

TAURON Polska Energia S.A.

Condensed interim financial statements

**prepared in accordance with the International Financial Reporting Standards
for the 9-month period ended 30 September 2015**

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CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

| | Note | 3-month period ended 30 September 2015 <i>(unaudited)</i> | 9-month period ended 30 September 2015 <i>(unaudited)</i> | 3-month period ended 30 September 2014 <i>(unaudited)</i> | 9-month period ended 30 September 2014 <i>(unaudited)</i> |
|--|------|--|--|--|--|
| Sales revenue | 11 | 2 092 358 | 6 735 918 | 1 997 249 | 6 272 805 |
| Cost of sales | 12 | (2 052 266) | (6 602 935) | (1 970 793) | (6 157 209) |
| Gross profit | | 40 092 | 132 983 | 26 456 | 115 596 |
| Other operating income | | 1 093 | 6 736 | 88 | 2 495 |
| Selling and distribution expenses | | (4 345) | (13 951) | (8 402) | (20 043) |
| Administrative expenses | | (31 866) | (87 566) | (28 331) | (81 442) |
| Other operating expenses | | (66) | (2 008) | (64) | (1 246) |
| Operating profit | | 4 908 | 36 194 | (10 253) | 15 360 |
| Dividend income | | - | 1 510 624 | - | 1 076 836 |
| Other finance income | 13 | 119 913 | 353 618 | 107 264 | 289 055 |
| Finance costs | 14 | (46 430) | (282 271) | (89 380) | (267 265) |
| Profit before tax | | 78 391 | 1 618 165 | 7 631 | 1 113 986 |
| Income tax expense | 15 | (6 912) | (9 528) | 5 847 | (11 296) |
| Net profit for the period | | 71 479 | 1 608 637 | 13 478 | 1 102 690 |
| Other comprehensive income subject to reclassification to profit or loss: | | 10 875 | 50 264 | (12 972) | (31 166) |
| Change in the value of hedging instruments | | 13 426 | 62 054 | (16 014) | (38 476) |
| Income tax expense | | (2 551) | (11 790) | 3 042 | 7 310 |
| Other comprehensive income not subject to reclassification to profit or loss: | | 6 | 15 | 18 | (58) |
| Actuarial gains/(losses) related to provisions for post-employment benefits | | 7 | 18 | 22 | (72) |
| Income tax expense | | (1) | (3) | (4) | 14 |
| Other comprehensive income for the period, net of tax | | 10 881 | 50 279 | (12 954) | (31 224) |
| Total comprehensive income for the period | | 82 360 | 1 658 916 | 524 | 1 071 466 |
| Earnings per share (in PLN): | | | | | |
| - basic and diluted, for net profit | | 0.04 | 0.92 | 0.01 | 0.63 |

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

| | Note | As at 30 September 2015 <i>(unaudited)</i> | As at 31 December 2014 |
|-------------------------------|------|--|---------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 17 | 4 253 | 5 263 |
| Investment property | 18 | 29 840 | 32 552 |
| Intangible assets | 19 | 3 590 | 8 278 |
| Shares | 20 | 20 855 341 | 20 809 799 |
| Bonds | 21 | 7 220 488 | 5 522 725 |
| Loans granted | 22 | 204 035 | 198 331 |
| Derivative instruments | 23 | 410 | - |
| Other financial assets | | 12 263 | 5 286 |
| Other non-financial assets | | 2 171 | 3 636 |
| Deferred tax asset | 15.2 | 1 427 | 31 141 |
| | | 28 333 818 | 26 617 011 |
| Current assets | | | |
| Intangible assets | 24 | - | 20 215 |
| Inventories | 25 | 123 850 | 177 272 |
| Income tax receivables | | - | 8 384 |
| Trade and other receivables | 26 | 826 408 | 982 582 |
| Bonds | 21 | 240 520 | 1 276 001 |
| Loans granted | 22 | 1 172 778 | 6 367 |
| Derivative instruments | 23 | 3 466 | 1 811 |
| Other non-financial assets | | 29 537 | 22 007 |
| Cash and cash equivalents | 27 | 930 987 | 1 228 880 |
| | | 3 327 546 | 3 723 519 |
| TOTAL ASSETS | | 31 661 364 | 30 340 530 |

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION - continued

| | Note | As at 30 September 2015 <i>(unaudited)</i> | As at 31 December 2014 |
|---|------|--|---------------------------|
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Issued capital | 28.1 | 8 762 747 | 8 762 747 |
| Reserve capital | 28.4 | 11 277 247 | 10 393 686 |
| Revaluation reserve from valuation of hedging instruments | 28.3 | (92 755) | (143 019) |
| Retained earnings/Accumulated losses | 28.4 | 1 688 362 | 1 226 153 |
| | | 21 635 601 | 20 239 567 |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 29 | 7 605 679 | 7 374 836 |
| Liabilities under finance leases | | 27 784 | 30 169 |
| Other financial liabilities | | 5 738 | 5 239 |
| Derivative instruments | 23 | 54 838 | 93 501 |
| Provisions for employee benefits | | 7 956 | 7 351 |
| | | 7 701 995 | 7 511 096 |
| Current liabilities | | | |
| Current portion of interest-bearing loans and borrowings | 29 | 1 615 220 | 1 800 265 |
| Current portion of liabilities under finance leases | | 3 152 | 2 990 |
| Income tax payables | 15.3 | 39 249 | - |
| Trade and other payables | | 551 369 | 631 125 |
| Derivative instruments | 23 | 99 559 | 102 615 |
| Provisions for employee benefits | | 714 | 665 |
| Other provisions | 30 | 11 | 34 189 |
| Accruals, deferred income and government grants | | 9 900 | 13 185 |
| Other non-financial liabilities | | 4 594 | 4 833 |
| | | 2 323 768 | 2 589 867 |
| Total liabilities | | 10 025 763 | 10 100 963 |
| TOTAL EQUITY AND LIABILITIES | | 31 661 364 | 30 340 530 |

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2015 (unaudited)

| | Note | Issued capital | Reserve capital | Revaluation reserve from valuation of hedging instruments | Retained earnings/ Accumulated losses | Total equity |
|--|------|------------------|-------------------|---|---------------------------------------|-------------------|
| As at 1 January 2015 | | 8 762 747 | 10 393 686 | (143 019) | 1 226 153 | 20 239 567 |
| Profit for the period | | - | - | - | 1 608 637 | 1 608 637 |
| Other comprehensive income | | - | - | 50 264 | 15 | 50 279 |
| Total comprehensive income for the period | | - | - | 50 264 | 1 608 652 | 1 658 916 |
| Distribution of prior years profits | 28.4 | - | 883 561 | - | (883 561) | - |
| Dividends | 16 | - | - | - | (262 882) | (262 882) |
| As at 30 September 2015 (unaudited) | | 8 762 747 | 11 277 247 | (92 755) | 1 688 362 | 21 635 601 |

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2014 (unaudited)

| | Note | Issued capital | Reserve capital | Revaluation reserve from valuation of hedging instruments | Retained earnings/ Accumulated losses | Total equity |
|--|------|------------------|-------------------|---|---------------------------------------|-------------------|
| As at 1 January 2014 | | 8 762 747 | 9 037 699 | (126 651) | 1 769 367 | 19 443 162 |
| Profit for the period | | - | - | - | 1 102 690 | 1 102 690 |
| Other comprehensive income | | - | - | (31 166) | (58) | (31 224) |
| Total comprehensive income for the period | | - | - | (31 166) | 1 102 632 | 1 071 466 |
| Distribution of prior years profits | | - | 1 355 987 | - | (1 355 987) | - |
| Dividends | 16 | - | - | - | (332 984) | (332 984) |
| As at 30 September 2014 (unaudited) | | 8 762 747 | 10 393 686 | (157 817) | 1 183 028 | 20 181 644 |

CONDENSED INTERIM STATEMENT OF CASH FLOWS

| | Note | 9-month period ended 30 September 2015 <i>(unaudited)</i> | 9-month period ended 30 September 2014 <i>(unaudited)</i> |
|---|-----------|---|---|
| Cash flows from operating activities | | | |
| Profit /(loss) before taxation | | 1 618 165 | 1 113 986 |
| Adjustments for: | | | |
| Depreciation and amortization | | 5 921 | 16 972 |
| (Gain)/loss on foreign exchange differences | | (4 315) | (190) |
| Interest and dividends, net | | (1 579 297) | (1 115 940) |
| (Gain)/loss on investing activities | | (3 497) | 1 377 |
| (Increase)/decrease in receivables | | 242 406 | 328 282 |
| (Increase)/decrease in inventories | | 53 422 | (15 711) |
| Increase/(decrease) in payables excluding loans and borrowings | | (105 835) | (299 831) |
| Change in other non-current and current assets | | 18 177 | 78 317 |
| Change in deferred income, government grants and accruals | | (2 413) | (2 542) |
| Change in provisions | | (33 506) | (84 834) |
| Income tax paid | | (3 416) | 32 920 |
| Net cash generated from (used in) operating activities | | 205 812 | 52 806 |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment and intangible assets | | 1 | 22 431 |
| Purchase of property, plant and equipment and intangible assets | | (2 089) | (4 790) |
| Purchase of shares | 31.1 | (51 377) | (98 290) |
| Purchase of bonds | 31.1 | (3 925 000) | (3 480 520) |
| Redemption of bonds | 31.1 | 2 217 266 | 1 854 067 |
| Loans granted | 31.1 | (8 150) | (11 700) |
| Repayment of loans granted | 31.1 | 14 500 | 5 850 |
| Dividends received | | 1 510 624 | 1 075 166 |
| Interest received | 31.1 | 196 147 | 242 084 |
| Net cash generated from (used in) investing activities | | (48 078) | (395 702) |
| Cash flows from financing activities | | | |
| Dividends paid | | (262 882) | (324 182) |
| Proceeds from loans and borrowings | 31.2 | 322 358 | - |
| Repayment of loans and borrowings | 31.2 | (61 364) | (61 364) |
| Issue of debt securities | | - | 1 200 000 |
| Redemption of debt securities | 31.2 | (150 000) | (300 000) |
| Payment of finance lease liabilities | | (2 223) | (2 430) |
| Interest paid | 31.2 | (170 824) | (164 533) |
| Commission paid | | (9 754) | (9 000) |
| Net cash generated from (used in) financing activities | | (334 689) | 338 491 |
| Net increase / (decrease) in cash and cash equivalents | | (176 955) | (4 405) |
| Net foreign exchange difference | | 541 | 190 |
| Cash and cash equivalents at the beginning of the period | | 68 935 | (1 198 421) |
| Cash and cash equivalents at the end of the period, of which: | 27 | (108 020) | (1 202 826) |
| restricted cash | | 69 524 | 46 005 |

INTRODUCTION

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

These condensed interim financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna (the "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 business name of Energetyka Południe S.A. On 8 January 2007, the Company was registered with the District Court of 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 scope of the core business of TAURON Polska Energia S.A. includes:

- Head office and holding operations, except for financial holdings → PKD 70.10 Z;
- Sales of electricity → PKD 35.14 Z;
- Sales of coal and biomass → 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 ("Group", "TAURON Group").

The Company's condensed interim financial statements cover the 9-month period ended 30 September 2015 and present comparative data for the 9-month period ended 30 September 2014 as well as figures as at 31 December 2014. The data for the 9-month period ended 30 September 2015 and the comparative data for the 9-month period ended 30 September 2014, as contained herein, have not been audited or reviewed by a certified auditor. The comparative data as at 31 December 2014 were audited by a certified auditor.

These condensed interim financial statements for the 9-month period ended 30 September 2015 were approved for publication on 10 November 2015.

The Company also prepared the condensed interim consolidated financial statements for the 9-month period ended 30 September 2015, which were approved for publication by the Management Board on 10 November 2015.

These condensed interim financial statements are part of the consolidated report, which also includes the condensed interim consolidated financial statements for the 9-month period ended 30 September 2015.

2. Shares in related parties

As at 30 September 2015, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

TAURON Polska Energia S.A.
Condensed interim financial statements for the 9-month period ended 30 September 2015
(in PLN '000)

| Item | Entity's name | Registered office | Core business | Share of TAURON Polska Energia S.A. in the entity's capital and governing body |
|------|---|-------------------------|---|--|
| 1 | TAURON Wydobywanie S.A. | Jaworzno | Hard coal mining | 100.00% |
| 2 | TAURON Wytwarzanie S.A. ¹ | Katowice | Generation, transmission and distribution of electricity and heat | 100.00% |
| 3 | TAURON Ekoenergia Sp. z o.o. | Jelenia Góra | Generation and sale of electricity | 100.00% |
| 4 | TAURON Ciepło Sp. z o.o. | Katowice | Production and distribution of heat | 100.00% |
| 5 | TAURON Dystrybucja S.A. | Kraków | Distribution of electricity | 99.71% |
| 6 | TAURON Dystrybucja Serwis S.A. ² | Wrocław | Services | 99.71% |
| 7 | TAURON Dystrybucja Pomiarów Sp. z o.o. ² | Tarnów | Services | 99.71% |
| 8 | TAURON Sprzedaż Sp. z o.o. | Kraków | Sale of electricity | 100.00% |
| 9 | TAURON Sprzedaż GZE Sp. z o.o. | Gliwice | Sale of electricity | 100.00% |
| 10 | TAURON Czech Energy s.r.o. | Ostrawa, Czech Republic | Sale of electricity | 100.00% |
| 11 | TAURON Obsługa Klienta Sp. z o.o. | Wrocław | Services | 100.00% |
| 12 | Kopalnia Wapienia Czatkowice Sp. z o.o. | Krzyszowice | Limestone quarrying, crushing and grinding; stone quarrying | 100.00% |
| 13 | Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation | Warszawa | Sale of electricity | 100.00% |
| 14 | TAURON Sweden Energy AB (publ) | Sztokholm, Sweden | Services | 100.00% |
| 15 | Biomasa Grupa TAURON Sp. z o.o. ³ | Stalowa Wola | Sourcing of and trading in biomass | 100.00% |

¹ On 28 October 2015 the change of the registered office of TAURON Wytwarzanie S.A. from Katowice to Jaworzno was registered in the National Court Register.

² TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiarów Sp. z o.o. through a subsidiary TAURON Dystrybucja S.A. Additionally, TAURON Polska Energia S.A. uses shares held by TAURON Dystrybucja S.A.

³ On 1 July 2015, a business combination under common control of Energopower Sp. z o.o. and Biomasa Grupa TAURON Sp. z o.o. was registered, as discussed in detail in Note 20 hereto.

As at 30 September 2015 TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

| Item | Entity's 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 | Production, transmission, distribution and sale of electricity | 50.00% |
| 2 | Elektrownia Blachownia Nowa Sp. z o.o. ¹ | Kędzierzyn Koźle | 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. and Elektrownia Blachownia Nowa Sp. z o.o. through a subsidiary TAURON Wytwarzanie S.A.

² The companies form a Capital Group. TAURON Polska Energia S.A. holds direct share in the issued capital and the governing body of TAMEH HOLDING Sp. z o.o. TAMEH HOLDING Sp. z o.o. holds 100% of interest in the issued capitals and governing bodies of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

STATEMENT OF COMPLIANCE WITH IFRS

3. Statement of compliance

These condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standard 34 ("IAS 34") *Interim Financial Reporting*, 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 2014.

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, there were no circumstances that would indicate a threat to the Company's ability to continue as a going concern.

5. Functional and presentation currency

These condensed interim financial statements have been presented in the Polish zlotys ("PLN") and all figures are in PLN thousand, unless stated otherwise.

ACCOUNTING POLICIES

6. Change in estimates

In the period covered by these condensed interim financial statements there were no significant changes in estimates and 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.

Deferred tax

Due to the forecasted taxable income in 2015 of the Tax Capital Group ("TCG"), of which the Company is a member, and projected taxable income of the Company in subsequent years, the deferred tax asset has been recognized in these condensed interim financial statements in the full amount.

Impairment of assets

Taking into account the indications that the Company's capitalization has been below the carrying amount as well as the general situation in the power sector, as at 30 September 2015 an analysis was carried out which indicated that in the third quarter the Company's environment had not changed considerably since the most recent impairment tests, i.e. 30 June 2015. Therefore, it was assumed that the most recent results of impairment tests of assets recognized in non-current assets as 30 June 2015 were still true and that no impairment tests needed to be carried out as at the end of the reporting period.

As at 30 June 2015 the Company carried out impairment test of shares recognized in non-current assets. Shares constitute about 67% of the balance sheet total.

The test was conducted based on the present value of projected cash flows from operations of major companies, by reference to detailed projections for June 2015 to 2024 and the estimated residual value. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the legal environment known as at the date of the test.

The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.91% to 9.98% in nominal terms before tax. WACC is calculated taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (4.3%) and the risk premium for operations appropriate for the power industry (5.5%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

The key business assumptions affecting the estimated value in use of the tested subsidiaries are:

- The adopted price path of power coal, other coal sizes and gaseous fuels;
- The adopted electricity wholesale price path, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring CO2 emission allowances;
- Emission limits for generating electricity published by the Ministry of Economy, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital; The return on capital is conditional on the Regulatory Asset Value;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to cancel energy certificates as well as an appropriate level of margin;
- Sales volumes taking into account GDP growth and increased market competition;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Maintaining or growing the production capacity of the existing non-current assets as a result of replacement and development investments.

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

The results of the tests did not indicate the necessity to recognize any impairment losses on assets held.

Sensitivity analyses conducted by the Company reveal that the projected prices of electricity and the adopted discount rates are the key factors exerting an effect on the estimated cash flows of the key subsidiaries. According to the Company, no rationally possible and highly probable change in any key assumption made in the analyses will increase the carrying amount of shares and fixed assets to a level exceeding their recoverable amount.

Measurement of derivative instruments

Fair value of currency forwards is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX Swap transactions.

Fair value of interest rate swaps is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and the transaction price. The forward price is calculated based on a zero coupon yield curve.

The fair value of forwards for acquisition and sale of power and emission allowances and other goods is based on prices quoted in an active market.

Intra-group bonds

Intra-group bonds redeemable within up to one year intended for rollover are classified as long-term instruments (as at 30 September 2015 the face value of such bonds reached PLN 60 000 thousand). 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 assume the possibility to roll over the bonds.

Tax inspection proceedings

The Company is a party to inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The inspection covers the reliability of declared taxable amounts and the correctness of calculation and payment of value-added tax for individual months from October 2013 to April 2014.

In its subsequent letters the Company responded to requests sent by the Director of the TIO and presented all explanations and documents required. The period of the inspection proceedings was prolonged by the Director of the TIO a few times and the new deadline has been set at 28 December 2015.

Due to its initial stage, a precise deadline of the inspection proceedings cannot be determined. As at the date of preparing these condensed interim financial statements the Director of the TIO did not present any opinion on the evidence collected, hence at this stage any possible consequences of his final decision cannot be indicated yet.

7. New standards or interpretations which have been published, but have not entered into force yet.

Revised standards issued by the International Accounting Standards Board ("IASB") which have been endorsed by the European Union ("EU") and are not yet effective:

- Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* published by the IASB on 21 November 2013, endorsed by the EU on 17 December 2014 and applicable in the EU to annual periods beginning on or after 1 February 2015;
- *Annual Improvements to IFRS (Cycle 2010-2012)* – published by the IASB on 12 December 2013, endorsed by the EU on 17 December 2014 and applicable in the EU to annual periods beginning on or after 1 February 2015.

New standards and revised standards issued by the International Accounting Standards Board which have not been endorsed by the European Union and are not yet effective:

- IFRS 9 *Financial Instruments* was published by the IASB on 24 July 2014 and applies to annual periods beginning on or after 1 January 2018. The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements.

- IFRS 14 *Regulatory Deferral Accounts* was published by the IASB on 30 January 2014 and applies to annual periods beginning on or after 1 January 2016. IFRS 14 has been introduced as a transitional standard for first-time adopters;
- IFRS 15 *Revenue from Contracts with Customers* was published by the IASB on 28 May 2014. On 11 September 2015 the IASB published an amendment to the standard introducing a new effective date - annual periods beginning on or after 1 January 2018. IFRS specifies how and when revenue is recognized and requires more informative, relevant disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations concerning revenue recognition;
- 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* were published by the IASB on 11 September 2014 and apply to annual periods beginning on or after 1 January 2016;
- Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception* published on 18 December 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations* - published by the IASB on 6 May 2014 and applicable to annual periods beginning on or after 1 January 2016. The amendments provide new guidelines on accounting for acquisitions of interests in joint operations constituting businesses;
- Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative* published on 18 December 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization* published by the IASB on 12 May 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants* published by the IASB on 30 June 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements* - published by the IASB on 12 August 2014 and applicable to annual periods beginning on or after 1 January 2016;
- *Annual Improvements to IFRS (Cycle 2012-2014)* – published by the IASB on 25 September 2014, applicable to annual periods beginning on or after 1 January 2016.

In addition, hedge accounting for financial assets and liabilities portfolio is still beyond the scope of IFRS as its principles have not been endorsed by the EU.

The Company analyzed the impact of the abovementioned standards and revised standards on the accounting policies applied and carried out preliminary analysis of the impact of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* published in 2014.

Based on preliminary analysis of IFRS 15's impact on the accounting policies applied, the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which happens rarely in the Company. The new guidelines of IFRS 15 are not expected to result in the need to change the systems, but before the standard enters into force the Company intends to carry out an analysis of contracts with customers including contract identification, indication of individual liabilities, determining prices, assigning them to individual liabilities and revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements.

Preliminary analysis of IFRS 9's impact on the accounting policies applied indicates one change important for the Company, i.e. replacing the existing classification and measurement models under IAS 39 with a single classification model assuming two categories only, i.e. amortized cost or fair value. IFRS 9 classification complies with the business model applied by the Company to manage financial assets. Additionally, the standard introduces a new hedge accounting model which requires detailed risk management disclosures.

According to the Management Board other standards and revised standards in question will not materially impact the existing accounting policies.

The Company did not choose an early application of any standard, or amended standard, which was published, but is not yet mandatorily effective.

8. Significant accounting policies

The accounting principles (policy) adopted for the preparation of these condensed interim financial statements are consistent with those adopted for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2014, except for the application of the following amendments to standards, the application of a new interpretation and changes in the definition of EBITDA:

- IFRIC 21 *Levies* (published on 20 May 2013, endorsed by the EU on 13 June 2014). IFRIC 21 is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – applicable in the EU to annual periods beginning on or after 17 June 2014;
- *Annual Improvements to IFRS* (Cycle 2011-2013) – published by the IASB on 12 December 2013, endorsed by the EU on 18 December 2014 and applicable in the EU to annual periods beginning on or after 1 January 2015.
- In the 9-month period ended 30 September 2015 the Management Board of the Company decided to change the definition of EBITDA, as presented in detail in Note 10 to these condensed interim financial statements.

The introduction of the abovementioned revised standards and interpretations has not exerted a significant effect on the accounting principles (policy) adopted by the Company.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

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, it discloses significant dividend income recognized under financial revenue as at the dates of the resolutions on dividend payment, unless such resolutions set other record dates.

In the 9-month period ended 30 September 2015, the Company recognized dividend income of PLN 1 510 624 thousand, while in the period of 9 months ended 30 September 2014 it was PLN 1 076 836 thousand.

10. Information on operating segments

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

"Holding activity" segment assets include:

- 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.

"Holding activity" segment liabilities include:

- bonds issued by the Company, including liabilities arising from valuation of hedging instruments related to such bonds;
- loans obtained 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.

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

Financial revenue and expenses 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.

Unallocated expenses include the Company's general and administrative expense, 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 deducting taxes, financial income and expenses.

EBITDA is the profit/loss on continuing operations before tax, finance income and expense, increased by amortization/depreciation and impairment of non-financial assets. In the 9-month period ended 30 September 2015 the Management Board of the Company decided to change the definition of EBITDA. In prior periods, EBITDA had been defined by the Company as EBIT increased by amortization/depreciation. The definition of EBITDA has been changed to clearly describe the method of calculating this figure by the Company in line with the generally applied investors' practice. EBITDA reported in compliance with the changed definition will be less sensitive to one-off events, because recognition and reversal of impairment losses are of non-repetitive nature. Consequently, the Management Board decided that the new definition of EBITDA, accounting for impairment losses for non-financial assets, will ensure higher clarity and comparability of financial data presented by individual entities, hence increasing the value for readers of the financial statements. Comparable data were appropriately restated.

For the 9-month period ended 30 September 2015 or as at 30 September 2015 (unaudited)

| | Sales | Holding activity | Unallocated items | Total |
|---|------------------|-------------------|-------------------|-------------------|
| Revenue | | | | |
| Sales outside the Group | 1 650 845 | - | - | 1 650 845 |
| Sales within the Group | 5 085 073 | - | - | 5 085 073 |
| Segment revenue | 6 735 918 | - | - | 6 735 918 |
| Profit/(loss) of the segment | 123 760 | - | - | 123 760 |
| Unallocated expenses | - | - | (87 566) | (87 566) |
| EBIT | 123 760 | - | (87 566) | 36 194 |
| Net finance income (costs) | - | 1 572 184 | 9 787 | 1 581 971 |
| Profit/(loss) before income tax | 123 760 | 1 572 184 | (77 779) | 1 618 165 |
| Income tax expense | - | - | (9 528) | (9 528) |
| Net profit/(loss) for the period | 123 760 | 1 572 184 | (87 307) | 1 608 637 |
| Assets and liabilities | | | | |
| Segment assets | 1 842 958 | 29 814 567 | - | 31 657 525 |
| Unallocated assets | - | - | 3 839 | 3 839 |
| Total assets | 1 842 958 | 29 814 567 | 3 839 | 31 661 364 |
| Segment liabilities | 503 963 | 9 416 739 | - | 9 920 702 |
| Unallocated liabilities | - | - | 105 061 | 105 061 |
| Total liabilities | 503 963 | 9 416 739 | 105 061 | 10 025 763 |
| EBIT | 123 760 | - | (87 566) | 36 194 |
| Depreciation/amortization | (5 921) | - | - | (5 921) |
| Impairment | (46) | - | - | (46) |
| EBITDA | 129 727 | - | (87 566) | 42 161 |
| Other segment information | | | | |
| Capital expenditure * | 2 912 | - | - | 2 912 |

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

In the 9-month period ended 30 September 2015, revenue from sales to two major clients, being members of the TAURON Group, represented 55% and 11% of the Company's total revenue in the "Sales" segment, amounting to PLN 3 736 720 thousand and PLN 745 506 thousand, respectively.

For the 9-month period ended 30 September 2014 (unaudited restated data) or as at 31 December 2014

| | Sales | Holding activity | Unallocated items | Total |
|---|------------------|-------------------|-------------------|-------------------|
| Revenue | | | | |
| Sales outside the Group | 2 089 203 | - | - | 2 089 203 |
| Sales within the Group | 4 183 602 | - | - | 4 183 602 |
| Segment revenue | 6 272 805 | - | - | 6 272 805 |
| Profit/(loss) of the segment | | | | |
| Unallocated expenses | - | - | (81 442) | (81 442) |
| EBIT | 96 802 | - | (81 442) | 15 360 |
| Net finance income (costs) | - | 1 095 998 | 2 628 | 1 098 626 |
| Profit/(loss) before income tax | 96 802 | 1 095 998 | (78 814) | 1 113 986 |
| Income tax expense | - | - | (11 296) | (11 296) |
| Net profit/(loss) for the period | 96 802 | 1 095 998 | (90 110) | 1 102 690 |
| Assets and liabilities | | | | |
| Segment assets | 2 452 176 | 27 848 516 | - | 30 300 692 |
| Unallocated assets | - | - | 39 838 | 39 838 |
| Total assets | 2 452 176 | 27 848 516 | 39 838 | 30 340 530 |
| Segment liabilities | 656 978 | 9 380 216 | - | 10 037 194 |
| Unallocated liabilities | - | - | 63 769 | 63 769 |
| Total liabilities | 656 978 | 9 380 216 | 63 769 | 10 100 963 |
| EBIT | 96 802 | - | (81 442) | 15 360 |
| Depreciation/amortization | (16 972) | - | - | (16 972) |
| Impairment | (3 120) | - | - | (3 120) |
| EBITDA | 116 894 | - | (81 442) | 35 452 |
| Other segment information | | | | |
| Capital expenditure * | 2 046 | - | - | 2 046 |

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

In the 9-month period ended 30 September 2014, revenue from sales to two major clients, being members of the TAURON Group, represented 45% and 12% of the Company's total revenue in the "Sales" segment, amounting to PLN 2 802 795 thousand and PLN 726 041 thousand, respectively.

For the 3-month period ended 30 September 2015 (unaudited)

| | Sales | Holding activity | Unallocated items | Total |
|---|------------------|------------------|-------------------|------------------|
| Revenue | | | | |
| Sales outside the Group | 564 365 | - | - | 564 365 |
| Sales within the Group | 1 527 993 | - | - | 1 527 993 |
| Segment revenue | 2 092 358 | - | - | 2 092 358 |
| Profit/(loss) of the segment | | | | |
| Unallocated expenses | - | - | (31 866) | (31 866) |
| EBIT | 36 774 | - | (31 866) | 4 908 |
| Net finance income (costs) | - | 67 059 | 6 424 | 73 483 |
| Profit/(loss) before income tax | 36 774 | 67 059 | (25 442) | 78 391 |
| Income tax expense | - | - | (6 912) | (6 912) |
| Net profit/(loss) for the period | 36 774 | 67 059 | (32 354) | 71 479 |
| EBIT | 36 774 | - | (31 866) | 4 908 |
| Depreciation/amortization | (2 019) | - | - | (2 019) |
| Impairment | 446 | - | - | 446 |
| EBITDA | 38 347 | - | (31 866) | 6 481 |
| Other segment information | | | | |
| Capital expenditure * | 515 | - | - | 515 |

* Investment expenditure includes outlays on property, plant and equipment as well as non-current intangible assets, except for energy certificates acquired by the Company.

For the 3-month period ended 30 September 2014 (unaudited restated data)

| | Sales | Holding activity | Unallocated items | Total |
|---|------------------|------------------|-------------------|------------------|
| Revenue | | | | |
| Sales outside the Group | 726 895 | - | - | 726 895 |
| Sales within the Group | 1 270 354 | - | - | 1 270 354 |
| Segment revenue | 1 997 249 | - | - | 1 997 249 |
| Profit/(loss) of the segment | 18 078 | - | - | 18 078 |
| Unallocated expenses | - | - | (28 331) | (28 331) |
| EBIT | 18 078 | - | (28 331) | (10 253) |
| Net finance income (costs) | - | 10 405 | 7 479 | 17 884 |
| Profit/(loss) before income tax | 18 078 | 10 405 | (20 852) | 7 631 |
| Income tax expense | - | - | 5 847 | 5 847 |
| Net profit/(loss) for the period | 18 078 | 10 405 | (15 005) | 13 478 |
| EBIT | 18 078 | - | (28 331) | (10 253) |
| Depreciation/amortization | (3 782) | - | - | (3 782) |
| Impairment | (3 094) | - | - | (3 094) |
| EBITDA | 24 954 | - | (28 331) | (3 377) |
| Other segment information | | | | |
| Capital expenditure * | 1 408 | - | - | 1 408 |

* Investment expenditure includes outlays on property, plant and equipment as well as non-current intangible assets, except for energy certificates acquired by the Company.

11. Sales revenue

| | 9-month period ended 30 September 2015 (unaudited) | 9-month period ended 30 September 2014 (unaudited) |
|--|--|--|
| Revenue from sales of goods for resale and materials (excise duty not excluded) | 6 685 896 | 6 212 317 |
| Excise duty | - | (11 275) |
| Revenue from sales of goods for resale and materials, of which: | 6 685 896 | 6 201 042 |
| Electricity | 6 319 226 | 5 838 433 |
| Gas | 55 626 | 54 576 |
| Energy certificates | 154 858 | 233 719 |
| Emission allowances | 153 862 | 73 661 |
| Other | 2 324 | 653 |
| Rendering of services, of which: | 50 022 | 71 763 |
| Trading services | 43 319 | 39 795 |
| Other | 6 703 | 31 968 |
| Total sales revenue | 6 735 918 | 6 272 805 |

The Company has been acting as an agent in transactions involving biomass and coal purchase for the Group companies. The Company purchases raw materials from third parties and from the TAURON Group companies, while the only buyers are the Group companies and a joint venture. It recognizes revenue from agency services (supply management). In September 2015 the Company discontinued providing agency services related to trading in biomass.

In the 9-month period ended 30 September 2015, raw materials purchased and subsequently resold in the abovementioned transactions amounted to PLN 1 385 927 thousand, while revenue from agency services amounted to PLN 29 701 thousand, which represents a major part of revenue from trading services.

12. Expenses by type

| | 9-month period ended 30 September 2015 <i>(unaudited)</i> | 9-month period ended 30 September 2014 <i>(unaudited)</i> |
|---|---|---|
| Costs by type | | |
| Depreciation of property, plant and equipment and amortization of intangible assets | (5 921) | (16 972) |
| Materials and energy | (880) | (864) |
| Consultancy services | (7 949) | (3 133) |
| IT services | (9 600) | (22 438) |
| Other external services | (12 367) | (15 486) |
| Taxes and charges | (1 457) | (3 711) |
| Employee benefits expense | (57 540) | (52 484) |
| Inventory write-downs | (745) | (3 120) |
| Allowance for doubtful debts | (1 505) | (11) |
| Advertising costs | (24 274) | (23 741) |
| Other | (1 698) | (1 620) |
| Total costs by type | (123 936) | (143 580) |
| Selling and distribution expenses | 13 951 | 20 043 |
| Administrative expenses | 87 566 | 81 442 |
| Cost of goods for resale and materials sold | (6 580 516) | (6 115 114) |
| Cost of sales | (6 602 935) | (6 157 209) |

In the 9-month period ended 30 September 2015, amortization and depreciation expense decreased by PLN 11 050 thousand comparing to the same time last year. The key reason was that in the 9-month period ended 30 September 2014 the Company sold intangible assets to its subsidiary, TAURON Obsługa Klienta Sp. z o.o., with a vast majority sold in June 2014. Consequently, amortization and depreciation expense in the comparable period include amortization of the assets sold.

13. Other finance income

| | 9-month period ended 30 September 2015 <i>(unaudited)</i> | 9-month period ended 30 September 2014 <i>(unaudited)</i> |
|---|---|---|
| Interest income | 344 153 | 287 508 |
| Exchange gains | 3 337 | - |
| Measurement of derivative instruments | 5 459 | 686 |
| Net income from realized derivative instruments | - | 205 |
| Other finance income | 669 | 656 |
| Total other finance income | 353 618 | 289 055 |

An increase in other financial revenue in the 9-month period ended 30 September 2015 by PLN 64 563 thousand vs. the comparative period resulted mainly from:

- an increase in interest on intra-group bonds and loans amounting to PLN 46 150 thousand. Interest income earned on bonds and loans acquired for the 9-month period ended 30 September 2015 amounted to PLN 325 211 thousand compared to PLN 279 061 thousand in the 9-month period ended 30 September 2014;
- increased interest on cash at bank in the amount of PLN 13 290 thousand;
- positive measurement of derivative instruments of PLN 5 459 thousand in the 9-month period ended 30 September 2015. Positive measurement of derivative instruments in the comparable period amounted to PLN 686 thousand.

14. Finance costs

| | 9-month period ended 30 September 2015 <i>(unaudited)</i> | 9-month period ended 30 September 2014 <i>(unaudited)</i> |
|--|---|---|
| Interest expense | (266 697) | (258 731) |
| Exchange losses | - | (303) |
| Impairment losses | (110) | (57) |
| Commissions due to external financing | (7 476) | (7 928) |
| Net expense due to realized derivative instruments | (7 047) | - |
| Other finance costs | (941) | (246) |
| Total finance costs | (282 271) | (267 265) |

In the period of 9 months ended 30 September 2015 the finance costs increased by PLN 15 006 thousand versus the comparable period due to net costs of realized derivative instruments of PLN 7 047 thousand, which results mainly from realizing a portion of payments under IRS not subject to hedge accounting.

15. Income tax

15.1. Tax expense in the statement of comprehensive income

Key items of the tax expense disclosed in the statement of comprehensive income:

| | 9-month period ended 30 September 2015 <i>(unaudited)</i> | 9-month period ended 30 September 2014 <i>(unaudited)</i> |
|--|---|---|
| Current income tax | 8 392 | (2 736) |
| Current income tax expense | (3 666) | (2 772) |
| Adjustments of current income tax from prior years | 12 058 | 36 |
| Deferred tax | (17 920) | (8 560) |
| Income tax expense in profit/(loss) | (9 528) | (11 296) |
| Income tax expense relating to other comprehensive income | (11 793) | 7 324 |

Current income tax adjustments related to prior years included:

- income tax overpayment for 2013 of PLN 2 200 thousand returned to the Company related mainly to component repair costs and new technology tax relief;
- income tax overpayment for 2009 and 2010 in the total amount of PLN 2 826 thousand returned to the Company and related to the cost of public offering of the Company's shares;
- change in the income tax resulting from the difference between the tax amount disclosed in the financial statements for the year 2014 and the tax amount paid in accordance with CIT-8A tax returns in the amount of PLN 7 032 thousand.

15.2. Deferred income tax

Deferred income tax results from:

| | As at 30 September 2015 (unaudited) | As at 31 December 2014 |
|--|---|---------------------------|
| - difference between tax base and carrying amount of fixed and intangible assets | 160 | 198 |
| - due interest on bonds and loans | 52 020 | 26 515 |
| - difference between tax base and carrying amount of other financial assets | 1 053 | 414 |
| - other | 435 | 406 |
| Deferred tax liability | 53 668 | 27 533 |

| | As at 30 September 2015 (unaudited) | As at 31 December 2014 |
|--|---|---------------------------|
| - provisions for the obligation to surrender energy certificates | 2 | 6 496 |
| - provisions for employee benefits | 1 647 | 1 523 |
| - other provisions and accruals | 1 721 | 2 070 |
| - difference between tax base and carrying amount of fixed and intangible assets | 1 167 | 1 118 |
| - difference between tax base and carrying amount of financial liabilities | 21 978 | 12 020 |
| - valuation of hedging instruments | 27 095 | 34 377 |
| - other | 1 485 | 1 070 |
| Deferred tax assets, of which: | 55 095 | 58 674 |
| Deferred tax assets recognized in profit or loss | 33 148 | 24 934 |
| Deferred tax assets recognized in other comprehensive income | 21 947 | 33 740 |
| Deferred tax asset, net | 1 427 | 31 141 |
| Deferred tax in the statement of financial position | 1 427 | 31 141 |

15.3. Tax Capital Group

A Tax Capital Group agreement for the years 2015-2017 was concluded on 22 September 2014. Pursuant to the previous agreement, the Tax Capital Group was registered for the period of three fiscal years from 1 January 2012 to 31 December 2014.

Major companies constituting the Tax Capital Group as from 1 January 2015 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 30 September 2015, the Tax Capital Group had income tax liability of PLN 39 253 thousand, including:

- a surplus of tax due over the tax prepaid by the Tax Capital Group for the first quarter of 2015 of PLN 39 196 thousand;
- an income tax liability for prior years of PLN 57 thousand related to tax settlements for prior years.

The Company has disclosed the income tax liability of the Tax Capital Group with interest payable of PLN 5 thousand and receivables due to withholding tax of PLN 9 thousand in the statement of financial position. Consequently, income tax liability of PLN 39 249 thousand has been presented in the statement of financial position of the Company.

At the same time, due to the Company's settlements, as the Representative Company, with the Tax Capital Group companies, it disclosed liabilities to these subsidiaries arising from tax overpayment of PLN 52 367 thousand, which have been presented in the statement of financial position under "Trade and other payables", as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 94 681 thousand, which have been presented in the statement of financial position under "Trade and other receivables".

16. Dividends paid and proposed

On 16 March 2015, the Management Board decided to recommend to the Ordinary General Shareholders' Meeting the amount of dividend payment to the shareholders of the Company of PLN 262 882 thousand from the net profit of the Company generated in the financial year 2014, i.e. PLN 0.15 per share. At the same time, the Management Board decided to provide recommendation to the Ordinary General Shareholders' Meeting determining the record date at 22 July 2015 and the payment date at 12 August 2015.

On 23 March 2015 the Supervisory Board approved the recommendation concerning profit distribution and determining the record and payment dates presented to the Ordinary General Shareholders' Meeting by the Management Board. On 23 April 2015, the Ordinary General Shareholders' Meeting of the Company adopted a resolution following the recommendation of the Management Board.

The dividend was fully paid out in the 9-month period ended 30 September 2015 in accordance with the resolution of the Ordinary General Shareholders' Meeting of the Company.

On 15 May 2014, the Ordinary General Shareholders' Meeting adopted a resolution to allocate PLN 332 984 thousand to dividend payment to the Company's shareholders (PLN 0.19 per share). The dividend was paid out from the net profit generated by the Company in 2013, which amounted to PLN 1 688 972 thousand. The record date was set at 14 August 2014 and the payment date at 4 September 2014.

17. Property, plant and equipment

For the 9-month period ended 30 September 2015 (unaudited)

| | Plant and machinery | Motor vehicles | Other | Assets under construction | Property, plant and equipment, total |
|---|---------------------|----------------|----------------|---------------------------|--------------------------------------|
| COST | | | | | |
| Opening balance | 6 819 | 5 876 | 10 677 | 92 | 23 464 |
| Direct purchase | - | - | - | 1 362 | 1 362 |
| Allocation of assets under construction | - | 1 338 | 111 | (1 449) | - |
| Other changes | (7) | - | - | - | (7) |
| Closing balance | 6 812 | 7 214 | 10 788 | 5 | 24 819 |
| ACCUMULATED DEPRECIATION | | | | | |
| Opening balance | (6 129) | (4 369) | (7 703) | - | (18 201) |
| Depreciation for the period | (276) | (518) | (1 578) | - | (2 372) |
| Other changes | 7 | - | - | - | 7 |
| Closing balance | (6 398) | (4 887) | (9 281) | - | (20 566) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 690 | 1 507 | 2 974 | 92 | 5 263 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 414 | 2 327 | 1 507 | 5 | 4 253 |

For the 9-month period ended 30 September 2014 (unaudited)

| | Plant and machinery | Motor vehicles | Other | Assets under construction | Property, plant and equipment, total |
|---|---------------------|----------------|----------------|---------------------------|--------------------------------------|
| COST | | | | | |
| Opening balance | 7 125 | 4 714 | 11 519 | 2 | 23 360 |
| Direct purchase | - | - | - | 1 403 | 1 403 |
| Allocation of assets under construction | - | 1 195 | 208 | (1 403) | - |
| Donations | (97) | - | - | - | (97) |
| Liquidation | (115) | - | (584) | - | (699) |
| Other changes | - | (33) | - | - | (33) |
| Closing balance | 6 913 | 5 876 | 11 143 | 2 | 23 934 |
| ACCUMULATED DEPRECIATION | | | | | |
| Opening balance | (3 840) | (3 416) | (6 915) | - | (14 171) |
| Depreciation for the period | (2 503) | (693) | (1 510) | - | (4 706) |
| Donations | 97 | - | - | - | 97 |
| Liquidation | 115 | - | 584 | - | 699 |
| Closing balance | (6 131) | (4 109) | (7 841) | - | (18 081) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 3 285 | 1 298 | 4 604 | 2 | 9 189 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 782 | 1 767 | 3 302 | 2 | 5 853 |

18. Investment property

| | 9-month period ended 30 September 2015 (unaudited) | 9-month period ended 30 September 2014 (unaudited) |
|---|--|--|
| COST | | |
| Opening balance | 36 169 | 36 169 |
| Closing balance | 36 169 | 36 169 |
| ACCUMULATED DEPRECIATION | | |
| Opening balance | (3 617) | - |
| Depreciation for the period | (2 712) | (2 712) |
| Closing balance | (6 329) | (2 712) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 32 552 | 36 169 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 29 840 | 33 457 |

The investment property is composed of buildings located in Katowice Szopienice at ul. Lwowska 23 used under a finance lease agreement with PKO Bankowy Leasing Sp. z o.o. The monthly lease payment is ca. PLN 310 thousand, while monthly depreciation charge is ca. PLN 301 thousand.

The Company is a party to a lease agreement with TAURON Wytwarzanie S.A. (the lessee) valid until 30 April 2018, specifying terms and conditions of subleasing buildings and structures discussed in the lease agreement mentioned above. In the 9-month period ended 30 September 2015, the revenue from investment property lease reached PLN 4 230 thousand.

19. Non-current intangible assets

For the 9-month period ended 30 September 2015 (unaudited)

| | Software and licenses | Energy certificates | Other intangible assets | Intangible assets not made available for use | Intangible assets, total |
|--|--------------------------|------------------------|-------------------------------|--|-----------------------------|
| COST | | | | | |
| Opening balance | 3 560 | 5 401 | 2 676 | - | 11 637 |
| Direct purchase | - | - | - | 1 550 | 1 550 |
| Allocation of intangible assets not made available for use | - | - | 1 550 | (1 550) | - |
| Liquidation | (21) | - | (47) | - | (68) |
| Reclassification | - | (5 401) | - | - | (5 401) |
| Closing balance | 3 539 | - | 4 179 | - | 7 718 |
| ACCUMULATED AMORTIZATION | | | | | |
| Opening balance | (2 646) | - | (713) | - | (3 359) |
| Amortization for the period | (274) | - | (563) | - | (837) |
| Liquidation | 21 | - | 47 | - | 68 |
| Closing balance | (2 899) | - | (1 229) | - | (4 128) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 914 | 5 401 | 1 963 | - | 8 278 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 640 | - | 2 950 | - | 3 590 |

In the 9-month period ended 30 September 2015, the Company reclassified energy certificates held for surrendering for 2015 with the value of PLN 5 401 thousand to inventories, which resulted from the possibility to recognize a lower provision for the obligation to surrender energy certificates, as discussed in detail in Note 30 hereto.

For the 9-month period ended 30 September 2014 (unaudited)

| | Software and licenses | Energy certificates | Other intangible assets | Intangible assets not made available for use | Intangible assets, total |
|--|--------------------------|------------------------|-------------------------------|--|-----------------------------|
| COST | | | | | |
| Opening balance | 54 015 | 20 250 | 1 337 | 4 016 | 79 618 |
| Direct purchase | 4 | 1 333 | - | 639 | 1 976 |
| Allocation of intangible assets not made available for use | 2 102 | - | 69 | (2 171) | - |
| Sales | (33 220) | - | - | (2 481) | (35 701) |
| Liquidation | (1 166) | - | - | - | (1 166) |
| Reclassification | - | (16 182) | - | - | (16 182) |
| Closing balance | 21 735 | 5 401 | 1 406 | 3 | 28 545 |
| ACCUMULATED AMORTIZATION | | | | | |
| Opening balance | (21 949) | - | (696) | - | (22 645) |
| Amortization for the period | (9 377) | - | (176) | - | (9 553) |
| Sales | 14 110 | - | - | - | 14 110 |
| Liquidation | 1 157 | - | - | - | 1 157 |
| Closing balance | (16 059) | - | (872) | - | (16 931) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 32 066 | 20 250 | 641 | 4 016 | 56 973 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 5 676 | 5 401 | 534 | 3 | 11 614 |

20. Shares

Changes in long-term investments from 1 January 2015 to 30 September 2015 (unaudited)

| No. | Company | Opening balance | Increases / Decreases | Closing balance |
|--------------|---|-------------------|-----------------------|-------------------|
| 1 | TAURON Wytwarzanie S.A. | 7 236 727 | - | 7 236 727 |
| 2 | TAURON Dystrybucja S.A. | 9 511 628 | - | 9 511 628 |
| 3 | TAURON Ciepło Sp. z o.o. | 1 328 043 | - | 1 328 043 |
| 4 | TAURON Ekoenergia Sp. z o.o. | 939 765 | - | 939 765 |
| 5 | TAURON Sprzedaż Sp. z o.o. | 613 505 | - | 613 505 |
| 6 | TAURON Obsługa Klienta Sp. z o.o. | 39 831 | - | 39 831 |
| 7 | Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation | 49 056 | - | 49 056 |
| 8 | TAURON Czech Energy s.r.o. | 4 223 | - | 4 223 |
| 9 | TAURON Sprzedaż GZE Sp. z o.o. | 129 823 | - | 129 823 |
| 10 | TAURON Wydobywanie S.A. | 494 755 | - | 494 755 |
| 11 | TAURON Wytwarzanie GZE Sp. z o.o. in liquidation | 4 935 | - | 4 935 |
| 12 | Kopalnia Wapienia Czatkowice Sp. z o.o. | 41 178 | - | 41 178 |
| 13 | TAURON Sweden Energy AB (publ) | 232 | 28 150 | 28 382 |
| 14 | Biomasa Grupa TAURON Sp. z o.o. | - | 1 269 | 1 269 |
| 15 | CONCORDE INVESTISSEMENT S.A. | 12 | - | 12 |
| 16 | CC Poland Plus Sp. z o.o. | 12 | - | 12 |
| 17 | Energopower Sp. z o.o. | 45 | (45) | - |
| 18 | Enpower Sp. z o.o. | 45 | 20 | 65 |
| 19 | TAURON Ubezpieczenia Sp. z o.o. | 25 | - | 25 |
| 20 | TAMEH HOLDING Sp. z o.o. | 415 852 | - | 415 852 |
| 21 | Marselwind Sp. z o.o. | 107 | - | 107 |
| 22 | PGE EJ 1 Sp. z o.o. | - | 16 046 | 16 046 |
| 23 | Nowe Brzeszcze Grupa TAURON Sp. z o.o.* | - | 102 | 102 |
| Total | | 20 809 799 | 45 542 | 20 855 341 |

*Initially the company was registered under the name RSG Sp. z o.o. The change of the name to Nowe Brzeszcze Grupa TAURON Sp. z o.o. was registered on 20 October 2015.

Changes in long-term investments in the 9-month period ended 30 September 2015 resulted mainly from the following transactions:

Purchase of shares in PGE EJ 1 Sp. z o.o.

On 15 April 2015 the Company, PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. concluded an agreement for acquisition of shares in PGE EJ 1 Sp. z o.o., a special purpose vehicle, managing the preparation and performance of an investment project covering construction and operation of the first Polish nuclear power plant with a capacity of ca. 3,000 MWe ("Project"). The Company, KGHM Polska Miedź S.A. and ENEA S.A. acquired 10% of shares in PGE EJ 1 Sp. z o.o. each (the total of 30% of shares) from PGE Polska Grupa Energetyczna S.A. The price paid by the Company for the shares in question was PLN 16 046 thousand.

In accordance with the Shareholders' Agreement dated 3 September 2014 the parties will jointly finance the initial phase of the Project proportionally to the number of shares held. The initial phase will cover determining project elements, such as selecting potential partners, including the strategic partner, technology providers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel providers, acquiring funds for Project financing and ensuring appropriate organization and competences of PGE EJ 1 Sp. z o.o. to act as a future nuclear plant operator responsible for its security and efficiency.

Additionally, on 29 July 2015 the Extraordinary Shareholders' Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution to increase the issued capital of the entity. Under the resolution in question the issued capital of the company was increased from PLN 205 860 thousand to PLN 275 859 thousand, i.e. by PLN 69 999 thousand, by way of creating 496 450 new shares with the face value of PLN 141 per one share. TAURON Polska Energia S.A. took up 49 645 new shares with the total face value of PLN 7 000 thousand. The increase in the issued capital of PGE EJ 1 Sp. z o.o. was registered on 16 October 2015.

In accordance with the Financing Schedule, the total value of capital increases in PGE EJ 1 Sp. z o.o. in 2015, including the increase of 29 July 2015, will not exceed PLN 160 000 thousand, where TAURON Polska Energia S.A. will be obliged to take up shares proportionally to the interest held in the issued capital of the entity at a given time.

The timeframe of further investments in PGE EJ 1 Sp. z o.o. by its shareholders will be determined in subsequent reporting periods.

Purchase of shares in Biomasa Grupa TAURON Sp. z o.o.

Under an agreement dated 14 January 2015, TAURON Polska Energia S.A. acquired 4 267 shares in Biomasa Grupa TAURON Sp. z o.o., constituting 100% of the issued capital of the entity for PLN 1 224 thousand from TAURON Wytwarzanie S.A., a subsidiary. The title to shares was transferred under Article 453 of the Civil Code in order to release TAURON Wytwarzanie S.A. from the liability towards the Company arising from issued bonds with the value of PLN 1 230 thousand. The remaining portion of the liability of PLN 6 thousand was repaid in cash.

Business combination under common control of Energopower Sp. z o.o. and Biomasa Grupa TAURON Sp. z o.o.

On 1 July 2015, a business combination under common control of Energopower Sp. z o.o. (the acquirer) and Biomasa Grupa TAURON Sp. z o.o. (the acquiree) was registered by the District Court in Rzeszów, XII Business Division of the National Court Register. The business combination was carried out under Article 492.1.1 of the Code of Commercial Companies through the transfer of the acquiree's all assets onto the acquirer.

Capital increase by TAURON Sweden Energy AB (publ)

On 13 July 2015 the Extraordinary Shareholders' Meeting of TAURON Sweden Energy AB (publ) adopted a resolution to increase the registered issued capital of the entity amounting to EUR 55 thousand by a maximum amount of EUR 6 645 thousand by way of issuing 6 645 thousand new shares. On 22 July 2015, the Company paid EUR 6 645 thousand for newly issued shares of TAURON Sweden Energy AB (publ). On 8 September 2015 the capital increase was registered by the Swedish Companies Registration Office.

Dissolving and liquidating TAURON Wytwarzanie GZE Sp. z o.o.

On 29 September 2015 the Extraordinary Shareholders' Meeting of TAURON Wytwarzanie GZE Sp. z o.o. adopted a resolution to dissolve and liquidate the entity. The Company holds 99.998% of direct interests in the issued capital of TAURON Wytwarzanie GZE Sp. z o.o. and in the general number of voices at the General Shareholders' Meeting and 0.002% of indirect interests through a subsidiary - TAURON Dystrybucja Serwis S.A.

The decision to liquidate TAURON Wytwarzanie GZE Sp. z o.o. is a part of the reorganization process aimed at simplifying and organizing the structure of the TAURON Polska Energia S.A. Capital Group. The company does not carry out business activities nor has been subject to consolidation in the process of preparing financial statements of the TAURON Group.

Change in the balance of long-term investments from 1 January 2014 to 30 September 2014 (unaudited)

| No. | Company | Opening balance | Increases / Decreases | Closing balance |
|--------------|---|-------------------|-----------------------|-------------------|
| 1 | TAURON Wytwarzanie S.A. | 7 590 778 | (337 068) | 7 253 710 |
| 2 | TAURON Dystrybucja S.A. | 9 511 628 | - | 9 511 628 |
| 3 | TAURON Ciepło S.A. | 1 335 738 | (1 335 738) | - |
| 4 | TAURON Ekoenergia Sp. z o.o. | 939 765 | - | 939 765 |
| 5 | TAURON Sprzedaż Sp. z o.o. | 613 505 | - | 613 505 |
| 6 | TAURON Obsługa Klienta Sp. z o.o. | 39 831 | - | 39 831 |
| 7 | Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation | 49 056 | - | 49 056 |
| 8 | TAURON Czech Energy s.r.o. | 4 223 | - | 4 223 |
| 9 | TAURON Sprzedaż GZE Sp. z o.o. | 129 823 | - | 129 823 |
| 10 | TAURON Wydobywanie S.A. | - | 494 755 | 494 755 |
| 11 | TAURON Wytwarzanie GZE Sp. z o.o. | 4 935 | - | 4 935 |
| 12 | Kopalnia Wapienia Czatkowice Sp. z o.o. | - | 41 178 | 41 178 |
| 13 | CONCORDE INVESTISSEMENT S.A. | 12 | - | 12 |
| 14 | CC Poland Plus Sp. z o.o. | 12 | - | 12 |
| 15 | Energopower Sp. z o.o. | 45 | - | 45 |
| 16 | TAURON Ciepło Sp. z o.o. (formerly: Enpower Service Sp. z o.o.) | 49 | 1 693 463 | 1 693 512 |
| 17 | Enpower Sp. z o.o. | 25 | 20 | 45 |
| 18 | TAURON Ubezpieczenia Sp. z o.o. | 25 | - | 25 |
| 19 | Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. w Tychach | 1 872 | - | 1 872 |
| 20 | TAMEH HOLDING Sp. z o.o. | - | 83 | 83 |
| 21 | TAMEH POLSKA Sp. z o.o. | - | 5 | 5 |
| 22 | Marselwind Sp. z o.o. | - | 5 | 5 |
| Total | | 20 221 322 | 556 703 | 20 778 025 |

Changes in long-term investments in the 9-month period ended 30 September 2014 resulted mainly from the following events:

- Separation of ZEC Bielsko Biała from TAURON Wytwarzanie S.A. to TAURON Ciepło S.A.;
- Purchase of shares in TAURON Wydobywanie S.A. from Kompania Węglowa S.A.;
- Purchase of the remaining shares in TAURON Wydobywanie S.A. and shares in Kopalnia Wapienia Czatkowice Sp. z o.o. from TAURON Wytwarzanie S.A., a subsidiary;
- Business combination under common control of TAURON Ciepło S.A. and Enpower Service Sp. z o.o.

21. Bonds

Under the central financing 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 the end of the reporting period, i.e. 30 September 2015 and 31 December 2014, broken down by individual companies issuing the bonds.

| Company | As at 30 September 2015 (unaudited) | | As at 31 December 2014 | |
|-----------------------------------|--|------------------|-------------------------------------|------------------|
| | nominal value of purchased bonds | accrued interest | nominal value of purchased bonds | accrued interest |
| TAURON Wytwarzanie S.A. | 2 498 770 | 13 071 | 1 940 000 | 11 645 |
| TAURON Dystrybucja S.A. | 2 600 000 | 155 824 | 2 050 000 | 85 744 |
| TAURON Ekoenergia Sp. z o.o. | 60 000 | 705 | 1 180 000 | 5 393 |
| TAURON Ciepło Sp. z o.o. | 1 403 260 | 12 498 | 1 033 780 | 8 605 |
| TAMEH POLSKA Sp. z o.o. | - | - | 21 740 | - |
| TAURON Wydobywanie S.A. | 620 000 | 5 374 | 370 000 | 3 823 |
| TAURON Obsługa Klienta Sp. z o.o. | 85 000 | 6 506 | 85 000 | 2 996 |
| Total bonds, including: | 7 267 030 | 193 978 | 6 680 520 | 118 206 |
| Non-current | 7 217 030 | 3 458 | 5 522 030 | 695 |
| Current | 50 000 | 190 520 | 1 158 490 | 117 511 |

Intra-group bonds with the par value of PLN 60 000 thousand issued by a subsidiary TAURON Ekoenergia Sp. z o.o. and acquired by TAURON Polska Energia S.A. with the term to maturity of less than one year have been classified as long-term instruments due to the Company's rollover intention.

22. Loans granted

On 27 February 2015 the Company entered into an agreement with its subsidiary, TAURON Ekoenergia Sp. z o.o., under which 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 redeem the same amount of intra-group bonds issued by the borrower in prior years to finance construction of wind farms. The set-off of the loan against the bonds did not result in any cash flows of the Company due to loan granting or bond redemption by TAURON Ekoenergia Sp z o.o.

Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted a subordinated loan and a VAT loan to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank.

In October 2014 the Company granted a short-term loan of PLN 500 thousand to TAMEH HOLDING Sp. z o.o. The loan with interest has been repaid to the Company during the 9-month period ended 30 September 2015.

As at the end of the reporting period the balance of the loans granted was the following:

| | As at 30 September 2015 (unaudited) | | As at 31 December 2014 | |
|--|--|---------------|---------------------------|---------------|
| | Principal | Interest | Principal | Interest |
| Loan granted to TAURON Ekoenergia Sp. z o.o. | 1 120 000 | 52 778 | - | - |
| Subordinated loan - EC Stalowa Wola S.A. | 177 000 | 27 035 | 177 000 | 21 331 |
| VAT loan - EC Stalowa Wola S.A. | - | - | 5 850 | 12 |
| Other loans | - | - | 500 | 5 |
| Total loans, including: | 1 297 000 | 79 813 | 183 350 | 21 348 |
| Non-current | 177 000 | 27 035 | 177 000 | 21 331 |
| Current | 1 120 000 | 52 778 | 6 350 | 17 |

23. Derivative instruments

| | As at 30 September 2015 (unaudited) | | | | As at 31 December 2014 | | | |
|---|-------------------------------------|--|--------------|------------------|---------------------------------|--|--------------|------------------|
| | 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 | (3 425) | - | 1 465 | (4 890) | 258 | - | 1 499 | (1 241) |
| IRS | (34 995) | (114 512) | - | (149 507) | (17 746) | (176 567) | - | (194 313) |
| Commodity future/forward | 1 198 | - | 1 198 | - | (250) | - | 312 | (562) |
| Currency forward | 1 213 | - | 1 213 | - | - | - | - | - |
| Total derivative instruments, including: | | | 3 876 | (154 397) | | | 1 811 | (196 116) |
| Current | | | 3 466 | (99 559) | | | 1 811 | (102 615) |
| Non-current | | | 410 | (54 838) | | | - | (93 501) |

Derivative instrument CCIRS relates to the Coupon Cross Currency Swap contract entered into by the Company on 24 November 2014 – swap of interest payments from the nominal value of EUR 168 000 thousand. The contract was concluded for the period of 15 years. In accordance with the contract, the Company pays interest accrued based on a floating interest rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question.

Derivative instruments (IRS) include interest rate swap contracts concluded in order to hedge interest cash flows related to bonds issued, as presented in detail in Note 37.1 to these condensed interim financial statements. The interest rate swap contract related to Tranche A redeemed at the end of 2014 has been excluded from hedge accounting and it has been measured through profit or loss. As at 30 September 2015 the liability amounted to PLN 6 899 thousand. The remaining IRS contracts are subject to hedge accounting with the remeasurement recognized in other comprehensive income. As at 30 September 2015 the liability amounted to PLN 142 608 thousand.

Commodity futures and forwards include contracts for purchase and sale of commodities, including emission allowances. Hedge accounting principles do not apply to the transactions in question.

Moreover, in the 9-month period ended 30 September 2015 the Company entered into currency forward contracts hedging foreign currency cash flows resulting from trading in emission allowances and gas. These transactions are not subject to hedge accounting.

24. Current intangible assets

Under current intangible assets, the Company discloses energy certificates.

| | 9-month period ended 30 September 2015 <i>(unaudited)</i> | 9-month period ended 30 September 2014 <i>(unaudited)</i> |
|---|---|---|
| COST | | |
| Opening balance | 20 215 | 98 149 |
| Direct purchase | 1 671 | 4 994 |
| Cancellation | (21 885) | (98 182) |
| Reclassification | (1) | 12 380 |
| Closing balance | - | 17 341 |
| IMPAIRMENT ALLOWANCES | | |
| Opening balance | - | - |
| Closing balance | - | - |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 20 215 | 98 149 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | - | 17 341 |

In the 9-month period ended 30 September 2015, the Company surrendered energy certificates of PLN 21 885 thousand to fulfil the obligation for 2014.

25. Inventories

| | As at 30 September 2015 <i>(unaudited)</i> | As at 31 December 2014 |
|--|--|---------------------------|
| Historical cost | | |
| Energy certificates | 1 686 | 3 389 |
| Emission allowances | 122 172 | 173 571 |
| Materials | 98 | 372 |
| Total | 123 956 | 177 332 |
| Write-downs to net realizable value | | |
| Energy certificates | (106) | (60) |
| Total | (106) | (60) |
| Net realizable value | | |
| Energy certificates | 1 580 | 3 329 |
| Emission allowances | 122 172 | 173 571 |
| Materials | 98 | 372 |
| Total | 123 850 | 177 272 |

26. Trade and other receivables

| | As at 30 September 2015 <i>(unaudited)</i> | As at 31 December 2014 |
|--|--|---------------------------|
| Trade receivables | 687 997 | 941 842 |
| Other financial receivables, <i>including</i> : | 138 411 | 40 740 |
| Cash pool loans received, including accrued interest | 25 106 | 29 224 |
| Collateral paid | 18 397 | 6 870 |
| TCG receivables | 94 681 | 4 353 |
| Other financial receivables | 227 | 293 |
| Total | 826 408 | 982 582 |

Trade receivables bear no interest and usually have a 30-day maturity period. Sales transactions are only entered into with clients subject to a verification procedure. As a result, the management believe that there is no additional credit risk over the level of the allowances recognized for bad debts of the Company's trade receivables.

Related-party transactions as well as the related party receivables and liabilities have been presented in Note 35 hereto.

The ageing analysis and allowances/write-downs for trade and other receivables have been presented below.

Ageing analysis of trade and other receivables as at 30 September 2015 (unaudited)

| | Not past due | Past due | | | Total |
|---|----------------|--------------|----------------|--------------|----------------|
| | | < 30 days | 30-360 days | >360 days | |
| Value of item before allowance/write-down | | | | | |
| Trade receivables | 686 667 | 1 329 | 205 | - | 688 201 |
| Other financial receivables | 138 411 | 10 | 1 577 | 849 | 140 847 |
| Total | 825 078 | 1 339 | 1 782 | 849 | 829 048 |
| Allowance/write-down | | | | | |
| Trade receivables | - | - | (204) | - | (204) |
| Other financial receivables | - | (10) | (1 577) | (849) | (2 436) |
| Total | - | (10) | (1 781) | (849) | (2 640) |
| Value of item net of allowance (carrying amount) | | | | | |
| Trade receivables | 686 667 | 1 329 | 1 | - | 687 997 |
| Other financial receivables | 138 411 | - | - | - | 138 411 |
| Total | 825 078 | 1 329 | 1 | - | 826 408 |

Ageing analysis of trade and other receivables as at 31 December 2014

| | Not past due | Past due | | | Total |
|---|----------------|--------------|--------------|--------------|----------------|
| | | < 30 days | 30-360 days | >360 days | |
| Value of item before allowance/write-down | | | | | |
| Trade receivables | 931 635 | 8 900 | 1 400 | - | 941 935 |
| Other financial receivables | 40 740 | - | - | 931 | 41 671 |
| Total | 972 375 | 8 900 | 1 400 | 931 | 983 606 |
| Allowance/write-down | | | | | |
| Trade receivables | - | (93) | - | - | (93) |
| Other financial receivables | - | - | - | (931) | (931) |
| Total | - | (93) | - | (931) | (1 024) |
| Value of item net of allowance (carrying amount) | | | | | |
| Trade receivables | 931 635 | 8 807 | 1 400 | - | 941 842 |
| Other financial receivables | 40 740 | - | - | - | 40 740 |
| Total | 972 375 | 8 807 | 1 400 | - | 982 582 |

27. Cash and cash equivalents

The balance of cash and cash equivalents disclosed in the statement of cash flows includes:

| | As at 30 September 2015 (unaudited) | As at 31 December 2014 |
|--|---|---------------------------|
| Cash at bank and in hand | 124 027 | 264 260 |
| Short-term deposits (up to 3 months) | 806 960 | 964 620 |
| Total cash and cash equivalents presented in the statement of financial position, of which: | 930 987 | 1 228 880 |
| restricted cash | 69 524 | 44 765 |
| Cash pool | (1 031 107) | (1 151 591) |
| Overdraft | (10 924) | (11 918) |
| Foreign exchange | 3 024 | 3 564 |
| Total cash and cash equivalents presented in the statement of cash flows | (108 020) | 68 935 |

The balances of loans granted and taken out in cash pool transactions do not represent cash flows from investing or financing activities as they are mainly used to manage the Group's liquidity on a day-to-day basis. They are disclosed as an adjustment to the balance of cash instead.

The balance of restricted cash consists mainly of:

- cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A), amounting to PLN 53 337 thousand, and
- cash held in special purpose accounts for transactions carried out on the European Energy Exchange, ICE Futures Europe and Powernext S.A. of PLN 14 658 thousand.

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

28. Equity

28.1. Issued capital

Issued capital as at 30 September 2015 (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 |
| | | 1 752 549 394 | | 8 762 747 | |

As at 30 September 2015, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2014.

28.2. Major shareholders

Shareholding structure as at 30 September 2015 (unaudited, to the best of the Company's knowledge)

| 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% |
| ING 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 | 100.00% | 100.00% |

28.3. Revaluation reserve from valuation of hedging instruments

| | 9-month period ended 30 September 2015 (unaudited) | 9-month period ended 30 September 2014 (unaudited) |
|---|--|--|
| Opening balance | (143 019) | (126 651) |
| Revaluation of hedging instruments | 38 325 | (57 127) |
| Revaluation of hedging instruments charged to profit or loss for the period | 23 729 | 18 651 |
| Deferred income tax | (11 790) | 7 310 |
| Closing balance | (92 755) | (157 817) |

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 37.1 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 30 September 2015, the Company recognized PLN (92 755) thousand in revaluation reserve from valuation of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totalling to PLN 142 608 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period was charged with PLN 65 922 thousand, where PLN 42 193 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN 23 729 thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of hedging IRS transactions increased financial expenses arising from interest on bonds issued in the statement of comprehensive income.

28.4. Dividend limitation

Reserve capital - dividend limitation

| | As at 30 September 2015 <i>(unaudited)</i> | As at 31 December 2014 |
|--|--|---------------------------|
| distributable amounts, including: | 4 032 169 | 3 148 608 |
| distribution of prior years profits | 4 032 169 | 3 148 608 |
| non-distributable amounts, including: | 7 245 078 | 7 245 078 |
| decrease in the value of issued capital | 7 010 198 | 7 010 198 |
| settlement of mergers with subsidiaries | 234 880 | 234 880 |
| Total reserve capital | 11 277 247 | 10 393 686 |

Retained earnings - dividend limitation

| | As at 30 September 2015 <i>(unaudited)</i> | As at 31 December 2014 |
|---|--|---------------------------|
| distributable amounts, including: | 13 | 1 146 456 |
| undistributed profit for the year ended 31 December 2014 | - | 1 146 443 |
| adjustment of prior years profit | 13 | 13 |
| non-distributable amounts, including: | 1 688 349 | 79 697 |
| actuarial gains and losses on provisions for post-employment benefits | (806) | (821) |
| settlement of mergers with subsidiaries | 80 518 | 80 518 |
| profit for the 9-month period ended 30 September 2015 | 1 608 637 | - |
| Total retained earnings | 1 688 362 | 1 226 153 |

On 23 April 2015, the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. adopted a resolution on distribution of the profit for the financial year 2014 of PLN 1 146 443 thousand, where PLN 262 882 thousand was allocated to dividend for the shareholders and PLN 883 561 thousand - to reserve capital.

29. Interest-bearing loans and borrowings

| | As at 30 September 2015 (unaudited) | As at 31 December 2014 |
|---|---|---------------------------|
| Non-current portion of interest-bearing loans and borrowings | | |
| Issued bonds | 5 645 602 | 5 644 306 |
| Loans from the European Investment Bank | 1 254 727 | 1 021 263 |
| Loans from the subsidiary | 705 350 | 709 267 |
| Total | 7 605 679 | 7 374 836 |
| Current portion of interest-bearing loans and borrowings | | |
| Issued bonds | 353 375 | 466 325 |
| Cash pool loans received, including accrued interest | 1 056 213 | 1 180 815 |
| Loans from the European Investment Bank | 144 696 | 139 148 |
| Loans from the subsidiary | 50 012 | 2 059 |
| Overdraft | 10 924 | 11 918 |
| Total | 1 615 220 | 1 800 265 |

29.1. Bonds issued

The tables below present the balances of the Company's liabilities arising from bonds issued, together with accrued interest, as at 30 September 2015 and 31 December 2014.

Bonds as at 30 September 2015 (unaudited)

| Tranche/ Bank | Maturity date | Currency | As at balance sheet date (unaudited) | | of which principal amount maturing within (after the balance sheet date) | | | | | |
|--------------------|------------------|----------|---|-----------------------------|---|---------------|------------------|-------------|------------------|----------------|
| | | | Accrued interest | Principal at amortized cost | less than 3 months | 3 - 12 months | 1 - 2 years | 2 - 3 years | 3 - 5 years | over 5 years |
| B | 12 December 2015 | PLN | 2 436 | 299 943 | 299 943 | - | - | - | - | - |
| C | 12 December 2016 | PLN | 24 359 | 2 998 410 | - | - | 2 998 410 | - | - | - |
| BGK* | 20 December 2019 | PLN | 914 | 99 825 | - | - | - | - | 99 825 | - |
| BGK* | 20 December 2020 | PLN | 914 | 99 815 | - | - | - | - | - | 99 815 |
| BGK* | 20 December 2021 | PLN | 914 | 99 808 | - | - | - | - | - | 99 808 |
| BGK* | 20 December 2022 | PLN | 914 | 99 802 | - | - | - | - | - | 99 802 |
| BGK* | 20 December 2023 | PLN | 914 | 99 797 | - | - | - | - | - | 99 797 |
| BGK* | 20 December 2024 | PLN | 914 | 99 795 | - | - | - | - | - | 99 795 |
| BGK* | 20 December 2025 | PLN | 914 | 99 792 | - | - | - | - | - | 99 792 |
| BGK* | 20 December 2026 | PLN | 914 | 99 788 | - | - | - | - | - | 99 788 |
| BGK* | 20 December 2027 | PLN | 914 | 99 786 | - | - | - | - | - | 99 786 |
| TPEA1119 | 4 November 2019 | PLN | 18 411 | 1 748 984 | - | - | - | - | 1 748 984 | - |
| Total bonds | | | 53 432 | 5 945 545 | 299 943 | - | 2 998 410 | - | 1 848 809 | 798 383 |

*Bank Gospodarstwa Krajowego

Bonds as at 31 December 2014

| Tranche/ Bank | Maturity date | Currency | As at balance sheet date | | of which principal amount maturing within (after the balance sheet date) | | | | | |
|--------------------|------------------|----------|--------------------------|-----------------------------|---|----------------|------------------|-------------|------------------|----------------|
| | | | Accrued interest | Principal at amortized cost | less than 3 months | 3 - 12 months | 1 - 2 years | 2 - 3 years | 3 - 5 years | over 5 years |
| B | 12 December 2015 | PLN | 485 | 299 716 | - | 299 716 | - | - | - | - |
| B | 30 January 2015 | PLN | 2 287 | 150 000 | 150 000 | - | - | - | - | - |
| C | 12 December 2016 | PLN | 4 849 | 2 997 442 | - | - | 2 997 442 | - | - | - |
| BGK* | 20 December 2019 | PLN | 115 | 99 797 | - | - | - | - | 99 797 | - |
| BGK* | 20 December 2020 | PLN | 115 | 99 791 | - | - | - | - | - | 99 791 |
| BGK* | 20 December 2021 | PLN | 115 | 99 787 | - | - | - | - | - | 99 787 |
| BGK* | 20 December 2022 | PLN | 115 | 99 784 | - | - | - | - | - | 99 784 |
| BGK* | 20 December 2023 | PLN | 115 | 99 781 | - | - | - | - | - | 99 781 |
| BGK* | 20 December 2024 | PLN | 115 | 99 781 | - | - | - | - | - | 99 781 |
| BGK* | 20 December 2025 | PLN | 115 | 99 780 | - | - | - | - | - | 99 780 |
| BGK* | 20 December 2026 | PLN | 115 | 99 777 | - | - | - | - | - | 99 777 |
| BGK* | 20 December 2027 | PLN | 115 | 99 776 | - | - | - | - | - | 99 776 |
| TPEA1119 | 4 November 2019 | PLN | 7 953 | 1 748 810 | - | - | - | - | 1 748 810 | - |
| Total bonds | | | 16 609 | 6 094 022 | 150 000 | 299 716 | 2 997 442 | - | 1 848 607 | 798 257 |

*Bank Gospodarstwa Krajowego

Bonds were issued in a dematerialized form. These are unsecured coupon bonds with a floating interest rate plus a fixed margin. Interest is WIBOR 6M-based and is payable on a semi-annual basis.

Changes in the balance of bonds excluding interest accrued in the 9-month period ended 30 September 2015 and in the comparable period have been presented below.

| | 9-month period ended 30 September 2015 <i>(unaudited)</i> | 9-month period ended 30 September 2014 <i>(unaudited)</i> |
|------------------------|---|---|
| Opening balance | 6 094 022 | 4 291 460 |
| Issue* | - | 1 197 856 |
| Redemption | (150 000) | (300 000) |
| Change in valuation | 1 523 | 2 670 |
| Closing balance | 5 945 545 | 5 191 986 |

* Costs of issue have been included.

On 30 January 2015, the Company redeemed Tranche B bonds with the par value of PLN 150 000 thousand at their maturity.

Moreover, 17 500 TPEA1119 series bearer bonds with the total face value of PLN 1 750 000 thousand and the unit face value of PLN 100 thousand issued by TAURON Polska Energia S.A. in 2014 were listed in the Catalyst market in the 9-month period ended 30 September 2015. The first listing took place on 12 March 2015 and the last listing on 22 October 2019.

The Company hedges a portion of interest cash flows related to bonds issued under Tranche C using IRS contracts. The instruments are subject to hedge accounting, as discussed in Note 37.1 hereto.

The contracts signed by the Company with banks include legal and financial covenants which are commonly used in such transactions. As at 30 September 2015, none of these covenants were breached and the contractual provisions were complied with.

Increase in the bond issue scheme by PLN 700 000 thousand

In July 2015 TAURON Polska Energia S.A. concluded an annex to the scheme agreement concerning the bond issue scheme organization. Pursuant to the annex, the bond issue scheme amount was increased from PLN 1 000 000 thousand to PLN 1 700 000 thousand.

The bonds were issued to finance capital expenditure of the TAURON Group. Bank Gospodarstwa Krajowego participates in the project under the "Polish investments" scheme.

The value of the bond scheme with securities of at maximum 15-year maturity periods and 6-month interest periods is PLN 1 700 000 thousand. As at the date of concluding the annex PLN 300 000 thousand, constituting a portion of the amount increasing the bond issue scheme, was underwritten. In accordance with the financing structure bonds will be issued in series in the years 2015-2016 and they will mature from 2020 to 2029. Bank Gospodarstwa Krajowego will act as an arranger, underwriter and depositary.

29.2. Loans from the European Investment Bank

As at 30 September 2015, the balance of loans obtained from the European Investment Bank was PLN 1 399 423 thousand, including interest accrued of PLN 11 953 thousand. As at 31 December 2014, the outstanding amount was PLN 1 160 411 thousand.

In the 9-month period ended 30 September 2015, the Company repaid PLN 61 364 thousand of the principal amount and PLN 36 250 thousand of interest.

PLN 295 000 thousand constituting a portion of the loan granted by the European Investment Bank under the agreement of July 2014 was disbursed on 17 July 2015. The purpose of the loan was financing an investment project related to energy production from renewable sources and energy distribution.

The portion in question will be repaid in equal principal installments payable every 6 months from 15 September 2017 to 15 March 2027, while interest will be paid every 6 months from 15 September 2015. Interest rate is fixed and applies until 15 September 2019.

29.3. Loans granted by a subsidiary

In December 2014 TAURON Polska Energia S.A. was granted a long-term loan by a subsidiary TAURON Sweden Energy AB (publ). The interest rate on a loan is fixed and interest will be paid annually, in December, until the final loan repayment. The loan will be fully repaid on 29 November 2029.

As at 30 September 2015 the carrying amount of the loan was EUR 171 603 thousand (PLN 727 358 thousand), including EUR 5 192 thousand (PLN 22 008 thousand) of interest accrued as at the end of the reporting period. As at 31 December 2014 the carrying amount of the loan was EUR 166 888 thousand (PLN 711 326 thousand), including EUR 483 thousand (PLN 2 059 thousand) of interest accrued as at the end of the reporting period.

On 27 July 2015, TAURON Polska Energia S.A. concluded a new loan agreement with TAURON Sweden Energy AB (publ), under which TAURON Sweden Energy AB (publ) granted a loan of EUR 6 600 thousand to the Company on 30 July 2015. The maturity date of the entire outstanding amount was set at 30 July 2016. As at 30 September 2015 the carrying amount of the loan was EUR 6 607 thousand (PLN 28 004 thousand), including EUR 7 thousand (PLN 29 thousand) of interest accrued as at the end of the reporting period.

29.4. Cash pool

In order to optimize cash management, financial liquidity and financial revenue and expense the TAURON Group has introduced a cash pooling structure. On 18 December 2014 the Company concluded a new zero balancing agreement with PKO Bank Polski S.A. for a 3-year period with the possibility to extend the period by 12 months, with TAURON Polska Energia S.A. acting as an agent. The interest rates were determined on market terms.

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

| | As at 30 September 2015 <i>(unaudited)</i> | As at 31 December 2014 |
|--|--|---------------------------|
| Receivables from cash pool loans granted | 24 822 | 29 166 |
| Interest receivable on loans granted under cash pool agreement | 284 | 58 |
| Total Receivables | 25 106 | 29 224 |
| Loans received under cash pool agreement | 1 055 352 | 1 178 761 |
| Interest payable on loans received under cash pool agreement | 861 | 2 054 |
| Total Liabilities | 1 056 213 | 1 180 815 |

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

Under the cash pool agreement the Company is entitled to use external financing in the form of an overdraft up to PLN 300 000 thousand and an intraday limit up to PLN 500 000 thousand. As at 30 September 2015 the Company had no outstanding amounts under this agreement.

29.5. Overdraft facilities

As at 30 September 2015, the balance of overdraft facilities was PLN 10 924 thousand and included the following items:

- foreign currency overdraft agreement with NORDEA Bank Polska S.A. (currently: PKO Bank Polski S.A.) concluded by the Company for the purpose of financing margin deposits and transactions in power and emission allowances - EUR 2 218 thousand (PLN 9 401 thousand);
- foreign currency (USD) overdraft agreement with mBank S.A. concluded by the Company for the purpose of financing margin deposits and commodity transactions - USD 403 thousand (PLN 1 523 thousand).

As at 31 December 2014 the balance of overdraft facilities reached PLN 11 918 thousand.

30. Other provisions

| | 9-month period ended 30 September 2015 <i>(unaudited)</i> | 9-month period ended 30 September 2014 <i>(unaudited)</i> |
|------------------------|---|---|
| Opening balance | 34 189 | 110 580 |
| Recognition | 11 | 25 119 |
| Reversal | (163) | (993) |
| Utilization | (34 026) | (109 587) |
| Closing balance | 11 | 25 119 |

In the 9-month period ended 30 September 2015 changes in other provisions were related to the provision for the obligation to surrender energy certificates. In 2015, in order to fulfil the obligation to surrender energy certificates for 2014, the Company surrendered energy certificates of PLN 21 885 thousand, paid a substitution fee of PLN 12 113 thousand and incurred expenses of PLN 28 thousand related to surrendering, hence utilizing the provision in the amount of PLN 34 026 thousand. The surplus of the provision recognized at the end of 2014 over the amount applied of PLN 163 thousand was reversed, reducing costs in 2015.

As the end of the reporting period, the Company recognized a provision for PLN 11 thousand. The Company was obliged to recognize a lower provision for the obligation to surrender energy certificates in the period of 9 months ended 30 September 2015 versus the comparable period because it had introduced organizational changes in the Group's electricity trading function, hence it did not sell electricity to end-buyers in the current reporting period.

31. Significant items of the statement of cash flows

31.1. Cash flows from investing activities

Acquisition of shares

Expenditure for acquisition of shares of PLN 51 377 thousand resulted primarily from increasing the issued capital of TAURON Sweden Energy AB (publ), a subsidiary, by EUR 6 645 thousand (PLN 27 319 thousand) and transferring cash for taking up shares in the increased issued capital of PGE EJ 1 Sp. z o.o. of PLN 23 046 thousand, as described in detail in Note 20 hereto.

Purchase of bonds

Payments related to acquisition of bonds, in the amount of PLN 3 925 000 thousand, are related to acquisition of intra-group bonds issued by the following subsidiaries:

- TAURON Dystrybucja S.A., amounting to PLN 2 600 000 thousand;
- TAURON Wytwarzanie S.A., amounting to PLN 560 000 thousand;
- TAURON Ciepło Sp. z o.o., amounting to PLN 465 000 thousand;
- TAURON Wydobycie S.A., amounting to PLN 250 000 thousand;
- TAURON Obsługa Klienta Sp. z o.o., amounting to PLN 50 000 thousand.

Redemption of bonds

Inflows related to redemption of bonds, in the amount of PLN 2 217 266 thousand, are related to redemption of intra-group bonds by the related parties:

- TAURON Dystrybucja S.A., amounting to PLN 2 050 000 thousand;
- TAURON Ciepło Sp. z o.o., amounting to PLN 95 528 thousand;
- TAURON Obsługa Klienta Sp. z o.o., amounting to PLN 50 000 thousand;
- TAMEH HOLDING Sp. z o.o., amounting to PLN 21 732 thousand;
- TAURON Wytwarzanie S.A., amounting to PLN 6 thousand.

Loans granted

Expenses related to loans granted result from the transfer of funds under the VAT loan for Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 8 150 thousand.

Loans repaid

Inflows due to repayment of loans are related to amounts repaid by Elektrociepłownia Stalowa Wola S.A. due under the VAT loan agreement in the total amount of PLN 14 000 thousand and repayment of a loan of PLN 500 thousand by TAMEH Holding Sp. z o.o., a jointly-controlled entity.

Interest received

Most proceeds from interest received are related to interest on acquired bonds of subsidiaries of PLN 190 913 thousand.

31.2. Cash flows from financing activities

Loans and borrowings taken out

Loans and borrowings taken out of PLN 322 358 thousand include a tranche of a loan granted by the European Investment Bank under a credit facility agreement concluded in July 2014 of PLN 295 000 thousand and a loan from TAURON Sweden Energy AB (publ), a subsidiary of EUR 6 600 thousand (PLN 27 358 thousand).

Loans and borrowings repaid

Expenditures due to repayment of loans and borrowings resulted from repayment of instalments of a loan granted by the European Investment Bank of PLN 61 364 thousand in the 9-month period ended 30 September 2015.

Redemption of debt securities

Expenditure for redemption of debt securities result from redemption of Tranche B bonds in the amount of PLN 150 000 thousand in the 9-month period ended 30 September 2015.

Interest paid

Expenditures due to interest paid were related to the fact that the Company paid interest on bonds issued of PLN 133 975 thousand and interest on loans of PLN 36 306 thousand.

OTHER INFORMATION

32. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees granted to related parties. As at 30 September 2015, the structure of the Company's contingent liabilities was as follows:

| Type of contingent liability | Company in respect of which contingent liability has been granted | Beneficiary | As at 30 September 2015 (unaudited) | | As at 31 December 2014 | |
|---|---|---|--|---------|------------------------|---------|
| | | | EUR | PLN | EUR | PLN |
| corporate guarantee | TAURON Sweden Energy AB (publ) | holders of bonds issued by TAURON Sweden Energy AB (publ) | 168 000 | 712 085 | 168 000 | 716 066 |
| blank promissory note | TAURON Wytwarzanie S.A. | Regional Fund for Environmental Protection and Water Management in Katowice | | 40 000 | | 40 000 |
| | TAURON Ciepło S.p. z o.o. | | | 30 000 | | 30 000 |
| | TAURON Ciepło S.p. z o.o. | | | 1 180 | | 1 180 |
| collateral of a bank guarantee | TAURON Sprzedaż Sp. z o.o. | | | 593 | | 281 |
| | Kopalnia Wapienia Czatkowice Sp. z o.o. | Powszechna Kasa Oszczędności Bank Polski S.A. | | 696 | | 492 |
| | TAURON Dystrybucja S.A. | | | 97 | | - |
| collateral of a loan | TAURON Dystrybucja Serwis S.A. | | | 507 | | 217 |
| | Kopalnia Wapienia Czatkowice Sp. z o.o. | Regional Fund for Environmental Protection and Water Management in Kraków | | 1 145 | | 1 145 |
| collateral of a contract | TAURON Wytwarzanie S.A. | Polskie Sieci Elektroenergetyczne S.A. | | 5 000 | | 5 000 |
| collateral of a contract | TAURON Czech Energy s.r.o. | SPP CZ a.s. | 300 | 1 272 | 300 | 1 279 |
| collateral of a bank guarantee | Elektrociepłownia Stalowa Wola S.A. | Bank BGŻ BNP Paribas S.A. | | 62 582 | | 62 582 |
| registered pledges and financial pledge of shares | TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o. | RAIFFEISEN BANK INTERNATIONAL AG | | 415 852 | | - |

Changes in the 9-month period ended 30 September 2015:

- The Company provided collateral in the amount of EUR 3 500 thousand for the benefit of CEZ a.s. to secure a trade contract of TAURON Czech Energy s.r.o. The collateral expired on 30 June 2015;
- Under the framework agreement for bank guarantees concluded with PKO Bank Polski S.A., the bank issues guarantees for subsidiaries. As at 30 September 2015 the balance of bank guarantees granted reached PLN 1 893 thousand (versus PLN 990 thousand as at 31 December 2014);
- On 15 May 2015 TAURON Polska Energia S.A. established a financial pledge and registered pledges of 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o., with the unit face value of PLN 100 and the total face value of PLN 329 340 thousand, constituting ca. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. As at 30 September 2015, the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand. The Company established a first lien registered pledge of shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge of shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges of new shares acquired or taken. Moreover, the Company assigned the rights to dividend and other payments.

Agreement on establishing 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. 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 a release by the pledgee, not later than on 31 December 2028.

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. has become a party to a court dispute with Huta Łaziska S.A. ("Huta").

The key reason was the latter's failure to fulfil its obligation to pay the amounts due for electricity supplies, which led to discontinuation of electricity supplies to Huta Łaziska by GZE in 2001.

Based on a decision of 12 October 2001, the President of Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta 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 a 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 judgment of the Court of Appeals in Warsaw, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.

Due to discontinuation of electricity supplies, Huta has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of ERO for 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 judgments favorable for GZE; however, in its judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for reexamination by that Court. On 5 September 2012 the Court of Appeals overruled the judgment of the Regional Court and remanded the case for reexamination by the latter. The first hearing before the first instance court was held on 27 November 2012. The most recent court hearing took place on 12 May 2014. In May 2015 a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015 TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by both parties as evidence. The next court hearing has been planned for 20 January 2016.

Based on the Company's legal analysis of the claims raised by Huta and by its main shareholder, GEMI Sp. z o.o., the Company believes that the claims are groundless and the risk of their satisfaction is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.

Consent of the Supervisory Board to incur a contingent liability in the form of the obligation to inject capital to Nowe Brzeszcze Grupa TAURON Sp. z o.o.

After the balance sheet date, on 27 October 2015 the Supervisory Board of TAURON Polska Energia S.A. approved a contingent liability to be incurred by TAURON Polska Energia S.A., under which the Company would inject capital in the amount up to PLN 185 000 thousand to Nowe Brzeszcze Grupa TAURON Sp. z o.o. The Company intends to inject capital to Nowe Brzeszcze Grupa TAURON Sp. z o.o., because it is necessary to cover the costs of current operating activities of Nowe Brzeszcze Grupa TAURON Sp. z o.o. and the costs of investment projects which will be carried out if the entity enters into the final agreement for sale of a specified part of Brzeszcze mining plant.

33. Collateral against liabilities

The most common forms of collateral against liabilities and transactions entered into by TAURON Polska Energia S.A. include declarations of submission to enforcement, authorizations to debit bank accounts as well as bank guarantees given by banks at the Company's request.

The key items collateralize the following agreements:

Bond issue schemes

Under the bond issue scheme dated 16 December 2010 with subsequent annexes, the Company filed declarations of submission to enforcement:

- up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards Tranche A and Tranche B;
- up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E.

With a view to collateralizing the agreement made on 31 July 2013 with Bank Gospodarstwa Krajowego, concerning a long-term bond issue scheme, the Company has filed a declaration of submission to enforcement up to PLN 1 500 000 thousand. In July 2015 an annex increasing the scheme value up to PLN 1 700 000 thousand was concluded. Consequently, on 29 July 2015 the Company filed a declaration of submission to enforcement up to PLN 1 950 000 thousand with Bank Gospodarstwa Krajowego related to the long-term bond issue scheme and valid until 20 December 2032.

Framework bank guarantee agreement with PKO Bank Polski S.A.

With a view to collateralizing a framework bank guarantee agreement with PKO Bank Polski S.A., TAURON Polska Energia S.A. submitted a declaration of submission to enforcement up to PLN 125 000 thousand, with the maximum

validity term until 31 December 2017. Additionally, the agreement has been collateralized by an authorization to debit the bank account maintained by PKO Bank Polski S.A. As at 30 September 2015, the maximum amount of the agreed guarantee limit was PLN 100 000 thousand. The agreement is valid until 31 December 2016.

Under the agreement, at the request of the Company, as at 30 September 2015 PKO Bank Polski S.A. extended bank guarantees in order to collateralize liabilities of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 1 893 thousand (note 32 hereto) and to collateralize transactions entered into by the Company:

- up to EUR 1 000 thousand (PLN 4 239 thousand) – a guarantee for CAO Central Allocation Office GmbH (currently Joint Allocation Office S.A.) , valid until 5 February 2016;
- a performance bond up to PLN 10 600 thousand (Polskie Sieci Elektroenergetyczne S.A.) valid until 11 February 2016;
- a performance bond up to PLN 2 415 thousand (Operator Gazociągów Przesyłowych GAZ – SYSTEM S.A.) valid until 30 November 2015.

Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.

Agreement with Bank Zachodni WBK S.A. on bank guarantees concluded in May 2013 expired on 6 May 2015. A declaration of submission to enforcement up to PLN 187 500 thousand collateralizing the agreement is valid until 6 May 2017.

In June 2015, the Company signed an agreement on a bank guarantee limit up to PLN 150 000 thousand with Bank Zachodni WBK S.A., with Izba Rozliczeniowa Giełd Towarowych S.A. as the beneficiary. The Agreement was entered into for the period of 36 months with possible term extension to 60 months since the date of concluding. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies. The agreement has been collateralized with a declaration of submission to enforcement up to the amount of PLN 200 000 thousand valid until 1 August 2016.

As at 30 September 2015, the agreement covered a bank guarantee up to PLN 50 000 thousand valid until 15 October 2015.

Overdraft facility agreements

Overdraft in NORDEA Bank Polska S.A. (currently: PKO Bank Polski S.A.) is collateralized with:

- authorization to debit a bank account up to EUR 25 000 thousand (PLN 105 965 thousand);
- declaration of submission to enforcement up to EUR 31 250 thousand (PLN 132 456 thousand) valid until 31 December 2018.

As at 30 September 2015, the Company's outstandings under the overdraft agreement amounted to EUR 2 218 thousand (PLN 9 401 thousand).

Overdraft agreements with PKO Bank Polski S.A. up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand have been collateralized with:

- authorization to debit a bank account up to the total amount of PLN 800 000 thousand;
- two declarations of submission to enforcement up to the total amount of PLN 960 000 thousand valid until 18 December 2018.

As at 30 September 2015 the Company had no liabilities under this agreement.

The facility agreement with Polska Kasa Opieki S.A. expired on 31 December 2014. A declaration of submission to enforcement up to PLN 360 000 thousand collateralizing the facility is valid until 31 December 2017.

In the 9-month period ended 30 September 2015, the Company entered into an USD overdraft agreement up to USD 2 000 thousand with mBank S.A. The agreement has been collateralized with a declaration of submission to enforcement up to the amount of USD 2 400 thousand (PLN 9 061 thousand) valid until 15 April 2017. As at 30 September 2015, the Company's outstandings under the overdraft agreement amounted to USD 403 thousand (PLN 1 523 thousand).

Other

With a view to collateralizing transactions entered into on the ICE Futures Europe, the European Energy Exchange and Powernext S.A., mainly future contracts concerning emission allowances, the Company transfers margin deposits for such transactions to separate bank accounts – as at 30 September 2015, such deposits amounted to PLN 14 658 thousand.

The following agreements concluded to collateralize claims of Izba Rozliczeniowa Gield Towarowych S.A. ("IRGIT") were valid in the 9-month period ended 30 September 2015 and expired during this period:

- surety agreement between TAURON Wytwarzanie S.A. and IRGIT for the liabilities of TAURON Polska Energia S.A. (up to PLN 80 000 thousand), pursuant to the alienation agreement concluded by TAURON Wytwarzanie S.A. and IRGIT, under which the freeze on EUA emission allowances of TAURON Wytwarzanie S.A. has been made in the Register of Allowances (12 820 668 EUA);
- alienation agreement concluded by TAURON Polska Energia S.A. and IRGIT, establishing collateral for the Company's transactions on the Polish Power Exchange (Towarowa Gielda Energii S.A.) in the form of 6 600 000 EUA emission allowances.

On 27 April 2015 TAURON Polska Energia S.A. concluded another alienation agreement with IRGIT, under which the Company deposited 5 183 500 EUA emission allowances on the Allowance Account. The agreement is binding until 31 March 2016.

TAURON Polska Energia S.A. is a party to a finance lease agreement concerning real property in Katowice with the carrying amount of PLN 29 840 thousand as at 30 September 2015. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

34. Capital commitments

As at 30 September 2015 the Company had no capital commitments.

35. Related party disclosures

35.1. 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 major 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 basis.

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

Revenue and expense

| | 9-month period ended 30 September 2015 <i>(unaudited)</i> | 9-month period ended 30 September 2014 <i>(unaudited)</i> |
|--|---|---|
| Revenue from subsidiaries, of which: | 8 274 026 | 6 909 514 |
| Revenue from operating activities | 6 435 612 | 5 537 502 |
| Dividend income | 1 510 624 | 1 075 565 |
| Other operating income | 5 426 | 21 605 |
| Finance income | 322 364 | 274 842 |
| Revenue from jointly-controlled entities | 46 855 | 6 943 |
| Revenue from State Treasury companies | 646 474 | 556 169 |
| Costs from subsidiaries, of which: | (3 019 214) | (2 133 318) |
| Costs of operating activities | (2 990 741) | (2 109 342) |
| Finance costs | (28 473) | (23 976) |
| Costs incurred with relation to transactions with jointly-controlled entities | (2 182) | - |
| Costs from State Treasury companies | (779 771) | (611 524) |

Receivables and liabilities

| | As at 30 September 2015 (unaudited) | As at 31 December 2014 |
|---|---|---------------------------|
| Loans granted to subsidiaries and receivables from subsidiaries, of which: | 9 341 890 | 7 523 691 |
| Trade receivables | 589 042 | 712 846 |
| Loans granted under cash pool agreement plus interest accrued | 24 202 | 29 224 |
| Loans granted | 1 172 778 | - |
| Other financial receivables | 179 | 282 |
| TCG receivables | 94 681 | 4 353 |
| Bonds | 7 461 008 | 6 776 986 |
| Loans granted to jointly-controlled entities and receivables from these entities | 204 346 | 226 471 |
| Receivables from State Treasury companies | 72 442 | 95 890 |
| Liabilities to subsidiaries, of which: | 2 152 827 | 2 218 946 |
| Trade payables | 310 973 | 299 189 |
| Loans received under cash pool agreement plus interest accrued | 1 028 851 | 1 180 815 |
| Other loans received | 755 362 | 711 326 |
| Liabilities arising from the TCG | 52 352 | 21 480 |
| Other financial liabilities | 5 239 | 5 239 |
| Other non-financial liabilities | 50 | 897 |
| Liabilities to jointly-controlled entities | 662 | 4 966 |
| Liabilities to State Treasury companies | 75 960 | 114 941 |

Revenue from related parties includes revenue from sales of coal and biomass 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.

An increase in costs of operating activities in the 9-month period ended 30 September 2015 year-on-year was mainly due to an increase in purchases of electricity from TAURON Wytwarzanie S.A. The value of purchased electricity was PLN 1 964 873 thousand and PLN 1 077 753 thousand, respectively.

In the 9-month period ended 30 September 2015, PSE S.A. and PKP Energetyka S.A. were the major business partners of TAURON Polska Energia S.A. among State Treasury companies in terms of sales revenue. The revenue from the aforementioned entities represented 88% of the total revenue generated in transactions with State Treasury companies.

The highest costs resulted from transactions with Kompania Węglowa S.A., PGE Polska Grupa Energetyczna S.A., Katowicki Holding Węglowy S.A. and Jastrzębska Spółka Węglowa S.A. and they accounted for 91% of total expenses incurred as a result of purchases from State Treasury companies.

In the 9-month period ended 30 September 2015 the Company acquired 10% of shares in PGE EJ 1 Sp. z o.o., a special purpose vehicle, from PGE Polska Grupa Energetyczna S.A. Additionally, under a resolution to increase the issued capital of PGE EJ 1 Sp. z o.o. the Company transferred cash for taking up new shares with the face value of PLN 7 000 thousand, as discussed in detail in Note 20. The increase in the issued capital was registered on 16 October 2015.

The Company enters into material transactions in 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 sales transactions made through this entity as related-party transactions.

35.2. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Company in the 9-month period ended 30 September 2015 and in the comparative period has been presented in the table below.

| | 9-month period ended 30 September 2015 <i>(unaudited)</i> | 9-month period ended 30 September 2014 <i>(unaudited)</i> |
|--|---|---|
| Management Board | 7 767 | 7 322 |
| Short-term employee benefits (salaries and surcharges) | 6 005 | 5 296 |
| Post-service benefits for a Member of the Management Board | - | 1 123 |
| Termination benefits | 1 050 | 300 |
| Other | 712 | 603 |
| Supervisory Board | 850 | 647 |
| Short-term employee benefits (salaries and surcharges) | 850 | 647 |
| Other members of key management personnel | 11 279 | 10 195 |
| Short-term employee benefits (salaries and surcharges) | 9 990 | 9 247 |
| Post-employment benefits | - | 140 |
| Termination benefits | 456 | - |
| Other | 833 | 808 |
| Total | 19 896 | 18 164 |

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

36. Financial instruments

36.1. Carrying amount and fair value of financial instrument classes and categories

| Categories and classes of financial assets | Note | As at 30 September 2015 <i>(unaudited)</i> | | As at 31 December 2014 | |
|--|------|---|-------------------|---------------------------|-------------------|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| 1 Financial assets at fair value through profit or loss | | 3 876 | 3 876 | 1 811 | 1 811 |
| Derivative instruments | 23 | 3 876 | 3 876 | 1 811 | 1 811 |
| 2 Financial assets available for sale | | 21 302 | - | 5 181 | - |
| Long-term shares | 20 | 21 302 | - | 5 181 | - |
| 3 Loans and receivables | | 9 676 492 | 9 736 294 | 7 991 292 | 8 204 820 |
| Trade receivables | 26 | 687 997 | 687 997 | 941 842 | 941 842 |
| Bonds | 21 | 7 461 008 | 7 505 999 | 6 798 726 | 7 012 254 |
| Loans granted under cash pool agreement | 29.4 | 25 106 | 25 106 | 29 224 | 29 224 |
| Other loans granted | 22 | 1 376 813 | 1 391 624 | 204 698 | 204 698 |
| Other financial receivables | | 125 568 | 125 568 | 16 802 | 16 802 |
| 4 Financial assets excluded from the scope of IAS 39 | | 20 834 039 | - | 20 804 618 | - |
| Shares in subsidiaries | 20 | 20 418 187 | - | 20 388 766 | - |
| Shares in jointly-controlled entities | 20 | 415 852 | - | 415 852 | - |
| 5 Cash and cash equivalents | 27 | 930 987 | 930 987 | 1 228 880 | 1 228 880 |
| Total financial assets, including in the statement of financial position: | | 31 466 696 | 31 466 696 | 30 031 782 | 30 031 782 |
| Non-current assets | | 28 292 537 | 28 292 537 | 26 536 141 | 26 536 141 |
| Shares | | 20 855 341 | 20 855 341 | 20 809 799 | 20 809 799 |
| Bonds | | 7 220 488 | 7 220 488 | 5 522 725 | 5 522 725 |
| Loans granted | | 204 035 | 204 035 | 198 331 | 198 331 |
| Derivative instruments | | 410 | 410 | - | - |
| Other financial assets | | 12 263 | 12 263 | 5 286 | 5 286 |
| Current assets | | 3 174 159 | 3 174 159 | 3 495 641 | 3 495 641 |
| Trade and other receivables | | 826 408 | 826 408 | 982 582 | 982 582 |
| Bonds | | 240 520 | 240 520 | 1 276 001 | 1 276 001 |
| Loans granted | | 1 172 778 | 1 172 778 | 6 367 | 6 367 |
| Derivative instruments | | 3 466 | 3 466 | 1 811 | 1 811 |
| Cash and cash equivalents | | 930 987 | 930 987 | 1 228 880 | 1 228 880 |

TAURON Polska Energia S.A.
Condensed interim financial statements for the 9-month period ended 30 September 2015
(in PLN '000)

| Categories and classes of financial liabilities | Note | As at 30 September 2015 (<i>unaudited</i>) | | As at 31 December 2014 | |
|--|------|---|------------------|---------------------------|------------------|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| 1 Financial liabilities at fair value through profit or loss | | 11 789 | 11 789 | 15 183 | 15 183 |
| Derivative instruments | 23 | 11 789 | 11 789 | 15 183 | 15 183 |
| 2 Financial liabilities measured at amortized cost | | 9 778 006 | 9 811 334 | 9 811 465 | 9 849 118 |
| Arm's length loans, of which: | | 3 210 998 | 3 244 326 | 3 052 552 | 3 090 205 |
| Liability under the cash pool loan | 29.4 | 1 056 213 | 1 056 213 | 1 180 815 | 1 180 815 |
| Loans from the European Investment Bank | 29.2 | 1 399 423 | 1 431 290 | 1 160 411 | 1 198 064 |
| Loans from the subsidiary | 29.3 | 755 362 | 756 823 | 711 326 | 711 326 |
| Overdraft | 29.5 | 10 924 | 10 924 | 11 918 | 11 918 |
| Bonds issued | 29.1 | 5 998 977 | 5 998 977 | 6 110 631 | 6 110 631 |
| Trade payables | | 476 976 | 476 976 | 594 007 | 594 007 |
| Other financial liabilities | | 79 120 | 79 120 | 42 244 | 42 244 |
| Liabilities due to purchases of fixed and intangible assets | | 1 011 | 1 011 | 113 | 113 |
| 3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39 | | 30 936 | 30 936 | 33 159 | 33 159 |
| Liabilities under finance leases | | 30 936 | 30 936 | 33 159 | 33 159 |
| 4 Hedging instruments (relating to liabilities) | 23 | 142 608 | 142 608 | 180 933 | 180 933 |
| Total financial liabilities, including in the statement of financial position: | | 9 963 339 | | 10 040 740 | |
| Non-current liabilities | | 7 694 039 | | 7 503 745 | |
| Interest-bearing loans and borrowings | | 7 605 679 | | 7 374 836 | |
| Liabilities under finance leases | | 27 784 | | 30 169 | |
| Other financial liabilities | | 5 738 | | 5 239 | |
| Derivative instruments | | 54 838 | | 93 501 | |
| Current liabilities | | 2 269 300 | | 2 536 995 | |
| Current portion of interest-bearing loans and borrowings | | 1 615 220 | | 1 800 265 | |
| Current portion of liabilities under finance leases | | 3 152 | | 2 990 | |
| Trade and other payables | | 551 369 | | 631 125 | |
| Derivative instruments | | 99 559 | | 102 615 | |

Financial instruments measured at fair value as at the end of the reporting period, i.e. assets and liabilities measured at fair value through profit or loss and hedging derivatives were measured in line with the method described in Note 6 to these condensed interim financial statements. Fair value hierarchy disclosures are discussed in Note 36.2.

Financial instruments classified to other categories of financial instrument categories:

- Following a significant decrease in interest rates the Company carried out fair value measurement of fixed-rate financial instruments, which included bonds acquired by the Company, a loan extended to a subsidiary, loans granted by the European Investment Bank and a loan from a subsidiary as at 30 September 2015 and 31 December 2014. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate currently 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 held by the Company (excluding financial assets available for sale and excluded from the scope of IAS 39 described below) as at 30 September 2015 and 31 December 2014 did not significantly differ 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 insignificant;
 - the instruments are related to arm's length transactions.

Consequently, the fair value of the instruments in question was disclosed in the tables above at the carrying amount.

- The Company has not disclosed the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Company is unable to reliably estimate the fair value of shares held in companies which are not listed on active markets. They are measured at cost less impairment losses as at the end of the reporting period. Similarly, in accordance with the Company's accounting policy, shares in subsidiaries and jointly-controlled entities (joint arrangements) – financial assets excluded from the scope of IAS 39 - are also measured at cost less impairment losses.

36.2. Fair value hierarchy

Fair value hierarchy of financial instruments measured at fair value as at 30 September 2015 and 31 December 2014:

| Classes of financial instruments | As at 30 September 2015 (unaudited) | | As at 31 December 2014 | |
|------------------------------------|--|---------|------------------------|---------|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| Assets | | | | |
| Derivative instruments - commodity | 1 198 | - | 312 | - |
| Derivative instruments - currency | - | 1 213 | - | - |
| Derivative instruments - CCIRS | - | 1 465 | - | 1 499 |
| Liabilities | | | | |
| Derivative instruments - commodity | - | - | 562 | - |
| Derivative instruments - CCIRS | - | 4 890 | - | 1 241 |
| Derivative instruments - IRS | - | 149 507 | - | 194 313 |

The methods of estimating the fair value of derivatives, discussed in detail in Note 6 hereto, have not changed since 31 December 2014.

37. Finance and financial risk management

37.1. 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 in the Group, which lays down the principles and defines the 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 and not to the fair value risk due to its limited significance for the Group.

Hedge accounting

As at 30 September 2015, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance. Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Company hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme (Tranche A and Tranche C), by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. Following early redemption of Tranche A bonds carried out on 29 December 2014, the Company no longer applied hedge accounting to IRS contracts hedging the bonds redeemed. The Company still applies hedge accounting to the remaining IRS contracts hedging Tranche C bonds. The accounting treatment of the aforementioned hedging transactions has been presented in detail in Note 28.3 to these condensed interim financial statements.

37.2. 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 have been no significant changes in finance and capital management objectives, principles and procedures.

38. Events after the end of the reporting period

Changes in the composition of the Management Board of TAURON Polska Energia S.A.

The composition of the Management Board of TAURON Polska Energia S.A. changed after the end of the reporting period. On 1 October 2015 the Supervisory Board of the Company dismissed the following persons from the Management Board:

- Dariusz Lubera – President of the Management Board,
- Aleksander Grad – Vice-President of the Management Board for Corporate Affairs,
- Katarzyna Rozenfeld – Vice-President of the Management Board for Commercial Affairs.

On 1 October 2015 the following persons resigned from their positions in the Management Board:

- Stanisław Tokarski – Vice-President of the Management Board for Strategy and Development,
- Krzysztof Zawadzki - Vice-President of the Management Board for Economics and Finance.

At the same time, on 1 October 2015 the Supervisory Board appointed the following persons to the Management Board of TAURON Polska Energia S.A.:

- Jerzy Kurella – as the President of the Management Board,
- Michał Gramatyka – as the Vice-President of the Management Board for Commercial Affairs,
- Henryk Borczyk – as the Vice-President of the Management Board for Corporate Affairs,

On 10 October 2015 the Supervisory Board appointed the following persons to the Management Board of TAURON Polska Energia S.A., effective as of the same date:

- Anna Strzyżek – as the Vice-President of the Management Board for Economics and Finance,
- Piotr Kołodziej – as the Vice-President of the Management Board for Strategy and Development.

Preliminary contingent agreement for sale of a portion of assets in KWK Brzeszcze

On 19 October 2015, RSG Sp. z o.o. ("Acquirer" or "RSG"), a company wholly owned by TAURON Polska Energia S.A., and Spółka Restrukturyzacji Kopalń S.A. ("SRK") concluded a preliminary contingent agreement for sale of a specified part of Brzeszcze mining plant ("Preliminary Agreement").

Under the Preliminary Agreement the parties are obliged to enter into an agreement for sale of a specified part of Brzeszcze mining plant constituting an organized part of the enterprise, including tangible and intangible assets used in mining, processing and trading in coal and methane ("Subject of the Sale").

The purchase price of the Subject of the Sale will amount to PLN 1. The preliminary contingent Agreement specifies the following conditions precedent for entering into the Final Agreement, which should be met jointly by 24 December 2015:

- Before signing the Final Agreement, SRK will provide consent of SRK's General Shareholders' Meeting, whereby voting rights attributable to all shares will be exercised by the Ministry of State Treasury,
- Before signing the Final Agreement RSG will provide:
 - consents of competent bodies of RSG required under the Code of Commercial Companies and the Articles of Association of RSG and consents of TAURON Polska Energia S.A.'s competent bodies,
 - consent for concentration, i.e. RSG's acquisition of the Subject of the Sale, granted by the President of the Office for Competition and Consumer Protection,
 - decision of the Ministry of Environment to transfer the concession to mine hard coal and extract coal-bed methane from the Brzeszcze deposit and other related decisions.

The parties also agreed that irrespective of the conditions specified above, the Final Agreement may be concluded provided that Kompania Węglowa S.A. reduces the volume of own hard coal (ca. 600 thousand tons), stored in coal mounds on real property included in the specified part of the mining plant in Brzeszcze by at least 100 thousand tons by the day immediately preceding the date of concluding the Final Agreement, but not later than 45 days from the date of entering into the Preliminary Agreement (whichever occurs earlier) and provides RSG with the schedule of removing the entire coal stored in the mound within six months from the date of entering into the Final Agreement.

The conditions precedent have been reserved for the benefit of the Acquirer.

The parties have agreed that the Final Agreement will be concluded by 31 December 2015.

The Preliminary Agreement does not specify the headcount or the remunerations of employees of the organized part of the enterprise acquired.

As the parties intend to carry out uninterrupted and undisturbed operations they agreed to determine the principles of cooperation after the acquisition of the Subject of the Sale by RSG in a separate agreement. In particular they will define the rules of rendering services related to ventilation of the Brzeszcze mining plant not later than at the date of concluding the Final Agreement. The agreement will remain in force until 31 December 2018.

On 19 October 2015, the Acquirer entered into an agreement with trade unions operating in the KWK Brzeszcze ("Agreement"), under which the Acquirer pledged to continue the existing business operations of the mining plant in compliance with the economic account principles. About 1500 employees of KWK Brzeszcze will be transferred to the new employer under Article 23.1 of the Labor Code. Parties to the Agreement agreed to conclude a new Collective Labour Agreement introducing a performance-related pay system.

The Company intends to take all business and legal steps to increase the issued capital of the Acquirer up to the maximum amount of PLN 185 000 thousand, including the possibility of debt financing of the Acquirer, provided that all corporate approvals are obtained. Financial plans consider the risk that the Acquirer will be requested to return a government grant awarded to SRK and related to the Subject of the Sale.

On 20 October 2015 the Regional Court Katowice-Wschód in Katowice registered a change of the name of RSG Sp. z o.o. to Nowe Brzeszcze Grupa TAURON Sp. z o.o. As indicated in the Agreement, the Company intends to take steps aimed at merging the entity with TAURON Wydobycie S.A., a subsidiary.

Planned capital increase of the Company

An Extraordinary General Shareholders' Meeting was convened for 9 November 2015. The meeting agenda covered adopting a resolution to increase the issued capital of the Company by way of issuing preference non-voting registered C series shares, waiving all pre-emption rights to C series shares of the existing shareholders and the amendment of the Company's By-laws. The resolution draft assumes increasing the issued capital of the Company by PLN 400 000 thousand, i.e. from PLN 8 762 747 thousand to PLN 9 162 747 thousand, by way of issuing 80 000 thousand new registered C series shares with the face value of PLN 5 per one share and the total face value of PLN 400 000 thousand. C series shares will be issued as non-voting registered shares (with voting rights waived) having preference over the ordinary shares as to the payment of dividends. The new shares in the increased issued capital of the Company will be taken up at the issue price equal to the face value. The C series shares will be issued in a closed subscription under Article 431.2.1 of the Code of Commercial Companies, where the Company will offer C series shares to the shareholder (the State Treasury) and the State Treasury will accept the offer to take up the shares in question. The State Treasury will make a contribution-in-kind to increase the issued capital of the Company. On 20 October 2015 the Council of Ministers approved the request of the Minister of the State Treasury to dispose of shares in a manner other than that stipulated in Article 33.1 of the Act on Commercialization and Privatization, i.e. by way of contributing a portion of shares of Powszechna Kasa Oszczędności Bank Polski S.A. held by the State Treasury and constituting up to 1.01% of the issued capital to TAURON Polska Energia S.A. in exchange for shares in the increased issued capital of TAURON Polska Energia S.A. The value of the contribution-in-kind will be determined in accordance with Article 431.7 and in conjunction with Article 312¹.1.1 of the Code of Commercial Companies, based on the weighted average price of contributed shares quoted on the regulated market in the period of six months immediately preceding the date of the contribution-in-kind.

C series shares will have preference in dividend payment, i.e. dividend per one C series share will constitute 200% of dividend per one ordinary share of the Company and preferred dividends on C series shares will be paid before paying dividends on any other shares. The right of preference of C series shares will expire when the total additional dividend (understood as the difference between the dividend paid to a holder of C series shares and the dividend which would have been payable to a holder of the same number of ordinary shares in the Company as the number of C series shares held) paid for all C-series shares reaches or exceeds the amount determined in line with the formula below:

$Cv - Mv + Ia$

where:

Cv means the value of the contribution-in-kind determined for the purpose of covering the issue price of C-series shares;

Mv means a market value of ordinary bearer shares of the Company publicly traded on a regulated market managed by the Warsaw Stock Exchange and with the assigned ISIN: PLTAURN00011, determined as the weighted average price at

which the Company's shares have been quoted on the regulated market in the period of six months immediately preceding the date of the contribution-in-kind;

Ia means an amount of interest calculated at an annual rate equal to WIBOR 6M (determined for each 6-month period two business days before the beginning of a given period) increased by 50 b.p. for each day of the period from the date of the contribution-in-kind to the date of payment of additional dividend to holders of C series shares equal to the difference between the value of the contribution-in-kind specified above and the market value of the Company's shares ($C_v - M_v$). On each day of this period the amount of interest is calculated on the amount equal to the difference between the value of the contribution-in-kind and the market value of the Company's shares unpaid to a given holder of C-series shares as additional dividend at a given date.

When the right of preference expires C series shares become ordinary registered shares.

The resolution will entail appropriate changes in Articles 6-8 of the Company's By-laws.

The Extraordinary General Meeting of the Company on 9 November 2015 adopted a resolution on adjournment of Extraordinary General Meeting thus the resolution to increase the issued capital of the Company was not processed on 9 November 2015. The resumption of the Extraordinary General Meeting will take place on 23 November 2015.

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 9-month period ended 30 September 2015 in accordance with International Accounting Standard 34 have been presented on 51 consecutive pages.

Katowice, 10 November 2015

Henryk Borczyk – Vice-President of the Management Board

Anna Strzyk - Vice-President of the Management Board