation for the period	-	(141)	(115)	-	**(256)**
Liquidation	31	-	-	-	**31**
Closing balance	**(5 887)**	**(6 140)**	**(10 777)**	**-**	**(22 804)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**-**	**278**	**73**	**98**	**449**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**-**	**258**	**93**	**-**	**351**

For the 3-month period ended 31 March 2017 *(unaudited)*

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
COST					
Opening balance	**5 918**	**6 857**	**11 635**	**-**	**24 410**
Direct purchase	-	-	-	32	**32**
Allocation of assets under construction	-	-	32	(32)	**-**
Closing balance	**5 918**	**6 857**	**11 667**	**-**	**24 442**
ACCUMULATED DEPRECIATION					
Opening balance	**(5 917)**	**(5 732)**	**(11 485)**	**-**	**(23 134)**
Depreciation for the period	-	(240)	(69)	-	**(309)**
Closing balance	**(5 917)**	**(5 972)**	**(11 554)**	**-**	**(23 443)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**1**	**1 125**	**150**	**-**	**1 276**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1**	**885**	**113**	**-**	**999**

17. Investment property

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
COST		
Opening balance	**36 169**	**36 169**
Closing balance	**36 169**	**36 169**
ACCUMULATED DEPRECIATION		
Opening balance	**(14 468)**	**(10 851)**
Depreciation for the period	(904)	(904)
Closing balance	**(15 372)**	**(11 755)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**21 701**	**25 318**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**20 797**	**24 414**

The investment property is composed of buildings located in Katowice-Szopienice, in ul. Lwowska 23 used based on a finance lease agreement with PKO Leasing S.A. The monthly lease payment is ca. PLN 349 thousand, while the monthly depreciation charge is PLN 301 thousand.

The Company is a party to a lease agreement with a subsidiary (the lessee) valid until 30 April 2018, whereby buildings and structures the rights to which result from the aforesaid lease agreement have been subleased. In the 3-month period ended 31 March 2018, the rentals related to the investment property amounted to PLN 1 410 thousand.

(in PLN '000)

After the end of the reporting period, on 17 April 2018, the Management Board decided to acquire by the Company from PKO Leasing S.A. a perpetual usufruct right to land located in Katowice-Szopienice, in ul. Lwowska 23 with the right to buildings located in the land. The objective of the decision was to fulfil the Company's obligations under a preliminary sales agreement concluded in 2008. On 25 April 2018 the Company's Supervisory Board agreed to the purchase of the real property by the Company. Until 30 April 2018, the Company's liabilities under finance leases were fully repaid.

18. Non-current intangible assets

For the 3-month period ended 31 March 2018 *(unaudited)*

	Software and licenses	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST				
Opening balance	**2 259**	**4 155**	**-**	**6 414**
Direct purchase	**-**	-	40	**40**
Allocation of intangible assets not made available for use	-	40	(40)	**-**
Liquidation	(8)	(49)	-	**(57)**
Closing balance	**2 251**	**4 146**	**-**	**6 397**
ACCUMULATED AMORTIZATION				
Opening balance	**(2 255)**	**(2 896)**	**-**	**(5 151)**
Amortization for the period	-	(154)	-	**(154)**
Liquidation	8	49	-	**57**
Closing balance	**(2 247)**	**(3 001)**	**-**	**(5 248)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**4**	**1 259**	**-**	**1 263**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**4**	**1 145**	**-**	**1 149**

For the 3-month period ended 31 March 2017 *(unaudited)*

	Software and licenses	Other intangible assets	Intangible assets, total
COST			
Opening balance	**2 259**	**4 125**	**6 384**
Closing balance	**2 259**	**4 125**	**6 384**
ACCUMULATED AMORTIZATION			
Opening balance	**(2 046)**	**(2 147)**	**(4 193)**
Amortization for the period	(85)	(192)	**(277)**
Closing balance	**(2 131)**	**(2 339)**	**(4 470)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**213**	**1 978**	**2 191**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**128**	**1 786**	**1 914**

19. Shares

Changes in shares from 1 January 2018 to 31 March 2018 *(unaudited)*

No.	Company	Gross value					Impairment losses			Net value	
		Opening balance	Impact of applying IFRS 9	Restated opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	1 001 755	-	1 001 755	-	1 001 755	(147 870)	-	(147 870)	853 885	853 885
2	TAURON Wytwarzanie S.A.	7 085 701	-	7 085 701	-	7 085 701	(5 347 296)	-	(5 347 296)	1 738 405	1 738 405
3	TAURON Ciepło Sp. z o.o.	1 928 043	-	1 928 043	-	1 928 043	-	-	-	1 928 043	1 928 043
4	TAURON Ekoenergia Sp. z o.o.	1 939 765	-	1 939 765	-	1 939 765	(1 125 693)	-	(1 125 693)	814 072	814 072
5	Marselwind Sp. z o.o.	307	-	307	-	307	-	-	-	307	307
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	1 268	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	3 551 026	-	3 551 026	-	3 551 026	-	-	-	3 551 026	3 551 026
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Dystrybucja Serwis S.A.	201 045	-	201 045	-	201 045	-	-	-	201 045	201 045
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	613 505	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	129 823	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	4 223	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	41 178	-	-	-	41 178	41 178
14	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	55 056	-	55 056	6 000	61 056	(55 056)	-	(55 056)	-	6 000
15	TAURON Sweden Energy AB (publ)	28 382	-	28 382	-	28 382	-	-	-	28 382	28 382
16	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	1 269	-	1 269	-	-	-	1 269	1 269
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	39 831	-	-	-	39 831	39 831
18	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	415 852	-	-	-	415 852	415 852
19	PGE EJ 1 Sp. z o.o.	26 546	(13 895)	12 651	-	12 651	-	-	-	26 546	12 651
20	Magenta Grupa TAURON Sp. z o.o.	9 500	-	9 500	-	9 500	-	-	-	9 500	9 500
21	ElectroMobility Poland S.A.	2 500	-	2 500	5 000	7 500	-	-	-	2 500	7 500
22	Other	391	-	391	-	391	-	-	-	391	391
	Total	**27 588 594**	**(13 895)**	**27 574 699**	**11 000**	**27 585 699**	**(6 675 915)**	**-**	**(6 675 915)**	**20 912 679**	**20 909 784**

(in PLN '000)

Changes in long-term investments in the 3-month period ended 31 March 2018 resulted mainly from the following transactions:

- Contributions to the capital of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

On 1 March 2018, the Extraordinary Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. adopted a resolution concerning capital contributions to the company in the amount of PLN 6 000 thousand. The contributions are aimed to enable the company to finance its operations. The contributions were made by the Company on 7 March 2018.

- Increase in the issued capital of ElectroMobility Poland S.A.

On 3 January 2018 the Extraordinary Shareholders' Meeting of ElectroMobility Poland S.A. adopted a resolution concerning an increase in the issued capital of the company by PLN 20 000 thousand through an increase in the nominal value of shares. The nominal value of shares held by the Company was increased from PLN 2 500 thousand to PLN 7 500 thousand in exchange for a cash contribution of PLN 5 000 thousand. On 16 January 2018 the Company advanced monies to increase the capital. After the end of the reporting period, on 23 April 2018 year, the increase in the issued capital of ElectroMobility Poland S.A. was registered.

Impairment tests

Considering the prolonged market cap of the Company below the carrying amount as well as changes in the prices of raw materials in the global markets and the changed local power coal market following the consolidation in the mining sector, amendments to the Act on renewable energy sources and publication of related obligations for the years 2018 and 2019, which affected the prices of renewable energy certificates, passing of the Act on the capacity market and discussion of the functional solutions set out in the capacity market regulations, persisting unfavourable market conditions for the conventional power industry, the Company ordered an analysis of the effects of changes in the market conditions in first quarter of 2018.

During the analysed period there were considerable changes in the market prices of emission allowances. However, additional costs of the prices of the allowances were transferred in the wholesale prices of electricity. Sharp hikes in the emission allowance market over the 3-month period ended 31 March 2018 are speculative and, considering the expected adjustment of the upward movement later during the year, are not a factor which could justify any changes to the long-term forecasts with respect to the information available as at 31 December 2017.

Therefore, it was assumed that the most recent results of impairment tests focusing on shares and intra-group loans and bonds recognized in non-current assets, which were performed as at 31 December 2017, were up-to-date.

Shares and intra-group loans and bonds accounted for about 93% of the balance sheet total as at 31 March 2018. The recoverable amount of the above assets is the value in use.

Fixed assets were also tested for impairment. To this end, the Company applied the relevant assumptions used for impairment testing of shares.

The impairment tests carried out as at 31 December 2017, and the key assumptions underlying the tests, have been described in Note 11 to the financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2017.

Test results

The impairment loss and its reversal recognized as a result of tests carried out in 2017 concern shares, intra-group loans and bonds of the following subsidiaries.

Company	WACC* assumed in tests as at		Recoverable amount of shares, intra-group loans and bonds as at 31 December 2017	Impairment loss (recognized)/reversed in the year ended 31 December 2017
	31 December 2017	30 June 2017 *(unaudited)*		
TAURON Wytwarzanie S.A.	8.39%	8.20%	2 814 014	56 529
TAURON Ekoenergia Sp. z o.o.	8.78%	8.42%	953 340	12 025
TAURON Wydobycie S.A.	10.20%	10.20%	1 428 477	(147 870)

* *The level of the weighted average cost of capital (WACC) in nominal terms before tax.*

(in PLN '000)

The loans extended to Elektrociepłownia Stalowa Wola S.A. were tested for impairment. The results of the test showed that there is no need for an impairment loss provided that the assumption are compliant with the impairment tests on shares.

Changes in shares from 1 January 2017 to 31 March 2017 *(unaudited)*

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	841 755	-	841 755	-	-	-	841 755	841 755
2	TAURON Wytwarzanie S.A.	7 236 727	-	7 236 727	(5 403 825)	-	(5 403 825)	1 832 902	1 832 902
3	TAURON Ciepło Sp. z o.o.	1 328 043	-	1 328 043	-	-	-	1 328 043	1 328 043
4	TAURON Ekoenergia Sp. z o.o.	939 765	-	939 765	(939 765)	-	(939 765)	-	-
5	Marselwind Sp. z o.o.	107	-	107	-	-	-	107	107
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	-	-	1 268	1 268
7	TAURON Dystrybucja S.A.	9 511 628	-	9 511 628	-	-	-	9 511 628	9 511 628
8	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	-	-	613 505	613 505
9	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	-	-	129 823	129 823
10	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	-	-	4 223	4 223
11	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	-	-	41 178	41 178
12	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	55 056	-	55 056	-	-	-	55 056	55 056
13	TAURON Sweden Energy AB (publ)	28 382	-	28 382	-	-	-	28 382	28 382
14	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	1 269	-	-	-	1 269	1 269
15	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	-	-	39 831	39 831
16	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
17	PGE EJ 1 Sp. z o.o.	26 546	-	26 546	-	-	-	26 546	26 546
18	Magenta Grupa TAURON Sp. z o.o.	500	-	500	-	-	-	500	500
19	ElectroMobility Poland S.A.	2 500	-	2 500	-	-	-	2 500	2 500
20	Other	50	-	50	-	-	-	50	50
	Total	**21 218 008**	**-**	**21 218 008**	**(6 343 590)**	**-**	**(6 343 590)**	**14 874 418**	**14 874 418**

20. Bonds

Under the central funding model, TAURON Polska Energia S.A. acquires bonds issued by the TAURON Group companies.

The table below presents the balances of acquired bonds and interest accrued as at 31 March 2018, and as at 31 December 2017, broken down by individual companies issuing the bonds.

Company	As at 31 March 2018 *(unaudited)*				As at 31 December 2017		
	Par value of purchased bonds	Accrued interest	Impairment loss	Total	Par value of purchased bonds	Accrued interest	Total
TAURON Wytwarzanie S.A.	624 920	4 942	(82 889)	**546 973**	1 064 920	10 689	**1 075 609**
TAURON Dystrybucja S.A.	3 300 000	78 071	(7 823)	**3 370 248**	3 770 000	62 326	**3 832 326**
TAURON Ciepło Sp. z o.o.	1 075 000	21 060	(7 846)	**1 088 214**	1 075 000	15 169	**1 090 169**
TAURON Wydobycie S.A.	570 000	4 495	(225 772)	**348 723**	570 000	4 592	**574 592**
Total	**5 569 920**	**108 568**	**(324 330)**	**5 354 158**	**6 479 920**	**92 776**	**6 572 696**
Non-current	5 569 920	-	(321 797)	**5 248 123**	6 009 920	-	**6 009 920**
Current	-	108 568	(2 533)	**106 035**	470 000	92 776	**562 776**

Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements provide for the possibility to roll over the bonds. As at 31 March 2018, the par value of bonds maturing within one year, which were classified as long-term bonds, was PLN 424 920 thousand.

The change in the balance of impairment losses on bonds has been presented in the table below.

	3-month period ended 31 March 2018 *(unaudited)*
As at 31 December 2017	**-**
Impact of IFRS 9	**(396 593)**
As at 1 January 2018	**(396 593)**
(Increases)/decreases of impairment loss	22 213
Transfer of impairment loss to receivables under a cash pool agreement	50 050
As at 31 March 2018	**(324 330)**

(in PLN '000)

21. Loans granted

	As at 31 March 2018 *(unaudited)*				As at 31 December 2017		
	Principal*	Interest	Impairment loss	Total	Principal	Interest	Total
Loan granted to TAURON Ekoenergia Sp. z o.o.	-	-	-	**-**	120 000	19 268	**139 268**
Loans granted to EC Stalowa Wola S.A.	485 619	3 368	(4 110)	**484 877**	529 007	41 425	**570 432**
Loans granted to PGE EJ 1 Sp. z o.o.	7 740	51	(41)	**7 750**	2 940	14	**2 954**
Granted cash pool loans including accrued interest	1 302 804	5 444	(50 050)	**1 258 198**	189 928	598	**190 526**
Total	**1 796 163**	**8 863**	**(54 201)**	**1 750 825**	**841 875**	**61 305**	**903 180**
Non-current	194 259	3 419	(4 151)	**193 527**	326 790	56 199	**382 989**
Current	1 601 904	5 444	(50 050)	**1 557 298**	515 085	5 106	**520 191**

** Capital measurement at amortized cost was included.*

Loan to a subsidiary

On 27 February 2015, the Company entered into an agreement with its subsidiary, TAURON Ekoenergia Sp. z o.o., whereby TAURON Polska Energia S.A. granted a one-year loan of PLN 1 120 000 thousand to TAURON Ekoenergia Sp. z o.o. The purpose of the loan was to repurchase and redeem the same amount of intra-group bonds issued by the borrower in prior years to finance construction of wind farms. Under subsequent annexes, the loan repayment date was postponed to 27 February 2018.

On 26 and 27 October 2017 a portion of the loan extended by the Company to subsidiary TAURON Ekoenergia Sp. z o.o. was prematurely repaid. On both dates the amount prepaid by the subsidiary was PLN 500 000 thousand, i.e. PLN 1 000 000 thousand in total. The outstanding amount of the principal as at 31 December 2017 was PLN 120 000 thousand.

On 27 February 2018 the subsidiary repaid the outstanding amount of the loan of PLN 120 000 thousand with accrued interest of PLN 20 113 thousand.

Loans to joint ventures

On 12 January 2018, the Company and Elektrociepłownia Stalowa Wola S.A. signed a loan agreement totalling PLN 27 000 thousand to be used for the operations of the borrower. Under the agreement the loan and interest, accrued based on the 1M WIBOR rate increased by margin, was planned repayment by 28 February 2018. The repayment of the principal, interest and other expenses and amounts due to the Company was secured with the borrower's blank promissory note and a promissory note agreement.

On 28 February 2018 the Company and Elektrociepłownią Stalowa Wola S.A. concluded an agreement to consolidate the debt of the borrower totalling PLN 609 951 thousand by renewing all the existing liabilities of the borrower arising from loans extended and outstanding by 28 February 2018. Under the agreement the consolidated amounts comprised the principal amounts of originated loans with the carrying amount as at 31 December 2017 of PLN 529 007 thousand; the principal amount of a loan of 12 January 2018 totalling PLN 27 000 thousand and related interest accrued as at 28 February 2018 totalling PLN 53 944 thousand.

According to the agreement, on 30 April 2018, a portion of the loan of PLN 299 100 thousand was repaid and the remaining part of the debt of PLN 310 851 thousand with interest accrued since 1 March 2018 will be repaid by 30 June 2033. The loan bears interest at a fixed interest rate and is secured with a blank promissory note and a promissory note agreement.

As the debt consolidation agreement changed significant contractual terms, the Company no longer discloses funds from loans under the agreement. It derecognized their carrying amount of PLN 511 952 thousand and disclosed a new asset measured at fair value at initial recognition of PLN 481 582 thousand, which has increased the financial expenses by PLN 30 370 thousand.

On 8 March 2018 Elektrociepłownia Stalowa Wola S.A. entered into a loan agreement with Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A. whereby Bank Gospodarstwa Krajowego and PGNiG S.A. will each provide a PLN 450 000 thousand loan to Elektrociepłownia Stalowa Wola S.A. The loan matures on 14 June 2030. The loan agreement sets out that the funds will be disbursed once Elektrociepłownia Stalowa Wola S.A. has satisfied the conditions precedent, one of them being a bank guarantee issued on the instruction of the Company and securing the borrower's debt at the bank presented to Bank Gospodarstwa Krajowego. A bank guarantee was issued after the balance sheet date, i.e. on 11 April 2018, as discussed in detail in Note 37 to these condensed interim financial statements.

(in PLN '000)

In view of the aforementioned agreement, on 8 March 2018 Elektrociepłownia Stalowa Wola S.A. as a borrower, Polskie Górnictwo Naftowe i Gazownictwo SA, PGNiG Termika S.A., TAURON Polska Energia S.A., TAURON Wytwarzanie S.A. as subordinated creditors and the Bank Gospodarstwa Krajowego as the Agent, entered into a debt subordination agreement. Pursuant to the concluded agreement, the debt of Elektrociepłownia Stalowa Wola S.A. due to the Company under the debt consolidation agreement of 28 February 2018 for a total amount of PLN 609 951 thousand has constituted subordinated debt ("subordinated debt"). As at date of approving these condensed interim financial statements for issue the subordinated debt amounted to PLN 310 851 thousand. The loan amount will be increased by interest accrued until the maturity date.

On 30 March 2018, the Company and Elektrociepłownia Stalowa Wola S.A. signed a loan agreement of up to PLN 7 290 thousand to be used for the operations of the borrower. Under the agreement the loan and interest accrued at a fixed interest rate should be repaid by 30 June 2033. The repayment of the principal, interest and other expenses and amounts due to the Company is secured with the borrower's blank promissory note and a promissory note agreement. As at 31 March 2018 the loan amount was not disbursed. After the end of the reporting period, on 13 April 2018, the Company — on the instruction of the borrower — released a tranche amounting to PLN 7 000 thousand.

After the balance sheet date, i.e. on 11 April 2018 Polskie Górnictwo Naftowe i Gazownictwo S.A., TAURON Polska Energia S.A. and the borrower - Elektrociepłownia Stalowa Wola S.A. concluded a VAT loan agreement for the total amount of PLN 13 000 thousand, to finance the borrower's VAT obligations related to completion of the construction of the gas and steam unit in Stalowa Wola. Pursuant to an agreement the Company will grant a loan up to PLN 6 500 thousand to Elektrociepłownia Stalowa Wola S.A. Under the agreement the principal amount of the loan will be repaid by 30 September 2020 and interest calculated based on WIBOR 1M plus mark-up will be repaid by the 15th day of each calendar month. The repayment of the principal, interest and other expenses and amounts due to the Company is secured with the borrower's blank promissory note and a promissory note agreement. After the end of the reporting period, on 27 April 2018, the Company — on the instruction of the borrower — released a tranche amounting to PLN 500 thousand.

Loans granted under cash pool agreement

Detailed information on the cash pool service has been presented in Note 29.4 to these condensed interim financial statements.

22. Derivative instruments

	As at 31 March 2018 ***(unaudited)***				**As at 31 December 2017** ***(restated figures)***			
	Charged to profit or loss	Charged to other comprehensive income	**Total**		Charged to profit or loss	Charged to other comprehensive income	**Total**	
			Assets	**Liabilities**			**Assets**	**Liabilities**
CCIRS	(10 649)	-	**-**	**(10 649)**	(9 299)	-	**-**	**(9 299)**
IRS	398	15 351	**15 749**	**-**	23	28 459	**28 482**	**-**
Commodity future/forward	(1 011)	-	**106 644**	**(107 655)**	395	-	**53 216**	**(52 821)**
Currency forward	474	-	**474**	**-**	(346)	-	**-**	**(346)**
Total			**122 867**	**(118 304)**			**81 698**	**(62 466)**
Non-current			16 664	(5 893)			26 704	(5 217)
Current			106 203	(112 411)			54 994	(57 249)

The fair value of individual derivative financial instruments is determined as follows:

(in PLN '000)

Derivative instrument	Methodology of determining fair value hierarchy
IRS	The difference between discounted floating-rate interest cash flows and those based on fixed interest rates. Reuters interest rate curve is the input data.
CCIRS	The difference between discounted interest cash flows relating to payments and receipts, in two different currencies, expressed in the valuation currency. Interest rate curves, basis spreads and NBP fixing for the relevant currencies from Reuters are the input data.
Forward currency contracts	The difference between discounted future cash flows: the forward price at the valuation date and the transaction price, multiplied by the nominal value of the contract in a foreign currency. NBP fixing and the implied interest rate curve from FX swap transactions for the relevant currency from Reuters are the input data.
Commodity forwards, futures	The fair value of forwards for the purchase and sale of emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.

The fair value hierarchy for derivative financial instruments is as follows:

	As at 31 March 2018 *(unaudited)*		As at 31 December 2017 *(restated figures)*	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments - commodity	106 644	-	53 216	-
Derivative instruments - currency	-	474	-	-
Derivative instruments - IRS	-	15 749	-	28 482
Total	**106 644**	**16 223**	**53 216**	**28 482**
Liabilities				
Derivative instruments - commodity	107 655	-	52 821	-
Derivative instruments - currency	-	-	-	346
Derivative instruments - CCIRS	-	10 649	-	9 299
Total	**107 655**	**10 649**	**52 821**	**9 645**

Hedging derivative instruments (subject to hedge accounting) — IRS

Based on a decision of the Financial and Credit Risk Management Unit, in 2016 the Company hedged a portion of its interest rate risk for cash flows relating to the exposure to WIBOR 6M, designated under the dynamic risk management strategy, i.e. interest on debt securities with the nominal value of PLN 2 100 000 thousand, through the entry into interest rate swap (IRS) transactions for a term of 4 to 5 years. The aforementioned transactions are subject to hedge accounting with the exception of the first interest period. This is due to the fact that the floating interest rate in the first interest period was determined in advance, hence the Company could not apply hedge accounting principles to cash flows resulting from the first interest period.

Derivative instruments measured at fair value through profit or loss (FVTPL)

As at 31 March 2018, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

- CCIRSs that hedge foreign currency cash flows resulting from the payment of interest on the issued Eurobonds,
- commodity derivatives (futures, forward) including emission allowance and other commodity purchase and sale transactions and
- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

The CCIRSs have been used with respect to the Company's Coupon Only Cross Currency Swap fixed-fixed transactions concluded in 2017 and in January 2018 and involve an exchange of interest payments on the total nominal value of EUR 500 000 thousand. They mature in July 2027. In accordance with the terms and conditions, the Company pays interest at a fixed rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question.

(in PLN '000)

23. Other financial assets

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Declared contribution to the capital of a subsidiary	350 000	-
Receivables from the TCG	116 733	6 133
Units in investment funds	102 027	101 358
Bid bonds, deposits, collateral transferred	20 583	15 343
Initial margin deposits	32 370	11 140
Other	183	390
Total	**621 896**	**134 364**
Non-current	352 747	2 724
Current	269 149	131 640

On 29 March 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 3 500 thousand, through the issue of 70 000 new shares with the nominal value of PLN 50 each which were acquired by the Company for PLN 5 000 each, totalling PLN 350 000 thousand. After the end of the reporting period, on 12 April 2018 the Company advanced monies to increase the capital, and on 27 April 2018 year, the increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered.

24. Inventories

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Gross Value		
Energy certificates	250	250
Greenhouse gas emission allowances	201 463	198 459
Materials	-	40
Total	**201 713**	**198 749**
Remeasurement to net realisable value		
Energy certificates	(149)	(184)
Greenhouse gas emission allowances	(123)	(145)
Remeasurement to fair value		
Greenhouse gas emission allowances	899	8
Total	**627**	**(321)**
Net value		
Energy certificates	101	66
Greenhouse gas emission allowances	202 239	198 322
Materials	-	40
Total	**202 340**	**198 428**

Inventories are measured at net realizable value, except for the inventory of emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices, which is measured at fair value as at the end of the reporting period.

(in PLN '000)

25. Receivables from buyers

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Gross Value		
Receivables from buyers	643 690	719 144
Receivables claimed at court	923	913
Total	**644 613**	**720 057**
Allowance/write-down		
Receivables from buyers	(1 366)	(11)
Receivables claimed at court	(913)	(913)
Total	**(2 279)**	**(924)**
Net Value		
Receivables from buyers	642 324	719 133
Receivables claimed at court	10	-
Total	**642 334**	**719 133**

As at 31 March 2018 and 31 December 2017, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 414 781 thousand and PLN 481 526 thousand, respectively.

Related-party transactions as well as related-party receivables and liabilities have been presented in Note 40.1 to these condensed interim financial statements.

26. Receivables arising from taxes and charges

As at 31 March 2018 receivables arising from taxes and charges amounted to PLN 22 223 thousand and comprised VAT receivables only. As at 31 December 2017, the related receivables totalled PLN 36 094 thousand.

27. Cash and cash equivalents

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Cash at bank and in hand	289 156	521 343
Short-term deposits (up to 3 months)	8	200 234
Total cash and cash equivalents presented in the statement of financial position, *including*:	**289 164**	**721 577**
restricted cash	54 646	49 792
Cash pool	(856 072)	(2 186 508)
Overdraft	(1 366)	(93 502)
Foreign exchange	(3 974)	(799)
Total cash and cash equivalents presented in the statement of cash flows	**(572 248)**	**(1 559 232)**

The balances of loans granted and taken out in a cash pool transaction are not cash flows from investing or financing activities, but a cash adjustment, as their main objective is to manage the Group's liquidity on a day-to-day basis.

Restricted cash includes mainly cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A.), amounting to PLN 54 223 thousand.

Information on cash pool balances has been presented in Note 29.4 to these condensed interim financial statements.

(in PLN '000)

28. Equity

28.1. Issued capital

Issued capital as at 31 March 2018 *(unaudited)*

Class/ issue	Type of shares	Number of shares	Nominal value of one share (in PLN)	Value of class/issue at nominal value	Method of payment
AA	bearer shares	1 589 438 762	5	7 947 194	cash/in-kind contribution
BB	registered shares	163 110 632	5	815 553	in-kind contribution
Total		**1 752 549 394**		**8 762 747**	

As at 31 March 2018, the value of the issued capital, the number of shares and the nominal value of shares did not change as compared to 31 December 2017.

28.2. Major shareholders

Shareholding structure as at 31 March 2018 (*unaudited)*

Shareholder	Number of shares	Nominal value of shares	% of issued capital	% of total vote
State Treasury	526 848 384	2 634 242	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	910 553	10.39%	10.39%
Nationale - Nederlanden Otwarty Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	**1 752 549 394**	**8 762 747**	**100%**	**100%**

To the best of the Company's knowledge, the shareholding structure as at 31 March 2018 had not changed since 31 December 2017.

28.3. Retained earnings and dividend limitation

Reserve capital — dividend limitation

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
amounts subject to distribution	**4 032 169**	**4 032 169**
amounts from distribution of prior years profits	4 032 169	4 032 169
non-distributable amounts	**3 624 917**	**3 624 917**
decrease in the value of issued capital	3 390 037	3 390 037
settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	**7 657 086**	**7 657 086**

Retained earnings — dividend limitation

As at 31 March 2018 retained earnings of PLN 854 364 thousand, which included primarily the net profit of the Company for 2017 were distributed to the shareholders.

On 16 April 2018, the Ordinary General Shareholders' Meeting adopted a resolution to allocate the Company's net profit for the 2017 financial year, totalling PLN 854 351 thousand to the Company's reserve capital.

(in PLN '000)

28.4. Revaluation reserve from valuation of hedging instruments

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Opening balance	**23 051**	**29 660**
Remeasurement of hedging instruments	(13 483)	(3 842)
Remeasurement of hedging instruments charged to profit or loss	375	(375)
Deferred income tax	2 490	801
Closing balance	**12 433**	**26 244**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued bonds, as presented in detail in Note 22 to these condensed interim financial statements.

The Company applies hedge accounting to hedging transactions covered by the policy for specific risk management in the area of finance.

As at 31 March 2018, the Company recognized PLN 12 433 thousand in the revaluation reserve from valuation of hedging instruments. It represents an asset arising from valuation of interest rate swaps as at the end of the reporting period, totalling PLN 15 749 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The amount of PLN 375 thousand constituting a change in valuation of instruments related to interest accrued on bonds as at the end of the reporting period was recognized in the profit for the period.

29. Debt

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Long-term portion of debt		
Subordinated hybrid bonds	798 500	791 355
Other issued bonds	7 132 548	7 113 161
Loans received from the European Investment Bank	808 414	873 770
Loans from the subsidiary	700 436	694 168
Total	**9 439 898**	**9 472 454**
Short-term portion of debt		
Subordinated hybrid bonds	10 673	1 597
Other issued bonds	83 842	34 233
Cash pool loans received, including accrued interest	2 114 270	2 377 034
Loans from the European Investment Bank	159 429	168 340
Loans from the subsidiary	33 890	27 112
Overdraft	1 366	93 502
Finance lease	22 620	23 945
Total	**2 426 090**	**2 725 763**

(in PLN '000)

29.1. Bonds issued

Bonds as at 31 March 2018 *(unaudited)*

Tranche/Bank	Maturity date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (after the balance sheet date)		
				Accrued interest	Principal at amortized cost	up to 2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	911	99 885	99 885	-	-
	20.12.2020	PLN	100 000	911	99 851	-	99 851	-
	20.12.2021	PLN	100 000	911	99 828	-	99 828	-
	20.12.2022	PLN	100 000	911	99 810	-	99 810	-
	20.12.2023	PLN	100 000	911	99 795	-	-	99 795
	20.12.2024	PLN	100 000	911	99 785	-	-	99 785
	20.12.2025	PLN	100 000	911	99 776	-	-	99 776
	20.12.2026	PLN	100 000	911	99 767	-	-	99 767
	20.12.2027	PLN	100 000	911	99 761	-	-	99 761
	20.12.2028	PLN	100 000	911	99 757	-	-	99 757
	20.12.2020	PLN	70 000	628	69 966	-	69 966	-
	20.12.2021	PLN	70 000	628	69 963	-	69 963	-
	20.12.2022	PLN	70 000	628	69 961	-	69 961	-
	20.12.2023	PLN	70 000	628	69 959	-	-	69 959
	20.12.2024	PLN	70 000	628	69 958	-	-	69 958
	20.12.2025	PLN	70 000	628	69 957	-	-	69 957
	20.12.2026	PLN	70 000	628	69 957	-	-	69 957
	20.12.2027	PLN	70 000	628	69 956	-	-	69 956
	20.12.2028	PLN	70 000	628	69 956	-	-	69 956
	20.12.2029	PLN	70 000	628	69 955	-	-	69 955
Bond Issue Scheme of 24 November 2015	29.12.2020	PLN	1 600 000	12 067	1 597 412	-	1 597 412	-
TPEA1119	4.11.2019	PLN	1 750 000	19 416	1 749 309	1 749 309	-	-
European Investment Bank	16.12.2034	EUR	190 000	10 673	798 500	-	-	798 500
Eurobonds EURBD050727	5.07.2027	EUR	500 000	36 969	2 088 224	-	-	2 088 224
Total				**94 515**	**7 931 048**	**1 849 194**	**2 106 791**	**3 975 063**

Bonds as at 31 December 2017

Tranche/Bank	Maturity date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (after the balance sheet date)		
				Accrued interest	Principal at amortized cost	up to 2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	107	99 869	99 869	-	-
	20.12.2020	PLN	100 000	107	99 838	-	99 838	-
	20.12.2021	PLN	100 000	107	99 817	-	99 817	-
	20.12.2022	PLN	100 000	107	99 800	-	99 800	-
	20.12.2023	PLN	100 000	107	99 787	-	-	99 787
	20.12.2024	PLN	100 000	107	99 778	-	-	99 778
	20.12.2025	PLN	100 000	107	99 770	-	-	99 770
	20.12.2026	PLN	100 000	107	99 761	-	-	99 761
	20.12.2027	PLN	100 000	107	99 756	-	-	99 756
	20.12.2028	PLN	100 000	107	99 752	-	-	99 752
	20.12.2020	PLN	70 000	74	69 963	-	69 963	-
	20.12.2021	PLN	70 000	74	69 961	-	69 961	-
	20.12.2022	PLN	70 000	74	69 959	-	69 959	-
	20.12.2023	PLN	70 000	74	69 958	-	-	69 958
	20.12.2024	PLN	70 000	74	69 957	-	-	69 957
	20.12.2025	PLN	70 000	74	69 956	-	-	69 956
	20.12.2026	PLN	70 000	74	69 956	-	-	69 956
	20.12.2027	PLN	70 000	74	69 955	-	-	69 955
	20.12.2028	PLN	70 000	74	69 955	-	-	69 955
	20.12.2029	PLN	70 000	74	69 955	-	-	69 955
Bond Issue Scheme of 24 November 2015	29.12.2020	PLN	1 600 000	389	1 597 188	-	1 597 188	-
TPEA1119	4.11.2019	PLN	1 750 000	7 609	1 749 277	1 749 277	-	-
European Investment Bank	16.12.2034	EUR	190 000	1 597	791 355	-	-	791 355
Eurobonds EURBD050727	16.12.2034	EUR	500 000	24 425	2 069 193	-	-	2 069 193
Total				**35 830**	**7 904 516**	**1 849 146**	**2 106 526**	**3 948 844**

(in PLN '000)

On 9 March 2018 the Bond issue scheme of 24 November 2015 was extended. Based on annexes to the agency and depositary agreement and the guarantee agreement a few banks extended the availability period of funds under the Bond issue scheme, i.e. the maximum value of this Bond Issue Scheme:

- until 31 December 2021 is PLN 6 070 000 thousand (before the annexes it was PLN 5 320 000 thousand),
- until 31 December 2022 is PLN 5 820 000 thousand (before the annexes it was PLN 2 450 000 thousand).

By 31 December 2020 the Scheme's value will not change and will not exceed PLN 6 270 000 thousand.

The annexes were concluded with the following banks participating in the Scheme: Bank Handlowy w Warszawie S.A., Bank BGŻ BNP Paribas S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Polsce, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A. Due to the extension, the financing margin in the Scheme did not change.

Key instruments recognized under bonds issued by the Company as at the end of the reporting period:

- eurobonds of the total face value of EUR 500 000 thousand and issue price accounting for 99.438% of the face value, with fixed interest paid on an annual basis. The bonds have been admitted to trading on the London Stock Exchange. They were rated "BBB" by the Fitch rating agency;
- bonds issued under the Bond Issue Scheme dated 24 November 2015 of the face value of PLN 1 600 000 thousand. The bonds were issued as unsecured, dematerialized coupon securities. Their interest was determined by reference to WIBOR 6M increased by a fixed margin;
- bonds issued on 4 November 2014 for the amount of PLN 1 750 000 thousand with the value up to PLN 5 000 000 thousand as of July 2013 under a Bond Issue Scheme. Those are five-year unsecured bonds with floating interest based on WIBOR 6M increased by margin and with a six-month interest period;
- bonds of the face value of PLN 1 700 000 thousand issued under the Long-Term Bond Issue Scheme in line with contracts concluded with Bank Gospodarstwa Krajowego. Those are dematerialized, unsecured and coupon bonds. The interest rate is floating, based on WIBOR 6M increased by the bank's margin.

The change in the balance of bonds excluding interest increasing the carrying amount in the 3-month period ended 31 March 2018 and in the comparative period has been presented below.

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Opening balance	**7 904 516**	**6 929 151**
Issue*	-	499 543
Measurement change	26 532	(37 332)
Closing balance	**7 931 048**	**7 391 362**

**Costs of issue have been included.*

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, as discussed in more detail in Note 22 to these condensed interim financial statements.

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. The key covenant is the net debt to EBITDA ratio (for the domestic bond issue schemes) which sets the maximum allowed debt less cash in relation to generated EBITDA. As at 31 March 2018, none of these covenants had been breached and the contractual provisions were complied with.

29.2. Loans from the European Investment Bank

As at 31 March 2018, the balance of loans obtained from the European Investment Bank was PLN 967 843 thousand, including accrued interest of PLN 4 253 thousand. As at 31 December 2017, the balance of loans from the European Investment Bank was PLN 1 042 110 thousand, including interest accrued of PLN 6 100 thousand.

In the 3-month period ended 31 March 2018, the Company repaid PLN 35 205 thousand of principal amounts and PLN 9 443 thousand of interest.

29.3. Loans from a subsidiary

As at 31 March 2018, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 734 326 thousand (EUR 174 486 thousand), including interest of PLN 33 890 thousand (EUR 8 053 thousand) accrued as at the end of the reporting period. As at 31 December 2017, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 721 280 thousand (EUR 172 932 thousand), including interest of PLN 27 112 thousand (EUR 6 500 thousand) accrued as at the end of the reporting period.

The Company's liability is a long-term loan granted under an agreement entered into in December 2014 by TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ). The loan bears interest at a fixed rate and interest is paid annually, in December, until the loan has been fully repaid i.e. until 29 November 2029.

29.4. Cash pool service

In order to optimize cash management, financial liquidity and finance income and costs, the TAURON Group has implemented a cash pool structure. On 18 December 2014, the Company concluded a new three-year zero-balancing agreement with PKO Bank Polski S.A. which may be extended by 12 months, with TAURON Polska Energia S.A. acting as an agent. The interest rate is at arm's length.

The balances of receivables and liabilities arising from cash pool transactions have been presented in the table below.

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Receivables from cash pool loans granted	1 302 804	189 928
Interest receivable on loans granted under cash pool agreement	5 444	598
Impairment loss	(50 050)	-
Total Receivables	**1 258 198**	**190 526**
Loans received under cash pool agreement	2 112 223	2 374 430
Interest payable on loans received under cash pool agreement	2 047	2 604
Total Liabilities	**2 114 270**	**2 377 034**

Surplus cash obtained by the Company under the cash pool agreement is deposited in bank accounts.

Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand. As at 31 March 2018, the Company did not have any related liabilities.

The Company recognized an impairment loss for credit losses due to a loan granted to a subsidiary from the Generation segment under a cash pooling agreement as at the balance sheet date, because it intends to continue providing financial support to the entity in the form other than a cash pooling loan.

29.5. Overdraft facilities

As at 31 March 2018 the balance of overdraft facilities was mainly due to an agreement for an overdraft in USD with mBank S.A., concluded by the Company for the purpose of financing margin deposits and commodity transactions — USD 400 thousand (PLN 1 365 thousand).

As at 31 December 2017, the balance of overdraft facilities was PLN 93 502 thousand.

(in PLN '000)

30. Other financial liabilities

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Liabilities arising from the TCG	13 261	34 836
Margin deposits	89 425	7 163
Commissions related to securities	2 903	5 889
Bid bonds, deposits and collateral received	5 400	5 400
Wages and salaries, deductions on wages and salaries as well as other employee related liabilities	3 602	6 424
Liabilities arising from shares taken up in a subsidiary	350 000	-
Other	22 763	23 004
Total	**487 354**	**82 716**
Non-current	17 626	20 126
Current	469 728	62 590

31. Other provisions

As at 31 March 2018 other provisions included mainly the provisions for tax risks due to the pending inspection proceedings. As at 31 December 2017 the Company recognized a related provision of PLN 68 694 thousand. As at 31 March 2018, the related provision was PLN 69 729 thousand. An increase in the provision by PLN 1 035 thousand is attributable to interest accrued for the 3-month period ended 31 March 2018.

The Company is a party to VAT inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The duration of the proceedings was extended by the Director of the Tax Inspection Office a number of times. The proceedings are set to be closed on 28 June 2018.

Other provisions in the 3-month period ended 31 March 2017 has been presented below.

	Provisions for onerous contracts with a jointly-controlled entity and provision for costs	Other provisions	Total provisions
Opening balance	**198 844**	**64 505**	**263 349**
Unwinding of discount and change in discount rate	2 214	-	**2 214**
Recognision	2 211	1 036	**3 247**
Reversal	(190 265)	-	**(190 265)**
Utilisation	-	(8)	**(8)**
Closing balance	**13 004**	**65 533**	**78 537**
Non-current	4 625	-	**4 625**
Current	8 379	65 533	**73 912**

Provision for onerous contracts with a joint venture and for costs

In the 3-month period ended 31 March 2017, following the entry into force of the agreement to set out they key boundary conditions for the restructuring of "Construction of a gas and steam unit in Stalowa Wola" project concluded by TAURON Polska Energia S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A., an annex to the agreement to sell electricity of 11 March 2011 between the Company, Polskie Górnictwo Naftowe I Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A. and an annex to the agreement to supply gaseous fuel of 11 March 2011 between Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A., the Company released in full the following provisions:

- a provision resulting from the fact that under a long-term agreement to sell electricity concluded between Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company was obliged to purchase half of the volume of electricity generated by Elektrociepłownia Stalowa Wola S.A. at a price calculated in line with the "cost plus" formula, which covers the production costs and the financing costs;

(in PLN '000)

- a provision resulting from the fact that the Company was obliged to cover losses which may have been incurred under the take-or-pay clause of the comprehensive agreement to supply gaseous fuel entered into by PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. Pursuant to the said clause, Elektrociepłownia Stalowa Wola S.A. was obliged to pay PGNiG S.A. for uncollected gas.

32. Liabilities to suppliers

As at 31 March 2018 the biggest liabilities to suppliers were the liabilities towards subsidiary TAURON Wytwarzanie S.A. totalling PLN 74 558 thousand and towards the state-owned Polska Grupa Górnicza S.A. totalling PLN 60 607 thousand. As at 31 December 2017, these were the liabilities towards subsidiaries TAURON Wytwarzanie S.A. and TAURON Sprzedaż Sp. z o.o. totalling PLN 163 952 thousand and PLN 87 255 thousand, respectively.

33. Liabilities arising from taxes and charges

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Corporate Income Tax	196 115	37 629
Personal Income Tax	1 411	1 878
VAT	21 315	25 385
Excise	-	880
Social security	4 700	4 311
Other	28	36
Total	**223 569**	**70 119**

Income tax liabilities

On 30 October 2017 the articles of association of the Tax Capital Group for the years 2018–2020 were registered. Under the previous articles of association, TCG was registered for the period of three fiscal years from 2015 to 2017.

The key companies constituting the Tax Capital Group as from 1 January 2018 are: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

As at 31 March 2018, the Tax Capital Group had an income tax liability of PLN 196 115 thousand comprising:

- PLN 26 712 thousand which is the surplus of tax expense of the Tax Capital Group for 2017 in the amount of PLN 262 183 thousand over the income tax withheld by the Tax Capital Group in 2017 in the amount of PLN 235 471 thousand;
- PLN 169 403 thousand is the tax expense of the Tax Capital Group for the 3-month period ended 31 March 2018.

At the same time, due to the settlements of the Company, acting as the Representative Company, with the Tax Capital Group companies, the Company reported a liability to these subsidiaries arising from tax overpayment of PLN 13 261 thousand, which has been presented in the condensed interim statement of financial position as "Other financial liabilities", as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 116 733 thousand, which have been presented in the condensed interim statement of financial position as "Other financial assets".

Regulations concerning VAT, corporate income tax and social insurance charges are frequently amended. The applicable regulations may also contain ambiguous issues, which lead to differences in opinions concerning the legal interpretation of tax legislation both among the tax authorities and between such authorities and enterprises.

Tax reports and other matters (e.g. customs or foreign currency transactions) may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities assessed during such audits have to be paid together with interest. Consequently, the figures presented and disclosed in these condensed interim financial statements may change in future, if a final decision is issued by tax control authorities.

As of 15 July 2016, changes were introduced to the Tax Ordinance to incorporate the general anti-avoidance rule (GAAR), which is aimed to prevent the creation and use of artificial legal structures with a view to avoiding the payment of taxes in Poland. GAAR defines tax avoidance as an activity which is primarily intended to derive a tax benefit that is, in specific circumstances, in conflict with the scope and the objectives of the applicable tax law. The new regulations will require considerably more judgement in the assessment of the tax consequences of transactions. GAAR should be applied to transactions made following its entry into force as well as transactions made prior to its implementation for which benefits continued or continue to be derived following the date of GAAR introduction.

(in PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF CASH FLOWS

34. Significant items of the condensed interim statement of cash flows

34.1. Cash flows from operating activities

Changes in working capital

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Change in receivables	48 963	352 569
Change in inventories	(3 912)	45 530
Change in payables excluding loans and borrowings	(10 575)	(111 724)
Change in other non-current and current assets	8 448	22 562
Change in deferred income, government grants and accruals	3 180	(5 309)
Change in provisions	1 280	(184 726)
Change in working capital	**47 384**	**118 902**

34.2. Cash flows from investing activities

Acquisition of shares

Payments to acquire shares of PLN 11 000 thousand were related to the Company's transfer of funds to increase the capital of the following companies:

- Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. — PLN 6 000 thousand;
- ElectroMobility Poland S.A. — PLN 5 000 thousand.

Loans granted

Payments to grant loans result from disbursed by the Company:

- a loan to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 27 000 thousand, which has been discussed in more detail in Note 21 to these condensed interim financial statements and
- a loan to PGE EJ 1 Sp. z o.o. of PLN 4 800 thousand.

Redemption of bonds

Proceeds from redemption of bonds, in the amount of PLN 910 000 thousand, are related to redemption of intra-group bonds issued by the following subsidiaries:

- TAURON Dystrybucja S.A., totalling PLN 470 000 thousand;
- TAURON Wytwarzanie S.A., totalling PLN 440 000 thousand.

Interest received

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Interest received in relation to debt securities	59 697	73 449
Interest received in relation to loans granted	20 113	-
Total	**79 810**	**73 449**

(in PLN '000)

34.3. Cash flows from financing activities

Loan repayment

Expenditures due to repayment of loans resulted from the Company's repayments on a loan granted by the European Investment Bank of PLN 35 205 thousand in the 3-month period ended 31 March 2018.

Interest paid

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Interest paid in relation to debt securities	-	(1 458)
Interest paid in relation to loans and borrowings	(9 511)	(10 551)
Interest paid in relation to the finance lease	(148)	(170)
Total	**(9 659)**	**(12 179)**

(in PLN '000)

OTHER INFORMATION

35. Financial instruments

Categories and classes of financial assets	As at 31 March 2018 *(unaudited)* Carrying amount	Fair value
1 Financial assets measured at amortized cost	**7 864 402**	**8 138 461**
Receivables from buyers	642 334	642 334
Bonds	5 354 158	5 628 029
Loans granted under cash pool agreement	1 258 198	1 258 198
Other loans granted	492 627	492 815
Other financial receivables	117 085	117 085
2 Financial assets measured at fair value through profit or loss (FVTPL)	**581 442**	**581 442**
Derivative instruments	107 118	107 118
Long-term shares	30 349	30 349
Other financial receivables	52 784	52 784
Investment fund units	102 027	102 027
Cash and cash equivalents	289 164	289 164
3 Derivative hedging instruments	**15 749**	**15 749**
4 Financial assets excluded from the scope of IFRS 9	**21 229 435**	
Shares in subsidiaries	20 463 583	
Shares in jointly-controlled entities	415 852	
Declared contribution to the capital of a subsidiary	350 000	
Total financial assets, ***of which in the statement of financial position:***	**29 691 028**	
Non-current assets	**26 720 845**	
Shares	20 909 784	
Bonds	5 248 123	
Loans granted	193 527	
Derivative instruments	16 664	
Other financial assets	352 747	
Current assets	**2 970 183**	
Receivables from buyers	642 334	
Bonds	106 035	
Loans granted	1 557 298	
Derivative instruments	106 203	
Other financial assets	269 149	
Cash and cash equivalents	289 164	

Categories and classes of financial assets	As at 31 December 2017 *(restated figures)* Carrying amount	Fair value
1 Financial assets at fair value through profit or loss, held for trading	**154 574**	**154 574**
Derivative instruments	53 216	53 216
Investment fund units	101 358	101 358
2 Financial assets available for sale	**39 244**	
Long-term shares	39 244	
3 Loans and receivables	**8 228 015**	**8 072 480**
Receivables from buyers	719 133	719 133
Bonds	6 572 696	6 506 729
Loans granted under cash pool agreement	190 526	190 526
Other loans granted	712 654	623 086
Other financial receivables	33 006	33 006
4 Financial assets excluded from the scope of IAS 39	**20 873 435**	
Shares in subsidiaries	20 457 583	
Shares in jointly-controlled entities	415 852	
5 Hedging derivative instruments	**28 482**	**28 482**
6 Cash and cash equivalents	**721 577**	**721 577**
Total financial assets, ***of which in the statement of financial position:***	**30 045 327**	
Non-current assets	**27 335 016**	
Shares	20 912 679	
Bonds	6 009 920	
Loans granted	382 989	
Derivative instruments	26 704	
Other financial assets	2 724	
Current assets	**2 710 311**	
Receivables from buyers	719 133	
Bonds	562 776	
Loans granted	520 191	
Derivative instruments	54 994	
Other financial assets	131 640	
Cash and cash equivalents	721 577	

Categories and classes of financial liabilities	As at 31 March 2018 *(unaudited)* Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**12 656 148**	**12 705 148**
Arm's length loans, *of which:*	3 816 439	3 845 194
Liability under the cash pool loan	2 114 270	2 114 270
Loans from the European Investment Bank	967 843	1 008 113
Loans from the subsidiary	734 326	722 811
Overdraft	1 366	1 366
Bonds issued	8 025 563	8 045 808
Liabilities to suppliers	325 426	325 426
Other financial liabilities	487 354	487 354
Liabilities due to purchases of fixed and intangible assets	-	-
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**118 304**	**118 304**
Derivative instruments	118 304	118 304
3 Financial liabilities excluded from the scope of IFRS 9	**22 620**	
Liabilities under finance leases	22 620	
Total financial liabilities, ***of which in the statement of financial position:***	**12 797 072**	
Non-current liabilities	**9 463 417**	
Debt	9 439 898	
Other financial liabilities	17 626	
Derivative instruments	5 893	
Current liabilities	**3 333 655**	
Debt	2 426 090	
Liabilities to suppliers	325 426	
Derivative instruments	112 411	
Other financial liabilities	469 728	

Categories and classes of financial liabilities	As at 31 December 2017 *(restated figures)* Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**12 670 253**	**12 699 476**
Arm's length loans, *of which:*	4 140 424	4 135 000
Liability under the cash pool loan	2 377 034	2 377 034
Loans from the European Investment Bank	1 042 110	1 044 424
Loans from the subsidiary	721 280	713 542
Overdraft	93 502	93 502
Bonds issued	7 940 346	7 974 993
Liabilities to suppliers	413 265	413 265
Other financial liabilities	82 586	82 586
Liabilities due to purchases of fixed and intangible assets	130	130
2 Financial liabilities at fair value through profit or loss, held for trading	**62 466**	**62 466**
Derivative instruments	62 466	62 466
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**23 945**	
Liabilities under finance leases	23 945	
Total financial liabilities, ***of which in the statement of financial position:***	**12 756 664**	
Non-current liabilities	**9 497 797**	
Debt	9 472 454	
Other financial liabilities	20 126	
Derivative instruments	5 217	
Current liabilities	**3 258 867**	
Debt	2 725 763	
Liabilities to suppliers	413 265	
Derivative instruments	57 249	
Other financial liabilities	62 590	

Instruments measured at fair value through profit or loss (FVTPL):

- Derivative financial instruments measured at fair value as at the end of the reporting period and classified as assets and liabilities measured at fair value through profit or loss, or designated as hedging derivatives (subject to hedge accounting), have been measured in line with the method described in Note 22 to these condensed interim financial statements. Disclosures regarding the hierarchy of the fair value have been given in Note 22 to these condensed interim financial statements.

- Measurement of investment fund units has been classified to Level 1 in the fair value hierarchy.
- IFRS 9 *Financial Instruments* requires that interests in other entities be measured at fair value, also with respect to those interests which — due to a limited availability of information — have so far been measured at cost less any impairment losses. Therefore, the Company estimated the fair value of the interests held, as discussed in detail in Note 8 hereto. The measurement of interests in question resulted in Level 3 classification in fair value hierarchy. The measurement of other financial receivables measured at fair value was also classified Level 3.

Financial instruments classified to other categories of financial instruments:

- Fixed rate financial instruments — bonds purchased by the Company, a loan to a subsidiary, loans from the European Investment Bank, a loan from a subsidiary, subordinated bonds and eurobonds issued — were measured at fair value. Also the consolidation arrangement with Elektrociepłownia Stalowa Wola S.A. bearing a fixed-interest rate were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to a given bond or loan, i.e. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy.
- The fair value of other financial instruments as at 31 March 2018 and 31 December 2017 (except for those excluded from the scope of IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Measurement and Recognition*) did not differ significantly from their values presented in the financial statements for the respective periods, due to the following reasons:

  – the potential discounting effect relating to short-term instruments is not significant;

  – the instruments are related to arm's length transactions.
- Shares in subsidiaries and jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured at cost less any impairment losses.

36. Finance and financial risk management

36.1. Financial risk management

The TAURON Group has implemented the policy for management of specific risks in the area of finance, which defines the strategy for management of the currency and interest rate risk. The policy has also introduced hedge accounting principles which set out the terms and conditions and types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS. The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk.

Hedge accounting

As at 31 March 2018, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance and subject to hedge accounting. The Company hedges a portion of the interest rate risk inherent in cash flows related to issued bonds, which has been discussed in more detail in Note 22 to these condensed interim financial statements.

(in PLN '000)

36.2. Finance and capital management

Finance and capital are managed at the level of the TAURON Polska Energia S.A. Capital Group. During the period covered by these condensed interim financial statements there were no significant changes in finance and capital management objectives, principles or procedures.

37. Contingent liabilities

As at 31 March 2018 and 31 December 2017 the Company's contingent liabilities were mainly the effect of securities and guarantees given on the instruction of related parties and were as follows:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary		As at 31 March 2018 *(unaudited)*		As at 31 December 2017	
			Validity	EUR	PLN	EUR	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	3.12.2029	168 000	707 028	168 000	700 711
corporate guarantee	TAURON Ekoenergia Sp. z o.o.	Business entities and buyers being parties to contracts with TAURON Ekoenergia Sp. z o.o. based on the electricity trading licence issued by the President of the Energy Regulatory Office	31.12.2030		16 400		16 400
blank promissory note with a promissory note declaration	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022		40 000		40 000
	TAURON Ciepło Sp. z o.o.		15.12.2022		30 000		30 000
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028*		415 852		415 852
surety contract	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	15.06.2021		914		914
surety contract	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Fund Advisors	28.09.2025		2 500		2 350
surety contract	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.	indefinite		5 000		5 000
	TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	31.03.2019		15 000		15 000
	Elektrociepłownia Stalowa Wola S.A.	Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	30.07.2020		1 667		1 667
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	TAURON Ciepło Sp. z o.o.	Elektrobudowa S.A.	31.12.2018		12 300		12 300
	other subsidiaries	various entities	2018-2020		1 548		1 534

**Registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.*

Key contingent liabilities presented in the table above are:

- Corporate guarantee

Corporate guarantee given to secure the bonds issued by TAURON Sweden Energy AB (publ). The guarantee remains valid until 3 December 2029, i.e. until the date of redemption of bonds, and amounts to EUR 168 000 thousand (PLN 707 028 thousand). The beneficiaries of the guarantee are the bondholders.

- Registered and financial pledges on shares

On 15 May 2015, TAURON Polska Energia S.A. established a financial pledge and registered pledges on 3 293 403 issued shares of TAMEH HOLDING Sp. z o.o., representing 50% of the issued capital. RAIFFEISEN BANK INTERNATIONAL AG is the beneficiary of the aforesaid pledges. They include a first lien registered pledge on shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge on shares with the maximum collateral amount of PLN 840 000 thousand. On 15 September 2016, Annex 1 was executed to the aforementioned agreement, whereby the maximum collateral amount was changed from PLN 840 000 thousand to PLN 1 370 000 thousand. The Company also agreed to establish a financial pledge and registered pledges of new shares acquired or taken up. Moreover, the Company assigned the rights to dividend and other payments.

The agreement to establish registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as original borrowers, TAMEH HOLDING Sp. z o.o. as the parent and the guarantor, and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. The registered pledges are valid in the collateral period, i.e.

until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.

As at 31 March 2018, the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand.

- Blank promissory notes

The Company issued blank promissory notes along with promissory note agreements, totalling PLN 70 000 thousand, as collateral for loan agreements entered into by its subsidiaries with the Regional Fund for Environmental Protection and Water Management in Katowice. The collateral in the form of promissory notes is valid until the subsidiaries' payment of all their liabilities to the lender. The promissory notes are valid until 15 December 2022.

On 11 April 2018, after the balance sheet date, a bank guarantee up to PLN 444 000 thousand was issued for Bank Gospodarstwa Krajowego at the request of the Company. The guarantee secures bank exposure under a loan agreement concluded on 8 March 2018 among the borrower, Elektrociepłownia Stalowa Wola S.A., Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., which has been described in more detail in Note 21 to these condensed interim financial statements. The guarantee was issued by MUFG Bank, Ltd., and is valid until 11 April 2019. It will be renewed on an annual basis.

Key items of the Company's contingent liabilities arising from court proceedings:

- **Claims filed by Huta Łaziska S.A.**

Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of the Energy Regulatory Office. At present, the case is pending at the Regional Court in Warsaw.

Based on a decision of 12 October 2001, the President of the Energy Regulatory Office ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had not paid its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgement of the Court of Appeals in Warsaw, which was dismissed by the judgement of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the issue of the above decision by the President of the Energy Regulatory Office on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages.

Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office (jointly and severally) Huta claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001.

In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. Since 27 November 2012 the case has been heard by the court of first instance.

Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.

- **Claim filed by ENEA S.A.**

The claim filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, regards the payment of PLN 17 086 thousand with statutory interest from 31 March 2015 until the payment date. The basis of the claim brought by ENEA is unjust enrichment of the Company due to potential errors in the calculation of aggregated measurement and billing data by ENEA Operator Sp. z o.o. (being the Distribution

System Operator), which are the basis of ENEA and the Company's settlements with Polskie Sieci Elektroenergetyczne S.A., due to an imbalance in the Balancing Market between January and December 2012.

During the proceedings, at the request of ENEA S.A. the court decided to extend the suit against seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The sellers included two subsidiaries of TAURON Polska Energia S.A., i.e.: TAURON Sprzedaż Sp. z o.o. from which ENEA S.A. demanded PLN 4 934 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment; and TAURON Sprzedaż GZE Sp. z o.o. from which ENEA S.A. demanded PLN 3 480 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment. The demand for payment of the above amounts as well as the amounts claimed from the other five sellers was submitted by the petitioner in case the claim against TAURON Polska Energia S.A. is dismissed. The case is pending. By the date of approval of these condensed interim financial statements for issue, the case had been adjourned until the date specified by the court.

The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions were recognized by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 5 297 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 3 769 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest reviewed as at 31 March 2018 and the cost of the proceedings.

As at 31 March 2018, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator Sp. z o.o. during the proceedings, the values of the claims against the Company and the Group companies may be expected to change.

- **Claims relating to termination of long-term contracts**

Claims relating to termination of long-term contracts against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

On 18 March 2015 a subsidiary in liquidation terminated long-term contracts concluded in the years 2009-2010 to purchase electricity and property rights from wind farms owned by the companies in the in.ventus group, Polenergia and Wind Invest. The reason for the termination of the contracts by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was that the counterparties had breached the contractual provisions by refusing to renegotiate the terms of the contracts in good faith. A case was brought against the Company for the statements made in the notice of termination to be declared void. In the case brought by Dobiesław Wind Invest Sp. z o.o. in 2016 the Regional Court in Warsaw dismissed the claim for declaring the termination of the contracts void. The claimant appealed against the ruling. On 16 March 2018 the Court of Appeals overruled the decision and remanded the case for re-examination by a court of first instance.

In 2016 the claims against the Company were changed to include claims for compensation for termination of the contracts totalling approx. PLN 39 993 thousand.

In October 2017 Dobiesław Wind Invest Sp. z o.o. filed a new lawsuit against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. for payment of PLN 42 095 thousand of compensation and liquidated damages.

In January 2018, claims filed by Amon Sp. z o.o., Talia Sp. z o.o. and Mogilno III-VI were changed to incorporate additional claims for compensation relating to contract termination in the total amount of approx. PLN 69 645 thousand.

In February 2018 the claims filed by Pękanino Wind Invest Sp. z o.o. and Nowy Jarosław Wind Invest Sp. z o.o. were changed to include claims related to the termination of contracts totalling approx. PLN 54 149 thousand.

In April 2018 Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. received a claim filed by Mogilno I-II demanding that the entity pay ca. PLN 6 204 thousand.

In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation does not exceed 50%. Therefore, no provision for the related costs has been recognized.

Claims relating to termination of long-term contracts against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A.

In November 2014 an action was brought against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A. by Dobiesław Wind Invest Sp. z o.o. to prevent an imminent danger of loss. It was claimed that the Company should revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. A subsidiary claim was that TAURON Polska Energia S.A. should be obliged to provide security in the amount of PLN 183 391 thousand as a court deposit.

On 8 March 2017, pursuant to a decision of the Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. the liquidation of the company was revoked. Therefore, in accordance with the order of the Regional Court in Krakow issued on 15 March 2017, the parties to the dispute exchanged pleadings to respond to the change in the company in which the claimant upheld their demands.

On 2 August 2017 the Company's representative in the case received pleadings from Dobiesław Wind Invest Sp. z o.o. which changed the claims. The claimant withdrew the initial claim against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and changed the claim against the Company from a claim for prevention of an imminent danger of loss to a claim for compensation. Dobiesław Wind Invest Sp. z o.o. demands payment of approx. PLN 34 700 thousand with statutory interest as of the date of the claim to the date of payment. Moreover, the claimant seeks a ruling that the Company is liable for future damages of Dobiesław Wind Invest Sp. z o.o., which the latter estimates at approx. PLN 254 000 thousand, (resulting from the Company's alleged torts) and a security of approx. PLN 254 000 thousand in case the court does not establish the Company's liability for future losses. The factual basis of the claim, according to the claimant, is the termination of the long-term contracts to sell electricity and property rights by the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

An analysis of the justification of the statements of the claim shows that they are wholly groundless. At a hearing on 4 October 2017, upon request of TAURON Polska Energia S.A., the Court decided that the new statement of claim against TAURON Polska Energia S.A. would be examined separately. As far as the initial claims against TAURON Polska Energia S.A. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (demand that the liquidation be revoked) are concerned, the Court referred the case to be examined at a closed-door hearing and dismissed. After the end of the reporting period, on 12 April 2018, the Court issued a decision whereby it dismissed the entire case against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. The case against TAURON Polska Energia S.A. was partially dismissed with respect to obligating the Company to revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

As the court will have to examine extensive evidence and conduct an analysis of a legal issue which has not been resolved before, it is too early to anticipate the outcome of the proceedings but it is very likely that the decision of the court will be favourable for the defendants.

Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.

On 20 July 2017 the Company was served with a summons dated 29 June 2017 of Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 39 700 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at approx. PLN 465 900 thousand. The case will be heard by a Regional Court in Katowice. On 18 September 2017, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated. On 1 December 2017, Gorzyca Wind Invest Sp. z o.o. responded by upholding its position in addition to questioning the position adopted by the Company and the arguments put forward in its response to the claim. Following a decision of the Regional Court in Katowice of 8 February 2018, the suit brought by Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, thought the final ruling will be given in public.

A claim dated 29 June 2017, filed by Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of PLN 28 500 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 201 600 thousand, was delivered to the Company on 21 August 2017. On 5 October 2017, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated. On 1 December 2017, Pękanino Wind Invest Sp. z o.o. responded by upholding its position in addition to questioning the position adopted by the Company and the arguments put forward in its response to the claim. After the end of the reporting period, on 16 April 2018, the case had its first hearing during which the Court dismissed the application for the suspension of the proceedings and for the case to be heard in camera. The case is pending.

On 16 October 2017 a claim dated 29 June 2017, filed by Nowy Jarosław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of PLN 27 000 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 197 800 thousand, was delivered to the Company.

On 28 December 2017, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated. The first hearing has been scheduled for 30 May 2018.

The factual basis of all the claims, according to the claimants, is the termination of the long-term contracts to purchase electricity and property rights resulting from energy certificates by the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and the total amount of the future loss incurred by all members of the Wind Invest group estimated by the claimant will be PLN 1 212 900 thousand.

As at the date of approval of these condensed interim financial statements for publication, the probability that the rulings will be favourable for the Company is high (70%).

- **Claim against PGE EJ 1 Sp. z o.o.**

On 13 March 2015, a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (the "WorleyParsons consortium") responsible for conducting research as part of an investment project relating to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. filed claims against PGE EJ 1 Sp. z o.o. for the payment of PLN 92 315 thousand as compensation for termination of the contract by PGE EJ 1 Sp. z o.o. PGE EJ 1 Sp. z o.o. did not accept the claims, considering them to be baseless. In view of the foregoing, the WorleyParsons consortium has initiated litigation against PGE EJ 1 Sp. z o.o., which is being conducted by the Regional Court in Warsaw.

As an investor holding a 10% interest in the issued capital of PGE EJ 1 Sp. z o.o., the company has made an agreement with the remaining shareholders, namely PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. regulating the relations between the shareholders and PGE EJ 1 Sp. z o.o. in the context of the claims lodged by the WorleyParsons consortium. The agreement sets out the terms on which additional funding may be provided by the shareholders to PGE EJ 1 Sp. z o.o. in the event that the claims are upheld, in whole or in part, and a specified amount is awarded by a final and enforceable court decision to the WorleyParsons consortium.

A contingent liability has been recognized by the company based on the aforesaid agreement. The company expects that its potential additional exposure under the agreement should not exceed 10% of the claims filed against PGE EJ 1 Sp. z o.o.

(in PLN '000)

38. Security for liabilities

Agreement/transaction	Collateral	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Agreement for hybrid funding in the form of a subordinated bond issue scheme of 6 September 2017	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 30 June 2034
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreement and intra-day limit (bank account agreement) at PKO Bank Polski S.A. (overdraft of up to PLN 300 000 thousand and intra-day limit of up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 17 December 2021
	declaration of submission to enforcement	up to PLN 360 000 thousand, valid until 29 December 2021
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 189 382 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 101 004 thousand (EUR 24 000 thousand) valid until 31 December 2019
	declaration of submission to enforcement	up to PLN 210 425 thousand (EUR 50 000 thousand) valid until 31 December 2020
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 10 242 thousand (USD 3 000 thousand) valid until 31 March 2019
Security for adequate performance of obligations under Grant Agreements with the National Centre for Research and Development	blank promissory notes to secure the payment of the Company's liabilities	up to the total amount of PLN 4 244 thousand
Finance lease agreement concerning an investment property	The agreement covers an investment property. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.	As at 31 March 2018 the carrying amount of the leased asset was PLN 20 797 thousand.

Under the bank guarantee agreement made with Bank Zachodni WBK S.A., the bank issued guarantees to secure stock exchange transactions resulting from the membership in Izba Rozliczeniowa Giełd Towarowych S.A. As at 31 March 2018 the Bank issued a guarantee for PLN 30 000 thousand valid unit 30 June 2018.

Under the bank guarantee agreement made with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, at the request of the Company the bank issued bank guarantees to secure liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. totalling PLN 13 848 thousand (Note 37 to these condensed interim financial statements) and to secure the transactions performed by the Company for Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. totalling PLN 4 500 thousand, valid until 30 November 2018.

39. Capital commitments

As at 31 March 2018, the Company did not have any material capital commitments.

40. Related-party disclosures

40.1. Transactions with related parties and State Treasury companies

The Company enters into transactions with related parties as presented in Note 2 to these condensed interim financial statements. In addition, due to the fact that the State Treasury of the Republic of Poland is the Company's majority shareholder, State Treasury companies are treated as related parties. Transactions with State Treasury companies are mainly related to the operating activities of the Company and are made on an arm's length terms.

(in PLN '000)

The total value of transactions with the aforementioned entities and the balances of receivables and liabilities have been presented in the tables below.

Revenue and expense

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Revenue from subsidiaries	**2 029 233**	**2 134 236**
Revenue from operating activities	1 941 220	1 994 305
Other operating income	1 611	479
Finance income	86 402	139 452
Revenue from jointly-controlled entities	**8 580**	**15 426**
Revenue from State Treasury companies	**32 885**	**95 234**
Costs from subsidiaries	**(474 955)**	**(916 033)**
Costs of operating activities	(462 578)	(906 190)
Finance costs	(12 377)	(9 843)
Costs incurred with relation to transactions with jointly-controlled entities	**(1 153)**	**(650)**
Costs from State Treasury companies	**(188 466)**	**(124 874)**

Receivables and liabilities

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Loans granted to subsidiaries and receivables from subsidiaries	**7 698 806**	**7 561 140**
Receivables from buyers	597 650	658 936
Loans granted under cash pool agreement plus interest accrued	1 304 676	182 933
Other loans granted	-	139 268
Receivables arising from the TCG	116 525	6 078
Bonds	5 678 488	6 572 696
Other financial receivables	108	240
Other non-financial receivables	1 359	989
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**614 360**	**579 381**
Receivables from State Treasury companies	**17 179**	**49 941**
Liabilities to subsidiaries	**3 334 902**	**3 406 474**
Liabilities to suppliers	143 290	288 965
Loans received under cash pool agreement plus interest accrued	2 088 557	2 355 765
Other loans received	734 326	721 280
Liabilities arising from the TCG	13 261	34 836
Other financial liabilities	355 238	5 257
Other non-financial liabilities	230	371
Liabilities to jointly-controlled entities	**216**	**503**
Liabilities to State Treasury companies	**104 485**	**28 952**

Revenue from subsidiaries includes revenue from sales of coal to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o., which is presented in the statement of comprehensive income less cost in the amount of the surplus constituting the revenue due to agency services, presented in detail in Note 11 to these condensed interim financial statements.

In the 3-month period ended 31 March 2018, the major contracting party as regards sales revenue from transactions made by TAURON Polska Energia S.A. with State Treasury companies was PSE S.A. Sales to that entity accounted for 94% of the total revenue from State Treasury companies.

(in PLN '000)

In the 3-month period ended 31 March 2018, Polska Grupa Górnicza S.A., Węglokoks S.A. and Jastrzębska Spółka Węglowa S.A. were the major contracting parties of TAURON Polska Energia S.A. as regards costs incurred in relation to transactions with State Treasury companies. Costs incurred in transactions with those entities represented 91% of total costs incurred in purchase transactions entered into with State Treasury companies.

The Company concludes material transactions on the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As it is only responsible for organization of commodities exchange trading, the Company does not classify purchase and sale transactions made through this entity as related-party transactions.

40.2. Executive compensation

The amount of compensation and other benefits paid or payable to the Management Board, Supervisory Board and other key executives of the Company in the 3-month period ended 31 March 2018 and in the comparative period has been presented in the table below.

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Management Board	**1 210**	**2 079**
Short-term benefits (with surcharges)	789	1 239
Temination benefits	395	634
Other	26	206
Supervisory Board	**204**	**214**
Short-term employee benefits (salaries and surcharges)	204	214
Other members of key management personnel	**3 307**	**3 437**
Short-term employee benefits (salaries and surcharges)	2 922	2 675
Temination benefits	124	530
Other	261	232
Total	**4 721**	**5 730**

In accordance with the adopted accounting policy, the Company recognizes provisions for termination benefits allocated to members of the Management Board and other key executives, which may be paid or payable in future reporting periods. The table above includes the amounts paid and due to be paid until 31 March 2018.

No loans have been granted from the Company's Social Benefit Fund to members of the Management Board, Supervisory Board or other key executives.

41. Other significant information

Signing of the transaction documentation related to the investment of the Closed-end Investment Funds managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund) in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 28 March 2018 the Company, a subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund – Non-public Assets Closed-end Equity Investment Fund) and Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund - Non-public Assets Closed-end Debt (Fixed Income) Investment Fund) (collectively the "Funds"), a part of whose investment portfolio is managed by Polski Fundusz Rozwoju S.A., signed the transaction documentation defining the terms of the Funds' equity investment in the Nowe Jaworzno Grupa TAURON Sp. z o.o.

The transaction documentation includes the investment agreement and the shareholders agreement, along with appendices thereto, including the drafts of a multi-year electricity sale agreement and a multi-year coal sale agreement that are to be concluded by the Company and the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

Investment Agreement defines the terms and conditions of the Funds' equity investment in the Nowe Jaworzno Grupa TAURON Sp. z o.o. This investment assumes the Funds joining the Nowe Jaworzno Grupa TAURON Sp. z o.o. and their participation in the subsequent recapitalizations of the Nowe Jaworzno Grupa TAURON Sp. z o.o., by taking up the newly created shares in exchange for financial contributions up to the total maximum amount of PLN 880 000 thousand, i.e. PLN 440 000 thousand by each of the Funds. The Funds' stake in the Nowe Jaworzno Grupa TAURON Sp. z o.o. share capital, as of the day the power unit of 910 MW in Jaworzno is commissioned, should reach approx. 14%, while the Company stake shall in no case drop below 50% + 1 share. The Company will be obligated to ensure the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. recapitalization to the extent required to complete the power unit's of 910

MW in Jaworzno construction project after the Funds have achieved the equity exposure in the amount equal to the above mentioned maximum level.

Investment Agreement makes joining the Nowe Jaworzno Grupa TAURON Sp. z o.o. by the Funds contingent on the fulfillment of specific suspending conditions. The suspending conditions include obtaining a consent of the President of the Office of Competition and Consumer Protection for the concentration, issuing by the Head of the National Revenue Administration (NRA) of the decision on approving the terms of the Electricity Sale Agreement as an advance pricing agreement ("APA Decision"), concluding by the Company and the Nowe Jaworzno Grupa TAURON Sp. z o.o. of the specified agreements, including the Electricity Sale Agreement and the Coal Sale Agreement, as well as completing (or ensuring completing) by the Company of the specified activities by the Nowe Jaworzno Grupa TAURON Sp. z o.o. corporate bodies (authorities). The suspending conditions are to be fulfilled within 4 months from the day of concluding the Investment Agreement, excluding the condition related to obtaining the APA Decision which is to be fulfilled within 7 months.

Shareholders Agreement defines the principles of corporate governance in the Nowe Jaworzno Grupa TAURON Sp. z o.o.
This agreement grants the Funds, among others, a personal entitlement to appoint, suspend in their duties and dismiss one member of the Management Board and one member of the Supervisory Board of the Nowe Jaworzno Grupa TAURON Sp. z o.o. It also defines a catalogue of matters for the completion of which by the Nowe Jaworzno Grupa TAURON Sp. z o.o. a unanimous resolution of the Management Board, the Supervisory Board or the General Meeting of Shareholders of this company will be required. Shareholders Agreement will come into force on the day the Funds join the Nowe Jaworzno Grupa TAURON Sp. z o.o.

42. Events after the end of the reporting period

Increase in the issued capital of TAURON Wydobycie S.A.

On 26 April 2018 the Extraordinary General Shareholders' Meeting of TAURON Wydobycie S.A. adopted a resolution to increase the issued capital of the entity from PLN 357 111 thousand to PLN 360 511 thousand, i.e. by PLN 3 400 thousand by way of issuing 340 000 new registered L series shares with the face value of PLN 10 per one share and the total face value of PLN 3 400 thousand. All shares will be taken by TAURON Polska Energia S.A. for PLN 1 thousand per share, i.e. for the total amount of PLN 340 000 thousand, where the share premium in the increased issued capital of the Company in the total amount of PLN 336 600 thousand will be reclassified to reserve capital (agio).

Increase in the issued capital of ElectroMobility Poland S.A.

On 23 April 2018 the National Court Register recorded an increase in the issued capital of Electromobility Poland S.A. of PLN 20 000 thousand resolved by the Extraordinary General Shareholders' Meeting on 3 January 2018 which has been further described in Note 19 hereto.

Increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 27 April 2018 the National Court Register recorded an increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. of PLN 3 500 thousand resolved by the Extraordinary General Shareholders' Meeting on 29 March 2018 which has been further described in Note 23 hereto.

Financing a joint venture Elektrociepłownia Stalowa Wola S.A.

On 11 April 2018, as instructed by the Company, a bank guarantee was issued for PLN 444 000 thousand for Bank Gospodarstwa Krajowego to secure bank exposure under a loan agreement concluded on 8 March 2018 among the borrower, Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., which has been described in more detail in Note 37 to these condensed interim financial statements.

On 11 April 2018 Polskie Górnictwo Naftowe i Gazownictwo S.A., TAURON Polska Energia S.A. and the borrower - Elektrociepłownia Stalowa Wola S.A. concluded a VAT loan agreement for the total amount of PLN 13 000 thousand, as discussed in detail in Note 21 to these interim condensed financial statements.

On 30 April 2018 Elektrociepłownia Stalowa Wola S.A. repaid a portion of a loan of PLN 299 100 thousand in accordance with the debt consolidation agreement of 28 February 2018, as discussed in detail in Note 21 to these condensed interim financial statements.

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 3-month period ended 31 March 2018 in accordance with International Accounting Standard 34 have been presented on 54 consecutive pages.

Katowice, 16 May 2018

Filip Grzegorczyk – President of the Management Board ………………………………..

Marek Wadowski – Vice-President of the Management Board ………………………………..

Oliwia Tokarczyk – Executive Director in Charge of Taxes and Accounting ……………………………….