TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ENDORSED BY THE EUROPEAN UNION FOR THE YEAR ENDED 31 DECEMBER 2017

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(in PLN '000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Sales revenue	**12**	17 416 029	17 646 489
Cost of sales, of which:	**13**	(14 503 685)	(15 717 462)
Impairment of non-financial non-current assets	***13.3***	*(40 857)*	*(832 092)*
Profit on sale		**2 912 344**	**1 929 027**
Selling and distribution expenses	**13**	(491 629)	(459 191)
Administrative expenses	**13**	(610 365)	(652 827)
Other operating income and expenses	**14**	(4 079)	(15 487)
Operating profit		**1 806 271**	**801 522**
Share in profit/(loss) of joint ventures	**22**	73 050	60 040
Interest expense on debt	**15**	(209 322)	(259 564)
Other finance income and costs	**15**	87 653	(93 137)
Profit before tax		**1 757 652**	**508 861**
Income tax expense	**16.1**	(374 706)	(138 724)
Net profit		**1 382 946**	**370 137**
Measurement of hedging instruments	**30.5**	(8 159)	127 252
Foreign exchange differences from translation of foreign entities		(2 425)	9 991
Income tax	**16.1**	1 550	(24 178)
Other comprehensive income subject to reclassification to profit or loss		**(9 034)**	**113 065**
Actuarial gains/(losses)	**33.1**	19 653	204 597
Income tax	**16.1**	(3 734)	(38 874)
Share in other comprehensive income of joint ventures	**22**	(519)	(1 040)
Other comprehensive income not subject to reclassification to profit or loss		**15 400**	**164 683**
Other comprehensive income, net of tax		**6 366**	**277 748**
Total comprehensive income		**1 389 312**	**647 885**
Net profit:			
Attributable to equity holders of the Parent		1 380 663	367 468
Attributable to non-controlling interests		2 283	2 669
Total comprehensive income:			
Attributable to equity holders of the Parent		1 386 996	644 944
Attributable to non-controlling interests		2 316	2 941
Basic and diluted earnings per share (in PLN):	**17**	0.79	0.21

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2017	As at 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	**18**	28 079 886	26 355 189
Goodwill	**19**	40 156	40 156
Energy certificates and emission allowances for surrender	**20.1**	303 130	126 260
Other intangible assets	**21**	1 254 077	1 224 427
Investments in joint ventures	**22**	499 204	461 348
Loans granted to joint ventures	**23**	240 767	240 951
Other financial assets	**24**	238 095	227 140
Other non-financial assets	**25.1**	346 846	422 400
Deferred tax assets	**16.3**	46 966	50 382
		31 049 127	**29 148 253**
Current assets			
Energy certificates and emission allowances for surrender	**20.2**	656 703	980 348
Inventories	**26**	295 463	486 120
Receivables from buyers	**27**	2 032 813	1 894 065
Receivables arising from taxes and charges	**28**	244 126	263 854
Loans granted to joint ventures	**23**	329 665	15 116
Other financial assets	**24**	171 910	79 637
Other non-financial assets	**25.2**	87 055	185 008
Cash and cash equivalents	**29**	909 249	384 881
Non-current assets classified as held for sale		15 910	19 612
		4 742 894	**4 308 641**
TOTAL ASSETS		**35 792 021**	**33 456 894**

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 December 2017	As at 31 December 2016
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**30.1**	8 762 747	8 762 747
Reserve capital	**30.3**	7 657 086	7 823 339
Revaluation reserve from valuation of hedging instruments	**30.5**	23 051	29 660
Foreign exchange differences from translation of foreign entities		6 776	9 200
Retained earnings/(Accumulated losses)	**30.4**	1 586 786	24 320
		18 036 446	**16 649 266**
Non-controlling interests	**30.6**	**31 367**	**30 052**
Total equity		**18 067 813**	**16 679 318**
Non-current liabilities			
Debt	**32**	9 501 414	8 759 789
Provisions for employee benefits	**33**	1 380 650	1 373 385
Provisions for disassembly of fixed assets, land restoration and other provisions	**34**	351 138	449 310
Accruals, deferred income and government grants	**37**	541 318	554 293
Deferred tax liabilities	**16.3**	871 865	759 568
Other financial liabilities	**41**	91 620	72 374
		12 738 005	**11 968 719**
Current liabilities			
Debt	**32**	351 382	219 740
Liabilities to suppliers	**38**	1 042 427	829 729
Capital commitments	**39**	797 304	1 033 804
Provisions for employee benefits	**33**	134 273	158 228
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	**35**	953 389	964 821
Other provisions	**36**	353 271	366 456
Accruals, deferred income and government grants	**37**	296 576	267 662
Liabilities arising from taxes and charges	**40**	452 592	410 943
Other financial liabilities	**41**	294 139	256 295
Other non-financial liabilities	**42**	310 850	301 179
		4 986 203	**4 808 857**
Total liabilities		**17 724 208**	**16 777 576**
TOTAL EQUITY AND LIABILITIES		**35 792 021**	**33 456 894**

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2016		**8 762 747**	**11 277 247**	**(73 414)**	**(791)**	**(3 947 461)**	**16 018 328**	**29 829**	**16 048 157**
Dividend	**30.6, 31**	–	–	–	–	–	**–**	(3 043)	**(3 043)**
Accounting for acquisition of ZCP Brzeszcze		–	–	–	–	(14 041)	**(14 041)**	–	**(14 041)**
Other transactions with non-controlling shareholders	**30.6**	–	–	–	–	35	**35**	325	**360**
Coverage of prior years loss		–	(3 453 908)	–	–	3 453 908	**–**	–	**–**
Transactions with shareholders		**–**	**(3 453 908)**	**–**	**–**	**3 439 902**	**(14 006)**	**(2 718)**	**(16 724)**
Net profit		–	–	–	–	367 468	**367 468**	2 669	**370 137**
Other comprehensive income		–	–	103 074	9 991	164 411	**277 476**	272	**277 748**
Total comprehensive income		**–**	**–**	**103 074**	**9 991**	**531 879**	**644 944**	**2 941**	**647 885**
As at 31 December 2016		**8 762 747**	**7 823 339**	**29 660**	**9 200**	**24 320**	**16 649 266**	**30 052**	**16 679 318**
Dividend	**30.6, 31**	–	–	–	–	–	**–**	(564)	**(564)**
Other transactions with non-controlling shareholders	**30.6**	–	–	–	–	184	**184**	(437)	**(253)**
Coverage of prior years loss	**30.3**	–	(166 253)	–	–	166 253	**–**	–	**–**
Transactions with shareholders		**–**	**(166 253)**	**–**	**–**	**166 437**	**184**	**(1 001)**	**(817)**
Net profit		–	–	–	–	1 380 663	**1 380 663**	2 283	**1 382 946**
Other comprehensive income		–	–	(6 609)	(2 424)	15 366	**6 333**	33	**6 366**
Total comprehensive income		**–**	**–**	**(6 609)**	**(2 424)**	**1 396 029**	**1 386 996**	**2 316**	**1 389 312**
As at 31 December 2017		**8 762 747**	**7 657 086**	**23 051**	**6 776**	**1 586 786**	**18 036 446**	**31 367**	**18 067 813**

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities			
Profit before taxation		**1 757 652**	**508 861**
Share in (profit)/loss of joint ventures		(73 050)	(60 040)
Depreciation and amortization		1 693 468	1 668 726
Impairment losses on property, plant and equipment and intangible assets		45 604	867 109
Exchange differences		(130 543)	23 549
Interest and commissions		203 653	249 719
Other adjustments of profit before tax		(7 351)	(26 252)
Change in working capital	43.1	212 451	227 335
Income tax paid	43.1	(143 217)	(394 792)
Net cash from operating activities		**3 558 667**	**3 064 215**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	43.2	(3 561 758)	(3 516 296)
Loans granted	43.2	(307 132)	(23 575)
Public aid refund		–	(131 077)
Purchase of investment fund units		(75 000)	(25 000)
Purchase of financial assets		(15 055)	(11 621)
Total payments		**(3 958 945)**	**(3 707 569)**
Proceeds from sale of property, plant and equipment and intangible assets		36 668	33 260
Dividends received	43.2	24 636	29 728
Other proceeds		25 965	17 123
Total proceeds		**87 269**	**80 111**
Net cash used in investing activities		**(3 871 676)**	**(3 627 458)**
Cash flows from financing activities			
Redemption of debt securities	43.3	(1 650 000)	(3 300 000)
Repayment of loans and borrowings	43.3	(154 918)	(140 331)
Interest paid	43.3	(184 550)	(255 116)
Other payments		(31 865)	(29 697)
Total payments		**(2 021 333)**	**(3 725 144)**
Issue of debt securities	43.3	2 707 462	4 284 607
Proceeds from contracted loans/borrowings		–	914
Subsidies and amends received		73 500	29 884
Total proceeds		**2 780 962**	**4 315 405**
Net cash from financing activities		**759 629**	**590 261**
Net increase / (decrease) in cash and cash equivalents		**446 620**	**27 018**
Net foreign exchange difference		1 820	1 283
Cash and cash equivalents at the beginning of the period	29	**354 733**	**327 715**
Cash and cash equivalents at the end of the period, of which:	29	**801 353**	**354 733**
restricted cash	29	152 952	144 404

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

INFORMATION ABOUT THE CAPITAL GROUP AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Information about the TAURON Polska Energia S.A. Capital Group and its Parent

The TAURON Polska Energia S.A. Capital Group (the "Group", the "Capital Group", the "TAURON Group") is composed of TAURON Polska Energia S.A. (the "Parent", the "Company") and its subsidiaries. TAURON Polska Energia S.A. is located in Katowice in ul. ks. Piotra Ściegiennego 3. The Company operates as a joint-stock company incorporated by a notarized deed on 6 December 2006. Until 16 November 2007 it had operated under the name Energetyka Południe S.A.

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, under number KRS 0000271562.

The duration of the Parent and the companies in the Capital Group is unlimited. The operations are based on appropriate licences granted to individual companies of the Group.

The core business of the TAURON Group includes the following segments: Mining, Generation (encompassing generation of electricity from conventional and renewable sources and generation of heat), Distribution, Sales and other operations, including customer service, which has been discussed in more detail in Note 10 to these consolidated financial statements.

These consolidated financial statements have been prepared for the financial year ended 31 December 2017 and contain comparative information for the year ended 31 December 2016.

These consolidated financial statements were approved for publication by the Management Board on 12 March 2018.

Composition of the Management Board

Management Board as at 31 December 2017:

- Filip Grzegorczyk – President of the Management Board;
- Jarosław Broda – Vice President of the Management Board;
- Kamil Kamiński – Vice President of the Management Board;
- Marek Wadowski – Vice President of the Management Board.

Changes to the composition of the Management Board in the year ended 31 December 2017 have been presented in the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2017 (Section 6.11.1).

As at the date of approval of these financial statements for publication the composition of the Management Board had not changed.

Management Board as at 31 December 2016:

- Filip Grzegorczyk – President of the Management Board;
- Jarosław Broda – Vice President of the Management Board;
- Kamil Kamiński – Vice President of the Management Board;
- Marek Wadowski – Vice President of the Management Board;
- Piotr Zawistowski – Vice President of the Management Board.

2. Composition of the TAURON Capital Group and Joint Ventures

As at 31 December 2017, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

(in PLN '000)

Item	Company name	Registered office	Operating segment	Interest in the share capital by TAURON Polska Energia S.A.	Interest in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.[1]	Jaworzno	Generation	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.[1]	Jaworzno	Generation	100.00%	100.00%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Generation	100.00%	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%	100.00%
7	TAURON Serwis Sp. z o.o.	Katowice	Generation	95.61%	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution	99.74%	99.75%
9	TAURON Dystrybucja Serwis S.A.	Wrocław	Distribution	100.00%	100.00%
10	TAURON Dystrybucja Pomiary Sp. z o.o.[2]	Tarnów	Distribution	99.74%	99.75%
11	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
12	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%	100.00%
13	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%	100.00%
16	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.[3]	Warszawa	Other	100.00%	100.00%
17	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%	100.00%
18	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o.[2, 4]	Tarnów	Other	99.74%	99.75%

[1] *On 3 April 2017 TAURON Wytwarzanie S.A. was spun off and a branch of activity was transferred to Nowe Jaworzno Grupa TAURON Sp. z o.o.*
[2] *TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o. o (formerly: KOMFORT-ZET Sp. z o.o.) through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses shares in TAURON Dystrybucja Pomiary Sp. z o.o.*
[3] *On 8 March 2017, the Extraordinary General Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation adopted a resolution to revoke the liquidation of the company.*
[4] *On 6 September 2017, the name of Komfort-Zet Sp. z o.o. was changed to Wsparcie Grupa TAURON Sp. z o.o.*

As at 31 December 2017, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

Item	Company name	Registered office	Operating segment	Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A.
1	Elektrociepłownia Stalowa Wola S.A.[1]	Stalowa Wola	Generation	50.00%
2	TAMEH HOLDING Sp. z o.o.[2]	Dąbrowa Górnicza	Generation	50.00%
3	TAMEH POLSKA Sp. z o.o.[2]	Dąbrowa Górnicza	Generation	50.00%
4	TAMEH Czech s.r.o.[2]	Ostrawa, Czech Republic	Generation	50.00%

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

3. Statement of Compliance

These consolidated financial statements have been prepared in compliance with the requirements of the International Financial Reporting Standards ("IFRS"), as endorsed by the European Union ("EU").

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

The Group companies and the Parent keep their accounting records and prepare financial statements in compliance with the International Financial Reporting Standards ("IFRS") as endorsed by the EU, except for TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ), which keep their accounting records and prepare their financial statements in line with accounting policies applicable in the Czech Republic and Sweden, respectively.

The consolidated financial statements contain adjustments which have not been recognized in the accounting records of the Group companies, introduced in order to achieve compliance of the consolidated financial statements with EU-IFRS.

4. Going Concern

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as a going concern in the foreseeable future. As at the date of approval for publication of these consolidated financial statements, no circumstances posing a risk to the Group companies' ability to continue as a going concern had been identified.

The Group identifies and actively manages the liquidity risk understood as the possibility of losing or limiting the ability to pay current expenses, and despite the negative working capital as at the balance sheet date, has the full capacity to pay its liabilities on the date of their payment. As at the balance sheet date, the Group has available financing under the overdraft facility and as part of bond issue programs.

5. Functional and Presentation Currency

The Polish zloty has been used as the presentation currency of these consolidated financial statements and the functional currency of the Parent and the subsidiaries included in these consolidated financial statements, except TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ). The functional currency of TAURON Czech Energy s.r.o. is the Czech koruna ("CZK"), while the functional currency of TAURON Sweden Energy AB (publ) is the euro ("EUR"). Individual items of the financial statements of TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ) are translated to the presentation currency of the TAURON Group using applicable exchange rates.

These consolidated financial statements have been presented in the Polish zloty (PLN) and all figures are in PLN thousand, unless stated otherwise.

6. Material Values Based on Professional Judgement and Estimates

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

Presented below are the items of the consolidated financial statements exposed to a considerable risk of material adjustment of the carrying amounts of assets and liabilities.

(in PLN '000)

Item	Significant accounting policies	Note	Estimates and assumptions
Property, plant and equipment	Note 9.2 Note 9.6	Note 18	At the end of each reporting period, the Group verifies whether or not there are objective indications of impairment of items of property, plant and equipment. If there are objective indications of impairment, the Group is obliged to perform impairment tests for items of property, plant and equipment. The Group reviews, at least at the end of each financial year, the useful lives of property, plant and equipment, and depreciation charges may be adjusted effective from the beginning of the reporting period when the review was completed.
Goodwill	Note 9.3 Note 9.6	Note 19	Goodwill is tested for impairment annually and at the end of each reporting period if indications of impairment are identified.
Provisions	Note 9.19 Note 9.20 Note 9.21 Note 9.22	Note 33 Note 34 Note 35 Note 36	The value of provisions is determined based on assumptions made by the Group as well as a methodology and calculation method that is appropriate for a specific provision. To this end, the Group verifies the probability of an outflow of resources embodying economic benefits and estimates reliably the amount necessary to fulfil the obligation. Provisions are recognized if the probability of an outflow of resources embodying economic benefits is higher than 50%.
Accrued revenue from the sale of electricity and distribution services in the Sales segment	Note 9.27	Note 12	At each balance sheet date the Group estimates and recognizes additional estimates from the sale of electricity and distribution services.
Deferred tax assets	Note 9.26	Note 16.3	At the end of each reporting period, the Group verifies whether or not the deferred tax assets may be realized.
Derivative instruments	Note 9.17	Note 44.3	Derivative financial instruments are measured at fair value at the end of each reporting period. Derivative instruments acquired and held for internal purposes are not measured at the end of the reporting period.
Receivables from buyers	Note 9.12	Note 27	At the end of each reporting period, the Group verifies whether or not there are any objective indications of impairment of its receivables from buyers, relying mainly on the assessment of the counterparty credit risk. Where appropriate, impairment losses are recognized on receivables from buyers.

Additionally, the Group's material estimates include contingent liabilities recognized, in particular, in relation to legal proceedings to which the Group companies are parties. Contingent liabilities have been discussed in more detail in Note 47 to these consolidated financial statements.

7. New Standards and Interpretations

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

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

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

IFRS 9 *Financial Instruments*
Effective date in the EU: annual periods beginning on or after 1 January 2018.

Key changes introduced by IFRS 9 *Financial Instruments*:

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

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

- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income (FVTOCI),
- financial assets measured at fair value through profit or loss (FVTPL).

(in PLN '000)

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

- cash flow characteristics (SPPI test; Solely Payments of Principal and Interest),
- a business model underlying the management of financial assets.

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

In place of the existing rules for the recognition of credit losses based on the incurred credit losses, IFRS 9 *Financial Instruments* introduces the concept of expected credit losses, resulting in recognition of a loss allowance upon initial recognition of an asset. The requirements regarding impairment of financial assets apply in particular to financial assets measured at amortized cost and at fair value through other comprehensive income.

Impact on the consolidated financial statements as at 1 January 2018

Estimated effect on retained earnings of the application of IFRS 9 *Financial Instruments* as at 1 January 2018:

Categories and classes of financial instruments in line with IAS 39	IAS 39		IFRS 9			Estimated effect of change
				Fair value through:		
	At amortized/ historical cost	At fair value	At amortized cost	Profit/loss	Other comprehensive income	Increase/ (decrease)
1 Financial assets at fair value through profit or loss – held for trading	**–**	**106 292**	**–**	**106 292**	**–**	**–**
Derivative instruments	–	4 934	–	4 934	–	–
Investment fund units	–	101 358	–	101 358	–	–
2 Financial assets available for sale	**141 698**	**2 719**	**–**	**130 657**	**–**	**(13 760)**
Long-term shares*	141 656	–	–	127 896	–	(13 760)
Short-term shares*	42	–	–	42	–	–
Investment fund units	–	2 719	–	2 719	–	–
3 Loans and receivables	**2 734 059**	**–**	**2 473 012**	**177 274**	**–**	**(83 773)**
Receivables from buyers	2 032 813	–	2 049 658	–	–	16 845
Gross value	2 262 490	–	2 262 490	–	–	–
Impairment loss	(229 677)	–	(212 832)	–	–	16 845
Deposits	39 756	–	39 756	–	–	–
Loans granted	580 979	–	329 402	150 959	–	(100 618)
Gross value	580 979	–	340 212	150 959	–	(89 808)
Impairment loss	–	–	(10 810)	–	–	(10 810)
Other financial receivables	80 511	–	54 196	26 315	–	–
4 Hedging derivative instruments	**–**	**28 482**	**–**	**28 482**	**–**	**–**
5 Cash and cash equivalents	**–**	**909 249**	**–**	**909 249**	**–**	**–**
Total estimated effect of the application of IFRS 9 on financial assets						**(97 533)**
1 Financial liabilities measured at amortised cost	**470 239**	**–**	**437 128**	**–**	**–**	**33 111**
Loan granted by European Investment Bank	470 239	–	437 128	–	–	33 111
Total estimated effect of the application of IFRS 9 on financial liabilites						**33 111**
Estimated effect on retained earnings						**(64 422)**
Deferred tax						**12 240**
Estimated effect on retained earnings after deferred tax						**(52 182)**

* *Measurement at historical cost.*

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

The categories of financial assets identified in IAS 39 *Financial Instruments: Recognition and Measurement* cannot be directly translated into those identified in IFRS 9 *Financial instruments* and therefore the Group has developed a method of classification of financial assets which sets the terms of SPPI and business model tests. The Group performed business model and SPPI tests for all material items of its financial assets as at 31 December 2017.

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

The subordinated loan and the loans used for the purposes of repayment of debt originated to the joint venture Elektrociepłownia Stalowa Wola S.A., measured at amortized cost in line with IAS 39 *Financial Instruments: Recognition and Measurement*, whose carrying amount as at 31 December 2017 was PLN 240 767 thousand, were categorized into financial assets measured at fair value through profit or loss at PLN 150 959 thousand since the cash flows they generate do not correspond solely to the repayment of principal and interest. The application of IFRS 9 *Financial Instruments in* this respect will reduce the retained earnings of the Group as at 1 January 2018 by PLN 89 808 thousand.

IFRS 9 *Financial Instruments* requires that equity interests in other entities be measured at fair value, also with respect to those shares which – due to limited availability of information – have thus far been measured at cost less impairment losses. Therefore the Group estimated the fair value of the above instruments in line with the adjusted net assets method considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the lack of liquidity of the above instruments. As the key factors affecting the value of the acquired shares had not changed at a given end of the reporting period as compared to initial recognition, in the case of some instruments the Group assumes that the historical cost is a reasonable approximation of fair value. The application of IFRS 9 *Financial Instruments in the* scope of equity share measurement will reduce the retained earnings of the Group as at 1 January 2018 by PLN 13 760 thousand. In accordance with IFRS 9 *Financial Instruments* the above equity instruments will be measured at fair value through profit or loss.

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

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

- receivables from buyers and
- originated loans.

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

Based on carried out analyses, the Group expects that the total value of loss allowance for expected credit losses on receivables from buyers following the application of IFRS 9 *Financial Instruments* will decrease compared to the value estimated in line with the earlier principles, which will consequently increase the retained earnings as at 1 January 2018 by PLN 16 845 thousand.

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

It is expected that due to the application of IFRS 9 *Financial Instruments* the total value of loss allowance for expected credit losses on originated loans, measured at amortized cost, will decrease retained earnings of the Group as at 1 January 2018 by PLN 10 810 thousand.

Based on the method of classification of financial assets, the Group has verified the cash flows of owned financial assets and the Group's business models underlying the management of the financial assets.

- **Change in the measurement of liabilities in case of modification of cash flows resulting from the contract**

IFRS 9 *Financial Instruments* also introduces a change in the terms of measurement of liabilities for which there is a modification of cash flows resulting from the contract. The TAURON Group has liabilities under loans granted by European Investment Bank, for which such a modification takes place in the form of a change in the interest rate on a fixed date. The Group estimates that the implementation of IFRS 9 *Financial Instruments* in this respect will increase the retained earnings of the Group as at 1 January 2018 by PLN 33 111 thousand.

- **Hedge Accounting**

As at 31 December 2017 the Group held instruments hedging fluctuations in cash flows related to issued bonds and resulting from the interest rate risk. These interest rate swaps are subject to hedge accounting.

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

- **Measurement of financial liabilities arising from issued financial guarantees**

The Group conducted an analysis of the influence of IFRS 9 *Financial Instruments* on the measurement of financial liabilities arising from issued financial guarantees. As a result of conducted analysis no material impact of IFRS 9 *Financial Instruments* on the measurement of liabilities in the amount of expected credit losses was identified.

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

The new standard requires significantly extended disclosures regarding sales and revenue in order to help users of financial statements to understand the nature, recognition period, amount, risks and uncertainties related to the revenue and cash flows arising from contracts with customers. In particular, a reporting entity is obliged to make quantitative and qualitative disclosures regarding: contracts with customers, key assumptions and estimates made and assets recognized from the costs to obtain or fulfil a contract with a customer.

Impact on the consolidated financial statements as at 1 January 2018

The Group has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 15 *Revenue from Contracts with Customers*, i.e. with the cumulative effect of initially applying this Standard recognized at the date of initial application.

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

(in PLN '000)

The estimated impact on retained earnings of the initial adoption of IFRS 15 *Revenue from Contracts with Customers* as at 1 January 2018:

Estimated impact on retained earnings	
Distribution segment	
Write-off of deferred income (connection fees)	195 666
	195 666
Sales segment	
Recognition of assets relating to variable consideration and discounts	7 504
Recognition of assets relating to contract acquisition costs	23 479
	30 983
Total estimated impact of IFRS 15	**226 649**
Deferred tax	(43 063)
Estimated impact on retained earnings, taking account of deferred tax	**183 586**

In the Distribution segment, the Group analysed contracts constituting the basis for recognition of revenue from the connection of new buyers as well as distribution and comprehensive services contracts in light of IFRS 15 *Revenue from Contracts with Customers* so as to identify separate services as required by the standard. The measures taken by the Group included an analysis of the sources of law which form the basis for the provision of the aforesaid services, the legal obligations imposed on it with respect to the connection of new buyers, its discretion to set the prices of services, the relationship and interdependence of the consideration received for the provision of the aforesaid services, the possibility to include both supplies in one contract and the rights of customers being parties to the connection contract and the distribution/comprehensive contract to resign from the purchase of distribution/comprehensive services. Considering this analysis the Group decided that, in accordance with IFRS 15 *Revenue from Contracts with Customers*, the distribution/comprehensive services contracts and the connection contracts are not a single obligation and should not be recognized in aggregate. Therefore the Group will recognize revenues from the connection contracts on a non-recurring basis when the promised service, i.e. connection to the grid, has been performed. Such recognition complies with the Group's accounting policy and will not change its profit/loss.

As far as the recognition of revenue from connection fees for services performed by 1 July 2009 is concerned, the Group decided that, if a retrospective approach is adopted, as at 1 January 2018 PLN 195 666 thousand of deferred income will be transferred to the Group's equity and the revenue will be subsequently reduced due to lack of recognition of the above deferred income in the Group's future profit or loss (with approx. PLN 22 million in the year ended 31 December 2018).

By the date of approval of these consolidated financial statements, as part of measures taken to implement IFRS 15 *Revenue from Contracts with Customers*, the Group also analysed the following, key issues that may affect the profit/loss and the Group's revenues and expenses in the Sales segment.

- Customer acquisition costs – costs to execute new contracts with customers incurred by the companies in the Sales segment on external counterparties and other companies in the Group.

  The Group has analysed whether such costs may be recognized as the costs of obtaining a contract in line with IFRS 15 *Revenue from Contracts with Customers* and capitalized throughout the term of the contract. The analysis revealed that the costs of commission the payment of which depends on a specific contract and which are now charged to profit or loss on a non-recurring basis satisfy the conditions for classification to the costs of obtaining a contract and thus they may be capitalized as of 1 January 2018. The application of IFRS 15 *Revenues from Contracts with Customers* with respect to the costs of obtaining a contract will increase the Group's retained earnings as at 1 January 2018 by PLN 23 479 thousand.

- Multiple-element arrangements – contracts whereby the customer is offered multiple products of the Group which guarantees more favourable terms and conditions than if the products were sold under separate contracts. This applies mainly to combined sales of gas and electricity.

  The analysis revealed that in the case of sales of electricity and gas the Group may apply a simplification whereby separate goods/services, which are generally the same and whose transfer to a customer is conducted in the same manner, are recognized as a single performance obligation. It also revealed that the allocation of the discount between the supply of electricity and gas of the prices set out in the multiple-element arrangements with customers is close to the individual selling prices (determined as the cost plus margin). Therefore the prices set out in the contracts with customers may be applied directly to separate recognition of revenues from the supplies of electricity and gas and no further reallocation of the discount is necessary. As a result the above issues do not impact the Group's equity as at 1 January 2018. In addition, as a result of the carried out analyses, the Group identified that it is an intermediary for the gas transmission service.

- Variable consideration, discounts – a customer who signs a contract or acquires additional goods or services is entitled to a cash discount.

  Following an analysis of the contractual provisions, the Group believes that the discounts given to buyers under the customer schemes in place should be included in the calculation of the transaction price and should reduce the revenue from sales of goods or services. In the opinion of the Group the discounts offered by the companies in the Sales segment are not a separate performance obligation. Therefore the discount offered to the customer is carried forward, i.e. it is recognised as a reduction of revenue over the average outstanding duration of the relevant contract as determined by the Group. The application of IFRS 15 *Revenues from Contracts with Customers* with respect to the variable consideration will increase the Group's retained earnings as at 1 January 2018 by PLN 7 504 thousand.

- Agreements to sell Group's products and services combined with after-sale services – the Group has made an agreement with the buyer to sell products/services with additional after-sale services (e.g. electrician services) and a property insurance contract with a business partner (insurer) whereby the insurer provides the ancillary service directly to the buyer. The fee for the ancillary service has been included in the commercial fee.

  The Group has analysed the contractual provisions to determine whether its obligation is a performance obligation in the form of delivery of specific services in which case the Group would be an ordering party, or in the form of ordering the delivery of the services to a third party in which case the Group would be an intermediary. Having analysed the responsibilities, risks and freedom of prices as regards the services provided by the third party, the Group believes that as far as the above agreements are concerned, it is an intermediary. In view of the above, in accordance with IFRS 15 *Revenues from Contracts with Customers*, the Group is planning to recognize the revenue from the above services, at the amount of consideration net of the fee paid to the third party for the services provided by the party. The above issue does not materially impact the Group's retained earnings as at 1 January 2018.

In the opinion of the Group, as far as the sales of heat in Generation segment is concerned, the customer who is party to a contract cannot derive benefits from individual chargeable elements listed in the contract. This means that individual elements of a contract do not meet the criteria necessary for being treated as separate performance obligations. Therefore every contract with a customer contains one performance obligation in the form of comprehensive heat supply service. The above issue does not impact the Group's retained earnings as at 1 January 2018.

IFRS 16 *Leases*

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

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

(in PLN '000)

Impact on the consolidated financial statements

A preliminary analysis of the impact of IFRS 16 *Leases* on the accounting policies has shown a change material for the Group, i.e. the need to recognize lease assets and liabilities for leases currently classified as operating leases in the financial statements. The Group analyses all its lease agreements to identify leases which require recognition of assets and liabilities in the financial statements. In addition, the Group identified the key areas in relation to which it analyses the impact of IFRS 16 *Leasing*, including, i.a. the right of transmission easement, perpetual usufruct right to land and lease agreements. As at the date or approval of these consolidated financial statements for publication, the Group is in the process of analysing the impact of planned changes on the consolidated financial statements.

Clarifications to IFRS 15 *Revenue from Contracts with Customers*

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

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

According to the Management Board the following revised standards will not materially impact the accounting policies applied:

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

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

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

(in PLN '000)

Standard	Effective date specified in the Standard, not endorsed by the EU (*annual periods beginning on or after the date provided*)
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
IFRS 17 *Insurance contracts*	1 January 2021
Revised IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* with subsequent amendments	the effective date has been postponed
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Revised IAS 40 *Investment Property – Transfers of Investment Property*	1 January 2018
Annual *Improvements to IFRS (Cycle 2015–2017)*:	
IAS 12 *Income Taxes*	1 January 2019
IAS 23 *Borrowing Costs*	1 January 2019
IFRS 3 *Business Combinations*	1 January 2019
IFRS 11 *Joint Arrangements*	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Revised IFRS 9 *Financial Instruments*	1 January 2019
Revised IAS 19 *Employee Benefits*	1 January 2019
Revised IAS 28 *Investments in Associates and Joint Ventures*	1 January 2019

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

Hedge accounting for the financial assets and liabilities portfolio remains beyond the scope of the regulations adopted by the EU.

8. Changes in the Accounting Principles

The accounting principles (policy) adopted for the preparation of these consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2016, except for the application of the following amendments to standards.

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

Standard	Effective in the EU as of (*annual periods beginning on or after the date provided*)
Revised IAS 7 *Statement of Cash Flows*	1 January 2017
Revised IAS 12 *Income Taxes*	1 January 2017
Annual *Improvements to IFRS (Cycle 2014–2016)*:	
IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2017

9. Summary of Significant Accounting Policies

9.1. Consolidation principles and the methods of accounting for business acquisitions (including jointly-controlled entities)

9.1.1. Consolidation

Subsidiaries are entities controlled by the Parent directly or indirectly through its subsidiaries.

Subsidiaries are consolidated using the full method from the date of assuming to the date of losing control. Financial statements of subsidiaries are prepared for the same reporting period as those of the Parent, using consistent accounting principles. Balances and transactions between the Group entities, including unrealized gains and losses (if not indicating impairment) which result from transactions within the Group, are eliminated.

9.1.2. Business acquisitions

Business acquisitions are accounted for using the acquisition method. As at the acquisition date, the acquiring entity recognizes identifiable assets acquired and liabilities assumed, which are measured at fair value.

Goodwill is measured as the excess of the aggregate of the consideration transferred for the acquisition, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed. The accounting policy applicable to goodwill has been presented in Note 9.3.

9.1.3. Acquisition of businesses under common control of the State Treasury

Combinations of businesses under common control of the State Treasury (i.e. those which have remained under control of the State Treasury before and after the transaction) are accounted for using the pooling of interest method in accordance with the principles described below.

Following the business combination, the continuity of common control is presented in the financial statements, while the fair value remeasurement of the net assets (or recognition of new assets) or measurement of goodwill are not presented therein, as none of the entities combined is actually acquired. The financial statements are prepared as if the combined entities had been combined as of the date when common control began to be exercised.

When accounting for a combination of entities under common control of the State Treasury, the Company relies on the separate financial statements of the acquire which have been brought into line with requirements of IFRS to determine the value of its assets and liabilities. When accounting for a combination of entities under common control of the State Treasury within the TAURON Group, the Company relies on the consolidated financial statements as a source of the value of assets and liabilities of the acquired subsidiary.

The difference between the book value of the net assets recognized as a result of a business combination and the value of shares recognized in the accounting records of the acquirer thus far or consideration paid is recognized in the equity of the acquirer.

The entities acquired in May 2007 were controlled by the State Treasury, which means that the Company and those entities were under common control of the State Treasury at the time of the acquisition. Therefore, in the opinion of the Company, the transaction meets the definition of a transaction under common control, hence it has been excluded from the scope of IFRS 3 *Business combinations.*

9.2. Property, plant and equipment — Note 18

Key fixed assets for the Group by segment:

- Generation:
  - boilers with accessories, turbines with generators, transformers and thermal stations as well as equipment used for purposes of fuel unloading and transportation, pumping stations and sulphur-recovery facilities;
  - thermal stations, equipment used for purposes of fuel unloading and transportation as well as pumping stations and water treatment facilities;
  - wind farms, water turbine sets as well as weirs and dams.
- Distribution: power lines and stations. Power lines are located on the area of 58 thousand square meters, with the total length of ca. 270 thousand km. The Group's assets include over 59 thousand electrical substations;
- Mining: mechanized lining, pit shafts and dip-headings and fixed assets located in the mine walls and the coal processing plant.

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost includes:

- acquisition price or manufacturing cost;
- costs directly attributable to the purchase and bringing the asset to a usable condition;
- the expected cost of disassembly and removal of items of property, plant and equipment, and restoration of their current location to its original condition (the accounting policy on provisioning for these costs has been presented in Note 9.20);
- borrowing costs (the accounting policy on capitalizing these costs has been presented in Note 9.7).

All material elements included in an asset but having various useful lives (components) are identified and separated as at the date of acquisition of an item of property, plant and equipment. Components also include costs of overhauls, periodic inspections and costs of replacing their key parts.

The Group recognizes specialized spare parts and service equipment as separate items of property, plant and equipment if their useful life exceeds one year.

Depreciation is calculated by reference to the cost of the asset less its residual value. Depreciation is based on a depreciation plan determining the estimated useful life of each fixed asset. Items of property, plant and equipment (including components) are depreciated on a straight-line basis over the period of their estimated useful lives, except for land and fixed assets under construction, which are not depreciated. Specialized spare parts and service equipment are depreciated over the useful life of the fixed asset they relate to.

Depreciation principles applied to assets used under finance leases are consistent with those applied to depreciation of assets owned by the entity. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset item is fully depreciated over the shorter of the lease term and its useful life.

Average residual useful lives by fixed asset group:

Asset group	Average remaining depreciation period (number of years)
Buildings, premises, civil and water engineering structures	18 years
Plant and machinery	12 years
Other tangible fixed assets	4 years

Items of property, plant and equipment are tested for impairment if there is any indication of impairment. Impairment tests for property, plant and equipment are carried out in line with the accounting policy presented in Note 9.6.

9.3. Goodwill — Note 19

Goodwill is carried at its initial amount (determined in line with the accounting policy presented in Note 9.1.2) less accumulated impairment losses. Goodwill is not amortized but it is tested for impairment on an annual basis or more frequently if any indications of impairment occur.

As at the acquisition date, goodwill acquired is allocated to each cash-generating unit ("CGU") that may derive benefits from synergy effects. An operating segment is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group (except the Generation segment). In the Generation segment, however, the lowest level units are cash-generating units related to electricity generation from conventional sources, including in CHP units, in co-firing of biomass and other thermal energy (TAURON Wytwarzanie S.A.), cash-generating units related to generation of electricity from renewable sources (TAURON Ekoenergia Sp. z o.o.) and cash-generating units related to generation, distribution and sale of heat (TAURON Ciepło Sp. z o.o.).

Impairment tests for goodwill are performed in line with the accounting principles presented in Note 9.6.

9.4. Energy certificates and gas emission allowances — Note 20

Energy certificates and gas emission allowances include:

- certificates of energy generated using renewable sources and in gas, methane and other cogeneration and energy efficiency certificates acquired or received for surrendering purposes due to the sale of electricity to end buyers or for resale;
- greenhouse gas emission allowances received or acquired with the intention to fulfil the obligation resulting from emission of greenhouse gases or for resale.

Energy certificates and greenhouse gas emission allowances are classified considering the Group's intention to use them as at the acquisition date (possible subsequent reclassification) as:

- current intangible assets – energy certificates and gas emission allowances designated for internal purposes, where the Group has the intention to surrender them so as to fulfil the obligation for the current or future year, if the Group intends to surrender the allowances in the same year;
- non-current intangible assets – energy certificates and gas emission allowances designated for internal purposes, where they are intended to be used for purposes of the fulfilment of the surrendering obligation for the following years and they are planned to be surrendered within more than one year of the end of the reporting period;
- inventories – energy certificates and gas emission allowances designated for sale.

At initial recognition, the said assets are measured in accordance with the following principles:

	Acquired	Granted/Received free of charge	Release
Energy certificates	Acquisition cost	Fair value as at the receipt date	Weighted average
Greenhouse gas emission allowances	Acquisition cost or fair value*	Nominal value (i.e. zero)	Obtained free of charge in the first place, subsequently acquired ones (according to weighted average)

* *Fair value – Greenhouse gas emission allowances in the trading portfolios.*

The energy certificates and the emission gas allowances are surrendered (in correspondence with settlement of the provision amount) at the date of their being redeemed. The principles applicable to the recognition of provisions relating to the energy certificate surrendering obligation and liabilities arising from gas emissions have been presented in Note 9.21.

9.5. Other Intangible Assets — Note 21

Key items of other intangible assets include acquired right to perpetual usufruct of land, software, concessions, patents, licenses and similar items.

Other intangible assets are measured at cost less accumulated amortization and impairment losses.

Other intangible assets, except those which have not been made available for use, are amortized over their estimated useful lives. Amortization is calculated by reference to the initial value less the residual value.

Residual value is included in determining the basis for calculation of depreciation charges, if for a given asset, an active market exists or a third party has committed to buy the asset upon completion of its useful life. For the right to perpetual usufruct of land, the residual value has been determined on the basis of market prices. As the residual value is similar to the carrying amount, the said right has not been amortized.

Average residual useful lives by other intangible asset group:

Asset group	Average remaining amortization period (number of years)
Development expenses	2 years
Software, concessions, patents, licenses and similar items	3 years
Other	9 years

9.6. Impairment of Non-financial Non-current Assets — Note 11

Goodwill is tested for impairment every year and each time when indications of impairment have been identified. Other non-financial non-current assets are tested for impairment if there are indications that they may have been impaired.

Impairment tests include estimation of the recoverable amount of an asset or the cash-generating unit (CGU) to which the asset belongs. Information concerning identification of CGU which goodwill is allocated to has been presented in Note 9.3.

The recoverable amount of an asset or CGU is the higher of the fair value less cost to sell and the value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, impairment occurs and the value of the asset is reduced to the recoverable amount determined.

Impairment losses are allocated to goodwill in the first place and the remaining amount is allocated to individual assets forming the CGU based on the share of the carrying amount of each asset in the carrying amount of the CGU, with the proviso that as a result of such allocation the carrying amount of the asset may not be lower than the highest of the fair value less cost to sell, the value in use and zero.

If the indications of impairment driving the recognition of an impairment loss in a preceding period are no longer present, the impairment loss is reversed or reduced. Impairment losses on goodwill are not reversed.

9.7. Borrowing Costs

Borrowing costs are capitalized as part of the cost of qualifying non-current assets.

Borrowing costs include mainly interest on specific and general borrowings calculated using the effective interest method and financial charges relating to finance lease agreements. The effective portion of the hedge for contracts that satisfy the hedge accounting criteria and are entered into in connection with financing the development of non-current assets is also capitalized (the hedge accounting policy has been presented in Note 9.18).

After the completion of a qualifying asset that has been financed using specific borrowings, specific borrowings and the related costs are not taken into account when determining borrowing costs eligible for capitalization.

General borrowing costs eligible for capitalization are determined by applying the capitalization rate to expenditure incurred for qualifying assets. The capitalization rate is the weighted average rate of all borrowing costs related to borrowings classified as liabilities in a given period, other than specific borrowings.

9.8. Shares in joint ventures — Note 22

Joint arrangements of the Group are classified as joint ventures. Interests in joint ventures where the Group exercises joint control are accounted for using the equity method, whereby the initial value of the investment carried at cost is increased or reduced by a share in profits/losses and in other comprehensive income of the joint venture as from the acquisition date (recognized in profit or loss or in other comprehensive income of the Group, as appropriate).

Interests in joint ventures are tested for impairment if indications of impairment or reversal of impairment losses recognized before are identified.

9.9. Loans to joint ventures — Note 23

Loans granted to a joint venture do not satisfy the criteria to be recognized as a net investment in a joint venture. Initially, loans are recognized at fair value and measured at amortized cost less impairment losses as at the end of the reporting period.

9.10. Other Non-Financial Assets/Liabilities — Note 25, 42

Other non-financial assets of the Group include prepayments as well as advance payments for fixed assets under construction, intangible assets and inventories. Prepayments, as non-monetary items, are not discounted.

Prepayments include in particular costs of production preparation in coal mines, including costs of reinforcing working faces and costs of drilling drifts which are not classified as property, plant and equipment. Such costs are carried at the amount of expenditures incurred by the Group and recognized in profit or loss by reference to the percentage monthly output relative to the volume of commercial coal planned to be produced from each working face.

Other financial liabilities include e.g. overpayments from customers, advance payments towards the connection fee and the excess of liabilities over assets of the Company's Social Benefits Fund.

9.11. Inventories — Note 26

The Group's inventories include mainly the inventory of fuels (being materials, semi-finished products or finished products) as well as energy certificates and greenhouse gas emission allowances designated for sale.

Inventories are measured at the lower of cost and net realizable value. Greenhouse gas emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices are measured at fair value at the end of each reporting period. Release of inventories is measured using the weighted average method.

9.12. Receivables from buyers — Note 27

Receivables from buyers include amounts due which have been billed and those which have been recognized on account of revenue but have not been measured and billed due to the buyer settlement system used. The accounting policy applicable to accrued revenue has been presented in Note 9.27.

Receivables from buyers are measured at the originally billed amounts (including the effect of discounting, if material), less allowances/write-downs.

As at the end of the reporting period, the Group verifies whether there are any objective indications of impairment of its receivables or groups of receivables. Material objective indications of impairment include mainly delays in payment, major financial difficulties encountered by the debtor, institution of court proceedings against the debtor, the debtor being placed into liquidation or bankruptcy, or the occurrence of a material adverse change in the economic, legal or market environment of the debtor.

If the recoverable amount of an asset is lower than its carrying amount, the entity recognizes an allowance/write-down reducing it to the present value of projected cash flows. An allowance/write-down corresponding to the whole amount due is recognized for receivables from debtors placed into liquidation or bankruptcy, those for which court proceedings have been instituted as well as those subject to administrative or court enforcement proceedings. Otherwise, the allowance/write-down is recognized collectively based on the criterion of delinquency – for amounts past due by 6 to 9 months: 50% and for those which have not been paid for more than 9 months: 100%.

Allowances/write-downs on receivables are charged to operating expenses or finance costs, according to the type of receivables.

9.13. Other financial assets — Note 24

Other financial assets the Group includes e.g. units in investment funds, shares, investments, bid bonds, deposits and collateral, derivatives and loans granted to unrelated entities.

9.14. Cash and cash equivalents — Note 29

Cash and cash equivalents include in particular cash at bank and in hand and short-term deposits with original maturity of up to three months.

Cash is recognized at face value. At the end of the reporting period, the face value of cash deposited in bank accounts includes also accrued bank interest or interest calculated by the entity itself.

9.15. Issued capital — Note 30.1

Issued capital is recognized at the amount determined in the articles of association of the Parent and recorded in the court register.

9.16. Debt — Note 32

Debt comprises bank loans, borrowings, debt securities and finance lease liabilities.

Initially, debt is measured at fair value less transaction costs. After initial recognition it is measured at amortized cost using the effective interest method.

Finance leases transferring substantially all the risks and rewards of ownership of a lease object to the Capital Group are recognized in the statement of financial position as at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Leases whereby the lessor retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Operating lease payments and subsequent lease rents are charged to expenses using the straight-line method over the lease term.

9.17. Derivative Financial Instruments — Note 44.3

Derivative financial instruments falling within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets/financial liabilities measured at fair value through profit or loss, except derivatives which are designated as hedging instruments and subject to hedge accounting. Derivative instruments acquired and held for internal purposes as excluded from the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are not measured at the end of the reporting period.

Derivatives classified as "financial assets/financial liabilities measured at fair value through profit or loss" are measured at fair value, taking into account their market value as at the end of the reporting period. Changes in the fair value of these instruments are recognized in profit or loss for the period. Derivatives are disclosed as assets if their value is positive or as liabilities if their value if negative.

As at the end of the reporting period, Interest Rate Swaps (IRS) acquired and held to hedge the interest rate risk relating to bonds issued are subject to hedge accounting (the accounting policy has been discussed in detail in Note 9.18). Other derivative instruments held by the Group as at the end of the reporting period are not subject to hedge accounting.

At the end of the reporting period, the Group held the following derivative instruments:

Classification	Instrument type
Derivatives subject to hedge accounting	Interest Rate Swaps concluded to hedge against risk related to interest rate changes. Subject to hedge accounting; detailed policy presented in Note 9.18.
Derivatives not subject to hedge accounting, classified as "assets/liabilities measured at fair value through profit or loss"	• forward contracts concluded in order to hedge against risk related to foreign exchange rate fluctuations;
	• forwards and futures for purchase and sales of emission allowances, energy and other commodities, concluded and maintained for speculation purposes;
	• Coupon Only Cross Currency Swap (CCIRS) entered into in order to hedge against currency risk.
Derivatives excluded from the scope of IAS 39	Forwards and futures for purchase and sales of non-financial assets, concluded and maintained for own use purposes.

9.18. Hedge Accounting

In order to hedge the interest rate risk the Group uses Interest Rate Swaps (IRS). These instruments hedge cash flows related to bonds issued. Such transactions are subject to hedge accounting.

At the inception of the hedge the hedging relationship is designated and the risk management objective and strategy for undertaking the hedge are documented formally.

A cash flow hedge is accounted for in the following manner:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income; and
- the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss for the period.

Gain or loss from revaluation of the hedging instrument disclosed in other comprehensive income is recognized directly in profit or loss in the same period during which the hedged item affects profit or loss for the period.

9.19. Provisions for employee benefits — Note 33

In accordance with compensation policies, employees of the Group companies are entitled to the following post-employment benefits:

- retirement and disability benefits – paid on a one-off basis, when an employee retires or is vested with the right to receive disability benefits;
- death benefits;
- cash equivalent resulting from special tariff for energy sector employees;
- in-kind benefits granted in coal or as a cash equivalent;
- benefits from the Company's Social Benefit Fund.

Jubilee bonuses are paid to employees of Group companies after a specified number of years of service.

At the end of the reporting period the present value of provisions for post-employment benefits and provisions for jubilee benefits is calculated by an independent actuary using actuarial methods. The accrued liabilities are equal to discounted future payments, including employee turnover, and pertain to the time remaining until the end of the reporting period. Demographic and staff turnover data are based on historical information.

Actuarial gains and losses on measurement of liabilities arising from post-employment benefits are recognized in whole in other comprehensive income (with the accumulated amount recognized in retained earnings), while actuarial gains and losses on jubilee bonuses are recognized in profit or loss.

Other increases and decreases in provisions are charged to operating expenses in the case of employees, to other operating expenses/revenue in the case of pensioners and individuals entitled to disability allowances and to finance costs in the portion pertaining to interest that constitutes the unwinding of discount.

In accordance with IAS 19 *Employee Benefits* the Group also recognizes provisions for termination benefits under voluntary redundancy schemes. The benefits are measured based on the expected number of employees willing to accept the employment termination offer and the estimated benefit amount.

9.20. Provisions for dismantling fixed assets and restoration of land — Note 34

Provision for mine decommissioning costs

The provision for costs of dismantling fixed assets and restoration of land includes mainly the provision for costs of decommissioning mines for which it is required that the assets be removed and the land restored to its original condition.

The provision is determined based on future decommissioning costs and costs of land restoration estimated by independent experts taking into account the discounting effect and the amount determined in line with separate regulations of the Mine Decommissioning Fund. The provision is estimated based on an analysis prepared using deposit exploitation projections (for mines) and a technical and business analysis.

For coal mines a corresponding entry is made in line with IAS 16 *Property, plant and equipment* as a fixed asset item of a mine and changes in estimates are disclosed in line with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, i.e. as adjustments to the provision and capitalized future mine decommissioning costs. The related accounting policy has been presented in Note 9.2. The unwinding of discount is recognized in profit or loss.

Provision for restoration of land and dismantling and removal of fixed assets

Based on estimates of future costs of dismantling prepared by independent experts, taking into account the discounting effect, the Group establishes a provision for estimated costs of dismantling, to include those related to wind farms, but also for removing fixed assets and restoring the land where the fixed assets were located if it has an obligation arising from the acquisition or use of property, plant and equipment items.

9.21. Provision for liabilities due to energy certificates and gas emission

9.21.1. Provision for the obligation to surrender energy certificates — Note 35.2

Pursuant to the Energy Law and regulations of the Minister of Economy energy companies trading in and selling electricity to end buyers are obliged to acquire property rights resulting from energy certificates and to surrender them or to pay a substitution fee. If in a given financial year the volume share of electricity specified in the energy certificates in the total annual sales of electricity to end buyers complies with limits provided for in regulations of the Minister of Economy – it is considered that the obligation has been satisfied.

At the end of each reporting period the Group recognizes a provision for costs of surrendering energy certificates or paying the substitution fee so as to fulfil the obligation.

The provision for the obligation to surrender energy certificates is recognized:

- in the portion corresponding to energy certificates held at the end of the reporting period – at the value of certificates held (the accounting policy applicable to certificates held has been presented in Note 9.4);
- in the portion not covered by energy certificates held at the end of the reporting period – first, at the amount resulting from futures and forwards for the purchase of certificates with the intention to fulfil the obligation for the current year; then at the market value of certificates necessary to fulfil the obligation at the end of the reporting period or at the amount of the substitution fee – in accordance with the Group's intention concerning the method of fulfilling the obligation.

The provision is charged to operating expenses.

The provision is settled and the certificates are surrendered when the President of the Energy Regulatory Office redeems the certificates or when the substitution fee has been paid.

9.21.2. Provision for greenhouse gas emission liabilities — Note 35.1

The provision for liabilities arising from emission of gas covered by the emissions system is recognized only when the actual emission level in a given year exceeds the volume of emission allowances awarded to the Group free of charge, including allocation of free-of-charge emission allowances to facilities belonging to individual Generation companies. The Group companies included in the EU ETS are obliged to surrender emission allowances for each emitted ton of carbon dioxide by 30 April in the following year.

The accounting policy concerning emission allowances received and acquired has been presented in Note 9.4.

The provision is charged to operating expenses (taxes and charges) in the following amount:

- in the portion covered by allowances held at the end of the reporting period:
  - nil – for allowances received free of charge;
  - at cost – for allowances acquired;
- in the portion not covered by allowances held at the end of the reporting period:
  - first, at the amount resulting from futures and forwards for the purchase of emission allowances with the intention to fulfil the obligation for the current year;
  - then at the market value of allowances necessary to fulfil the obligation at the end of the reporting period or in the amount of a possible fine – in accordance with the intention concerning the method of fulfilling the obligation.

Emission allowances are awarded free of charge for the years 2013–2020 based on costs of investments, which is the condition for obtaining allowances.

At the surrendering date, emission allowances classified as current intangible assets are derecognized in correspondence with the provision for gas emission liabilities.

9.22. Other provisions — Note 36

Other provisions include:

- A provision for use of real estate without contract. The Group recognizes provisions for all claims filed by owners of real estate on which distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period. The Group does not establish a provision for possible claims of owners of land with unregulated status, which have not been lodged. Recognition and reversal of the provision is charged to other operating revenue or other operating expenses and interest accrued is charged to finance income or finance costs.
- Other provisions relate to court cases, counterparty claims or other claims, possible fines resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office of Competition and Consumer Protection and tax settlements.

9.23. Deferred income and government grants — Note 37

The Group's deferred income and government grants include mainly deferred connection fees as well as grants and subsidies received to acquire property, plant and equipment. Deferred connection fees result from transactions which fall within the scope of IFRIC 18 *Transfers of Assets from Customers* and were received before 1 July 2009. Effective from 1 July 2009, in accordance with IFRIC 18, the said connection fees are recognized within revenue from sales of services.

Grants and subsidies received to acquire property, plant and equipment are recognized at the value of cash received as other operating revenue matching the corresponding depreciation expense related to items of property, plant and equipment.

9.24. Liabilities to suppliers, capital commitments and other financial liabilities — Note 38, 39, 41

Liabilities to suppliers, capital commitments and other financial liabilities are measured at the amount due, as the effect of discounting is immaterial.

9.25. Receivables / Liabilities arising from taxes and charges — Note 28, 40

Settlements arising from taxes and charges presented in the statement of financial position comprise:

- CIT settlements;
- VAT and excise duty settlements;
- PIT and social security settlements;
- Environmental fees and other regulatory settlements.

9.26. Current and Deferred Income Tax — Note 16

Current tax

Income tax recognized in profit or loss for the period includes actual tax charge for the given reporting period for each company from the Tax Capital Group (TCG) as well as other non-TCG companies, determined in line with the provisions of the CIT Act, as well as any previous year tax adjustments.

Deferred tax

The Group recognizes a deferred tax asset and a deferred tax liability arising from temporary differences between the book value of assets and liabilities and their tax value, and a tax loss deductible in the future.

The deferred tax asset is recognized only if its realization is probable, i.e. if it is expected that a taxable profit sufficient to realize the asset will be generated in the future.

Income tax related to items which are recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or in equity, respectively.

The deferred tax asset and deferred tax liability of companies from the Tax Capital Group are netted off due to the fact that the companies file combined tax returns.

9.27. Sales revenue — Note 12

Revenue is recognized at the fair value of the payment, received or due, following reduction by VAT, excise duty, other sales taxes, charges and discounts.

Revenue of the financial year includes also accrued revenue which has not been measured and billed due to the buyer settlement system used.

9.27.1. Revenue from sales of electricity distribution services in the Distribution segment

The Group's revenue from sales of services includes in particular revenue related to distribution operations and settlements of the connection fee.

Electricity distribution services are considered sold upon service provision to the client, as registered by the electricity meter, i.e.:

- for VAT invoices raised by reference to the meter reading – the reading date;
- For VAT invoices raised in a billing period exceeding one month, by reference to the forecast energy consumption – the forecast period; at present one- and two-month periods are settled based on the actual use, while six- and twelve-month periods are settled based on projections;
- For billing periods specified in contracts with buyers exceeding one month, revenue includes revenue which has not been measured and billed. The said revenue is estimated based on the average daily consumption of electricity in prior billing periods and the number of days in the analysed billing period. Additional sales are calculated using the weighted average selling price of the financial year or using prices quoted on the last issued invoice;
- Adjustments to sales revenue are recognized in the period of their identification or in the period to which they relate (only when material).

The Group recognizes revenue relating to fixed assets received free of charge due to rendering services of removing power or heat infrastructure collision in sales revenue. Moreover, since 1 July 2009, the Group has also been recognizing transactions included in the scope of IFRIC 18 *Transfer of Assets from Customers* in this item. Revenue falling within the scope of IFRIC 18 *Transfer of Assets from Customers*, relating to fixed assets received from clients free of charge and used for connecting such clients to the infrastructure and providing them with constant access to supplies of services, or revenue relating to cash received from clients for acquisition or development of the said fixed assets (connection fees) is carried at the estimated fair value or the amount of cash received and recognized as revenue from sales of services in the period when such assets are actually received from clients.

9.27.2. Revenue from sales of electricity, gas and distribution services in the Sales segment

The Group companies operating in the Sales segment generate revenue from sales of electricity and distribution services to retail and wholesale clients (balancing market sales). Revenue from sales is determined on the basis of the billed volume and price, including additional assessments.

Three types of additional assessment of revenue from sales of electricity and distribution services are made in this segment:

- Additional assessment of sales to clients, unbilled as at the end of the reporting period

  Measurement and billing systems showing the electricity volume sold to retail clients are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales at the end of each reporting period. For clients that are party to complex contracts and sales contracts, the additional assessment is made in the billing systems on the basis of the average daily consumption of electricity between the last actual reading date and the end of the reporting period.

- Additional assessment for buyers using forecast payment billing

  At the end of each reporting period, an additional assessment is made for buyers with 6- or 12-month forecast payment billing periods. It is based on the difference in the number of days between the reading date and the actual number of days in the month. It relies on electricity sales data derived from the billing system and the additional assessment ratio.

- Additional assessment of sales resulting from reconciliation of the energy balance

  The Group companies from the Sales segment reconcile the energy balance by estimating the non-balancing sales or purchase volume at the end of each reporting period. An amount increasing or reducing revenue from sales of electricity, determined as the product of the estimated non-balancing volume and the weighted average purchase price of electricity on the balancing market, is also recognised by the Group.

Revenue from sales of gas fuel and distribution services provided to retail and wholesale buyers (balancing market sales) is classified to the Sales segment. Revenue from sales is determined on the basis of the billed volume and price, including additional assessments.

Revenue from sales of gas fuel and distribution services is estimated using two methods:

- Additional assessment of sales to clients, unbilled as at the end of the reporting period

  Measurement and billing systems showing the gas volume sold to retail clients are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, relevant estimates are performed as at the end of the reporting period. For clients who have concluded comprehensive contracts, the additional assessments regarding gas fuel sales are made in the billing systems based on daily average consumption of gas fuel in the period from the last actual reading date until the end of the reporting period. Additional assessments regarding distribution services are made as a difference between the costs of purchasing the gas fuel distribution services and billed revenue from sales of the distribution services.

- Additional assessment of sales resulting from reconciliation of the gas fuel balance

  The company reconciles the gas fuel balance by estimating the non-balancing gas fuel sales or purchase volume at the end of each reporting period. The additional assessment includes the amount increasing or reducing revenue from sales of gas fuel, calculated as the product of the estimated non-balancing volume and the monthly average reference price of high-methane gas published by Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.

9.27.3. Revenue from wholesale of electricity in the Generation segment

Wholesale of electricity from the generation units managed centrally and as part of trading operations requires the client and the supplier's notification of the volume of electricity declared per each hour to the Transmission System Operator through the centralized computerized Energy Market Information Exchange System, which volume a Generation segment company is obliged to provide under specific contracts as a supplier (sales of energy generated internally or purchased as part of trading operations) or ensure its provision (through energy purchases on the Balancing Market) and the client is obliged to accept. Both the price and volume per each hour is determined on the basis of transactions signed in advance or (in the case of the Polish Power Exchange) recorded electronically. The Transmission System Operator, which somewhat guarantees volume settlements, ensures reliability of data concerning the supplied volume of energy. As billing is based on reports generated by the Transmission System Operator, all electricity wholesale invoices are raised following electricity supply, with a clearly determined volume and value of such energy.

Sales invoices relating to electricity supplied to the Balancing Market are raised on the basis of reports from the centralized system balancing sales in the Polish National Power System. Such settlements are made every decade. The invoicing procedure, including the price setting algorithms and principles as well as the due dates, is set out in the Transmission System Operation and Maintenance Instruction approved by the President of the Energy Regulatory Office.

Wholesale of electricity from generation units which are not managed centrally (local market generation units of less than 100 MW) is subject to similar rules. However, it is the local market operator that is responsible for the settlements.

9.27.4. Revenue from sales of heat in the Generation segment

Heat is sold under heat sale / comprehensive heat supply contracts entered into with institutional clients and consumers.

Institutional clients are charged twice a month: at fixed rates for power contracted in advance and variable rates calculated regularly based on progressive readings. Meters are read between the first and the last reading date. Charges are imposed regularly, on a monthly basis. Seldom, institutional buyers are charged once a month with the total of fixed and variable charges or just with fixed charges in accordance with concluded contracts. Total of fixed and variable charges are imposed on consumers once a month, or seldom, only variable charges are imposed on consumers in accordance with concluded contracts. Variable charges are imposed periodically based on progressive readings. Meters are read between the first and the last reading date. Charges are imposed regularly, on a monthly basis.

Revenue is measured by reference to the tariff in force, the volume of power billed, heat, carrier, lease rate, excess amount and other actual consumption of products, based on rates and prices listed in the current tariffs. It includes mainly charges for contracted power, heat as well as fixed and variable transmission.

Heat is sold by reference to readings on an accrual basis. Therefore, an additional assessment of sales is made for accounting purposes from the reading date to the end of the month so as to determine the monthly sales volume from the first to the last day of the month. Additional assessments of sales are made separately for each reading point. Additional assessment for a given point includes billed sales minus an additional assessment for the previous month, plus an additional assessment for the current month.

9.27.5. Revenue from sales of coal in the Mining segment

Sales of fine coal supplied under sales contracts to power and heat and power stations of the TAURON Group represent the intra-group market for the Mining segment. Entities operating in the sales network of a company from the Mining segment, i.e. Authorized Coal Sellers and Coal Sellers, play a strategic role in coal sales. Coal is also sold under contracts with end buyers, mainly industrial customers, in intra-community supplies and under export contracts, in addition to transactions with retail sales.

Sales are made on a continuous basis in the form of railroad and truck sales, in accordance with the railroad supply schedule and truck sales advice notes. Sales are made when coal is handed over to the carrier, whether in truck or railroad transport.

Revenue from sales of coal is measured on the basis of sales values resulting from the billed volume and price. Revenue from sales of coal is adjusted, in particular, based on discounts, price reductions as well as accepted volume and quality complaints.

(in PLN '000)

9.28. Operating expenses Note 13

Operating expenses include:

- cost of goods, products, materials and services sold (cost of sales), incurred during a given reporting period, including any impairment losses on property, plant and equipment, intangible assets, receivables and inventories, adjusted by cost of manufacturing products for own purposes,
- total sales, general and administrative expenses incurred in the reporting period (disclosed separately in the statement of comprehensive income).

Costs that can be assigned directly to revenue generated by the Group impact the profit or loss for the period which the revenue pertains to.

Costs that can only be indirectly assigned to revenue or other benefits obtained by the Group impact the profit or loss in the portion pertaining to the given reporting period, and match the revenue or other economic benefits.

9.29. Foreign currency transactions translated into the presentation currency of foreign operations

Foreign currency transactions (i.e. those not made in the functional currency) are translated into the functional currency at initial recognition at the exchange rate applicable as at the transaction date.

As at the end of the reporting period monetary items are translated at the closing rate (for entities whose functional currency is PLN the closing rate is the average exchange rate published for the currency by the National Bank of Poland as at the date).

The following exchange rates have been applied for the purposes of the balance-sheet valuation:

Currency	31 December 2017	31 December 2016
USD	3.4813	4.1793
EUR	4.1709	4.4240
CZK	0.1632	0.1637

As at the end of the reporting period, exchange differences from translation and settlement are recognized through profit or loss within finance income (or cost), except for those capitalized in assets.

Individual items of the financial statements of foreign operations (TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ)) have been translated to the presentation currency in the following manner:

- assets and liabilities have been translated to the presentation currency at the average exchange rate published by the National Bank of Poland as at the end of the reporting period;
- revenue and expenses have been translated at the average exchange rate of the National Bank of Poland published at the transaction date or the average exchange rate for a given period, if no significant exchange rate fluctuations occurred in the period;
- exchange differences from translation have been recognized in other comprehensive income.

9.30. Statement of cash flows

The statement of cash flows is prepared in line with the indirect method.

9.31. Earnings (loss) per share

Net earnings (loss) per share for each period is calculated by dividing the net profit (loss) for a given reporting period by the weighted average number of shares existing in the reporting period.

BUSINESS SEGMENTS

10. Operating Segments

The Group presents segment information for the current and comparative reporting periods in accordance with IFRS 8 *Operating Segments*.

The Group is organized and managed by segment, in accordance with the type of products and services offered. Each segment constitutes a strategic business entity offering different products and operating on different markets.

The Group applies the same accounting policies to all operating segments. The Group accounts for transactions between segments as if they were made between unrelated parties, i.e. using current market prices.

Revenue from transactions between segments is eliminated in the consolidation process.

After elimination of costs arising from intercompany transactions, general and administrative expenses of the parent are presented under unallocated expenses. General and administrative expenses of the Parent are incurred for the benefit of the entire Group and cannot be directly attributed to a specific operating segment.

Segment assets do not include deferred tax, income tax receivables or financial assets, except for receivables from buyers and other financial receivables, assets relating to gain on measurement of commodity derivative instruments as well as cash and cash equivalents, which represent segment assets.

Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for liabilities to suppliers, capital commitments and payroll liabilities as well as liabilities relating to loss on measurement of commodity derivative instruments, which represent segment liabilities.

Financing of the Group (together with the financial expenses and revenue) and income tax is monitored at the level of the Group and they are not allocated to segments.

None of the Group's operating segments has been combined with another segment to create the reportable operating segments.

The Management Board monitors operating profit/loss of segments to make decisions concerning the allocation of resources, evaluation of the effects of the allocation and the performance. Evaluation of performance is based on EBITDA and operating profit or loss. EBITDA is defined as EBIT increased by amortization/depreciation and impairment of non-financial assets. EBIT is the profit/loss on continuing operations before tax, finance income and finance costs, i.e. operating profit (loss).

The Group's reporting format for the period from 1 January 2017 to 31 December 2017 and for the comparative period was based on the following operating segments:

Operating segments	Core business	Subsidiaries/ Entities recognized with the equity method
Mining 	*Hard coal mining*	TAURON Wydobycie S.A.
Generation   	*Generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. Key fuels include hard coal, biomass, coal gas and coke-oven gas* *Generation of electricity using renewable sources* *Generation, distribution and sales of heat*	TAURON Wytwarzanie S.A. TAURON Ekoenergia Sp. z o.o. TAURON Ciepło Sp. z o.o. TAURON Serwis Sp. z o.o. Marselwind Sp. z o.o. Nowe Jaworzno Grupa TAURON Sp. z o.o. *TAMEH HOLDING Sp. z o.o.** *TAMEH POLSKA Sp. z o.o.** *TAMEH Czech s.r.o.** *Elektrociepłownia Stalowa Wola S.A.**
Distribution 	*Distribution of electricity*	TAURON Dystrybucja S.A. TAURON Dystrybucja Serwis S.A. TAURON Dystrybucja Pomiary Sp. z o.o.
Sales 	*Wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity.*	TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o.

* *Entities recognized with the equity method.*

In addition to the key operating segments listed above, the TAURON Group also conducts operations in quarrying stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet desulphurization installations and fluidized bed combustors (Kopalnia Wapienia Czatkowice Sp. z o.o.). The operations of TAURON Obsługa Klienta Sp. z o.o., TAURON Sweden Energy AB (publ), Biomasa Grupa TAURON Sp. z o.o., Wsparcie Grupa TAURON Sp. z o.o. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. are also treated as other operations of the Group.

(in PLN '000)

10.1. Operating Segments

Year ended 31 December 2017

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	719 373	1 825 644	3 271 933	11 506 781	92 298	–	**17 416 029**
Inter-segment sales	822 052	2 702 836	3 448 010	2 061 106	712 262	(9 746 266)	**–**
Segment revenue	**1 541 425**	**4 528 480**	**6 719 943**	**13 567 887**	**804 560**	**(9 746 266)**	17 416 029
Profit/(loss) of the segment	**(211 070)**	**16 595**	**1 210 925**	**832 216**	**35 902**	**801**	**1 885 369**
Unallocated expenses	–	–	–	–	–	(79 098)	**(79 098)**
EBIT	**(211 070)**	**16 595**	**1 210 925**	**832 216**	**35 902**	**(78 297)**	**1 806 271**
Share in profit/(loss) of joint ventures	–	73 050	–	–	–	–	**73 050**
Net finance income (costs)	–	–	–	–	–	(121 669)	**(121 669)**
Profit/(loss) before income tax	**(211 070)**	**89 645**	**1 210 925**	**832 216**	**35 902**	**(199 966)**	**1 757 652**
Income tax expense	–	–	–	–	–	(374 706)	**(374 706)**
Net profit/(loss) for the year	**(211 070)**	**89 645**	**1 210 925**	**832 216**	**35 902**	**(574 672)**	**1 382 946**
Assets and liabilities							
Segment assets	2 085 538	11 303 257	17 409 160	3 041 966	508 825	–	**34 348 746**
Investments in joint ventures	–	499 204	–	–	–	–	**499 204**
Unallocated assets	–	–	–	–	–	944 071	**944 071**
Total assets	**2 085 538**	**11 802 461**	**17 409 160**	**3 041 966**	**508 825**	**944 071**	**35 792 021**
Segment liabilities	849 728	1 858 246	2 339 080	1 362 750	386 693	–	**6 796 497**
Unallocated liabilities	–	–	–	–	–	10 927 711	**10 927 711**
Total liabilities	**849 728**	**1 858 246**	**2 339 080**	**1 362 750**	**386 693**	**10 927 711**	**17 724 208**
EBIT	**(211 070)**	**16 595**	**1 210 925**	**832 216**	**35 902**	**(78 297)**	**1 806 271**
Depreciation/amortization	**(128 036)**	**(401 246)**	**(1 073 621)**	**(8 494)**	**(82 071)**	**–**	**(1 693 468)**
Impairment	**2**	**(46 133)**	**1 861**	**(512)**	**(70)**	**–**	**(44 852)**
EBITDA	**(83 036)**	**463 974**	**2 282 685**	**841 222**	**118 043**	**(78 297)**	**3 544 591**
Other segment information							
Capital expenditure*	165 978	1 516 492	1 693 016	751	97 911	–	**3 474 148**

** Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of greenhouse gas emission allowances and energy certificates.*

Year ended 31 December 2016

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	492 231	2 457 280	3 100 495	11 513 348	83 135	–	**17 646 489**
Inter-segment sales	818 912	1 898 821	3 209 721	2 502 842	744 793	(9 175 089)	**–**
Segment revenue	**1 311 143**	**4 356 101**	**6 310 216**	**14 016 190**	**827 928**	**(9 175 089)**	17 646 489
Profit/(loss) of the segment	**(205 163)**	**(752 813)**	**1 363 236**	**479 374**	**42 642**	**(20 472)**	**906 804**
Unallocated expenses	–	–	–	–	–	(105 282)	**(105 282)**
EBIT	**(205 163)**	**(752 813)**	**1 363 236**	**479 374**	**42 642**	**(125 754)**	**801 522**
Share in profit/(loss) of joint ventures	–	60 040	–	–	–	–	**60 040**
Net finance income (costs)	–	–	–	–	–	(352 701)	**(352 701)**
Profit/(loss) before income tax	**(205 163)**	**(692 773)**	**1 363 236**	**479 374**	**42 642**	**(478 455)**	**508 861**
Income tax expense	–	–	–	–	–	(138 724)	**(138 724)**
Net profit/(loss) for the year	**(205 163)**	**(692 773)**	**1 363 236**	**479 374**	**42 642**	**(617 179)**	**370 137**
Assets and liabilities							
Segment assets	2 069 263	10 412 940	16 761 938	2 659 458	468 202	–	**32 371 801**
Investments in joint ventures	–	461 348	–	–	–	–	**461 348**
Unallocated assets	–	–	–	–	–	623 745	**623 745**
Total assets	**2 069 263**	**10 874 288**	**16 761 938**	**2 659 458**	**468 202**	**623 745**	**33 456 894**
Segment liabilities	829 974	1 936 334	2 162 907	1 660 156	288 365	–	**6 877 736**
Unallocated liabilities	–	–	–	–	–	9 899 840	**9 899 840**
Total liabilities	**829 974**	**1 936 334**	**2 162 907**	**1 660 156**	**288 365**	**9 899 840**	**16 777 576**
EBIT	**(205 163)**	**(752 813)**	**1 363 236**	**479 374**	**42 642**	**(125 754)**	**801 522**
Depreciation/amortization	**(123 031)**	**(425 742)**	**(1 037 789)**	**(10 631)**	**(71 533)**	**–**	**(1 668 726)**
Impairment	**(2)**	**(872 382)**	**6 213**	**–**	**(395)**	**–**	**(866 566)**
EBITDA	**(82 130)**	**545 311**	**2 394 812**	**490 005**	**114 570**	**(125 754)**	**3 336 814**
Other segment information							
Capital expenditure*	283 169	1 661 215	1 806 054	1 452	64 921	–	**3 816 811**

** Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of greenhouse gas emission allowances and energy certificates.*

(in PLN '000)

In the years ended 31 December 2017 and 31 December 2016 the Group did not identify individual customers that would generate sales revenue in excess of 10% of total sales revenue of the TAURON Group.

10.2. Geographical areas of operations

The majority of the Group's business operations is carried out in Poland. The table below presents export sales classified by countries.

	Year ended 31 December 2017	Year ended 31 December 2016
Czech Republic	206 434	169 983
Belgium	–	33 699
Slovakia	27 210	1 728
UK	14 279	19 232
Luxembourg	6 412	655
Hungary	1 602	338
Other	939	7 289
Total	**256 876**	**232 924**

Sales to foreign buyers are mainly sale of electricity, which accounted for 97% and 99% of revenue from foreign buyers in the financial years ended 31 December 2017 and 31 December 2016, respectively.

(in PLN '000)

IMPAIRMENT OF NON-FINANCIAL ASSETS

11. Impairment of Non-Financial Assets

11.1. Impairment of property, plant and equipment

In the year ended 31 December 2017, the Group recognized and reversed previously recognised impairment losses on property, plant and equipment as a result of impairment tests performed as at 31 December 2017 and 30 June 2017.

The recoverable amount of the above group of assets corresponds to their value in use. The impairment losses were charged to the cost of sales.

The impairment loss and its reversal as a result from the tests performed in the year ended 31 December 2017 are related to the following cash generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:			Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		31 December 2017	30 June 2017 *(unaudited)*	31 December 2016	As at 31 December 2017	Year ended 31 December 2017	
Elektrownia Jaworzno II	TAURON Wytwarzanie S.A.	8.39%	8.20%	7.78%	105 454	118 469	–
Elektrownia Jaworzno III					894 229	136 307	85 672
Elektrownia Łaziska					466 037	–	177 229
Elektrownia Łagisza					1 384 014	35 762	178 213
Elektrownia Siersza					69 361	133 211	–
Elektrownia Stalowa Wola					(34 348)	530	–
Capital projects in progress					–	211	–
ZW Bielsko Biała	TAURON Ciepło Sp. z o.o.	7.58%	7.42%	7.63%	531 540	22 490	27 543
ZW Tychy					469 264	37 309	23 628
Hydropower plants	TAURON Ekoenergia Sp. z o.o.	8.64%	8.55%	8.44%	501 188	62 875	40 638
Wind farms		9.54%	7.67% – 9.08%	6.71% – 7.91%	401 128	111 271	95 291
Total CGU						**658 435**	**628 214**
Common assets	TAURON Wytwarzanie S.A.	8.39%	8.20%	7.78%	(8 834)	294	–
Total impairment losses						**658 729**	**628 214**

As at 31 December 2017, impairment tests were performed for property, plant and equipment based on the following indications:

- the market value of the Company's net assets remaining below their carrying amount for a long period;
- global commodity prices and the local power coal market changing following the consolidation in the mining sector;
- amendments to the Act on Renewable Energy Sources and publication of related obligations for the years 2018 and 2019 which affected the prices of renewable energy certificates;
- Act on the capacity market passed and discussion of the functional solutions set out in the proposed capacity market regulations;
- persisting unfavourable market conditions for the conventional power industry;
- an increase in the risk-free rate.

The tests conducted as at 31 December 2017 and 30 June 2017 required estimating the value in use of cash generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

The impairment tests for property, plant and equipment and intangible assets (non-current assets) were carried out at the level of individual companies, except for:

- TAURON Wytwarzanie S.A., where cash-generating units ("CGU") were identified based on the cost nature and analysis of the applied methods of contracting and allocating generation from particular generation units. Consequently, the test was performed for CGUs understood as generation units or groups of generation units;
- TAURON Ekoenergia Sp. z o.o., where water power plants and wind farms were individually tested for impairment as at 30 June 2017. The test as at 31 December 2017 was carried out with respect to generation of electricity

in water power plants and on shared, integrated CGU for wind farms. Recognition of the shared CGU for wind farms is related to the change in regulations regarding the loss of supplier obliged to wind farms as of 1 January 2018, as well as the change in the approach to contracting energy generated from wind farms, including the total settlement on the balancing market. In connection with the above, in the area of electricity generation from wind sources there has been a change in the scope of the functioning, operation and management of these assets.

- TAURON Ciepło Sp. z o.o., where generation of heat and electricity was separated from transmission and distribution of heat. Additional tests for "generation" activity were carried out for individual generation units.

Key assumptions made for purposes of tests performed as at 31 December 2017:

- There was adopted the price path for power coal, other coal sizes and gaseous fuels. It has been assumed that in the years 2018–2020 the prices of power coal will remain at a similar level to that obtained in current contracts. Next in the years 2021–2040 a real depreciation of 8% is expected with the prices remaining at the 2040 levels (constant);
- There was adopted the electricity wholesale price path for the years 2018–2027 with the perspective by 2040, 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 greenhouse gas emission allowances. An increase of ca. 3% is assumed by 2020 comparing to the year 2017, with a 13% growth rate by 2027 (vs. 2020), an increase of 10% between 2027 and 2040 and 2040 year prices thereafter (constant);
- The operating reserve capacity mechanism is to remain in place until the end of 2020, i.e. until the capacity market will have been implemented;
- Planned changes in the Polish market model aimed to introduce the capacity market mechanism have been taken into account (in line with the adopted and notified Capacity Market Act and the draft capacity market regulations). It has been assumed that capacity-related payments will begin as of 2021 and that they will be made until 2035. Auctions will take the form of a single basket solution, broken down by the length of the capacity contract depending on the level of capital expenditure (new, modernized and existing units). The average annual capacity market budget is assumed at ca. PLN 4 billion throughout the period when the mechanism is applied;
- There were adopted the greenhouse gas emission limits for heat generation in line with the regulation of the Council of Ministers, which was adjusted by level of operations, i.e. generation of heat;
- There was adopted the greenhouse emission allowance price path for the years 2018–2027 with the perspective by 2040. It has been assumed that the market price will increase by ca. 173% by 2027 comparing to the year 2017, followed by a rise of ca. 22% between 2027 and 2040, with 2040 year price level thereafter (constant);
- There were taken into consideration green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network;
- There was adopted the support for CHP in line with the regulations which are currently in force. It is assumed that property rights exist for red, yellow and purple energy and that they will have to be surrendered by 2018. No support for CHP has been assumed thereafter;
- It was assumed, that regulated revenue generated by distribution companies, ensures coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- There was adopted the 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;
- There was adopted the sales volumes taking into account GDP growth and increased market competition;
- It was assumed, that tariff revenue generated by heat companies, ensures coverage of reasonable costs and a reasonable level of return on capital;
- Maintaining the production capacity of the existing non-current assets as a result of replacement investments;

- There was taken into consideration the level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.05% to 10.20% in nominal terms before tax, taking into account the risk-free rate corresponding to the yield of 10-year treasury bonds (at 3.85%) and the risk premium for the energy sector (6%). The growth rate used to extrapolate cash flow projections that go beyond the detailed planning period was adopted at 2.5% and corresponds to the assumed long-term inflation rate. The level of WACC as at 31 December 2017 increased compared to the level as at 31 December 2016, mainly due to the increase in the risk-free rate and the increase in the cost of debt.

A sensitivity analysis performed for each CGU revealed that the value in use of the tested assets was mainly affected by the issue of the capacity market, with other market conditions remaining unchanged, followed by changes in electricity prices and hard coal prices. The impact of changes in the prices of greenhouse gas emission allowances and in the weighted average cost of capital on measurement is less considerable. The estimated changes in impairment losses on Generation assets, considering also the effect of their reversal as at 31 December 2017 as a result of changes in the key assumptions, have been presented below.

If the capacity market mechanism was disregarded in the process of estimation of the value in use of property, plant and equipment, with other market conditions remaining unchanged and internal trading strategy, an additional net loss of ca. PLN 3 961 million would be recognized in the Group's profit/loss.

Parameter	Change	Net impact on impairment loss (in PLN million)	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	–	245
	-1%	334	–
Change of coal prices in the forecast period	+1%	132	–
	-1%	–	132
Change of gas emission allowances prices in the forecast period	+1%	63	–
	-1%	–	63
Change of WACC (net)	+0.1 p.p.	64	–
	-0.1 p.p.	–	64
Change of the rate on capacity market for 1MW	+1%	–	35
	-1%	35	–
Lack of recognition of payments relating to the Capacity Market		3 961	–

11.2. Impairment of goodwill

The test was performed for the net assets increased by goodwill in each operating segment. The recoverable amount in each company was determined based on the value in use.

The test was performed based on the present value of projected cash flows from operations. The calculations were based on detailed projections for the period from 2018 to 2027 and the estimated residual value. For the Mining segment detailed projections by the date of depletion of the available coal resources were used. 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 regulatory environment known as at the date of the test.

The values determined reflect the past experience and are consistent with information from external sources.

There was taken into calculations the level of the weighted average cost of capital (WACC), which ranged in the projection period between 7.05% – 10.20% in nominal terms before tax having regard the risk free rate determined by reference to the yield on 10-year treasury bonds (3.85%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at 2.5% and it corresponds to the estimated long-term inflation rate. The level of WACC as at 31 December 2017 increased compared to the level as at 31 December 2016, mainly due to increase in the risk free rate and the increase in the cost of debt.

(in PLN '000)

Impairment test for the carrying amount of goodwill as at 31 December 2017

The key assumptions affecting the estimated value in use and the discount rates applied to individual segments are as follows:

Goodwill in the segment	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		31 December 2017	31 December 2016
Mining	• The adopted price path for power coal and other coal sizes. It has been assumed that in the years 2018–2020 the prices of power coal will remain at a similar level to that obtained in current contracts. Next in the years 2021–2040 a real depreciation of 8% is expected with the prices remaining at the 2040 levels (fixed); • 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; • Maintaining the production capacity of the existing non-current assets as a result of replacement investments.	10.20%	6.95%
Distribution	• Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	7.61%	6.39%

The assumptions were also used to estimate the value in use of other intangible assets.

The impairment test performed as at 31 December 2017 did not reveal impairment of the carrying amount of goodwill in the segments.

A sensitivity analysis performed for each CGU revealed that changes in the key factors, such as electricity prices, hard coal prices, greenhouse gas emission allowances and weighted average costs of capital would have to be material to change the value in use of the tested assets to the extent necessary to recognize impairment losses on goodwill.

(in PLN '000)

NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

12. Sales Revenue

	Year ended 31 December 2017	Year ended 31 December 2016
Sale of goods for resale, finished goods and materials without elimination of excise	**10 950 803**	**11 575 033**
Excise	(415 318)	(395 601)
Sale of goods for resale, finished goods and materials	**10 535 485**	**11 179 432**
Electricity	8 795 256	9 521 948
Heat energy	661 038	650 625
Energy certificates	54 700	127 791
Coal	662 305	467 962
Gas	182 636	230 466
Other goods for resale, finished goods and materials	179 550	180 640
Rendering of services	**6 819 034**	**6 409 430**
Distribution and trade services	6 467 258	6 051 410
Connection fees	110 948	102 657
Maintenance of road lighting	115 265	116 463
Other services	125 563	138 900
Other revenue	**61 510**	**57 627**
Total	**17 416 029**	**17 646 489**

Additional assessment of the revenue from sale of electricity and distribution services in the Sales segment

As at 31 December 2017, additionally assessed revenue from sale of electricity and distribution services in the Sales segment totalled PLN 456 972 thousand and, when reversed estimations from the prior year have been accounted for, the impact on the profit or loss for the period was PLN 58 566 thousand.

Additional assessment of the revenue from the sale of electricity and distribution services has been discussed in Note 9.27 of these consolidated financial statements.

13. Cost of Goods, Products, Materials and Services Sold (Cost of Sales)

13.1. Costs by type

	Year ended 31 December 2017	Year ended 31 December 2016
Depreciation of property, plant and equipment and amortization of intangible assets	(1 693 468)	(1 668 726)
Impairment of property, plant and equipment and intangible assets	(45 604)	(867 109)
Materials and energy	(1 392 788)	(1 316 274)
Maitenance and repair services	(251 572)	(265 300)
Distribution services	(2 084 153)	(1 771 651)
Other external services	(900 361)	(759 687)
Cost of obligation to remit the emission allowances	(326 255)	(381 883)
Other taxes and charges	(731 278)	(667 415)
Employee benefits expense	(2 805 162)	(2 613 984)
Allowance for doubtful debts	(25 170)	(22 943)
Other	(98 708)	(106 892)
Total costs by type	**(10 354 519)**	**(10 441 864)**
Change in inventories, prepayments, accruals and deferred income	(102 890)	61 655
Cost of goods produced for internal purposes	488 649	471 286
Selling and distribution expenses	491 629	459 191
Administrative expenses	610 365	652 827
Cost of goods for resale and materials sold	(5 636 919)	(6 920 557)
Cost of sales	**(14 503 685)**	**(15 717 462)**

(in PLN '000)

13.2. Costs of employee benefits

	Year ended 31 December 2017	Year ended 31 December 2016
Wages and salaries	(2 092 398)	(2 036 168)
Social security costs	(407 702)	(399 157)
Jubilee bonuses	(28 932)	84 473
Social Fund	(51 160)	(57 881)
Post-employment benefit expenses, of which:	(93 543)	(85 478)
Provision for retirement, disability and similar benefits	(29 622)	5 368
Coal allowances and special electricity rates and charges	(10 202)	(13 665)
Social Benefits Fund	(6 562)	(9 754)
Contributions to employee retirement plans	(47 157)	(67 427)
Voluntary termination scheme	(22 798)	(20 866)
Other employee benefit expenses	(108 629)	(98 907)
Total	**(2 805 162)**	**(2 613 984)**
Items included in cost of sales	(1 880 817)	(1 687 692)
Items included in selling and distribution expenses	(210 428)	(203 799)
Movement in stock of finished goods	(113 366)	(89 010)
Items included in administrative expenses	(399 783)	(403 571)
Items included in cost of goods produced for internal purposes	(200 768)	(229 912)

The costs of jubilee benefits and provisions for retirement, disability and similar benefits went up versus comparative period mainly as a result of recognition of past service costs resulting primarily from changes in the Company's Labour Agreements in that period. This reduced the costs of jubilee benefits of PLN 84 487 thousand and the costs of provisions for retirement, disability and similar benefits of PLN 20 470 thousand.

The change in provisions for post-employment benefits and for jubilee bonuses has been discussed in more detail in Note 33.1 to these consolidated financial statements.

(in PLN '000)

13.3. Depreciation and amortization charges and impairment losses

	Year ended 31 December 2017	Year ended 31 December 2016
Items included in cost of sales	**(1 650 147)**	**(2 409 461)**
Depreciation of property, plant and equipment	(1 558 790)	(1 532 717)
Impairment of property, plant and equipment	(30 546)	(757 974)
Amortization of intangible assets	(49 144)	(43 487)
Impairment of intangible assets	(10 311)	(22 215)
Impairment of goodwill	–	(51 903)
Other	(1 356)	(1 165)
Items included in selling and distribution expenses	**(35 712)**	**(33 318)**
Depreciation of property, plant and equipment	(16 694)	(17 639)
Amortization of intangible assets	(18 506)	(15 679)
Other	(512)	–
Items included in administrative expenses	**(39 440)**	**(75 640)**
Depreciation of property, plant and equipment	(21 713)	(27 868)
Impairment of property, plant and equipment	802	(33 245)
Amortization of intangible assets	(13 819)	(14 308)
Impairment of intangible assets	(8)	(219)
Other	(4 702)	–
Items included in cost of goods produced for internal purposes	**(13 773)**	**(17 416)**
Depreciation of property, plant and equipment	(13 246)	(16 751)
Impairment of property, plant and equipment	1 155	(388)
Amortization of intangible assets	(1 556)	(277)
Impairment of intangible assets	(126)	–
Total	**(1 739 072)**	**(2 535 835)**
Depreciation and amortization	(1 693 468)	(1 668 726)
Impairment	(45 604)	(867 109)

In the year ended 31 December 2017, the Group recognized impairment losses on property, plant and equipment, in addition to reversing in part the impairment losses recognized before in the Generation segment, which was due to impairment tests performed as at 31 December 2017 and 30 June 2017. The total effect on the Group's accounting profit for 2017 was PLN 30 515 thousand (excess of recognition over reversal). The tests and their results have been discussed in more detail in Note 11 to these consolidated financial statements.

Additionally, in the year ended 31 December 2017 the Group's companies recognized and reversed impairment losses on individual assets and non-current assets classified as held for sale which resulted in the Group's operating expenses being charged with PLN 15 089 thousand.

Review of the estimated useful lives

A review of the estimated useful lives of fixed assets and intangible assets, conducted in 2017, had a material effect on the amortization and depreciation expense in the following operating segments:

Increase/(decrease) in depreciation and amortization costs	Year ended 31 December 2017	Year ended 31 December 2016
Mining	(1 312)	(13 286)
Generation	241	520
Distribution	(13 000)	(25 900)

(in PLN '000)

14. Other Operating Revenue and Expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Penalties, fines, compensations received or receivable	27 161	48 256
Surplus of (recognition)/reversal of actuarial provisions for the existing pensioners and disability pensioners	(1 025)	58 528
Surplus of other provisions (recognized)/derecognized	(35 167)	(115 733)
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges	29 411	38 434
Surplus of subsidies written-off over provision created for their return	–	29 684
Loss on the disposal of property, plant and equipment / intangible assets and costs of damages to non-current assets	(9 489)	(116)
Write-off for abandoned investments and production as well as liquidated materials	(3 645)	(2 821)
Costs of court proceedings, fines and damages	(10 808)	(24 675)
Other operating income	18 477	22 208
Other operating expenses	(18 994)	(69 252)
Total	**(4 079)**	**(15 487)**

In the year ended 31 December 2017, other provisions recognized by the Group exceeded those reversed by PLN 35 167 thousand, with an increase in a provision recognized by a subsidiary from the Distribution segment for real estate tax in the amount of PLN 27 356 thousand being the most material item.

15. Finance Income and Costs

	Year ended 31 December 2017	Year ended 31 December 2016
Income and costs from financial instruments	**(61 756)**	**(252 206)**
Dividend income	9 136	5 728
Interest income	47 266	35 314
Interest costs	(209 322)	(259 564)
Commission relating to borrowings and debt securities	(19 020)	(18 767)
Gain/loss on derivative instruments	(18 042)	14 138
Foreign exchange gains/losses	127 390	(30 261)
Other	836	1 206
Other finance income and costs	**(59 913)**	**(100 495)**
Interest on employee benefits	(40 764)	(50 101)
Interest on discount of other provisions	(14 328)	(19 106)
Other	(4 821)	(31 288)
Total, including recognized in the statement of comprehensive income:	**(121 669)**	**(352 701)**
Interest expense on debt	(209 322)	(259 564)
Other finance income and costs	87 653	(93 137)

In the year ended 31 December 2017, exchange gains exceeded exchange losses by PLN 127 390 thousand. Exchange gains were mainly related to the Parent's debt in the euro, i.e. loans obtained from a subsidiary, subordinated bonds issued in December 2016 and eurobonds issued in July 2017. Exchange gains exceeded exchange losses by PLN 128 270 thousand.

(in PLN '000)

16. Income Tax

16.1. Tax expense in the statement of comprehensive income

	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax	**(261 178)**	**(229 134)**
Current income tax expense	(256 713)	(223 825)
Adjustments to current income tax from previous years	(4 465)	(5 309)
Deferred tax	**(113 528)**	**90 410**
Income tax expense in profit/(loss)	**(374 706)**	**(138 724)**
Income tax expense relating to other comprehensive income	**(2 184)**	**(63 052)**

16.2. Reconciliation of the effective tax rate

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before taxation	**1 757 652**	**508 861**
Tax at Poland's statutory tax rate of 19%	**(333 954)**	**(96 684)**
Adjustments to income tax from previous years	(4 465)	(5 309)
Tax effects of the following items:	(14 139)	(46 169)
Recognition of non-deductible provisions and write-downs/allowances	(19 382)	(25 072)
National Disabled Persons Rehabilitation Fund (PFRON)	(4 927)	(4 857)
Permanent differences on costs related to tangible assets	2 733	(27 426)
Impairment of goodwill	–	(9 862)
Settlement of a tax loss which was not recognized as a tax asset	–	16 595
Other tax non-deductible costs	(24 624)	(16 658)
Share in profit/loss of joint ventures	13 880	11 408
Other income not included in taxable base	18 181	9 703
Other	(22 148)	9 438
Tax at the effective rate of 21.3% (2016 - 27.3%)	**(374 706)**	**(138 724)**
Income tax (expense) in profit/(loss)	(374 706)	(138 724)

16.3. Deferred income tax

	As at 31 December 2017	As at 31 December 2016
difference between tax base and carrying amount of fixed and intangible assets	1 546 630	1 511 102
difference between tax base and carrying amount of financial assets	37 632	45 981
different timing of recognition of sales revenue for tax purposes	107 511	49 299
difference between tax base and carrying amount of energy certificates	7 964	15 766
other	47 841	44 156
Deferred tax liabilities	**1 747 578**	**1 666 304**
provisions	580 180	638 914
difference between tax base and carrying amount of fixed and intangible assets	167 531	143 403
power infrastructure received free of charge and received connection fees	46 669	51 811
difference between tax base and carrying amount of financial assets and financial liabilities	54 162	50 387
different timing of recognition of cost of sales for tax purposes	41 842	39 940
tax losses	13 386	12 758
other	18 909	19 905
Deferred tax assets	**922 679**	**957 118**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**46 966**	**50 382**
Deferred tax liability	**(871 865)**	**(759 568)**

As at 31 December 2017 and 31 December 2016, the deferred tax assets were set off against the deferred tax liabilities of companies from the Tax Capital Group ("TCG") due to the fact that the said companies had filed a combined tax return under the Tax Capital Group agreement for the years 2015–2017, concluded on 22 September 2014. On 30 October 2017 a decision concerning registration of another Tax Capital Group for the years 2018–2020 was issued, which has been further described in Note 40 hereto.

(in PLN '000)

Based on the forecasts prepared for the TCG, according to which taxable income will be earned in the following years, it has been concluded that there is no risk that the deferred tax asset recognized in these consolidated financial statements will not be realized.

The deferred tax assets applies mainly to the Mining segment. The tax losses in the Segment were incurred before the Company joined the Tax Capital Group, i.e. before 1 January 2015. The Company intends to carry the loss forward over five subsequent years following the validity of the Tax Capital Group.

Change in deferred tax liability

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	**1 666 304**	**1 677 787**
Change in the balance:		
corresponding to profit/(loss)	82 807	(27 405)
corresponding to other comprehensive income	(1 550)	–
acquisition of ZCP Brzeszcze	–	15 239
other changes	17	683
Closing balance	**1 747 578**	**1 666 304**

Change in deferred tax asset

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	**957 118**	**936 795**
Change in the balance:		
corresponding to profit/(loss)	(30 721)	63 005
corresponding to other comprehensive income	(3 734)	(63 052)
acquisition of ZCP Brzeszcze	–	18 366
other changes	16	2 004
Closing balance	**922 679**	**957 118**

17. Earnings per Share

Earnings per share (in PLN)	Year ended 31 December 2017	Year ended 31 December 2016
Basic and diluted, for profit for the year attributable to equity holders of the Parent	0.79	0.21

Presented below is information about the earnings and shares which served as the basis for calculation of the basic and diluted earnings per share presented in the statement of comprehensive income.

	Year ended 31 December 2017	Year ended 31 December 2016
Net profit for the year attributable to equity holders of the Parent	1 380 663	367 468
Number of ordinary shares	1 752 549 394	1 752 549 394

(in PLN '000)

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

18. Property, Plant and Equipment

Year ended 31 December 2017

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**121 980**	**21 603 044**	**18 164 046**	**850 102**	**3 261 173**	**44 000 345**
Direct purchase	–	23	–	–	3 137 677	**3 137 700**
Borrowing costs	–	–	–	–	105 346	**105 346**
Transfer of assets under construction	1 086	1 005 444	662 139	82 815	(1 751 484)	**–**
Sale	(154)	(10 012)	(61 733)	(27 922)	–	**(99 821)**
Liquidation	(3)	(41 759)	(117 786)	(7 726)	–	**(167 274)**
Received free of charge	–	7 724	161	–	–	**7 885**
Transfers to/from assets held for sale	(30)	(14 916)	(2 394)	(15)	(11)	**(17 366)**
Overhaul expenses	–	–	–	–	66 910	**66 910**
Items generated internally	–	–	–	–	39 122	**39 122**
Cost of disassembly of wind farms and decommissioning of mines	–	32 152	1 059	–	–	**33 211**
Other movements	(99)	(735)	1 636	(2 109)	(2 645)	**(3 952)**
Foreign exchange differences from translation of foreign entities	–	–	(1)	(1)	–	**(2)**
Closing balance	**122 780**	**22 580 965**	**18 647 127**	**895 144**	**4 856 088**	**47 102 104**
ACCUMULATED DEPRECIATION						
Opening balance	**(433)**	**(7 825 966)**	**(9 268 038)**	**(517 062)**	**(33 657)**	**(17 645 156)**
Depreciation for the period	–	(796 822)	(729 235)	(84 387)	–	**(1 610 444)**
Increase of impairment	(4)	(134 345)	(355 224)	(693)	(3 495)	**(493 761)**
Decrease of impairment	30	155 913	309 848	810	22	**466 623**
Sale	–	5 660	58 996	27 292	–	**91 948**
Liquidation	–	32 724	114 214	7 568	–	**154 506**
Transfers to/from assets held for sale	–	9 536	2 101	15	–	**11 652**
Other movements	–	265	1 016	1 142	(9)	**2 414**
Closing balance	**(407)**	**(8 553 035)**	**(9 866 322)**	**(565 315)**	**(37 139)**	**(19 022 218)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**121 547**	**13 777 078**	**8 896 008**	**333 040**	**3 227 516**	**26 355 189**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**122 373**	**14 027 930**	**8 780 805**	**329 829**	**4 818 949**	**28 079 886**
of which operating segments:						
Mining	**2 774**	**785 380**	**667 412**	**16 301**	**292 435**	**1 764 302**
Generation	**41 256**	**2 322 835**	**3 753 162**	**35 962**	**3 595 630**	**9 748 845**
Distribution	**61 483**	**10 829 553**	**4 244 598**	**261 693**	**918 501**	**16 315 828**
Other segments and other operations	**16 860**	**90 162**	**115 633**	**15 873**	**12 383**	**250 911**

(in PLN '000)

Year ended 31 December 2016

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**119 536**	**19 928 399**	**16 910 428**	**804 020**	**2 599 980**	**40 362 363**
Direct purchase	–	–	85	253	3 495 992	**3 496 330**
Borrowing costs	–	–	–	–	94 018	**94 018**
Transfer of assets under construction	1 409	1 587 221	1 373 628	79 288	(3 041 546)	**–**
Sale	(385)	(7 610)	(14 329)	(24 203)	(48)	**(46 575)**
Liquidation	–	(55 360)	(124 965)	(13 342)	–	**(193 667)**
Received free of charge	9	16 912	766	–	–	**17 687**
Transfers to/from assets held for sale	(43)	(11 789)	64	(2 062)	(13)	**(13 843)**
Overhaul expenses	–	–	–	–	60 685	**60 685**
Items generated internally	–	–	–	–	38 332	**38 332**
Acquisition of ZCP Brzeszcze	1 544	165 401	22 429	1 637	14 405	**205 416**
Cost of disassembly of wind farms and decommissioning of mines	–	(31 863)	(1 552)	–	–	**(33 415)**
Other movements	(90)	11 733	(2 520)	4 495	(632)	**12 986**
Foreign exchange differences from translation of foreign entities	–	–	12	16	–	**28**
Closing balance	**121 980**	**21 603 044**	**18 164 046**	**850 102**	**3 261 173**	**44 000 345**
ACCUMULATED DEPRECIATION						
Opening balance	**(466)**	**(6 692 656)**	**(8 304 965)**	**(467 731)**	**(13 728)**	**(15 479 546)**
Depreciation for the period	–	(802 997)	(712 304)	(79 674)	–	**(1 594 975)**
Increase of impairment	(30)	(540 226)	(929 441)	(3 964)	(19 958)	**(1 493 619)**
Decrease of impairment	47	156 917	546 123	835	29	**703 951**
Sale	–	3 952	12 695	22 662	–	**39 309**
Liquidation	–	47 448	121 256	13 050	–	**181 754**
Transfers to/from assets held for sale	16	2 948	(16)	657	–	**3 605**
Other movements	–	(1 352)	(1 379)	(2 890)	–	**(5 621)**
Foreign exchange differences from translation of foreign entities	–	–	(7)	(7)	–	**(14)**
Closing balance	**(433)**	**(7 825 966)**	**(9 268 038)**	**(517 062)**	**(33 657)**	**(17 645 156)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**119 070**	**13 235 743**	**8 605 463**	**336 289**	**2 586 252**	**24 882 817**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**121 547**	**13 777 078**	**8 896 008**	**333 040**	**3 227 516**	**26 355 189**
of which operating segments:						
Mining	**2 774**	**724 056**	**612 225**	**16 706**	**341 810**	**1 697 571**
Generation	**41 303**	**2 394 113**	**3 935 303**	**37 148**	**2 252 690**	**8 660 557**
Distribution	**60 610**	**10 562 543**	**4 222 354**	**260 139**	**620 819**	**15 726 465**
Other segments and other operations	**16 860**	**96 366**	**126 126**	**19 047**	**12 197**	**270 596**

In the year ended 31 December 2017, the Group acquired property, plant and equipment of PLN 3 243 046 thousand (including capitalized borrowing costs). The major purchases were made in connection with investments in the following operating segments:

Operating segment	Year ended 31 December 2017	Year ended 31 December 2016
Distribution	1 637 114	1 717 236
Generation	1 421 493	1 560 458
Mining	153 795	282 420

The average capitalization rate of the borrowing costs in the year ended 31 December 2017 was 3.17% vs. 4.10% in the year ended 31 December 2016.

Key investment projects carried out by the Group in the financial year 2017 have been described in Section 1.5.2. of the Management Board's report on the activities of the TAURON Polska Energia S.A. for the 2017 financial year.

The carrying amounts of property, plant and equipment used under finance lease agreements have been presented in the table below:

	As at 31 December 2017	As at 31 December 2016
Buildings	21 702	34 117
Plant and machinery	32	17 226
Motor vehicles	–	406

(in PLN '000)

Recognition and reversal of impairment losses on property, plant and equipment had the following impact on operating segment performance:

	Year ended 31 December 2017				Year ended 31 December 2016			
	Generation	Distribution	Other	Total	Generation	Distribution	Other	Total
Increase of impairment	(493 181)	(569)	(11)	**(493 761)**	(1 487 766)	(5 853)	–	**(1 493 619)**
Decrease of impairrment	462 787	3 803	33	**466 623**	689 181	14 770	–	**703 951**
Total impact on the profit (loss) for the period	**(30 394)**	**3 234**	**22**	**(27 138)**	**(798 585)**	**8 917**	**–**	**(789 668)**

19. Goodwill

Operating segment	As at 31 December 2017	As at 31 December 2016
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	581	581
Total	**40 156**	**40 156**

20. Energy Certificates and Gas Emission Allowances

20.1. Long-term energy certificates and gas emission allowances

Year ended 31 December 2017

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**110 430**	**15 830**	**126 260**
Direct purchase	87 880	198 635	**286 515**
Reclassification	(102 515)	(7 130)	**(109 645)**
Closing balance	**95 795**	**207 335**	**303 130**

Year ended 31 December 2016

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**232 973**	**277 867**	**510 840**
Direct purchase	110 430	15 830	**126 260**
Reclassification	(232 973)	(277 867)	**(510 840)**
Closing balance	**110 430**	**15 830**	**126 260**

20.2. Short-term energy certificates and gas emission allowances

Year ended 31 December 2017

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**556 501**	**423 847**	**980 348**
Direct purchase	273 404	103 611	**377 015**
Generated internally	52 350	–	**52 350**
Cancellation	(653 561)	(209 652)	**(863 213)**
Reclassification	103 073	7 130	**110 203**
Closing balance	**331 767**	**324 936**	**656 703**

Year ended 31 December 2016

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**652 305**	**153 083**	**805 388**
Direct purchase	283 978	318 127	**602 105**
Generated internally	102 149	–	**102 149**
Cancellation	(709 538)	(325 230)	**(1 034 768)**
Reclassification	227 607	277 867	**505 474**
Closing balance	**556 501**	**423 847**	**980 348**

(in PLN '000)

20.3. Balance of greenhouse gas emission allowances recorded in the Union Registry

Balance emission allowances	Year ended 31 December 2017	Year ended 31 December 2016
Allowances recorded at the beginning of the financial year	**19 482 951**	**23 737 448**
Allowances surrendered:		
in the installations of TAURON Wytwarzanie S.A. (previous year's emissions)	(5 864 561)	(14 736 415)
in the installations of TAURON Ciepło Sp. z o.o. (previous year's emissions)	(1 529 737)	(1 562 047)
in the installations of TAURON Wytwarzanie S.A. (current year's emissions)	–	(7 501 634)
Allocation of free-of-charge allowances	2 150 783	3 627 599
Allowances purchased on the secondary market	16 968 000	24 673 500
Allowances sold on the secondary market	(6 558 000)	(8 755 500)
Allowances recorded at the end of the financial year, of which:	**24 649 436**	**19 482 951**
Allowances intended for surrender for a given year:	(16 454 964)	(7 395 649)
in the installations of TAURON Wytwarzanie S.A.	(14 574 412)	(5 863 776)
in the installations of TAURON Ciepło Sp. z o.o.	(1 880 552)	(1 531 873)

In 2017, the TAURON Group companies obtained emission allowances free of charge under Article 10a of Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 (the "Directive") amending Directive 2003/87/EC in the following quantity: 469 945 EUA for heat generation (based on the List of facilities covered by the National Implementation Measures, including the quantity of emission allowances for 2013–2020 – to be awarded for 2017) and greenhouse gas emission allowances subject to derogations under Article 10c of the Directive, following the settlement of capital expenditure incurred from 1 July 2015 to 30 June 2016 in the following quantity: 1 680 838 EUA (based on the List of electricity generation facilities covered by the greenhouse gas emissions trading system, including the quantity of allowances to be granted in 2017). Considering that the derogation allowances are granted between 2013 and 2020 based on capital expenditure incurred, which are a necessary condition to obtain such allowances, in September 2017 the TAURON Group once again settled its capital expenditure incurred in connection with the investment projects included in the National Investment Plan by filing financial and factual reports for the period from 1 July 2016 to 30 June 2017.

21. Other Intangible Assets

Year ended 31 December 2017

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**5 434**	**786 283**	**610 578**	**211 873**	**93 060**	**1 707 228**
Direct purchase	–	–	–	–	125 070	**125 070**
Transfer of intangible assets not made available for use	–	1 803	52 171	16 195	(70 169)	**–**
Sale/ Liquidation	(15)	(1 909)	(12 181)	–	–	**(14 105)**
Transfers to/from assets held for sale	–	(12 949)	–	–	–	**(12 949)**
Other movements	984	59	(6 084)	8 480	541	**3 980**
Foreign exchange differences from translation of foreign entities	–	–	(4)	–	–	**(4)**
Closing balance	**6 403**	**773 287**	**644 480**	**236 548**	**148 502**	**1 809 220**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 120)**	**(25 617)**	**(387 075)**	**(64 982)**	**(7)**	**(482 801)**
Amortization for the period	(85)	–	(65 844)	(17 095)	–	**(83 024)**
Increase of impairment	(177)	(9 920)	(690)	(24)	–	**(10 811)**
Decrease of impairment	117	307	10	54	–	**488**
Sale/ Liquidation	15	–	11 805	–	–	**11 820**
Transfers to/from assets held for sale	–	9 859	–	–	–	**9 859**
Other movements	(15)	–	2 154	(2 814)	–	**(675)**
Foreign exchange differences from translation of foreign entities	–	–	1	–	–	**1**
Closing balance	**(5 265)**	**(25 371)**	**(439 639)**	**(84 861)**	**(7)**	**(555 143)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**314**	**760 666**	**223 503**	**146 891**	**93 053**	**1 224 427**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1 138**	**747 916**	**204 841**	**151 687**	**148 495**	**1 254 077**

(in PLN '000)

Year ended 31 December 2016

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**5 690**	**786 504**	**550 892**	**188 004**	**51 885**	**1 582 975**
Direct purchase	–	–	38	–	127 408	**127 446**
Transfer of intangible assets not made available for use	–	184	63 062	22 492	(85 738)	**–**
Sale/ Liquidation	(256)	(2 438)	(4 000)	(89)	(55)	**(6 838)**
Acquisition of ZCP Brzeszcze	–	10 266	95	147	–	**10 508**
Transfers to/from assets held for sale	–	(8 728)	–	–	–	**(8 728)**
Other movements	–	495	449	1 319	(440)	**1 823**
Foreign exchange differences from translation of foreign entities	–	–	42	–	–	**42**
Closing balance	**5 434**	**786 283**	**610 578**	**211 873**	**93 060**	**1 707 228**
ACCUMULATED AMORTIZATION						
Opening balance	**(4 893)**	**(13 064)**	**(332 862)**	**(49 391)**	**–**	**(400 210)**
Amortization for the period	(159)	–	(58 046)	(15 546)	–	**(73 751)**
Increase of impairment	(403)	(23 094)	(1 359)	(138)	(7)	**(25 001)**
Decrease of impairment	79	1 773	1 619	16	–	**3 487**
Sale/Liquidation	256	–	3 920	81	–	**4 257**
Transfers to/from assets held for sale	–	8 768	–	–		**8 768**
Other movements	–	–	(312)	(4)	–	**(316)**
Foreign exchange differences from translation of foreign entities	–	–	(35)	–	–	**(35)**
Closing balance	**(5 120)**	**(25 617)**	**(387 075)**	**(64 982)**	**(7)**	**(482 801)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**797**	**773 440**	**218 030**	**138 613**	**51 885**	**1 182 765**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**314**	**760 666**	**223 503**	**146 891**	**93 053**	**1 224 427**

22. Interests in Joint Ventures

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2017
Non-current assets	1 219 954	1 658 016	**2 877 970**
Current assets, including:	3 830	552 456	**556 286**
cash and cash equivalents	*2 673*	*197 401*	***200 074***
Non-current liabilities (-) including:	(538 278)	(670 240)	**(1 208 518)**
debt	*(488 440)*	*(588 368)*	***(1 076 808)***
Current liabilities (-) including:	(726 070)	(460 096)	**(1 186 166)**
debt	*(659 374)*	*(49 415)*	***(708 789)***
Total net assets	(40 564)	1 080 136	**1 039 572**
Share in net assets	(20 282)	540 068	**519 786**
Investment in joint ventures	**–**	**499 204**	**499 204**
Share in revenue of joint ventures	20	628 145	**628 165**
Share in profit/(loss) of joint ventures	**–**	**72 950**	**72 950**
Share in other comprehensive income of joint ventures	**–**	**(519)**	**(519)**

** The data presented concern the TAMEH HOLDING Sp. z o.o. Capital Group. The value of the interest held in TAMEH HOLDING Sp. z o.o. differs from the value of net assets attributable to the Group, because the cost of shares in TAMEH HOLDING Sp. z o.o. was calculated taking into account the fair value of the share contributed to the joint venture by companies from the ArcelorMittal Capital Group.*

(in PLN '000)

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o.*	Elektrownia Blachownia Nowa Sp. z o.o. in liquidation	As at 31 December 2016
Non-current assets	1 126 668	1 479 845	–	**2 606 513**
Current assets, including:	5 739	501 547	37 056	**544 342**
cash and cash equivalents	*3 809*	*196 442*	*37 009*	***237 260***
Non-current liabilities (-) including:	(1 028 954)	(664 603)	–	**(1 693 557)**
debt	*(980 977)*	*(536 585)*	–	***(1 517 562)***
Current liabilities (-) including:	(132 395)	(349 101)	(97)	**(481 593)**
debt	*(65 752)*	*(1 647)*	–	***(67 399)***
Total net assets	(28 942)	967 688	36 959	**975 705**
Share in net assets	(14 471)	483 844	18 479	**487 852**
Investment in joint ventures	**–**	**442 869**	**18 479**	**461 348**
Share in revenue of joint ventures	6 675	559 624	449	**566 748**
Share in profit/(loss) of joint ventures	**–**	**60 022**	**18**	**60 040**
Share in other comprehensive income of joint ventures	**–**	**(1 040)**	**–**	**(1 040)**

** The data presented concern the TAMEH HOLDING Sp. z o.o. Capital Group.*

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A. The entity was registered to carry out an investment project, i.e. construction of a gas and steam unit fuelled with natural gas in Stalowa Wola with the gross maximum electrical capacity of 400 MWe and the net heat capability of 240 MWt.

On 27 October 2016, a conditional agreement was made among the Company, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. to set out the key boundary conditions for project restructuring along with a conditional annex to the electricity sales contract. Furthermore, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. executed a conditional annex to the gaseous fuel supply contract.

The conditions precedent were satisfied on 31 March 2017, which was followed by the entry into force of the aforesaid agreement and annexes. The issue has been discussed in more detail in Note 34.3 hereto.

TAURON Polska Energia S.A. holds a 50% indirect interest in the issued capital of the company and in its governing body through TAURON Wytwarzanie S.A. Due to the fact that in 2015 the accumulated share in losses of the joint venture and the adjustment to "top-down" transactions between the Group companies and the joint venture exceeded the value of the interest in the joint venture, the Company discontinued to recognize its share in any further losses of the joint venture.

Additionally, the Company has receivables arising from loans extended to Elektrociepłownia Stalowa Wola S.A. with the carrying amount of PLN 570 432 thousand, which has been discussed in more detail in Note 23 to these consolidated financial statements.

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014, the TAURON Group entered into an agreement with the ArcelorMittal Group. It is an agreement between entities holding interests in TAMEH HOLDING Sp. z o.o. which governs the investment and operational projects carried out in the industrial power sector. The duration of the agreement is 15 years and may be extended. Following the transactions concluded in 2014, each capital group holds 50% of shares in TAMEH HOLDING Sp. z o.o.

TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH POLSKA Sp. z o.o. composed of: Zakład Wytwarzania Nowa and Elektrownia Blachownia contributed in kind by the TAURON Group and Elektrociepłownia in Kraków contributed in kind by the ArcelorMittal Group. Moreover, TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH Czech s.r.o.

On 29 June 2017, the General Shareholders' Meeting of TAMEH HOLDING Sp. z o.o. decided to allocate PLN 31 000 thousand to pay dividends to the shareholders. The Group's interest in the joint venture TAMEH HOLDING Sp. z o.o. was reduced by the value of the dividend payable to the Group in the amount of PLN 15 500 thousand.

Elektrownia Blachownia Nowa Sp. z o.o. in liquidation

On 5 September 2012, TAURON Wytwarzanie S.A., a subsidiary, and KGHM Polska Miedź S.A. established a special purpose vehicle, Elektrownia Blachownia Nowa Sp. z o.o. The company was set up to perform a comprehensive investment project including preparation, construction and operation of a gas and steam unit with the capacity of ca. 850 MWe on the site of TAURON Wytwarzanie S.A. – Oddział Elektrownia Blachownia.

(in PLN '000)

On 28 July 2016, TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. signed an agreement pursuant to which they unanimously decided to discontinue the construction of the gas and steam unit in Elektrownia Blachownia Nowa Sp. z o.o. and terminate the shareholders agreement concluded by KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. On 11 October 2016, the Extraordinary General Shareholders' Meeting dissolved Elektrownia Blachownia Nowa Sp. z o.o. and placed it into liquidation, in addition to appointing a receiver. The measures employed in connection with the liquidation included completion of sales of the company's assets by the end of the reporting period, document archiving and termination of the contracts which the company was party to. On 7 July 2017, the proceeds from distribution of the assets of Elektrownia Blachownia Nowa Sp. z o.o. in liquidation, amounting to PLN 18 542 thousand, were transferred to the bank account of TAURON Wytwarzanie S.A. After the balance sheet date, in January 2018, there was filed with the district court an application to delete the company from register of entrepreneurs.

23. Loans to joint ventures

Loans to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 31 December 2017 and 31 December 2016:

	Agreement date	Loan amount	As at 31 December 2017		Maturity date	Interest rate	Purpose
			Principal	Interest			
Subordinated loan	20.06.2012	177 000	177 000	35 052	31.12.2032	floating/ WIBOR 3M+mark-up	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14.12.2015	15 850	15 850	1 370	31.12.2027	floating/ WIBOR 3M+mark-up	Repayment of the principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
	15.12.2016	15 300	11 000	495		floating/ WIBOR 6M+mark-up	
Arrangements to consolidate the borrower's debt	30.06.2017	150 000	150 000	3 259	28.02.2018	floating/ WIBOR 6M+mark-up	Payment of total liabilities under loan agreements entered into by the borrower with the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. and financing of current operations
	31.10.2017	175 157	175 157	1 249			
Total			**529 007**	**41 425**			
Non-current			203 850	36 917			
Current			325 157	4 508			

	Agreement date	Loan amount	As at 31 December 2016		Maturity date	Interest rate	Purpose
			Principal	Interest			
Subordinated loan	20.06.2012	177 000	177 000	36 381	31.12.2032	floating/ WIBOR 3M+mark-up	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14.12.2015	15 850	15 850	699	31.12.2027	floating/ WIBOR 3M+mark-up	Repayment of the principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
	15.12.2016	15 300	11 000	21		floating/ WIBOR 6M+mark-up	
Other loans	25.11.2015	2 600	2 600	117	30.06.2017	floating/ WIBOR 6M+mark-up	Financing of current operations
	22.01.2016	5 500	5 500	214		floating/ WIBOR 1M+mark-up	
	22.04.2016	1 200	600	17			
	27.05.2016	3 100	3 100	65			
	31.08.2016	3 800	2 875	28			
Total			**218 525**	**37 542**			
Non-current			203 850	37 101			
Current			14 675	441			

Loans granted by the Company to Elektrociepłownia Stalowa Wola S.A. under agreements dated 30 March 2017 for the purpose of debt repayment totalled PLN 290 742 thousand. With the loans the debtor will be able to make an early payment of liabilities under loan agreements entered into in relation to the construction of a heat and power unit in Stalowa Wola, which has been discussed in more detail in Note 34.3 to these financial statements.

Under agreements concluded on 16 February 2017 and 28 April 2017, the Company extended other loans totalling PLN 5 250 thousand to Elektrociepłownia Stalowa Wola S.A. to finance the current operations of the borrower.

On 30 June 2017, the Company concluded two agreements with Elektrociepłownia Stalowa Wola S.A. consolidating debt under loan agreements entered into for the purpose of refinancing debt totalling PLN 290 742 thousand and other loans for the total amount of PLN 19 925 thousand. Under the debt consolidation agreements, principal amounts and interest accrued by 30 June 2017 were consolidated and comprised:

- The total outstanding principal amount of PLN 145 991 thousand under the refinancing loan agreement dated 30 March 2017 and a portion of the principal amount of PLN 4 009 thousand under the refinancing loan agreement dated 30 March 2017 for PLN 73 518 thousand were included in the debt consolidation agreement of 30 June 2017 for the total amount of PLN 150 000 thousand.
- The debt consolidation agreement dated 30 June 2017 for PLN 170 058 thousand covered:
  - the remaining portion of the principal amount of PLN 69 509 thousand under the refinancing loan agreement dated 30 March 2017 for PLN 73 518 thousand;
  - the total principal amount under the refinancing loan agreement dated 30 March 2017 of PLN 71 233 thousand;
  - the total principal amount under other loan agreements concluded to finance current business operations of the borrower totalling PLN 19 925 thousand;
  - interest accrued on loans granted and included in debt consolidation agreements, calculated for the period from the loan agreement date to 30 June 2017 totalling PLN 3 841 thousand;
  - an additional loan granted to the borrower by the Company under the debt consolidation agreement of PLN 5 550 thousand. The purpose of the loan was in particular to finance current business operations of the borrower.

On 31 October 2017, the Company and Elektrociepłownia Stalowa Wola S.A. signed:

- A new consolidation arrangement totalling PLN 175 157 thousand, effective as of 1 November 2017, whereby the debt of Elektrociepłownia Stalowa Wola S.A. under the consolidation arrangement concluded on 30 June 2017 totalling PLN 170 058 thousand with interest accrued by 31 October 2017 totalling PLN 2 449 thousand was extended until 28 February 2018 and Elektrociepłownia Stalowa Wola S.A. was provided with another loan totalling PLN 2 650 thousand to pay for the current operations of the borrower.
- An annex to the consolidation arrangement of 30 June 2017 totalling PLN 150 000 thousand whereby the maturity of the loans under the arrangement was extended until 28 February 2018.

After the end of the reporting period, on 12 January 2018, the Company and Elektrociepłownia Stalowa Wola S.A. signed an agreement totalling PLN 27 000 thousand to be used for the operations of the borrower. Under the agreement the loan should be repaid with interest accrued based on the WIBOR 1M rate increased by a mark-up, by 28 February 2018. The repayment of the principal, interest and other costs and amounts due to the Company under the agreement is secured by the borrower's blank promissory note and a promissory note agreement up to the maximum amount of PLN 32 400 thousand.

After the end of the reporting period, on 28 February 2018, the Company entered into an agreement with Elektrociepłownia Stalowa Wola S.A. to consolidate the borrower's debt in the total amount of PLN 609 951 thousand, by renewing all the existing liabilities of the borrower arising from loans that had been granted and not repaid by 28 February 2018. The scope of the consolidation agreement includes principal amounts of loans granted whose carrying amount as at 31 December 2017 was PLN 529 007 thousand, the principal amount of a loan of 12 January 2018 of PLN 27 000 thousand as well as interest on the above debt, accrued as at 28 February 2018 in the total amount of PLN 53 944 thousand. Under the consolidation agreement, a portion of the debt of PLN 299 100 thousand is to be repaid within two business days of the borrower's receipt of external funding in relation to the gas and steam unit construction project in Stalowa Wola, while the remaining portion of PLN 310 851 thousand, along with interest accrued as of 1 March 2018, is to be repaid by the borrower by 30 June 2033. The interest rate on the loan is fixed and the repayment is secured by a blank promissory note along with a promissory note agreement up to the maximum amount of PLN 732 000 thousand.

(in PLN '000)

After the end of the reporting period, on 8 March 2018 Elektrociepłownia Stalowa Wola S.A. signed a loan agreement with Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A. Under the above mentioned agreement Bank Gospodarstwa Krajowego and PGNiG S.A. will grant Elektrociepłownia Stalowa Wola S.A. a loan in the amount of PLN 450 000 thousand each, to be used to refinance the debt of Elektrociepłownia Stalowa Wola S.A. towards the Company and PGNiG S.A. in the total amount of PLN 600 000 thousand and to cover new capital expenditures of PLN 300 000 thousand allowing Elektrociepłownia Stalowa Wola S.A. to complete the project of constructing of a gas and steam unit. The final loan repayment date is 14 June 2030. The loan agreement provides for the funds to be paid out to Elektrociepłownia Stalowa Wola S.A. after the suspending conditions have been met, with one of them being presenting to Bank Gospodarstwa Krajowego of a bank guarantee issued at the Company's instruction and securing the Loan Taker's debt towards Bank Gospodarstwa Krajowego. The bank guarantee will be renewed annually, and its value will not exceed PLN 517 500 thousand.

24. Other Financial Assets

	As at 31 December 2017	As at 31 December 2016
Shares	141 698	131 698
Deposits and term deposits for Mining Decommissioning Fund	39 756	38 472
Derivative instruments	33 416	56 417
Investment fund units	104 077	27 761
Loans granted	10 547	50
Bid bonds, deposits and collateral transferred	61 817	41 818
Initial margins	11 140	–
Other	7 554	10 561
Total	**410 005**	**306 777**
Non-current	238 095	227 140
Current	171 910	79 637

As at 31 December 2017 the shares held by the Group are mainly shares in the following entities:

- SCE Jaworzno III Sp. z o.o., in the amount of PLN 36 283 thousand;
- Przedsiębiorstwo Energetyki Cieplnej Tychy Sp. z o.o., in the amount of PLN 32 483 thousand;
- PGE EJ 1 Sp. z o.o., in the amount of PLN 26 546 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 15 063 thousand.
- Magenta Grupa TAURON Sp. z o.o. in the amount of PLN 9 500 thousand.

In the year ended 31 December 2017, the Parent acquired units in investment funds in the total amount of PLN 75 000 thousand.

25. Other Non-Financial Assets

25.1. Other non-current non-financial assets

	As at 31 December 2017	As at 31 December 2016
Prepayments for assets under construction and intangible assets including:	163 906	274 301
related to project realization: Construction of 910 MW Power Unit in Jaworzono III Power Plant	*162 589*	*271 667*
Costs of preparing production in hard coal mines	144 061	132 862
Prepayments for debt charges	12 252	6 005
Other prepayments	26 627	9 232
Total	**346 846**	**422 400**

(in PLN '000)

25.2. Other current non-financial assets

	As at 31 December 2017	As at 31 December 2016
Costs settled over time	**79 935**	**78 457**
Costs of preparing production in hard coal mines	52 123	36 175
Property and tort insurance	3 010	10 922
IT, telecom and postal services	15 074	17 994
Prepayments for debt charges	3 917	3 526
Other prepayments	5 811	9 840
Other current non-financial assets	**7 120**	**106 551**
Advance payments for deliveries	4 858	103 601
Surplus of Social Benefit Fund assets over its liabilities	–	338
Other current assets	2 262	2 612
Total	**87 055**	**185 008**

Company's Social Benefit Fund

The Group entities offset the Fund assets with their liabilities to the Fund as the assets are not classified as separate assets of the Group. Presented below is an analysis of the fund.

	As at 31 December 2017	As at 31 December 2016
Loans granted to employees	29 718	30 671
Cash	17 703	17 093
Other Fund assets and liabilities	2 316	2 822
Social Fund liabilities	(49 828)	(50 248)
Net balance	**(91)**	**338**
Transfers made to the Social Fund during the period	(55 624)	(62 180)

26. Inventories

	As at 31 December 2017	As at 31 December 2016
Gross value		
Coal, of which:	189 464	320 201
Raw materials	*33 260*	*98 759*
Semi-finished goods and work-in-progress	*155 180*	*216 831*
Energy certificates	–	783
Gas emission allowances	382	45 912
Other inventories	114 450	115 591
Total	**304 296**	**482 487**
Measurement to fair value		
Emission allowances	8	13 226
Measurement to net realisable value		
Other inventories	(8 841)	(9 593)
Total	**(8 833)**	**3 633**
Fair value		
Gas emission allowances	390	59 138
Net realisable value		
Coal, of which:	189 464	320 201
Raw materials	*33 260*	*98 759*
Semi-finished goods and work-in-progress	*155 180*	*216 831*
Energy certificates	–	783
Other inventories	105 609	105 998
Total	**295 463**	**486 120**

(in PLN '000)

Change in the balance of impairment losses on inventories / Inventory revaluation

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	**3 633**	**(10 136)**
Recognition	(4 109)	(5 417)
Reversal	623	2 682
Utilization	4 238	3 278
Fair value measurement of emission allowances	(13 218)	13 226
Closing balance	**(8 833)**	**3 633**

27. Receivables from buyers

	As at 31 December 2017	As at 31 December 2016
Value of items before allowance/write-down		
Receivables from buyers	1 557 864	1 527 921
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	499 601	425 705
Receivables claimed at court	205 025	146 086
Total	**2 262 490**	**2 099 712**
Allowance/write-down		
Receivables from buyers	(49 159)	(84 036)
Receivables claimed at court	(180 518)	(121 611)
Total	**(229 677)**	**(205 647)**
Value of item net of allowance (carrying amount)		
Receivables from buyers	1 508 705	1 443 885
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	499 601	425 705
Receivables claimed at court	24 507	24 475
Total	**2 032 813**	**1 894 065**

Ageing analysis of receivables from buyers as at 31 December 2017 year

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/ write-down	1 794 372	170 594	65 539	17 954	33 717	180 314	**2 262 490**
Allowance/write-down	(1 282)	(1 887)	(32 854)	(6 756)	(30 538)	(156 360)	**(229 677)**
Net Value	**1 793 090**	**168 707**	**32 685**	**11 198**	**3 179**	**23 954**	**2 032 813**

Ageing analysis of receivables from buyers as at 31 December 2016 year

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/ write-down	1 661 135	169 403	45 013	19 816	25 657	178 688	**2 099 712**
Allowance/write-down	(5 369)	(12 255)	(3 683)	(6 303)	(22 732)	(155 305)	**(205 647)**
Net Value	**1 655 766**	**157 148**	**41 330**	**13 513**	**2 925**	**23 383**	**1 894 065**

As at the end of the reporting period, the Group did not have any material non-collectible items not covered with the allowance.

Impairment losses on receivables from buyers

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	**(205 647)**	**(278 374)**
Recognised	(106 052)	(97 928)
Utilized	9 282	22 861
Reversed	52 296	87 267
Other movements	20 444	60 527
Closing balance	**(229 677)**	**(205 647)**

(in PLN '000)

28. Receivables arising from Taxes and Charges

	As at 31 December 2017	As at 31 December 2016
Corporate Income Tax receivables	2 128	83 468
VAT receivables	211 520	154 181
Excise duty receivables	29 718	24 205
Other	760	2 000
Total	**244 126**	**263 854**

29. Cash and Cash Equivalents

	As at 31 December 2017	As at 31 December 2016
Cash at bank and in hand	703 202	368 274
Short-term deposits (up to 3 months)	205 889	16 450
Other	158	157
Total cash and cash equivalents presented in the statement of financial position, of which:	**909 249**	**384 881**
restricted cash	152 952	144 404
Bank overdraft	(93 503)	(15 156)
Cash pool	(13 676)	(16 095)
Foreign exchange	(717)	1 103
Total cash and cash equivalents presented in the statement of cash flows	**801 353**	**354 733**

As at 31 December 2017 the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 84 124 thousand and cash on the accounts used for settling electricity trading and emission allowances on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 61 846 thousand.

30. Equity

30.1. Issued capital

Issued capital as at 31 December 2017

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

As at 31 December 2017, the value of issued capital, the number of shares and the nominal value of shares had not changed as compared to 31 December 2016.

Shareholding structure as at 31 December 2017 *(to the best of the Company's knowledge)*

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

To the best of the Company's knowledge, the shareholding structure as at 31 December 2017 had not changed since 31 December 2016.

(in PLN '000)

30.2. Shareholder Rights

The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Shareholders' Meeting of the Company.

The voting right limitation mentioned above does not apply to the State Treasury and State Treasury owned companies in the period when the State Treasury and State Treasury owned companies hold shares in the Company entitling to more than 25% of the total votes in the Company.

Detailed information concerning the limitations on exercising the voting rights has been presented in Section 6.6 of the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the 2017 financial year.

30.3. Supplementary capital

On 29 May 2017, the Ordinary General Shareholders' Meeting adopted a resolution to offset the net loss for the 2016 financial year, totalling PLN 166 253 thousand, against the reserve capital.

30.4. Retained earnings and dividend limitation

Prior year profit/loss arising from settlement of business combinations with subsidiaries and actuarial gains and losses related to provisions for post-employment benefits recognized through other comprehensive income are not distributable.

As at 31 December 2017 and as at the date of approval of these financial statements for publication no other dividend restriction occurred.

The Company's Management Board recommends the net profit for the year 2017 in the amount of PLN 854 351 thousand to be allocated the Company's reserve capital.

30.5. Revaluation reserve – measurement of hedging instruments

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	**29 660**	**(73 414)**
Remeasurement of hedging instruments	(8 159)	132 108
Remeasurement of hedging instruments charged to profit or loss	–	(4 856)
Deferred income tax	1 550	(24 178)
Closing balance	**23 051**	**29 660**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued, which has been discussed in more detail in Note 44.3 to these consolidated financial statements.

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

As at 31 December 2017 the Company recognized PLN 23 051 thousand of revaluation reserve from valuation of hedging instruments. It represents an asset arising from valuation of interest rate swaps as at the end of the reporting period, totalling PLN 28 482 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The amount of PLN 1 525 thousand was recognized in profit/loss for the period as a payment under a realized hedge for past interest periods.

30.6. Non-controlling interest

	Year ended 31 December 2017	Year ended 31 December 2016
At the beginning of the period	**30 052**	**29 829**
Dividends for non-controlling interests	(564)	(3 043)
Share in actuarial gains/(losses) related to provisions for post-employment benefits	33	272
Acquisition of non-controlling interests by the Group and mandatory squeeze-out	(437)	325
Share in subsidiaries' net profit or loss	2 283	2 669
At the end of the period	**31 367**	**30 052**

(in PLN '000)

31. Dividends Paid

	Year ended 31 December 2017	Year ended 31 December 2016
Dividends paid by subsidiaries	(595)	(2 787)

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

On 10 March 2016, the Management Board adopted a resolution to put forward a recommendation to the Ordinary General Shareholders' Meeting, concerning the use of the Company's reserve capital representing amounts transferred from prior year profit for purposes of dividend payment to the Company's shareholders in the amount of PLN 175 255 thousand, which equals to PLN 0.10 per share. On 17 March 2016, the Supervisory Board of the Company approved the recommendation presented by the Management Board. On 8 June 2016, the Ordinary General Shareholders' Meeting did not adopt a resolution to use a portion of the Company's reserve capital representing amounts transferred from prior year profit for purposes of dividend payment to the Company's shareholders.

32. Debt

	As at 31 December 2017	As at 31 December 2016
Loans and borrowings	1 191 388	1 263 553
Bonds issued	8 637 435	7 681 128
Finance lease	23 973	34 848
Total	**9 852 796**	**8 979 529**
Non-current	9 501 414	8 759 789
Current	351 382	219 740

32.1. Loans and borrowings

Loans and borrowings taken out as at 31 December 2017

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (*after the balance sheet date*):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	55 757	55 757	22 297	5 496	7 341	7 341	13 282	–
	fixed	1 036 011	1 036 011	35 187	127 054	162 240	162 240	273 506	275 784
Total PLN		**1 091 768**	**1 091 768**	**57 484**	**132 550**	**169 581**	**169 581**	**286 788**	**275 784**
EUR	floating	22 060	92 009	92 009	–	–	–	–	–
Total EUR		**22 060**	**92 009**	**92 009**	**–**	**–**	**–**	**–**	**–**
USD	floating	418	1 454	1 454	–	–	–	–	–
Total USD		**418**	**1 454**	**1 454**	**–**	**–**	**–**	**–**	**–**
Total			**1 185 231**	**150 947**	**132 550**	**169 581**	**169 581**	**286 788**	**275 784**
Interest increasing carrying amount			6 157						
Total			**1 191 388**						

(in PLN '000)

Loans and borrowings taken out as at 31 December 2016

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (*after the balance sheet date*):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	57 918	57 918	17 791	5 894	7 491	7 341	14 575	4 826
	fixed	1 183 418	1 183 418	20 445	127 044	162 227	162 227	324 455	387 020
Total PLN		**1 241 336**	**1 241 336**	**38 236**	**132 938**	**169 718**	**169 568**	**339 030**	**391 846**
EUR	floating	3 032	13 415	13 415	–	–	–	–	–
Total EUR		**3 032**	**13 415**	**13 415**	**–**	**–**	**–**	**–**	**–**
USD	floating	410	1 716	1 716	–	–	–	–	–
Total USD		**410**	**1 716**	**1 716**	**–**	**–**	**–**	**–**	**–**
Total			**1 256 467**	**53 367**	**132 938**	**169 718**	**169 568**	**339 030**	**391 846**
Interest increasing carrying amount			7 086						
Total			**1 263 553**						

Changes in the balance of loans and borrowings, excluding interest increasing their carrying amount, in the year ended 31 December 2017 and in the comparative period, have been presented below.

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	**1 256 467**	**1 403 618**
Movement in bank overdrafts and cash pool loans received	**83 471**	**(8 332)**
Movement in loans (excluding bank overdrafts and cash pool loans):	**(154 707)**	**(138 819)**
Repaid	(154 918)	(140 331)
Taken	–	914
Change in valuation	211	598
Closing balance	**1 185 231**	**1 256 467**

The major liabilities due to loans and borrowings have been presented in the table below:

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 December 2017	As at 31 December 2016
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed – agreed until 15 June 2016	15.12.2021	84 039	105 039
		Construction and start-up of a co-generation unit at EC Bielsko Biała	Fixed – agreed until 15 June 2016	15.12.2021	120 061	150 056
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	266 139	307 362
			Fixed – agreed until 15 March 2018	15.09.2024	128 711	147 091
			Fixed – agreed until 15 March 2018	15.09.2024	160 819	183 783
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	282 341	297 170
Overdraft facility	Bank Gospodarstwa Krajowego	Financing of transactions involving emission allowance, energy and gas	Floating	31.12.2018	92 048	13 415
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	20 000	24 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	13 881	16 561
Other loans and borrowings					23 349	19 076
Total					**1 191 388**	**1 263 553**

(in PLN '000)

32.2. Bonds issued

Bonds issued as at 31 December 2017

Issuer	Tranche/ Bank	Redemption date	Currrency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (*after the balance sheet date*):		
					Interest accrued	Principal at amortised cost	up to 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	107	99 869	99 869	–	–
		20.12.2020	PLN	100 000	107	99 838	–	99 838	–
		20.12.2021	PLN	100 000	107	99 817	–	99 817	–
		20.12.2022	PLN	100 000	107	99 800	–	99 800	–
		20.12.2023	PLN	100 000	107	99 787	–	–	99 787
		20.12.2024	PLN	100 000	107	99 778	–	–	99 778
		20.12.2025	PLN	100 000	107	99 770	–	–	99 770
		20.12.2026	PLN	100 000	107	99 761	–	–	99 761
		20.12.2027	PLN	100 000	107	99 756	–	–	99 756
		20.12.2028	PLN	100 000	107	99 752	–	–	99 752
		20.12.2020	PLN	70 000	74	69 963	–	69 963	–
		20.12.2021	PLN	70 000	74	69 961	–	69 961	–
		20.12.2022	PLN	70 000	74	69 959	–	69 959	–
		20.12.2023	PLN	70 000	74	69 958	–	–	69 958
		20.12.2024	PLN	70 000	74	69 957	–	–	69 957
		20.12.2025	PLN	70 000	74	69 956	–	–	69 956
		20.12.2026	PLN	70 000	74	69 956	–	–	69 956
		20.12.2027	PLN	70 000	74	69 955	–	–	69 955
		20.12.2028	PLN	70 000	74	69 955	–	–	69 955
		20.12.2029	PLN	70 000	74	69 955	–	–	69 955
	Bond Issue Scheme of 24.11.2015	29.12.2020	PLN	1 600 000	389	1 597 188	–	1 597 188	–
	TPEA1119	4.11.2019	PLN	1 750 000	7 609	1 749 277	1 749 277	–	–
	European Investment Bank	16.12.2034	EUR	190 000	1 597	791 355	–	–	791 355
	Eurobonds EURBD050727	5.07.2027	EUR	500 000	24 425	2 069 193	–	–	2 069 193
TAURON Sweden Energy AB (publ)		3.12.2029	EUR	168 000	1 950	695 139	–	–	695 139
Total					**37 780**	**8 599 655**	**1 849 146**	**2 106 526**	**4 643 983**

Bonds issued as at 31 December 2016

Issuer	Tranche/ Bank	Redemption date	Currrency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (*after the balance sheet date*):		
					Interest accrued	Principal at amortised cost	up to 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	107	99 805	–	99 805	–
		20.12.2020	PLN	100 000	107	99 786	–	99 786	–
		20.12.2021	PLN	100 000	107	99 773	–	99 773	–
		20.12.2022	PLN	100 000	107	99 763	–	–	99 763
		20.12.2023	PLN	100 000	107	99 754	–	–	99 754
		20.12.2024	PLN	100 000	107	99 749	–	–	99 749
		20.12.2025	PLN	100 000	107	99 744	–	–	99 744
		20.12.2026	PLN	100 000	107	99 738	–	–	99 738
		20.12.2027	PLN	100 000	107	99 734	–	–	99 734
		20.12.2028	PLN	100 000	107	99 733	–	–	99 733
		20.12.2020	PLN	70 000	74	69 976	–	69 976	–
		20.12.2021	PLN	70 000	74	69 976	–	69 976	–
		20.12.2022	PLN	70 000	74	69 976	–	–	69 976
		20.12.2023	PLN	70 000	74	69 976	–	–	69 976
		20.12.2024	PLN	70 000	74	69 975	–	–	69 975
		20.12.2025	PLN	70 000	74	69 975	–	–	69 975
		20.12.2026	PLN	70 000	74	69 975	–	–	69 975
		20.12.2027	PLN	70 000	74	69 975	–	–	69 975
		20.12.2028	PLN	70 000	74	69 975	–	–	69 975
		20.12.2029	PLN	70 000	74	69 975	–	–	69 975
	Bond Issue Scheme of 24.11.2015	29.12.2020	PLN	2 250 000	549	2 244 801	–	2 244 801	–
		25.03.2020	PLN	100 000	790	99 771	–	99 771	–
		9.12.2020	PLN	300 000	560	298 761	–	298 761	–
	TPEA1119	4.11.2019	PLN	1 750 000	7 578	1 749 155	–	1 749 155	–
	European Investment Bank	16.12.2034	EUR	190 000	1 693	839 330	–	–	839 330
TAURON Sweden Energy AB (publ)		3.12.2029	EUR	168 000	2 067	736 930	–	–	736 930
Total					**15 047**	**7 666 081**	**–**	**4 831 804**	**2 834 277**

On 5 July 2017 the Company issued eurobonds with the total par value of EUR 500 000 thousand and the issue price of 99.438 percent of the par value. They are 10-year bonds with fixed interest paid on an annual basis. The bonds have been admitted to trading on the London Stock Exchange. They were rated "BBB" by the Fitch rating agency.

On 20 June 2017 the Company signed annexes to the agency and custody agreement and the underwriting agreement of 24 November 2015 whereby the scheme was extended:

- by one year, i.e. until 31 December 2021 ("1st Extension Period"). During the 1st Extension Period, the scheme's maximum value will be PLN 5 320 000 thousand, and the extension will include the following banks: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland, Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and mBank S.A.
- by two years, i.e. until 31 December 2022 ("2nd Extension Period"). During the 2nd Extension Period, the scheme's maximum value will be PLN 2 450 000 thousand, and the extension will include the following banks: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A.

After the end of the reporting period, on 9 March 2018 amendments to the agency and custody agreement as well as underwriting agreement were signed, the result of which is an extension by some banks of the period of availability of the funds under the Scheme. This means that the maximum value of the Scheme:

- is PLN 6 070 000 thousand until 31 December 2021 (it had been PLN 5 320 000 thousand before the amendments were signed),
- is PLN 5 820 000 thousand until 31 December 2022 (it had been PLN 2 450 000 thousand before the amendments were signed).

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

The amendments were signed with the following banks taking part in the Program: Bank Handlowy in Warsaw S.A., Bank BGŻ BNP Paribas S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Joint Stock Company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A. Due to the extension, the financing margin in the Scheme did not change.

The bonds issued on 16 December 2016, with the par value of EUR 190 000 thousand, were subordinated, unsecured coupon bearer securities, and they were acquired by the European Investment Bank as part of the operations of the European Fund for Strategic Investments, launched by EIB and the European Commission to implement the Juncker Plan. The euro is the currency of the issue. The bonds will mature 18 years of the issue date, with the proviso that in line with the description of hybrid funding the first funding period was defined to last 8 years ("1st Funding Period") during which the Company will not be allowed to repurchase the bonds early and the bonds may not be sold early by EIB to third parties (in both cases, subject to the exceptions set out in the agreement). The bonds bear fixed interest during the 1st Funding Period and during the next 10-year funding period ("2nd Funding Period") interest will be floating and determined by reference to Euribor 6M increased by an agreed margin. Under the agreement, interest on the bonds may be deferred. As the bonds are subordinated, any claims arising therefrom will have priority of satisfaction only before the amounts due to the Company's shareholders in the event of its bankruptcy or liquidation. The bond issue has had a positive effect on the financial stability of the Group as the bonds are not taken into account for purposes of calculation of the debt ratio, which is a covenant in some funding schemes. Additionally, 50% of the bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group. The rating assigned to the bonds by Fitch is BB+.

Other bonds issued by the Parent on the Polish market are dematerialized, unsecured coupon bonds with interest determined by reference to WIBOR 6M increased by a margin agreed separately for each issue. The Polish zloty is the currency of the issue and the repayment.

Bonds issued by TAURON Sweden Energy AB (publ), a subsidiary, are fixed-rate securities with interest payable annually. The euro is the issue currency and repayment currency. As at 31 December 2017, the carrying amount of the bonds with interest in the bond currency was EUR 167 131 thousand (versus EUR 167 043 thousand as at 31 December 2016). The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ) to secure the bonds in question. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand.

(in PLN '000)

Changes in the balance of bonds, excluding interest which increased the carrying amount

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	**7 666 081**	**6 665 528**
Issue*	2 703 643	4 273 379
Redemption	(1 650 000)	(3 300 000)
Change in valuation	(120 069)	27 174
Closing balance	**8 599 655**	**7 666 081**

** Discount and costs of issue have been included.*

In the year ended 31 December 2017, the Company issued (par value) and repurchased the following bonds:

Date of issue/ redemption	Agreement/ Scheme	Description	Year ended 31 December 2017	
			Par value of issue	Redemption
05.07.2017	Eurobonds	Issue of eurobonds with the total par value of EUR 500,000 thousand and the issue price of 99.438% of the par value, maturing on 5 July 2027.	2 107 462	
30.01.2017	Bond Issue Scheme dated 24 November 2015	Issue of bonds with the par value of PLN 100,000 thousand, maturing on 30 January 2020.	100 000	
01.03.2017		Issue of bonds with the par value of PLN 100,000 thousand, maturing on 1 March 2020.	100 000	
31.03.2017		Issue of bonds with the par value of PLN 300,000 thousand, maturing on 30 June 2017.	300 000	
30.06.2017		Issue of bonds with the par value of PLN 100,000 thousand, maturing on 30 July 2017.	100 000	
30.06.2017		Redemption (at maturity) of bonds with the par value of PLN 300,000 thousand, which were issued on 31 March 2017.		(300 000)
30.07.2017		Early redemption of bonds with the par value of PLN 100,000 thousand, which were issued on 30 January 2017.		(100 000)
30.07.2017		Redemption (at maturity) of bonds with the par value of PLN 100,000 thousand, which were issued on 30 June 2017.		(100 000)
01.09.2017		Early redemption of bonds with the par value of PLN 100,000 thousand, which were issued on 1 March 2017.		(100 000)
25.09.2017		Early redemption of bonds with the par value of PLN 100,000 thousand, which were issued on 25 March 2016.		(100 000)
09.12.2017		Early redemption of bonds with the par value of PLN 300,000 thousand, which were issued on 9 December 2016.		(300 000)
29.12.2017		Early partial redemption of bonds with the par value of PLN 650,000 thousand, which were issued on 29 February 2016.		(650 000)
		Total	**2 707 462**	**(1 650 000)**

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, which has been discussed in more detail in Note 44.3 to these consolidated financial statements.

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. The key covenant is the net debt/EBITDA ratio (for domestic bond issue programs), which defines the maximum allowable debt level decreased by cash in relation to the generated EBITDA. As at 31 December 2017, none of these covenants had been breached and the contractual provisions were complied with.

(in PLN '000)

32.3. Finance lease

	As at 31 December 2017		As at 31 December 2016	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within 1 year	24 145	23 947	12 026	11 301
Within 1 to 5 years	8	8	23 724	23 527
More than 5 years	20	18	22	20
Minimum lease payments, total	**24 173**	**23 973**	**35 772**	**34 848**
Less amounts representing finance charges	(200)	–	(924)	–
Present value of minimum lease payments	**23 973**	**23 973**	**34 848**	**34 848**
Non-current	25	25	23 546	23 546
Current	23 948	23 948	11 302	11 302

As at 31 December 2017, the liabilities arising from the leased building in Katowice of PLN 23 945 thousand (versus PLN 26 974 thousand as at 31 December 2016) were the key item of finance lease liabilities.

33. Provisions for Employee Benefits

	As at 31 December 2017	As at 31 December 2016
Provision for post-employment benefits and jubilee bonuses	1 469 108	1 480 391
Provision for employment termination benefits	45 815	51 222
Total	**1 514 923**	**1 531 613**
Non-current	1 380 650	1 373 385
Current	134 273	158 228

33.1. Provisions for post-employment benefits and jubilee bonuses

Change in provisions for employee benefits for the year ended 31 December 2017

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**307 281**	**532 184**	**112 469**	**2 248**	**526 209**	**1 480 391**
Current service costs	16 933	13 878	2 854	–	32 622	**66 287**
Actuarial gains and losses, of which:	1 452	(7 880)	(13 225)	–	4 082	**(15 571)**
arising from changes in financial assumptions	(5 572)	–	–	–	(7 750)	**(13 322)**
arising from changes in demographic assumptions	–	–	(18)	–	(167)	**(185)**
arising from other changes	7 024	(7 880)	(13 207)	–	11 999	**(2 064)**
Benefits paid	(25 382)	(19 663)	(3 750)	–	(58 243)	**(107 038)**
Past service costs	13 442	(2 802)	4 736	–	(8 013)	**7 363**
Interest expense	8 168	15 338	3 237	–	14 021	**40 764**
Other changes	–	(840)	–	(2 248)	–	**(3 088)**
Closing balance	**321 894**	**530 215**	**106 321**	**–**	**510 678**	**1 469 108**
Non-current	293 043	510 172	102 495	–	454 107	**1 359 817**
Current	28 851	20 043	3 826	–	56 571	**109 291**

In the year ended 31 December 2017, the Group increased its provisions for post-employment benefits and jubilee bonuses relating to past service costs by the total of PLN 7 363 thousand, which resulted mainly from changes in Collective Labour Agreements in the following entities:

- an entity from the Mining segment – leading to increase in provisions for retirement, disability and similar benefits and for jubilee bonuses totalling PLN 17 363 thousand;
- entities from the Sales segment – leading to reversal of provisions for jubilee bonuses totalling PLN 4 673 thousand;
- an entity from the Other segment – leading to a reduction in actuarial provisions totalling PLN 3 790 thousand.

(in PLN '000)

Following a change in actuarial assumptions made for purposes of the actuarial valuation as at 31 December 2017, provisions were reduced by PLN 15 571 thousand, which drove an increase in other comprehensive income by PLN 19 653 thousand (provisions for post-employment benefits) and a decrease in the Group's profit/loss by PLN 4 082 thousand (provisions for jubilee bonuses).

Change in provisions for employee benefits for the year ended 31 December 2016

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**341 124**	**722 734**	**131 110**	**2 242**	**653 165**	**1 850 375**
Current service costs	17 093	14 003	2 170	–	37 519	**70 785**
Actuarial gains and losses, of which:	(27 145)	(148 051)	(29 401)	–	(40 296)	**(244 893)**
arising from changes in financial assumptions	(6 026)	(54 665)	(15 892)	–	(7 245)	**(83 828)**
arising from changes in demographic assumptions	10 566	(32 751)	(3 966)	–	3 035	**(23 116)**
arising from other changes	(31 685)	(60 635)	(9 543)	–	(36 086)	**(137 949)**
Benefits paid	(22 065)	(22 432)	(3 677)	(2 241)	(74 090)	**(124 505)**
Past service costs	(20 470)	(53 901)	8 677	–	(84 487)	**(150 181)**
Interest expense	9 308	19 831	3 590	–	17 372	**50 101**
Acquisition of ZCP Brzeszcze	9 436	–	–	–	17 026	**26 462**
Other changes	–	–	–	2 247	–	**2 247**
Closing balance	**307 281**	**532 184**	**112 469**	**2 248**	**526 209**	**1 480 391**
Non-current	271 934	512 671	108 116	–	468 963	**1 361 684**
Current	35 347	19 513	4 353	2 248	57 246	**118 707**

Measurement of provisions for employee benefits

Provisions for post-employment benefits and jubilee bonuses have been estimated using actuarial methods. Key actuarial assumptions made as at the end of the reporting period for provision calculation purposes:

	31 December 2017	31 December 2016
Discount rate (%)	3.00%	3.00%
Estimated inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	1.15% – 8.64%	0.04% – 7.95%
Estimated salary increase rate (%)	1.80% – 2.50%	1.00% – 3.50%
Estimated electricity price increase rate (%)	3.50%	3.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%	3.50%
Remaining average employment period	9.89 – 20.40	9.27 – 25.00

Sensitivity analysis

As at 31 December 2017 the Group analysed sensitivity of measurement results to changes in the financial discounting rates and changes in the planned increases in the base amounts in the range of -0.5 p.p./+0.5 p.p.

The carrying amounts of individual provisions and provisions calculated based on the changed assumptions have been presented below:

Provision title	Carrying amount as at 31 December 2017	Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	321 894	336 386	308 405	308 273	336 395
Employee electricity rates	530 215	572 706	492 594	492 594	572 273
Costs of appropriation to Social Benefits Fund	106 321	114 960	98 643	98 643	114 871
Jubilee bonuses	510 678	527 900	494 316	497 664	524 220
Total		**1 551 952**	**1 393 958**	**1 397 174**	**1 547 759**

(in PLN '000)

The table below presents the carrying amounts of individual provisions and how these carrying amounts would change with different assumptions applied:

Provision title	Carrying amount as at 31 December 2017	Deviations			
		Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	321 894	14 492	(13 489)	(13 621)	14 501
Employee electricity rates	530 215	42 491	(37 621)	(37 621)	42 058
Costs of appropriation to Social Benefits Fund	106 321	8 639	(7 678)	(7 678)	8 550
Jubilee bonuses	510 678	17 222	(16 362)	(13 014)	13 542
Total		**82 844**	**(75 150)**	**(71 934)**	**78 651**
effect on profit/loss		17 222	(16 362)	(13 014)	13 542
effect on other comprehensive income		65 622	(58 788)	(58 920)	65 109

The Group classifies provisions as current and non-current based on estimates regarding distribution of payments over time, prepared with the use of actuarial methods.

Provisions for employee benefits by maturity

	Retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
2018	28 851	20 043	3 826	56 571	**109 291**
2019	18 348	21 991	3 933	46 363	**90 635**
2020	23 417	21 482	3 875	41 638	**90 412**
2021	15 462	20 945	3 806	39 303	**79 516**
2022	14 994	20 445	3 747	37 329	**76 515**
Other years	220 822	425 309	87 134	289 474	**1 022 739**
Total	**321 894**	**530 215**	**106 321**	**510 678**	**1 469 108**

33.2. Provisions for employment termination benefits

For the year ended 31 December 2017

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	**17 599**	**17 062**	**16 561**	**51 222**
Recognition	24 076	10 025	244	**34 345**
Reversal	(1 940)	(4 982)	–	**(6 922)**
Utilization	(10 168)	(11 563)	(11 099)	**(32 830)**
Closing balance	**29 567**	**10 542**	**5 706**	**45 815**
Non-current	20 833	–	–	**20 833**
Current	8 734	10 542	5 706	**24 982**

For the year ended 31 December 2016

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	**23 460**	**25 432**	**8 444**	**57 336**
Recognition	5 383	8 290	14 036	**27 709**
Reversal	(571)	(3 797)	(2 504)	**(6 872)**
Utilization	(10 673)	(12 863)	(3 415)	**(26 951)**
Closing balance	**17 599**	**17 062**	**16 561**	**51 222**
Non-current	11 701	–	–	**11 701**
Current	5 898	17 062	16 561	**39 521**

(in PLN '000)

34. Provisions for Dismantling Fixed Assets, Restoration of Land and Other

For the year ended 31 December 2017

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity and provision for costs	Provisions, total
Opening balance	**146 885**	**115 302**	**198 844**	**461 031**
Interest cost (discounting)	5 141	3 713	2 330	**11 184**
Discount rate adjustment	39 830	5 012	–	**44 842**
Recognition/(reversal), net	119	64	(201 174)	**(200 991)**
Closing balance	**191 975**	**124 091**	**–**	**316 066**
Non-current	191 975	99 214	–	**291 189**
Current	–	24 877	–	**24 877**
Other provisions, long-term portion				**59 949**
Total				**351 138**

For the year ended 31 December 2016

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity and provision for costs	Provisions, total
Opening balance	**111 675**	**101 244**	**182 877**	**395 796**
Interest cost (discounting)	4 904	2 700	11 502	**19 106**
Discount rate adjustment	(35 846)	(9 854)	2 257	**(43 443)**
Recognition/(reversal), net	160	21 212	2 208	**23 580**
Acquisition of ZCP Brzeszcze	65 992	–	–	**65 992**
Closing balance	**146 885**	**115 302**	**198 844**	**461 031**
Non-current	146 885	102 984	152 943	**402 812**
Current	–	12 318	45 901	**58 219**
Other provisions, long-term portion				**46 498**
Total				**449 310**

34.1. Provision for mine decommissioning costs

The provision is recognized for mines included in the Group based on estimated costs of liquidating buildings and reclaiming land after completion of the exploitation process. The provision for mine decommissioning costs includes the balance of the Mine Decommissioning Fund ("MDF), which is created under the Geological and Mining Law and the related implementing provisions, by the Group's mining companies as a pre-determined ratio of the tax depreciation charge on fixed assets or, for the exploitation fee, the equivalent of the charge transferred to a separate bank account. Financial assets of the Fund are presented in the statement of financial position under non-current and current financial assets, while the balance of the Fund is recognized under the provision for future costs of mine decommissioning.

The provision balance as at 31 December 2017 was PLN 191 975 thousand. An increase in the provision by PLN 39 830 thousand in the year ended 31 December 2017 was driven by the adoption of lower discount rates (3.00%) for purposes of valuation as at 31 December 2017 than as at 31 December 2016 (3.50%). In the comparative period, following an adoption of increased discount rate used for purposes of valuation of provisions as at 31 December 2016 (up from 2.75%–3.04% to 3.50%), the Group reversed a provision of PLN 35 846 thousand.

The following tables present the amount of appropriation to the Fund, the Fund's assets and the balance of liabilities arising from future costs of mine decommissioning.

(in PLN '000)

Mine Decommissioning Fund financial assets

	Year ended 31 December 2017	Year ended 31 December 2016
Assets as at 1 January	**41 163**	**42 129**
Contributions made	4 441	4 112
Interest	973	730
Use	(4 102)	(6 051)
Other changes	–	243
Assets as at 31 December	**42 475**	**41 163**
Transfers made to the MDF in the period	(4 155)	(4 446)

Provision for mine decommissioning costs

	Year ended 31 December 2017	Year ended 31 December 2016
Mine Decommissioning Fund	46 348	44 442
Surplus of discounted estimated decommissioning costs	145 627	102 443
Total	**191 975**	**146 885**

34.2. Provision for restoration of land and dismantling and removal of fixed assets

The provision for restoration of land and dismantling and removal of fixed assets comprises the following provisions recognized by the Generation segment companies:

- provision for ash pile reclamation costs, which totalled PLN 40 990 thousand as at 31 December 2017 (versus PLN 39 415 thousand as at 31 December 2016);
- provision for windfarm dismantling costs, which totalled PLN 57 887 thousand as at 31 December 2017 (versus PLN 51 088 thousand as at 31 December 2016);
- provision for costs of liquidation of fixed assets – a chimney in Elektrownia Jaworzno as well as cooling towers and a unit in Elektrownia Łagisza, which totalled PLN 25 214 thousand as at 31 December 2017 (versus PLN 24 799 thousand as at 31 December 2016).

34.3. Provisions for onerous contracts with a joint venture and for costs

Changes in provisions in the year ended 31 December 2017 have been presented in the table below.

	Provision for electricity contract	Provision for "take or pay" clause in gas contract	Provision for costs	Provision for onerous contracts with a jointly-controlled entity and provision for costs, total
Opening balance	**133 327**	**54 837**	**10 680**	**198 844**
Unwinding of discount	1 626	475	229	**2 330**
Recognision	–	–	2 250	**2 250**
Reversal	(134 953)	(55 312)	(13 159)	**(203 424)**
Closing balance	**–**	**–**	**–**	**–**

In 2015, the Company recognized provisions for onerous contracts with Elektrociepłownia Stalowa Wola S.A., which as at 31 December 2016 totalled PLN 198 844 thousand.

In the year ended 31 December 2017, the Company reversed in whole the following provisions for onerous contracts with a joint venture:

- a provision resulting from the fact that under a multi-annual electricity sales contract among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company was obliged to purchase half of the volume of electricity generated by Elektrociepłownia Stalowa Wola S.A. at a price determined in the "cost plus" formula, which covers the production costs and the financing costs;
- a provision resulting from the fact that the Company was obliged to cover losses which may have been incurred under the take-or-pay clause of the comprehensive gaseous fuel supply contract entered into by PGNiG S.A.

(in PLN '000)

and Elektrociepłownia Stalowa Wola S.A. Pursuant to the said clause, Elektrociepłownia Stalowa Wola S.A. was obliged to pay PGNiG S.A. for uncollected gas;

- a provision for necessary additional costs which the Company may have been required to incur for the operation of Elektrociepłownia Stalowa Wola S.A. due to delays in project completion.

Reversal of the provision for costs relating to the electricity sales contract and the provision for losses which might be incurred under the take-or-pay clause was the result of the fulfilment of the conditions precedent under the conditional arrangement made on 27 October 2016 to determine the key boundary conditions of the restructuring of the "Construction of a gas and steam unit in Stalowa Wola" project. The conditions precedent were discharged on 31 March 2017 when Elektrociepłownia Stalowa Wola paid all its liabilities to the financing institutions, i.e. the European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. The funds for repayment of the said bank loans were obtained by Elektrociepłownia Stalowa Wola S.A. under loan agreements entered into with the Company and Polskie Górnictwo Naftowe i Gazownictwo S.A. as the lenders. To this end, the Company granted a loan of PLN 290 742 thousand, which has been discussed in more detail in Note 23 to these consolidated financial statements. Once the conditions precedent were discharged the following documents came into effect:

- an agreement setting out the key boundary Project restructuring conditions among TAURON Polska Energia S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A.;
- an annex to the electricity sales contract of 11 March 2011 executed by the Company, Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A.;
- an annex to the gaseous fuel supply contract of 11 March 2011 between Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A.

The aforesaid agreement sets out mainly the terms of settlement of liquidated damages, brings the existing price formulas into line with the market ones as well as governing the issue of financial restructuring of the Project. It reflects the will of the Project sponsors, i.e. TAURON Polska Energia S.A. and Polskie Górnictwo Naftowe i Gazownictwo S.A., to continue the construction of the gas and steam unit, modify the gaseous fuel supply contract and the electricity sales contract and change the existing project finance formula to a corporate finance formula. Notwithstanding the above, the sponsors and Elektrociepłownia Stalowa Wola S.A. have continued their efforts to secure new funding for the gas and steam unit construction project in Stalowa-Wola, whose terms and structure would be more favourable than those under the existing agreements.

The annexes to the gaseous fuel supply contract and the electricity sales contract, which entered into force, include in particular the application of market price formulas for the contracts in question. Furthermore, due to delays in the project, the annex to the gaseous fuel supply contract provides for changes in the amount, time limits and methodologies of imposition of liquidated damages. According to the Management Board of the Company, the changes introduced by the aforesaid annexes constituted a basis for reversal of the provision for costs related to the electricity sales contract and the provision for losses which might be incurred under the take-or-pay clause in the first quarter of 2017.

35. Provisions for Liabilities due to Gas Emission and Energy Certificates

Provisions for liabilities due to gas emission and energy certificates concern the current and the preceding year. Therefore, they are only short-term provisions.

For the year ended 31 December 2017

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**209 736**	**755 085**	**964 821**
Recognition	324 937	645 009	**969 946**
Reversal	(84)	(10 471)	**(10 555)**
Utilisation	(209 652)	(761 171)	**(970 823)**
Closing balance	**324 937**	**628 452**	**953 389**

(in PLN '000)

For the year ended 31 December 2016

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**153 083**	**865 051**	**1 018 134**
Recognition	381 946	754 286	**1 136 232**
Reversal	(63)	(3 884)	**(3 947)**
Utilisation	(325 230)	(860 368)	**(1 185 598)**
Closing balance	**209 736**	**755 085**	**964 821**

35.1. Provision for Gas Emission Liabilities

According to the accounting policy adopted by the Group, the provision for liabilities arising from emission of gas included in the allowance distribution plan is charged to operating expenses if the actual emission level exceeds the volume of emission allowances received free of charge, including allocation of free-of-charge emission allowances to individual facilities of the Generation segment companies, i.e. TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. The provision for costs of covering the deficit is established in the amount of allowances acquired or contracted to cover the allowance deficit and in relation to unsecured allowance deficit (if any); the provision is determined based on market prices as at the end of the reporting period.

As at 31 December 2017, the provision for gas emission liabilities amounted to PLN 324 937 thousand and regarded the obligatory surrendering of emission allowances for the year ended 31 December 2017. Provisions were recognized by the companies for current period emission allowances in the amount of:

– TAURON Wytwarzanie S.A.: PLN 286 940 thousand;
– TAURON Ciepło Sp. z o.o.: PLN 37 997 thousand.

In the year ended 31 December 2017 use of the provision in relation to the fulfilment of the remaining obligation for 2016 by TAURON Wytwarzanie S.A. and surrender of emission allowances of PLN 169 335 thousand (the obligation to surrender allowances for 2016 had already been fulfilled in part by that company in December 2016) and use of the provision in connection with the fulfilment of the obligation for 2016 by TAURON Ciepło Sp. z o.o. in the amount of PLN 40 317 thousand.

35.2. Provision for the obligation to surrender energy certificates

As at 31 December 2017, the short-term provision for the obligation to surrender energy certificates for 2017 was estimated at PLN 628 452 thousand, including PLN 331 767 thousand covered by the certificates held as at the end of the reporting period, PLN 155 355 thousand planned to be covered by the payment of the substitution fee and PLN 141 330 thousand by the purchase of property rights.

In the year ended 31 December 2017, the Group fulfilled the obligation to surrender certificates of electricity generated using renewable sources, in CHP units and energy efficiency certificates for 2016. Therefore, a provision of PLN 761 171 thousand was used.

(in PLN '000)

36. Other Provisions

For the year ended 31 December 2017

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**92 143**	**262 592**	**354 735**
Interest cost (discounting)	–	3 144	**3 144**
Recognition/(reversal), net	1 141	55 122	**56 263**
Utilisation	(531)	(25 270)	**(25 801)**
Other changes	(723)	725	**2**
Closing balance	**92 030**	**296 313**	**388 343**
Non-current	–	59 949	**59 949**
Current	92 030	236 364	**328 394**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**24 877**
Total			**353 271**

For the year ended 31 December 2016

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**91 909**	**67 711**	**159 620**
Recognition/(reversal), net	902	201 928	**202 830**
Utilisation	(642)	(7 258)	**(7 900)**
Other changes	(26)	211	**185**
Closing balance	**92 143**	**262 592**	**354 735**
Non-current	–	46 498	**46 498**
Current	92 143	216 094	**308 237**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**58 219**
Total			**366 456**

Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 31 December 2017, the relevant provision amounted to PLN 92 030 thousand and was related to the following segments:

- Generation: PLN 50 930 thousand;
- Distribution: PLN 41 100 thousand.

In 2012, a third party lodged a claim against TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.) related to clarification of the legal status of the transmission equipment located on its property. The Company has questioned both the legitimacy of the claims and of the basis for offsetting their amounts against the current liabilities to the company arising from heat supplies. Consequently, the company went to court to recover its current receivables from the debtor. The amount of the potential claims of the aforesaid entity in respect of clarification of the legal status of the company's transmission equipment will be reviewed in the course of the proceedings. With regard to the dispute, in light of the adopted accounting policy, a provision has been recognized for the estimated cost of the above claim. Bearing in mind the pending litigation, in accordance with IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

(in PLN '000)

Provisions for counterparty claims, court disputes and other provisions

Material provisions recognized as other provisions have been discussed below:

<table>
<tr><th>Item</th><th>Operating segment</th><th>Description</th><th>As at 31 December 2017</th><th>As at 31 December 2016</th></tr>
<tr><td rowspan="2">Provisions for penalties fixed by the contracts</td><td rowspan="2">Generation</td><td>Considering the risk that the two projects listed below will not be continued (their continuity is required under the subsidy contracts):
• Construction of a biomass boiler in Elektrownia Jaworzno III;
• Construction of a system of power generation from renewable sources in Stalowa Wola;
In 2016 a provision has been recognised for the costs of returning the subsidy totalling PLN 52 297 thousand. The revalued provision as at 31 December 2017 amounted to PLN 55 358 thousand.</td><td>55 358</td><td>52 297</td></tr>
<tr><td>Considering the risk that Polski Fundusz Rozwoju S.A. may terminate the agreement, as a result of TAURON Wytwarzanie S.A. withdrawal from the construction of a gas and steam unit in Elektrownia Łagisza in Będzin and the risk of accruing liquidated damages, in 2016 a provision totalling PLN 11 250 thousand was recognised. In the year ended 31 December 2017 as a result of a received debit note the provision was utilised in the amount of PLN 5 625 thousand. The remaining balance of the provision was derecognised.</td><td>–</td><td>11 250</td></tr>
<tr><td>Provision for a fine to the Energy Regulatory Office</td><td>Distribution</td><td>The provision was recognized due to the risk of violation of the Energy Law of 10 April 1997 by misleading the President of the Energy Regulatory Office, following their demand for information. In the year ended 31 December 2017, having received the decision of the President of the Energy Regulatory Office, a portion of the provision, totalling PLN 14 436 thousand, was reversed.</td><td>6 000</td><td>20 436</td></tr>
<tr><td>Provision for increased transmission easement charges</td><td>Distribution</td><td>The provision was recognized due to the risk of increased periodic charges for transmission easement related to energy infrastructure located within the Forestry Commission areas overseen by the Regional State Forest Directorate in Wrocław, following a the change of designation of the land from forestry to industrial. In the year ended 31 December 2017 the provision was increased by PLN 25 950 thousand.</td><td>47 650</td><td>21 700</td></tr>
<tr><td rowspan="2">Provision for real estate tax</td><td>Mining</td><td>Provision for proceedings regarding real property tax on undergrund structures.
In the year ended on 31 December 2017, the company from the Mining segment used a provision of PLN 13 816 in connection with the tax authorities' decision determining the amount of tax liabilities for previous years and the company's correction of declarations for previous years.</td><td>3 446</td><td>23 008</td></tr>
<tr><td>Distribution</td><td>Provision for the business risk regarding tax on real property classified as power grid assets.
In the year ended 31 December 2017, the company from the Distribution segment increased the provision by PLN 27 356 thousand.</td><td>39 356</td><td>12 000</td></tr>
<tr><td>Provision for VAT</td><td>Sales</td><td>The provision was recognized in connection with pending inspection proceedings instituted by the Director of the Tax Inspection Office in Warsaw in relation to the value added tax. The duration of the proceedings was extended by the Director of the Tax Inspection Office a number of times. Currently, the new deadline for the completion of the inspection proceedings has been set for 28 April 2018.
As at 31 December 2017, the provision was PLN 68 694 thousand. An increase in the provision by PLN 4 200 thousand is attributable to interest accrued for the year ended 31 December 2017.</td><td>68 694</td><td>64 494</td></tr>
</table>

(in PLN '000)

37. Accruals, Deferred Income and Government Grants

37.1. Deferred income and government grants

	As at 31 December 2017	As at 31 December 2016
Deferred income	**259 220**	**293 284**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	62 342	71 849
Connection fees	195 666	218 075
Other	1 212	3 360
Government grants	**333 556**	**317 505**
Subsidies obtained from EU funds	235 065	211 981
Forgiven loans from environmental funds	26 258	28 068
Measurement of preferential loans	36 251	37 777
Other	35 982	39 679
Total	**592 776**	**610 789**
Non-current	541 318	553 874
Current	51 458	56 915

37.2. Accrued expenses

	As at 31 December 2017	As at 31 December 2016
Unused holidays	54 679	48 640
Bonuses	108 037	140 930
Environmental protection charges	45 133	3 806
Other	37 269	17 790
Total	**245 118**	**211 166**
Non-current	–	419
Current	245 118	210 747

38. Liabilities to Suppliers

Current liabilities to suppliers as at 31 December 2017 and 31 December 2016 are presented in the table below:

Operating segment	As at 31 December 2017	As at 31 December 2016
Distribution, including:	355 374	294 573
Polskie Sieci Elektroenergetyczne S.A.	*231 973*	*200 732*
Sales	265 660	247 487
Mining	172 758	144 722
Generation	164 980	100 857
Other	83 655	42 090
Total	**1 042 427**	**829 729**

39. Capital Commitments

Short-term capital commitments as at 31 December 2017 and 31 December 2016 are presented in the table below:

Operating segment	As at 31 December 2017	As at 31 December 2016
Distribution	438 492	336 624
Generation	227 084	511 403
Mining	74 682	159 138
Sales and other	57 046	26 639
Total	**797 304**	**1 033 804**

A drop in capital commitments in the Generation segment concerned mainly a decrease related to the construction of unit no. 910 in Jaworzno in the amount of PLN 249 640 thousand, which totalled PLN 208 844 thousand as at 31 December 2017. As at 31 December 2016, capital commitments totalled PLN 458 484 thousand.

(in PLN '000)

A drop in capital commitments in the Mining segment concerned mainly a decrease related to development of a longwall system in Zakład Górniczy Brzeszcze in the amount of PLN 89 080 thousand, which had been paid in whole as at 31 December 2017.

Long-term capital commitments have been presented in the consolidated statement of financial position within other financial liabilities. As at 31 December 2017, the related commitments totalled PLN 10 666. As at 31 December 2016, the related commitments amounted to PLN 299 thousand.

Commitments to incur capital expenditure

As at 31 December 2017 and 31 December 2016, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 891 230 thousand and PLN 4 368 685 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 31 December 2017	As at 31 December 2016
Generation	Constructin new capacity in Jaworzno III Power Plant (910 MW)	2 277 479	2 835 269
Distribution	Construction of new electrical connections	594 627	622 415
	Modernization and reconstruction of existing networks	451 907	497 926
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	235 377	16 484
	Construction of the 800 m drift at Janina Mining Plant	112 065	19 578
	Investment Program in Brzeszcze Mining Plant	25 617	32 731

40. Liabilities arising from Taxes and Charges

	As at 31 December 2017	As at 31 December 2016
Corporate Income Tax	39 290	2 371
Personal Income Tax	54 161	51 084
Excise	43 760	41 549
VAT	110 867	98 114
Social security	190 443	170 039
Environmental charges	1 494	40 964
Other	12 577	6 822
Total	**452 592**	**410 943**

Tax Capital Group

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

The 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 31 December 2017, the Tax Capital Group had an income tax liability of PLN 37 629 thousand, constituting the surplus of the tax expense of the Tax Capital Group for 2017 of PLN 253 477 thousand over the income tax withholdings of the Tax Capital Group in 2017 totalling PLN 215 848 thousand.

On 30 October 2017 a relevant decision regarding the registration of the Tax Capital Group for the years 2018–2020 was given. Since 1 January 2018, the composition of the Tax Capital Group in the scope of significant companies has not changed with respect to those listed in the Tax Capital Group agreement for the years 2015–2017.

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

Tax reports and other matters (e.g. customs or foreign currency transactions) may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities assessed during such audits have to be paid together with interest.

(in PLN '000)

Consequently, the figures presented and disclosed in these consolidated financial statements may change in the future if a final decision is issued by tax inspection authorities.

As of 15 July 2016, changes were introduced to the Tax Ordinance to incorporate the general anti-avoidance rule (GAAR), which is aimed to prevent the creation and use of artificial legal structures with a view to avoiding the payment of taxes in Poland. GAAR defines tax avoidance as an activity which is primarily intended to derive a tax benefit that is, in specific circumstances, in conflict with the scope and the objectives of the applicable tax law. The new regulations will require considerably more judgment in the assessment of the tax consequences of transactions.

GAAR should be applied to transactions made following its entry into force as well as transactions made prior to its implementation for which benefits continued or continue to be derived following the date of GAAR introduction.

41. Other Financial Liabilities

	As at 31 December 2017	As at 31 December 2016
Wages, salaries	203 544	156 867
Bid bonds, deposits and collateral received	86 233	79 415
Insurance contracts	3 246	12 560
Derivative instruments	14 184	560
Margin deposits	7 163	13 106
Other	71 389	66 161
Total	**385 759**	**328 669**
Non-current	91 620	72 374
Current	294 139	256 295

Derivative instruments have been discussed in Note 44.3 to these consolidated financial statements.

42. Other Current Non-Financial Liabilities

	As at 31 December 2017	As at 31 December 2016
Payments from customers relating to future periods	**309 298**	**298 606**
Amounts overpaid by customers	253 182	245 544
Prepayments for connection fees	16 741	21 369
Excess of the Company's Social Benefits Fund's liabilities over assets	91	–
Other	39 284	31 693
Other current non-financial liabilities	**1 552**	**2 573**
Total	**310 850**	**301 179**

(in PLN '000)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

43. Significant Items of the Consolidated Statement of Cash Flows

43.1. Cash flows from operating activities

Changes in working capital

	Year ended 31 December 2017	Year ended 31 December 2016
Change in receivables	**(171 885)**	**(46 280)**
Change in receivables from buyers in statement of financial position	(138 748)	(64 032)
Change in other financial receivables	(28 132)	871
Change in receivables from disposal of property, plant and equipment and financial assets	(3 636)	529
Other adjustments	(1 369)	16 352
Change in inventories	**188 060**	**(55 731)**
Change in inventories in statement of financial position	190 657	(52 841)
Adjustment related to transfer of invetories to/from property, plant and equipment	(2 597)	(4 347)
Other adjustments	–	1 457
Change in payables excluding loans and borrowings	**233 303**	**156 247**
Change in liabilities to suppliers in statement of financial position	212 698	39 023
Change in payroll, social security and other financial liabilities	33 099	(1 536)
Change in non-financial liabilities in statement of financial position	9 671	27 257
Change in liabilities arising from taxes excluding income tax	4 730	64 280
Adjustment of VAT change related to capital commitments	(29 255)	50 570
Adjustment for the acquisition of an orgnanized part of the enterprise (ZCP Brzeszcze) and including new companies in consolidation	–	(24 610)
Other adjustments	2 360	1 263
Change in other non-current and current assets	**146 301**	**341 335**
Change in other current and non-current non-financial assets in statement of financial position	173 507	176 026
Change in receivables arising from taxes excluding income tax	(61 612)	47 050
Change in non-current and current gas emission allowances	(92 594)	(8 727)
Change in non-current and current energy certificates	239 369	218 347
Change in advance payments for property, plant and equipment and intangible assets	(110 152)	(84 372)
Other adjustments	(2 217)	(6 989)
Change in deferred income, government grants and accruals	**(29 351)**	**(140 063)**
Change in deferred income, government grants and accruals in statement of financial position	15 939	(82 746)
Adjustmet related to property, plant and equipment and intangible assets received free of charge	(9 413)	(18 919)
Adjustment related to subsidies received	(35 877)	(29 220)
Adjustment related to acquisition of orgnanized part of the enterprise (ZCP Brzeszcze)	–	(4 203)
Other adjustments	–	(4 975)
Change in provisions	**(153 977)**	**(28 173)**
Change of short term and long term provisions in statement of financial position	(139 479)	(169 061)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	19 653	204 597
Adjustment for the change in provisions for land reclamation and dismantling recognized under other comprehensive income	(33 212)	33 415
Adjustment related to acquisition of orgnanized part of the enterprise (ZCP Brzeszcze)	–	(92 454)
Other adjustments	(939)	(4 670)
Total	**212 451**	**227 335**

Income tax paid

Income taxes paid totalled PLN 143 217 thousand and included PLN 136 824 thousand relating to the Tax Capital Group and resulting from withholding income tax of PLN 215 848 thousand paid in the year ended 31 December 2017 as well as the TCG's receipt of overpaid income tax for the year 2016 in the amount of PLN 79 024 thousand.

(in PLN '000)

43.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	Year ended 31 December 2017	Year ended 31 December 2016
Purchase of property, plant and equipment	(3 243 046)	(3 590 348)
Purchase of intangible assets	(125 070)	(127 446)
Change in the balance of VAT – adjusted capital commitments	(196 878)	214 984
Change in the balance of advance payments	110 152	84 372
Costs of overhaul and internal manufacturing	(106 032)	(99 017)
Other	(884)	1 159
Total	**(3 561 758)**	**(3 516 296)**

Loans granted

Payments to grant loans result from the loans disbursed to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 304 192 thousand, and to PGE EJ 1 Sp. z o.o., in the amount of PLN 2 940 thousand.

Dividends received

Proceeds from dividends received in the amount of PLN 24 636 thousand concern mainly the dividends received by the Company from a jointly-controlled entity, TAMEH HOLDING Sp. z o.o., in the amount of PLN 15 500 thousand.

43.3. Cash flows from financing activities

Redemption of debt securities

Payments on the redemption of debt securities in the year ended 31 December 2017 resulted from the Parent's redemption of a tranche of bonds with the par value of PLN 1 650 000 thousand under a bond issue scheme of November 2015.

Loans and borrowings repaid

Payments to repay loans and borrowings of PLN 154 918 thousand disclosed in the consolidated statement of cash flows result mainly from the Parent's repayment of instalments of a loan obtained from the European Investment Bank in the amount of PLN 147 568 thousand in the year ended 31 December 2017.

Interest paid

	Year ended 31 December 2017	Year ended 31 December 2016
Interest paid in relation to debt securities	(246 790)	(296 949)
Interest paid in relation to loans and borrowings	(42 978)	(53 183)
Interest paid in relation to the finance lease	(727)	(955)
Total	**(290 495)**	**(351 087)**
investment expenditure	(105 945)	(95 971)
financial expenditure	(184 550)	(255 116)

The Group's consolidated statement of cash flows presents incurred borrowing costs which were capitalized in the current period in the value of assets as payments to acquire property, plant and equipment and intangible assets in cash flows from investing activities. In the year ended 31 December 2017, interest constituting borrowing costs which were capitalized in the value of property, plant and equipment and intangible assets amounted to PLN 105 945 thousand.

Issue of debt securities

Proceeds from the issue of debt securities in the year ended 31 December 2017 are related to:

- the issue of tranches of bonds with the total par value of PLN 600 000 thousand under a bond issue scheme of November 2015, which has been discussed in more detail in Note 32.2 to these consolidated financial statements;
- the issue of eurobonds totalling PLN 2 107 462 thousand, which has been discussed in more detail in Note 32.2 to these consolidated financial statements.

(in PLN '000)

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

44. Financial Instruments

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

Categories and classes of financial assets	Note	As at 31 December 2017		As at 31 December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss, held for trading		**106 292**		**45 092**	
Derivative instruments	**44.3**	4 934	4 934	19 776	19 776
Investment fund units	**24**	101 358	101 358	25 316	25 316
2 Financial assets available for sale		**144 417**		**134 143**	
Shares (non-current)	**24**	141 656		127 594	
Shares (current)	**24**	42		4 104	
Investment fund units	**24**	2 719	2 719	2 445	2 445
3 Loans and receivables		**2 734 059**		**2 241 033**	
Receivables from buyers	**27**	2 032 813	2 032 813	1 894 065	1 894 065
Deposits	**24**	39 756	39 756	38 472	38 472
Loans granted		580 979	491 171	256 117	153 429
Other financial receivables		80 511	80 511	52 379	52 379
4 Financial assets excluded from the scope of IAS 39		**499 204**		**461 348**	
Investments in joint ventures	**22**	499 204		461 348	
5 Derivative hedging instruments	**44.3**	**28 482**	**28 482**	**36 641**	**36 641**
6 Cash and cash equivalents	**29**	**909 249**	**909 249**	**384 881**	**384 881**
Total, of which in the statement of financial position:		**4 421 703**		**3 303 138**	
Non-current assets		**978 066**		**929 439**	
Investments in joint ventures		499 204		461 348	
Loans granted to joint ventures		240 767		240 951	
Other financial assets		238 095		227 140	
Current assets		**3 443 637**		**2 373 699**	
Receivables from buyers		2 032 813		1 894 065	
Loans granted to joint ventures		329 665		15 116	
Other financial assets		171 910		79 637	
Cash and cash equivalents		909 249		384 881	

Categories and classes of financial liabilities	Note	As at 31 December 2017		As at 31 December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss, held for trading		**14 184**		**560**	
Derivative instruments	**44.3**	14 184	14 184	560	560
2 Financial liabilities measured at amortized cost		**12 040 129**		**11 136 323**	
Preferential loans	**32.1**	34 506	34 506	41 748	41 748
Arm's length loans	**32.1**	1 063 379	1 065 694	1 206 649	1 209 558
Bank overdrafts	**32.1**	93 503	93 503	15 156	15 156
Bonds issued	**32.2**	8 637 435	8 695 096	7 681 128	7 719 015
Liabilities to suppliers	**38**	1 042 427	1 042 427	829 729	829 729
Other financial liabilities		154 119	154 119	158 383	158 383
Capital commitments	**39**	807 970	807 970	1 034 103	1 034 103
Salaries and wages		203 544	203 544	156 867	156 867
Insurance contracts		3 246	3 246	12 560	12 560
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**23 973**		**34 848**	
Obligations under finance leases	**32.3**	23 973	23 973	34 848	34 848
Total, of which in the statement of financial position:		**12 078 286**		**11 171 731**	
Non-current liabilities		**9 593 034**		**8 832 163**	
Debt		9 501 414		8 759 789	
Other financial liabilities		91 620		72 374	
Current liabilities		**2 485 252**		**2 339 568**	
Debt		351 382		219 740	
Liabilities to suppliers		1 042 427		829 729	
Capital commitments		797 304		1 033 804	
Other financial liabilities		294 139		256 295	

(in PLN '000)

Derivative financial instruments classified as assets and liabilities measured at fair value through profit or loss and designated as hedging instruments, which are measured at fair value as at the end of the reporting period, were measured in line with the method described in Note 44.3 to these consolidated financial statements. Fair value hierarchy disclosures are also provided in Note 44.3. Measurement of investment fund units has been classified to Level 1 in the fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- As at 31 December 2017, fixed-rate financial instruments, which included loans obtained from the European Investment Bank, subordinated bonds, eurobonds and bonds issued by a subsidiary, were measured at fair value. The fair value measurement also included subordinated loans and loans for repayment of debt granted to Elektrociepłownia Stalowa Wola S.A., exposed to the variable interest rate. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable currently 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 (except shares classified as financial assets available for sale and excluded from the scope of IAS 39 *Financial Instruments: Measurement and Recognition*, as described below) as at 31 December 2017 and 31 December 2016 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 not significant;
  – the instruments are related to arm's length transactions.

  Consequently, the fair value of the instruments in question has been disclosed in the tables above at the carrying amount.
- The Group does not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. They are measured at cost less impairment losses as at the end of the reporting period. Following the adoption of IFRS 9 *Financial Instruments* as from 1 January 2018, the Group estimated the fair value of the above shares as at that date, which has been discussed in more detail in Note 7 to these consolidated financial statements. Interest in joint ventures – financial assets excluded from the scope of IAS 39 *Financial Instruments: Recognition and Measurement* – are measured using the equity method in line with the accounting policies adopted by the Group.

44.2. Revenue, expenses, gain and loss items included in the statement of comprehensive income by category of financial instruments

For the year ended 31 December 2017

	Assets/ liabilities at fair value through profit or loss, held for trading	Financial assets available for sale	Loans and receivables	Financial liabilities at amortized cost	Hedging instruments	Financial assets/ liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	9 136	–	–	–	–	**9 136**
Interest income / (expense)	20 318	–	26 713	(209 885)	1 525	(727)	**(162 056)**
Currency translation differences	(2 688)	–	1 692	128 386	–	–	**127 390**
Impairment / revaluation	(11 820)	732	(117)	–	–	(229)	**(11 434)**
Commission relating to borrowings and debt securities	–	–	–	(19 020)	–	–	**(19 020)**
Gain/ (loss) on disposal of investments	–	–	(803)	–	–	–	**(803)**
Other	(4 866)	(103)	–	–	–	–	**(4 969)**
Net financial income (costs)	**944**	**9 765**	**27 485**	**(100 519)**	**1 525**	**(956)**	**(61 756)**
Revaluation	(13 514)	–	(25 170)	–	–	–	**(38 684)**
Gain/loss on exercised commodity derivative instruments	8 737	–	–	–	–	–	**8 737**
Net operating income/(costs)	**(4 777)**	**–**	**(25 170)**	**–**	**–**	**–**	**(29 947)**
Remeasurement	–	–	–	–	(8 159)	–	**(8 159)**
Other comprehensive income	**–**	**–**	**–**	**–**	**(8 159)**	**–**	**(8 159)**

(in PLN '000)

For the year ended 31 December 2016

	Assets/ liabilities at fair value through profit or loss, held for trading	Financial assets available for sale	Loans and receivables	Financial liabilities at amortized cost	Hedging instruments	Financial assets/ liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	5 728	–	–	–	–	**5 728**
Interest income / (expense)	7 412	–	27 902	(177 949)	(80 658)	(957)	**(224 250)**
Currency translation differences	(2 088)	–	183	(28 356)	–	–	**(30 261)**
Impairment / revaluation	14 495	(203)	(603)	–	–	–	**13 689**
Commission relating to borrowings and debt securities	–	–	–	(18 767)	–	–	**(18 767)**
Gain/ (loss) on disposal of investments	–	2 114	(416)	–	–	–	**1 698**
Other	(43)	–	–	–	–	–	**(43)**
Net financial income (costs)	**19 776**	**7 639**	**27 066**	**(225 072)**	**(80 658)**	**(957)**	**(252 206)**
Revaluation	15 982	–	(22 943)	–	–	–	**(6 961)**
Gain/loss on exercised commodity derivative instruments	(34 365)	–	–	–	–	–	**(34 365)**
Net operating income/(costs)	**(18 383)**	**–**	**(22 943)**	**–**	**–**	**–**	**(41 326)**
Remeasurement	–	–	–	–	127 252	–	**127 252**
Other comprehensive income	**–**	**–**	**–**	**–**	**127 252**	**–**	**127 252**

44.3. Derivative instruments

	As at 31 December 2017				As at 31 December 2016			
	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	(9 299)	–	**–**	**(9 299)**	–	–	**–**	**–**
IRS	23	28 459	**28 482**	**–**	23	36 618	**36 641**	**–**
Commodity forwards/futures	395	–	**4 934**	**(4 539)**	15 999	–	**16 559**	**(560)**
Currency forwards	(346)	–	**–**	**(346)**	3 217	–	**3 217**	**–**
Total			**33 416**	**(14 184)**			**56 417**	**(560)**
Non-current			26 445	(4 958)			35 814	–
Current			6 971	(9 226)			20 603	(560)

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

Derivative instrument	Methodology of determining fair value hierarchy
IRS	Difference between the discounted interest cash flows based on the floating and fixed interest rates. Reuters' interest rate curve is the input data.
CCIRS	Difference between the discounted interest cash flows of the payable and receivables streams, in two various currencies, denominated in the measurement currency. Reuters' interest rate curve, basis spreads and NBP fixing for relevant currencies are the input data.
Forward currency contracts	Difference between the discounted future cash flows between the future price as at the valuation date and the transaction price multiplied by the par value of the FX contract. Reuter's NBP fixing and the interest rate curve implied from fx swap transaction for a relevant currency is the input data.
Commodity forwards, futures	The fair value of forwards for the purchase and sale of emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.

(in PLN '000)

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

	As at 31 December 2017		As at 31 December 2016	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity – related derivatives	4 934	–	16 559	–
Derivative instruments – currency	–	–	–	3 217
Derivative instruments – IRS	–	28 482	–	36 641
Total	**4 934**	**28 482**	**16 559**	**39 858**
Liabilities				
Commodity – related derivatives	4 539	–	560	–
Currency derivatives	–	346	–	–
Derivative instruments – CCIRS	–	9 299	–	–
Total	**4 539**	**9 645**	**560**	**–**

Hedging derivative instruments (subject to hedge accounting) – IRS

In the year ended 31 December 2016, based on a decision of the Financial and Credit Risk Management Unit, the Company hedged a portion of its interest rate risk for cash flows relating to the exposure to WIBOR 6M, designated under the dynamic risk management strategy, i.e. interest on debt securities with the nominal value of PLN 2 100 000 thousand, through the entry into interest rate swap (IRS) transactions for a term of 4 to 5 years. The aforementioned transactions are subject to hedge accounting with the exception of the first interest period. This is due to the fact that the floating interest rate in the first interest period was determined in advance, hence the Company could not apply hedge accounting principles to cash flows resulting from the first interest period.

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

As at 31 December 2017, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

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

The CCIRSs have been used with respect to the Company's Coupon Only Cross Currency Swap fixed-fixed transactions concluded in November and December 2017 and involve an exchange of interest payments on the total nominal value of EUR 300 000 thousand. They mature in July 2027. In accordance with the terms and conditions, the Company pays interest accrued based on a fixed interest rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question.

45. Principles and Objectives of Financial Risk Management

Risks related to financial instruments which the TAURON Group is exposed to, including a description of the exposure and the risk management method:

(in PLN '000)

Risk exposure	Risk management	Regulation
	Credit risk	
Possible loss resulting from the counterparty default on contractual obligations. The credit exposure involves a default risk (the amount that may be lost if a counterparty defaults on its obligations) and a replacement risk (the amount that may be lost if a delivery is not made or a service is not proviced).	Credit risk is managed through the control of the credit exposure at the time when companies in the TAURON Group sign contracts. As a rule, before a contract is signed, every entity is examined in terms of their financial position and is assigned a limit which determines the maximum exposure allowed. The credit exposure in this case is understood as the amount which may be lost, if the counterparty defaults on their obligations at a given time (considering the value of security they have lodged). The credit exposure is calculated at a given day and comprises a default risk and replacement risk. The Group has a decentralized credit risk management system in place, however, the control, mitigation and reporting are managed centrally at a Company-wide level. The TAURON Group's Credit Risk Management Policy sets out the credit risk management procedures for the entire Group with the view to reduce the impact of the risk on the Group's objectives. The value of the credit risk that the TAURON Group is exposed to, is calculated using the Credit Value at Risk method, based on the value of the exposure and the evaluation of the financial condition of individual customers. This is an analytical method which, using a mathematical simulation model, calculates the value exposed to the risk based on the total loss probability distribution.	Credit risk management policy for the TAURON Group
	Liquidity risk	
Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities.	The TAURON Group's liquidity is reviewed on an ongoing basis to detect any deviation from plans and the availability of external sources of funds, in the case of which the amount materially exceeds the expected short-term demand, mitigates the liquidity risk. To this end the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies (cash-pooling) as well as using external financing, including overdraft facilities.	Liquidity management policy for the TAURON Group
	Market risk – interest rate and currency risks	
The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates.	The TAURON Group manages the currency and interest rate risks in line with the best market practices. The key objective of such risk management is to minimize the cash flow sensitivity of the TAURON Group to financial risks and to minimize finance cost and costs of hedging with the use of derivative instruments. Wherever possible and commercially viable, the TAURON Group uses derivative instruments, whose nature allows for the application of hedge accounting.	Financial risk management policy for the TAURON Group
	Market risk – price risk	
Unplanned volatility of the operating profit/loss of the TAURON Group resulting from fluctuations of prices in the commodity markets and deviations in volumes in individual areas of commercial activities of the TAURON Group.	Effective management is ensured by a commercial risk management system linked in terms of organization and information with the TAURON Group's strategy of hedging trading positions. The policy has introduced an early-warning system and risk-exposure limiting system in various trading areas. The basic operational measure of the market risk at the TAURON Group is the Value at Risk measure which determines the maximum allowed change in the value of the position over a given time period and with a given probability.	Commercial risk management policy for the TAURON Group

45.1. Credit risk

Key classes of financial instruments that give rise to credit risk exposure have been presented in the table below. The maximum credit risk exposure related to financial assets of the TAURON Group equals their carrying amounts.

Classes of financial instruments	As at 31 December 2017	As at 31 December 2016
Receivables from buyers	2 032 813	1 894 065
Cash and cash equivalents	909 249	384 881
Loans granted	580 979	256 117
Deposits	39 756	38 472
Other financial receivables	80 511	52 379

(in PLN '000)

45.1.1. Credit risk related to receivables from buyers

The Group has receivables from two groups of buyers: institutional and individual clients. The percentage share of individual groups in the total amount of receivables from buyers has been presented below:

	As at 31 December 2017	As at 31 December 2016
Institutional clients	70.25%	73.33%
Individual clients	29.75%	26.67%
Total	**100%**	**100%**

No material concentration of credit risk related to the core activity occurs in the Group. Amounts due from PSE S.A. constitute the largest item of receivables from buyers with a share of 4.78% and 4.77% as at 31 December 2017 and 31 December 2016, respectively.

Sales to institutional clients are made only to buyers who have undergone an appropriate verification procedure. As a result, the management believes that there is no additional credit risk that would exceed the allowance for bad debts recognized for trade receivables of the Group.

The ageing analysis of receivables from buyers as well as information on allowances/write-downs on receivables from buyers have been presented in Note 27 to these consolidated financial statements.

45.1.2. Credit risk related to other financial receivables

The Group has receivables from two groups of buyers: institutional and individual clients. The percentage share of each group in the total amount of other financial receivables has been presented below:

	As at 31 December 2017	As at 31 December 2016
Institutional clients	97.61%	93.85%
Individual clients	2.39%	6.15%
Total	**100%**	**100%**

No material concentration of credit risk related to other financial receivables occurs in the Group. Amounts due from Izba Rozliczeniowa Giełd Towarowych S.A. constitute the largest item of other financial receivables with a share of 15.48% and 16.17% as at 31 December 2017 and 31 December 2016, respectively.

The ageing analysis of and allowances/write-downs on other financial receivables have been presented below.

Ageing analysis of other financial receivables as at 31 December 2017 year

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down	78 886	2 007	10 055	937	937	66 165	**158 987**
Allowance/write-down	(820)	(108)	(9 734)	(749)	(919)	(66 146)	**(78 476)**
Net Value	**78 066**	**1 899**	**321**	**188**	**18**	**19**	**80 511**

Ageing analysis of other financial receivables as at 31 December 2016 year

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down	51 647	439	268	263	527	56 228	**109 372**
Allowance/write-down	(346)	(10)	(14)	(54)	(380)	(56 189)	**(56 993)**
Net Value	**51 301**	**429**	**254**	**209**	**147**	**39**	**52 379**

(in PLN '000)

Allowances/write-downs on other financial receivables

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	**(56 993)**	**(2 524)**
Recognised	(13 149)	(2 017)
Utilized	551	473
Reversed	4 087	7 721
Other movements	(12 972)	(60 646)
Closing balance	**(78 476)**	**(56 993)**

45.1.3. Credit risk related to cash and cash equivalents

The Group manages credit risk related to cash by diversifying banks where it deposits its cash surplus. All entities the Group concludes deposit transactions with operate in the financial sector. They include high-rating banks with sufficient equity and stable, strong market position.

As at 31 December 2017, the share of three banks where the Group's largest cash balances were deposited was 78%.

45.1.4. Credit risk related to loans granted

Loans granted include mainly loans to joint ventures. The loans in question had not been overdue as at the end of the reporting period. The key item is a subordinated loan whose carrying amount is PLN 212 052 thousand and whose repayment is secured by a blank promissory note, including a promissory note agreement, as well as loans granted under agreements consolidating the borrower's debt with the total carrying amount of PLN 329 665 thousand, the repayment of which is secured by blank promissory notes and related declarations. On the balance sheet date, the Group performed impairment tests for its assets, including the value of loans granted to a joint venture, which did not reveal the necessity to recognise impairment losses on those loans.

45.2. Liquidity risk

The Group maintains a balance between continuity and flexibility of funding through the use of a variety of funding sources, such as overdraft facilities, bank loans, other loans, bonds and finance leases. Such use of the funding sources enables liquidity risk management and effective mitigation of its negative effects.

In order to minimize the possibility of cash flow disruption and liquidity risk, the TAURON Group, as in previous years, used the cash pooling mechanism. Regardless of funds collected by its individual members, cash pooling is linked to a flexible credit facility in the form of an overdraft. Under the cash pooling agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand.

Apart from the overdraft made available under the cash pooling agreement, the Group may use foreign currency overdrafts:

- up to USD 2 000 thousand, with the outstanding amount of USD 418 thousand as at the end of the reporting period;
- up to EUR 45 000 thousand, with the outstanding amount of EUR 22 069 thousand as at the end of the reporting period.

The following tables present the Group's financial liabilities based on non-discounted contractual payments by maturity as at 31 December 2017 and 31 December 2016.

(in PLN '000)

Financial liabilities as at 31 December 2017

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within (*after the balance sheet date*)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings and issued bonds	**9 828 823**	**(12 205 838)**	(160 573)	(418 356)	(2 329 557)	(2 195 729)	(991 898)	(6 109 725)
Liabilities to suppliers	**1 042 427**	**(1 042 427)**	(1 038 477)	(3 950)	–	–	–	–
Capital commitments	**807 970**	**(807 970)**	(797 210)	(93)	(10 599)	(68)	–	–
Other financial liabilities	**360 909**	**(360 909)**	(281 066)	(3 849)	(12 503)	(47 138)	(6 050)	(10 303)
Obligations under finance leases	**23 973**	**(24 173)**	(1 475)	(22 670)	(2)	(2)	(4)	(20)
Derivative financial liabilities								
Derivate instruments – commodity	**4 539**	**(4 424)**	–	(4 424)	–	–	–	–
Derivative instruments – currency	**346**	**(346)**	(275)	(71)				
Derivate instruments – CCIRS	**9 299**	**(47 125)**	–	(4 694)	(4 694)	(4 748)	(9 427)	(23 562)
Total	**12 078 286**	**(14 493 212)**	**(2 279 076)**	**(458 107)**	**(2 357 355)**	**(2 247 685)**	**(1 007 379)**	**(6 143 610)**

Financial liabilities as at 31 December 2016

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within (*after the balance sheet date*)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings and issued bonds	**8 944 681**	**(11 054 364)**	(69 029)	(405 917)	(452 691)	(2 296 657)	(3 680 323)	(4 149 747)
Liabilities to suppliers	**829 729**	**(829 729)**	(829 693)	(36)	–	–	–	–
Capital commitments	**1 034 103**	**(1 034 103)**	(1 033 711)	(93)	(113)	(113)	(73)	–
Other financial liabilities	**327 810**	**(327 810)**	(245 697)	(10 038)	(14 069)	(4 567)	(40 789)	(12 650)
Obligations under finance leases	**34 848**	**(35 772)**	(5 313)	(6 713)	(23 718)	(2)	(4)	(22)
Derivative financial liabilities								
Derivate instruments – commodity	**560**	**(538)**	–	(538)	–	–	–	–
Total	**11 171 731**	**(13 282 316)**	**(2 183 443)**	**(423 335)**	**(490 591)**	**(2 301 339)**	**(3 721 189)**	**(4 162 419)**

45.3. Market risk

The Group identifies the following types of market risk it is exposed to:

- interest rate risk;
- currency risk;
- raw material and commodity price risk related to commodity derivative instruments and price risk related to units held by the Group.

45.3.1. Interest rate risk

The Group's interest rate risk results mainly from debt, concluded IRS contracts, cash and loans granted to joint ventures.

Due to floating-rate items the Group is exposed to cash flow changes resulting from interest rate fluctuations. As a result of fixed-rate items the Group is exposed to changes in the fair value of items measured at amortized cost. The risk of fair value changes resulting from interest rate changes also relates to IRS contracts. The Group is also exposed to the risk of lost benefits related to a decrease in interest rates in the case of fixed-rate debt or to an increase in interest rates in the case of fixed-rate assets, although the changes are not disclosed in the financial statements.

In order to hedge interest rate risk related to floating-rate bonds issued, the Group entered into interest rate swap (IRS) contracts, which has been discussed in more detail in Note 44.3 to these consolidated financial statements.

The carrying amounts of financial instruments of the Group exposed to the interest rate risk have been presented in the tables below. Except the hybrid bonds issued in December 2016 with fixed interest in the first funding period and the eurobonds issued in July 2017, other bonds issued by the Parent bear floating interest. As the Company has adopted a dynamic financial risk management strategy where the hedged item are cash flows relating to the exposure to the floating WIBOR 6M interest rate, the interest rate risk for a portion of interest cash flows has been reduced by the hedging IRS transactions. Thus, a portion of the carrying amount of bonds with interest cash flow fluctuations hedged with interest rate swaps has been presented in the tables below together with valuation of these hedging instruments as fixed-rate items.

(in PLN '000)

Financial instruments by interest rate type as at 31 December 2017

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Deposits	39 756	–	**39 756**
Loans granted	2 954	578 025	**580 979**
Cash and cash equivalents	–	909 249	**909 249**
Derivative instruments – IRS	28 482	–	**28 482**
Financial liabilities			
Bank overdrafts	1	93 502	**93 503**
Preferential loans	–	34 506	**34 506**
Arm's length loans	1 042 110	21 269	**1 063 379**
Bonds issued	5 681 480	2 955 955	**8 637 435**
Obligations under finance leases	27	23 946	**23 973**
Derivative instruments – CCIRS	9 299	–	**9 299**

Financial instruments by interest rate type as at 31 December 2016

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Deposits	–	38 472	**38 472**
Loans granted	–	256 117	**256 117**
Cash and cash equivalents	–	384 881	**384 881**
Derivative instruments – IRS	36 641	–	**36 641**
Financial liabilities			
Bank overdrafts	–	15 156	**15 156**
Preferential loans	–	41 748	**41 748**
Arm's length loans	1 190 501	16 148	**1 206 649**
Bonds issued	3 677 088	4 004 040	**7 681 128**
Obligations under finance leases	141	34 707	**34 848**

Interest rate of floating-rate financial instruments is updated on a regular basis, more frequently than once a year. Interest on fixed-rate financial instruments is fixed throughout the entire term to maturity or until a specified point in time where the interest rates are verified and may be changed – this applies to loans from the European Investment Bank as well as hybrid bonds, which bear fixed interest in the first period and floating interest in the second period, which has been discussed in more detail in Notes 32.1 and 32.2 to these consolidated financial statements.

Sensitivity analysis

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Group relies on expert scenarios reflecting its judgment concerning the behaviour of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

The interest rate risk sensitivity analysis is conducted by the Group using the parallel shift in the yield curve by the potential change in reference interest rates within a horizon until the date of the next financial statements. The interest rate risk sensitivity analysis has been carried out based on average reference interest rates in the year. The scale of potential changes in interest rates has been estimated on the basis of implied volatility for interest rate options quoted on the interbank market for currencies which expose the Group to the interest rate risk as at the end of the reporting period.

The Group identifies its exposure to the risk of changes in WIBOR, EURIBOR and LIBOR USD interest rates. As at 31 December 2017, its exposure to the risk of changes in LIBOR USD was immaterial, while the sensitivity analysis performed as at 31 December 2016 did not focus on changes in EURIBOR and LIBOR USD as their effect was considered insignificant. Debt to be repaid in the euro, except an overdraft facility, bears fixed interest. The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group to reasonably possible changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

(in PLN '000)

For the year ended 31 December 2017

Classes of finacial instruments	31 December 2017		Sensitivity analysis for interest rate risk as at 31 December 2017			
			WIBOR		EURIBOR	
	Carrying amount	Value at risk	WIBOR + 43 bp	WIBOR - 43 bp	EURIBOR + 1 bp	EURIBOR - 1 bp
			Profit or loss / other comprehensive income		*Profit or loss*	
Loans granted	580 979	578 025	2 486	(2 486)	–	–
Cash and cash equivalents	909 249	909 249	3 790	(3 790)	1	(1)
Derivatives (assets)	33 416	28 482	21 217	(21 217)	–	–
Bank overdrafts	93 503	93 502	–	–	(9)	9
Preferential loans	34 506	34 506	(148)	148	–	–
Arm's length loans	1 063 379	21 269	(91)	91	–	–
Issued bonds	8 637 435	5 053 775	(21 731)	21 731	–	–
Obligations under finance leases	23 973	23 946	(103)	103	–	–
Derivatives (liabilities)	14 184	9 299	5 995	(5 995)	(146)	146
Total			**11 415**	**(11 415)**	**(154)**	**154**

The exposure to risk as at 31 December 2017 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date, except for material transactions made at the end of 2017. They concern derivative instruments (liabilities), including CCIRS transactions entered into by the Company in November and December 2017, which are sensitive to both changes in WIBOR and EURIBOR rates. CCIRS instruments have been discussed in more detail in Note 44.3 to these consolidated financial statements.

For the year ended 31 December 2016

Classes of finacial instruments	31 December 2016		Sensitivity analysis for interest rate risk as at 31 December 2016	
			WIBOR	
	Carrying amount	Value at risk	WIBOR + 60 bp	WIBOR -60 bp
			Profit or loss / other comprehensive income	
Deposits	38 472	38 472	231	(231)
Loans granted	256 117	256 117	1 537	(1 537)
Cash and cash equivalents	384 881	384 881	1 995	(1 995)
Derivatives (assets)	56 417	36 641	40 992	(40 992)
Preferential loans	41 748	41 748	(250)	250
Arm's length loans	1 206 649	16 148	(97)	97
Issued bonds	7 681 128	6 101 108	(36 607)	36 607
Obligations under finance leases	34 848	34 707	(208)	208
Total			**7 593**	**(7 593)**

The exposure to risk as at 31 December 2016 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

45.3.2. Currency risk

The TAURON Group companies are exposed to transaction and translation currency risk. The Group companies are exposed to the risk of EUR/PLN, CZK/PLN, USD/PLN and GBP/PLN exchange rate changes in relation to their operating and financing activities. The Group's exposure to currency risk by financial instrument class in 2017 and in 2016 has been presented below.

(in PLN '000)

Currency position as at 31 December 2017

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK		USD		GBP	
		in currency	in PLN	in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets									
Receivables from buyers	2 032 813	1 016	4 237	46 722	7 625	–	–	–	–
Other financial receivables	80 511	3 321	13 851	20 607	3 363	–	–	–	–
Cash and cash equivalents	909 249	3 321	13 851	64 963	10 602	314	1 093	485	2 280
Derivatives (assets)	33 416	1 169	4 877	–	–	16	57	–	–
Total		**8 827**	**36 816**	**132 292**	**21 590**	**330**	**1 150**	**485**	**2 280**
Financial liabilities									
Bank overdrafts	93 503	22 069	92 048	–	–	418	1 454	–	–
Issued bonds	8 637 435	859 205	3 583 657	–	–	–	–	–	–
Liabilities to suppliers	1 042 427	2 117	8 830	10 208	1 666	3	10	1	5
Other financial liabilities	154 119	1 717	7 162	6	1	–	–	–	–
Derivatives (liabilities)	14 184	1 061	4 425	–	–	33	114	–	–
Total		**886 169**	**3 696 122**	**10 214**	**1 667**	**454**	**1 578**	**1**	**5**
Net currency position		**(877 342)**	**(3 659 306)**	**122 078**	**19 923**	**(124)**	**(428)**	**484**	**2 275**

Currency position as at 31 December 2016

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK		USD		GBP	
		in currency	in PLN	in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets									
Receivables from buyers	1 894 065	937	4 143	42 645	6 981	–	–	–	–
Other financial receivables	52 379	342	1 515	20 605	3 373	–	–	–	–
Cash and cash equivalents	384 881	7 456	32 986	95 406	15 618	306	1 280	499	2 566
Derivatives (assets)	56 417	3 649	16 143	–	–	100	416	–	–
Total		**12 384**	**54 787**	**158 656**	**25 972**	**406**	**1 696**	**499**	**2 566**
Financial liabilities									
Bank overdrafts	15 156	3 032	13 415	–	–	410	1 716	–	–
Issued bonds	7 681 128	357 147	1 580 020	–	–	–	–	–	–
Liabilities to suppliers	829 729	1 839	8 137	10 073	1 649	12	49	–	–
Other financial liabilities	158 383	2 961	13 097	–	–	94	395	2	10
Derivatives (liabilities)	560	122	538	–	–	5	22	–	–
Total		**365 101**	**1 615 207**	**10 073**	**1 649**	**521**	**2 182**	**2**	**10**
Net currency position		**(352 717)**	**(1 560 420)**	**148 583**	**24 323**	**(115)**	**(486)**	**497**	**2 556**

In 2017 and in 2016, in line with its currency risk management strategy, the TAURON Group used forward contracts as hedges against currency risk related to its operations. The Group did not use hedge accounting to hedge currency risk. As at 31 December 2017, liabilities arising from valuation of FX forwards held by the Group amounted to PLN 346 thousand (versus assets of PLN 3 217 thousand as at 31 December 2016).

In the year ended 31 December 2017, the Company entered into CCIRS transactions, whose fair value measurement is exposed to the risk of changes in the EUR/PLN exchange rate. These transactions are not subject to hedge accounting. As at 31 December 2017, the amount from valuation of CCIRS was PLN (9 299) thousand, which has been discussed in more detail in Note 44.3 to these consolidated financial statements.

Sensitivity analysis

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Group relies on expert scenarios reflecting its judgment concerning the behaviour of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

The potential changes in foreign exchange rates have been determined within a horizon until the date of the next financial statements and calculated on the basis of annual implied volatility for FX options quoted on the interbank market for a given currency pair as at the end of the reporting period or, in the absence of quoted market prices, on the basis of historical volatility for a period of one year preceding the end of the reporting period.

The Group identifies its exposure to currency risk related to EUR/PLN, CZK/PLN, USD/PLN and GBP/PLN exchange rates. The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group to reasonably possible changes in foreign exchange rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

(in PLN '000)

For the year ended 31 December 2017

Classes of finacial instruments	31 December 2017		Sensitivity analysis for currency risk as at 31 December 2017							
			EUR/PLN		CZK/PLN		USD/PLN		GBP/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +6.2%	exchange rate EUR/PLN -6.2%	exchange rate CZK/PLN +6.34%	exchange rate CZK/PLN -6.34%	exchange rate USD/PLN +9.76%	exchange rate USD/PLN -9.76%	exchange rate GBP/PLN +9.35%	exchange rate GBP/PLN -9.35%
			Profit or loss / other comprehensive income		*Profit or loss / other comprehensive income*		*Profit or loss / other comprehensive income*		*Profit or loss / other comprehensive income*	
Receivables from buyers	2 032 813	11 862	263	(263)	483	(483)	–	–	–	–
Other financial receivables	80 511	17 214	859	(859)	213	(213)	–	–	–	–
Cash and cash equivalents	909 249	27 826	859	(859)	672	(672)	107	(107)	213	(213)
Derivatives (assets)	33 416	4 934	302	(302)	–	–	6	(6)	–	–
Overdrafts	93 503	93 502	(5 707)	5 707	–	–	(142)	142	–	–
Bonds issued	8 637 435	3 583 657	(222 187)	222 187	–	–	–	–	–	–
Liabilities to suppliers	1 042 427	10 511	(547)	547	(106)	106	–	–	–	–
Other financial liabilities	154 119	7 163	(444)	444	–	–	–	–	–	–
Derivatives (liabilities)	14 184	14 184	19 394	(19 394)	–	–	(11)	11	–	–
Total			**(207 208)**	**207 208**	**1 262**	**(1 262)**	**(40)**	**40**	**213**	**(213)**

The exposure to risk as at 31 December 2017 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date, except for material transactions made in the second half of 2017. These include issued bonds, consisting of eurobonds issued by the Company in July 2017, which has been discussed in more detail in Note 32.2 to these consolidated financial statements, and derivatives (liabilities), consisting of CCIRS transactions entered into by the Company in November and December 2017, which has been discussed in more detail in Note 44.3 to these consolidated financial statements.

For the year ended 31 December 2016

Classes of finacial instruments	31 December 2016		Sensitivity analysis for currency risk as at 31 December 2016							
			EUR/PLN		CZK/PLN		USD/PLN		GBP/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.8%	exchange rate EUR/PLN -7.8%	exchange rate CZK/PLN +9.98%	exchange rate CZK/PLN -9.98%	exchange rate USD/PLN +13.8%	exchange rate USD/PLN -13.8%	exchange rate GBP/PLN +11.55%	exchange rate GBP/PLN -11.55%
			Profit or loss / other comprehensive income		*Profit or loss / other comprehensive income*		*Profit or loss / other comprehensive income*		*Profit or loss / other comprehensive income*	
Receivables from buyers	1 894 065	11 124	323	(323)	697	(697)	–	–	–	–
Other financial receivables	52 379	4 888	118	(118)	337	(337)	–	–	–	–
Cash and cash equivalents	384 881	52 450	2 573	(2 573)	1 559	(1 559)	177	(177)	296	(296)
Derivatives (assets)	56 417	19 776	6 624	(6 624)	–	–	57	(57)	–	–
Overdrafts	15 156	15 131	(1 046)	1 046	–	–	(237)	237	–	–
Bonds issued	7 681 128	1 580 020	(123 242)	123 242	–	–	–	–	–	–
Liabilities to suppliers	829 729	9 835	(635)	635	(165)	165	–	–	–	–
Other financial liabilities	158 383	13 502	(1 022)	1 022	–	–	(2)	2	(1)	1
Derivatives (liabilities)	560	560	(42)	42	–	–	(3)	3	–	–
Total			**(116 349)**	**116 349**	**2 428**	**(2 428)**	**(8)**	**8**	**295**	**(295)**

The exposure to risk as at 31 December 2016 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date, except for a transaction made at the end of 2016. It concerned a class of the Company's hybrid bonds issued in December 2016 with the euro as the issue and repayment currency.

45.3.3. Raw material and commodity price risk related to commodity derivative instruments held

As at 31 December 2017, open positions included mainly forwards and futures for emission allowances. As at 31 December 2017, the total carrying amount of all derivative contracts for emission allowances was PLN 453 thousand (the asset item of PLN 4 877 thousand and the liability item of PLN 4 424 thousand). As at 31 December 2016, open positions included mainly forwards and futures for emission allowances as well as a futures contract for gas. The total carrying amount of all derivative contracts for emission allowances was PLN 15 012 thousand (the asset item of PLN 15 550 thousand and the liability item of PLN 538 thousand) and PLN 593 thousand (asset) in the case of the gas derivative transaction.

Sensitivity analysis

The analysis of sensitivity to changes in emissions risk factors is conducted by the Group by means of a scenario analysis. The scenarios reflect the Group's assessment of individual risk factors in the future and are aimed to analyse the effect of changes in risks on the Group's financial performance.

(in PLN '000)

For the year ended 31 December 2017

	Carrying amount as at 31 December 2017			Increase		Decrease	
	price (EUR)	Assets	Liabilities	price (EUR)	Impact on gross profit	price (EUR)	Impact on gross profit
Derivative instruments – commodity (emission allowances)							
EUA Dec18	8.18	4 877	4 424	10.81	(22)	7.14	9
EUA inventory – measurement to fair value	8.14	8	–	10.75	22	7.11	(9)
Total		**4 885**	**4 424**		**–**		**–**

For the year ended 31 December 2016

	Carrying amount as at 31 December 2016			Increase		Decrease	
	price (EUR)	Assets	Liabilities	price (EUR)	Impact on gross profit	price (EUR)	Impact on gross profit
Derivative instruments – commodity (emission allowances)							
EUA Dec17	6.57–6.58	5 410	319	10.18	(10 381)	4.14	6 988
EUA Jan17	6.54	10 140	–	10.14	(21 421)	4.12	14 400
EUA Apr17	6.55	–	219	10.15	(780)	4.13	524
EUA inventory – measurement to fair value	6.54	13 226	–	10.14	32 553	4.12	(21 883)
Total		**28 776**	**538**		**(29)**		**29**

45.3.4. Unit price risk

Units in investment funds which are measured at fair value as at the end of the reporting period are exposed to price risk. As at 31 December 2017 and 31 December 2016 the carrying amount of the said units measured at fair value was PLN 101 358 thousand and PLN 25 316 thousand, respectively.

Sensitivity analysis

For purposes of the analysis of sensitivity to changes in the quoted prices of the units in investment funds held by the Group, the Group relies on a scenario analysis. The potential changes in the quoted prices are determined within a horizon until the date of the next financial statements and calculated by reference to the funds' monthly quoted prices within one year preceding the end of the reporting period.

For the year ended 31 December 2017

Investment fund units	31 December 2017		Sensitivity analysis for price risk as at 31 December 2017			
			Price change		Price change	
	Carrying amount	Value at risk	+1.3%	-1.3%	+0.8%	-0.8%
			Impact on gross profit			
Units in fund investing in money market instruments	5 084	5 084	66	(66)		
Units in fund investing in money market instruments and other debt securities	96 274	96 274			770	(770)
Total	**101 358**	**101 358**	**66**	**(66)**	**770**	**(770)**

For the year ended 31 December 2016

Investment fund units	31 December 2016		Sensitivity analysis for price risk as at 31 December 2016			
			Price change		Price change	
	Carrying amount	Value at risk	+1.0%	-1.0%	+0.7%	-0.7%
			Impact on gross profit			
Units in fund investing in money market instruments	2 519	2 519	25	(25)		
Units in fund investing in money market instruments and other debt securities	22 797	22 797			160	(160)
Total	**25 316**	**25 316**	**25**	**(25)**	**160**	**(160)**

46. Operational Risk

Commercial operational risk is managed at the level of the TAURON Group, which has been discussed in more detail in Section 3.4.4 of the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the 2017 financial year. The Group manages its commercial risk following the Commercial risk management policy developed and adopted in the TAURON Group, which has introduced an early warning system in addition to a system of limiting the exposure to risk in various commercial areas.

(in PLN '000)

The companies in the TAURON Polska Energia S.A. Capital Group are exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in commodity prices. The Group's exposure to commodity price risk is reflected by the volume of the key raw materials and commodities purchased, including coal, gas and energy. The volume and cost of the key raw materials purchased from third-party suppliers have been presented in the table below.

Fuel type	Unit	2017		2016	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	3 234 079	577 465	3 522 216	608 619
Gas	MWh	2 481 078	195 393	2 928 639	241 432
Electricity	MWh	28 645 129	4 672 603	33 138 013	5 602 272
Heat energy	GJ	6 091 071	230 276	6 095 393	232 603
Total			**5 675 737**		**6 684 926**

(in PLN '000)

OTHER INFORMATION

47. Contingent Liabilities

Item	Description
Claims related to termination of long-term contracts	**Claims relating to termination of long-term contracts against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.** On 18 March 2015 the subsidiary in liquidation terminated long-term contracts concluded in the years 2009–2010 to purchase electricity and property rights from wind farms owned by the companies in the in.ventus group, Polenergia and Wind Invest. The reason for the termination of the contracts by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was that the counterparties had breached the contractual provisions by refusing to negotiate in good faith the terms and conditions of the contracts. A case was brought against the Company for the statements made in the notice of termination be declared void. In the case brought by Dobiesław Wind Invest Sp. z o.o. in 2016 the Regional Court in Warsaw dismissed the claim for declaring the termination of the contracts void. The claimant appealed against the ruling. In 2016 the claims against the Company were changed to include claims for compensation for termination of the contracts totalling approx. PLN 40 000 thousand. In October 2017 Dobiesław Wind Invest Sp. z o.o. filed a new lawsuit against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. for payment of PLN 42 095 thousand of compensation and liquidated damages. After the balance sheet date, in January 2018 the claims brought by Amon Sp. z o.o., Talia Sp. z o.o. and Mogilno III-VI have been amended by extending them with further claims for liquidated damages related to the termination of contracts in the total amount of approximately PLN 69 472 thousand. In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation does not exceed 50%. Therefore, no provision for the related costs has been recognized. **Claim relating to termination of long-term contracts against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A.** In November 2014 an action was brought against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A. by Dobiesław Wind Invest Sp. z o.o. to prevent an imminent danger of loss. It was claimed that the Company should revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. A subsidiary claim was that TAURON Polska Energia S.A. should be obliged to provide security in the amount of PLN 183 391 thousand as a court deposit. On 8 March 2017, pursuant to a decision of the Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. the liquidation of the company was revoked. Therefore, in accordance with the order of the Regional Court in Krakow issued on 15 March 2017, the parties to the dispute exchanged pleadings to respond to the change in the company in which the claimant upheld their demands. On 2 August 2017 the Company's representative in the case received pleadings from Dobiesław Wind Invest Sp. z o.o. which changed the claims. The claimant withdrew the initial claim against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and changed the claim against the Company from a claim for prevention of an imminent danger of loss to a claim for compensation. Dobiesław Wind Invest Sp. z o.o. demands payment of approx. PLN 34 700 thousand with statutory interest as of the date of the claim to the date of payment. Moreover, the claimant seeks a ruling that the Company is liable for future damages of Dobiesław Wind Invest Sp. z o.o., which the latter estimates at approx. PLN 254 000 thousand, (resulting from the Company's alleged torts) and a security of approx. PLN 254 000 thousand in case the court does not establish the Company's liability for future losses. The factual basis of the claim, in accordance with the claimant, is the termination of the long-term contracts to sell electricity and property rights by subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. An analysis of the justification of the statements of the claim shows that they are wholly groundless. At a hearing on 4 October 2017, upon request of TAURON Polska Energia S.A., the Court decided that the new statement of claim against TAURON Polska Energia S.A. would be examined separately. As far as the initial claims against TAURON Polska Energia S.A. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (demand that the liquidation be revoked), the Court referred the case to be examined at a closed-door hearing and dismissed. As the court will have to examine extensive evidence and conduct an analysis of a legal issue which has not been resolved before, it is too early to anticipate the outcome of the proceedings but it is very likely that the decision of the court will be favourable for the defendants.

(in PLN '000)

Item	Description
Claims relating to termination of long-term contracts – continued	**Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.** On 20 July 2017 the Company was served with a summons dated 29 June 2017 of Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 39 700 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at approx. PLN 465 900 thousand. The case will be heard by a Regional Court in Katowice. On 18 September 2017, the Company responded to the summons, in which it filed, inter alia, to dismiss the action in its entirety as wholly groundless. On 1 December 2017, Gorzyca Wind Invest Sp. z o.o. submitted a reply to the reply to the claim, in which upheld the position contained in the summons and denied the position and argumentation of the Company presented in response to the statement of claim. By the decision of the District Court in Katowice of 8 February 2018, the proceedings brought by Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia SA, is entirely carried out in camera, the announcement of the decision ending the proceedings will take place publicly. Another summons, dated 29 June 2017, of Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 28 500 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 201 600 thousand was delivered on 21 August 2017. On 5 October 2017, the Company filed a reply to the claim in which it filed, inter alia, to dismiss the action in its entirety as wholly grounless. On 1 December 2017, Pękanino Wind Invest Sp. z o.o. filed a reply to the reply to the claim in which claimant upheld the position contained in the summons and denied the position and argumentation of the Company presented in response to the summons. Until the date of approval of these financial statements for publication, the date of the hearing was not set. On 16 October 2017 the Company was served a summons dated 29 June 2017 of Nowy Jarosław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 27 000 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 197 800 thousand. On 28 December 2017 the Company filed a reply to the claim in which it filed, inter alia, to dismiss the action in its entirety as wholly groundless. Until the date of approval of these financial statements for publication, the date of the hearing was not set. The factual basis of all the claims, in accordance with the claimants, is the termination of the long-term contracts to purchase electricity and property rights resulting from energy certificates by subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and the total amount of the future loss incurred by all members of the Wind Invest group estimated by the claimant will be PLN 1 212 900 thousand. As at the date of approval of these financial statements for publication the probability of obtaining a positive settlement in disputes can be assessed positively, i.e. the chances are 70%. **Termination of long-term contracts to purchase property rights by TAURON Sprzedaż Sp. z o.o.** On 28 February 2017, TAURON Sprzedaż Sp. zo.o., a subsidiary, submitted termination notices regarding long-term contracts for the purchase of property rights under green certificates by the subsidiary. The party to the contracts in 2008 are companies from the in.ventus group. The contracts were terminated after the parties were unable to reach an agreement in renegotiation of the contracts in line with the terms and conditions provided for therein. Total net contractual liabilities of TAURON Sprzedaż Sp. z o.o. under the terminated contracts for the years 2017–2023, as at the date of the termination would be approx. net PLN 417 000 thousand. There are no pending court disputes in connection with the termination of the contracts by TAURON Sprzedaż Sp. z o.o. Based on an analysis of the legal circumstances, supported by an analysis performed by independent legal firms, the Group does not see any reason to recognize provisions in connection with the termination of the contracts by TAURON Sprzedaż Sp. z o.o.
Use of real estate without contract	Companies in the Group do not hold legal titles to all land crossed by distribution networks or the land on which heat installations and related devices are sited. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential, not submitted claims of owners of land with unregulated legal status, since there are no detailed records of such land. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.
Amount	As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 92 030 thousand (Note 36).
Claims filed by Huta Łaziska S.A.	Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of the Energy Regulatory Office. At present, the case is pending at the Regional Court in Warsaw. Based on a decision of 12 October 2001, the President of the Energy Regulatory Office ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had not paid its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the decision of the Court of Appeals in Warsaw, which was dismissed by the judgment of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the issue of the above decision by the President of the Energy Regulatory Office on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages. Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office (jointly and severally) Huta claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001. In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the decision of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. The case has been heard by the first-instance court since 27 November 2012. Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.
Amount	Claim regarding payment of damages of PLN 182 060 thousand.

(in PLN '000)

Item	Description
Claim filed by ENEA S.A.	The claim filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A. in a case heard by the Regional Court in Katowice since 2016 regards the payment of PLN 17 086 thousand with statutory interest calculated from 31 March 2015 to the payment date. ENEA's claim is based on charges relating to unjust enrichment of the Company associated with possible errors in determination of aggregate measurement and settlement data by ENEA Operator Sp. z o.o. (as the Distribution System Operator), used as the basis for settlements between ENEA and the Company and Polskie Sieci Elektroenergetyczne S.A. arising from non-balancing volumes on the Balancing Market between January and December 2012. In the course of the proceedings, at the request of ENEA, the court decided to extend the suit against seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The sellers included two subsidiaries of TAURON Polska Energia S.A., i.e.: TAURON Sprzedaż Sp. z o.o. (from which ENEA S.A. demanded PLN 4 934 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment) and TAURON Sprzedaż GZE Sp. z o.o. (from which ENEA S.A. demanded PLN 3 480 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment). The demand for payment of the above amounts as well as the amounts claimed from the other five sellers was submitted by the petitioner in case the claim against TAURON Polska Energia S.A. is dismissed. The case is pending. By the date of approval of these consolidated financial statements for publication, the hearing had been adjourned ex officio. The Company did not recognize any provision as, in its opinion, the risk of losing the case is below 50%. Provisions were recognized by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 5 237 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 3 726 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest reviewed as at 31 December 2017 and the cost of the proceedings.
Amount	As at 31 December 2017, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator sp. z o.o. in the course of the proceedings, the values of the claims against the Company and/or the Group companies may be expected to change.
Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)	In a notice of 5 April 2016, the President of the Energy Regulatory Office informed TAURON Dystrybucja S.A. of the instigation of administrative proceedings to impose a fine for a failure to maintain facilities, installations and equipment in a proper technical condition and for non-compliance with the terms of the electricity distribution licence. In a notice of 30 March 2017, the President of the Energy Regulatory Office informed the Company that the matter would be looked into on 30 April 2017. In subsequent notices of 8 May and 1 June 2017 the President of the Energy Regulatory Office extended the proceedings until 31 May and 30 June 2017, respectively. On 10 July 2017 the Company received a decision of the President of the Energy Regulatory Office to impose an administrative fine totalling PLN 350 thousand. In July 2017 the Company recognized a provision of PLN 351 thousand and on 24 July it filed an appeal with the Court of Competition and Consumer Protection through the President of the Energy Regulatory Office. On 30 January 2018, the Company received the response of the President of the Energy Regulatory Office to the Court of Competition and Consumer Protection to the appeal. At present, the Company is waiting for the next hearing to be scheduled by the Court of Competition and Consumer Protection. On 12 December 2017, the President of the URE initiated administrative proceedings against a company from the Generation segment regarding the imposition of a fine due to the suspicion of producing electricity at Dąbie Hydroelectricity [pl. Elektrownia Wodna Dąbie] and Przewóz Hydroelectricity [pl. Elektrownia Wodna Przewóz] without the permits for special use of Vistula waters for energy purposes required by the provisions of the Act of 20 July 2017 Water law of water. On 12 January 2018, the company sent appropriate explanations about the ongoing proceedings regarding the issue of the water-legal permits in question. The company is of the opinion that the facts that are the basis for the initiation of the proceedings can not constitute a basis for imposing a fine, and therefore the company can not make a reliable valuation of the fine and the company has not created a provision for this. The companies in the Sales segment have been subject to the following proceedings: – proceedings instigated on 31 March 2017 regarding the breach of the obligation to secure energy performance certificates and present them for cancellation to the President of the Energy Regulatory Office in 2013 year. In a notice dated 14 April 2017, the company provided information requested by the President of the Energy Regulatory Office. – proceedings instigated on 30 May 2017, 28 June 2017 and 20 September 2017 regarding a fine for unjustified suspension of energy deliveries to the end users. By decisions dated 6 November and 29 December 2017, the President of the Energy Regulatory Office imposed on the companies from the Sales segment penalties in the total amount of PLN 19 thousand. – proceedings instigated on 26 September 2017 regarding unjustified suspension of energy deliveries by TAURON Sprzedaż Sp. z o.o. with the participation of TAURON Dystrybucja S.A. to the end users. The Companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Board the risk of adverse rulings and fines is low.

(in PLN '000)

Item	Description
Administrative and Explanatory proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	The President of UOKiK instigated the following procedures against a Sales segment company: – Proceedings instigated on 17 September 2013 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 and therefore constitutes a breach of the Act on competition and consumer protection of 16 February 2007 (Journal of Laws of 2007 No. 50, item 331 as amended; "Act on competition and consumer protection"). The company undertook to discontinue practices that violate the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. On 22 December 2014 the company received a decision of UOKiK closing the evidentiary proceedings. On 14 December 2015 the President of UOKiK demanded that the Company answer whether the practices had been discontinued. The Company responded in February 2016 informing that the practices had been discontinued and requested that the fine be waived. By decision of 22 February 2018, the President of UOKiK stated that the company applied the practice violating collective consumers' interests and its discontinuation as of 1 February 2016. The President of UOKiK did not impose a financial penalty on the company, and the company was obliged to publish a statement with the content specified in the decision. The Company may appeal against the decision to SOKiK [Court of Competition and Customer Protection]. – On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydroelectric power stations constitute a breach of the Act on competition and consumer protection. The actions in question include enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement. With a decision of 15 October 2015 the President of UOKiK instigated anti-trust proceedings. On 1 February 2016 UOKiK accepted the company's statement regarding presentation of a specific commitment. On 24 August 2016 the President of UOKiK issued a decision obliging the company to take appropriate measures aimed at preventing the alleged breaches within two months of the date on which the decision of the President of UOKiK becomes final. On 29 September 2016 the Company appealed against the decision to the Court of Competition and Consumer Protection. On 2 December 2016 the President of the Office for Competition and Consumer Protection issued a decision whereby it changed the rationale of the previous decisions. The decision became final on 2 February 2017. A report on its implementation was prepared and sent to UOKiK on 31 March 2017. – On 11 May 2017 explanatory proceedings were instigated against TAURON Sprzedaż Sp. z o.o. to examine the scheme whereby the billing period for the sales of electricity is automatically extended (as set out in the Price List) if the consumer fails to take any action after being presented with a new (renewal) offering. The President of UOKiK requested that the Company presents appropriate explanations. The latest explanations were given on 16 October 2017. – On 21 July 2017 explanatory proceedings were instigated against TAURON Sprzedaż GZE Sp. z o.o. to examine the breach of Article 6b.3 of the Energy Law regarding extra time given in the demands for payment to settle past-due liabilities. The Company intends to take corrective measures and change the wording of the notice sent to the consumers. The final response is being prepared. – On 13 October and 8 November 2017 proceedings were instigated to examine the suspicion that the practices of the companies in the Sales segment violate the collective interests of consumers by making the switching of the electricity supplier more difficult. Under Article 49a of the Act on competition and consumer protection the Companies were requested to respond to the accusation by the President of UOKiK that they made the switching of the supplier more difficult and misled consumers by letting them believe that they may terminate their contract with a different supplier free of charge. The Companies submitted their latest responses on 3 November and 29 December 2017. The companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Board the risk of adverse rulings and fines is low. In relation to the companies from the Sales segment, there are also explanatory proceedings conducted by UOKiK regarding the preliminary determination whether the activities of the companies did not constitute a violation of the provisions of the Act on competition and consumer protection. The companies submit explanations, submit the requested documents and respond to the statements contained in the UOKIK's letters. The management boards of the companies assess, having in mind that the proceedings initiated are of the nature of explanatory proceedings that the probability of unfavorable settlement of cases is low and therefore the Group does not create provisions for these events.
Claim for reimbursement of the expenses incurred to protect a facility against the effects of mining activities	In December 2017 subsidiary TAURON Wydobycie S.A. was served with a claim for the payment of PLN 22 785 thousand, made by Galeria Galena Sp. z o.o. with its registered office in Gliwice, as reimbursement of the expenditures incurred to protect a facility located in Jaworzno against the effects of mining activities. After the balance sheet date, on 7 March 2018, the company submitted a response to the statement of claim to the District Court in Katowice. The company has not recognized any related provision as it believes that at this stage such a provision would be premature, considering legal and practical doubts, which prevent a straightforward prediction of the ruling of the Regional Court in Katowice and the amount of compensation, if any.
Real estate tax	There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities and underground excavation equipment Since the tax is imposed by local authorities, there is no unified approach of taxation authorities and in several cases the method of calculation of the tax basis has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation facilities and excavations may change in future. Following the changes introduced in 2017 to the definition of construction facilities in the Investment Act in the scope of wind farms, there is no consistent approach to defining structures at present. This entails the risk of potential disputes with local authorities (municipalities) over the determination of the tax base for real estate tax on wind farms.
Amount	The potential disputed tax on wind farms is approx. PLN 16 000 thousand. In respect of real estate tax and economic risk related disputes, as at 31 December 2017, provisions in the total amount of PLN 42 802 thousand and accruals in the amount of PLN 16 417 thousand relating to tax related to wind farms have been recognised.

(in PLN '000)

48. Security for Liabilities

The Group uses various forms of collateral against its liabilities. Those most frequently used include mortgages, registered pledges, liens on real property and other items of property, plant and equipment and frozen cash in bank accounts.

Carrying amounts of assets pledged as collateral against liabilities of the Group

	As at 31 December 2017	As at 31 December 2016
Real estate	68 251	81 363
Plant and machinery	–	14 059
Other financial receivables	11 139	–
Cash	9	13 740
Total	**79 399**	**109 162**

Other forms of collateral

The Group also uses other forms of collateral to secure payment of liabilities than those listed above, of which the most significant ones as at 31 December 2017 regard the following contracts concluded by the Parent:

Agreement	Collateral form	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Hybrid financing contract governing the issue of subordinated bonds dated 6 September 2017	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 30 June 2034
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 17 December 2021
	declaration of submission to enforcement	up to PLN 360 000 thousand, valid until 29 December 2021
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 187 690 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 100 102 thousand (EUR 24 000 thousand) valid until 31 December 2019
	declaration of submission to enforcement	up to PLN 208 545 thousand (EUR 50 000 thousand) valid until 31 December 2020
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 10 444 thousand (USD 3 000 thousand) valid until 31 March 2019

(in PLN '000)

Other forms of collateral against liabilities of the Group

As at 31 December 2017, other material forms of collateral regarding liabilities of TAURON Capital Group included:

- Registered pledges and financial pledge on the shares in TAMEH HOLDING Sp. z o.o.

On 15 May 2015 the Parent 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, accounting for approx. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG.

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 up. Moreover, the Company assigned the rights to dividend and other payments.

The agreement to establish registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as original borrowers, TAMEH HOLDING Sp. z o.o. as the parent and the guarantor, and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. The registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.

On 15 September 2016, Annex 1 was executed to the aforementioned agreement, whereby the maximum collateral amount was changed to PLN 1 370 000 thousand.

As at 31 December 2017, the carrying amount of the investment in a joint venture measured using the equity method in the TAMEH HOLDING Sp. z o.o. Capital Group was PLN 499 204 thousand.

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Capital Group company that has issued a blank promissory note	As at 31 December 2017
Agreements concerning loans granted to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000
Performance bonds to include co-funding of engagements carried out.	TAURON Dystrybucja S.A.	242 090
Performance bonds under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management and reimbursement and performance bond under the co-funding agreements concluded with the Regional Fund for Environmental Protection and Water Management.	TAURON Ciepło Sp. z o.o.	228 605
Agreements to connect to a transmission grid, to provide electricity supply services, an agreement with the National Fund for Environmental Protection and Water Management concerning partial cancellation of a loan and an agreement with the National Centre for Research and Development for the funding of a project.	TAURON Wytwarzanie S.A.	76 214

- Collateral under finance lease agreements

Finance lease agreement	Lessee	Carrying amount of the leased asset as at 31 December 2017	Collateral
Real estate in Katowice	TAURON Polska Energia S.A.	21 702	The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

- The Company issued a corporate guarantee to secure the bonds issued by TAURON Sweden Energy AB (publ). The guarantee remains valid until 3 December 2029, i.e. until the date of redemption of bonds, and amounts to EUR 168 000 thousand. The beneficiaries of the guarantee are the bondholders.
- Under the bank guarantee agreement made with Bank Zachodni WBK S.A., the bank issued guarantees to secure stock exchange transactions resulting from the membership in Izba Rozliczeniowa Giełd Towarowych S.A. As at 31 December 2017, the guarantees issued by the bank totalled PLN 50 000 thousand and were valid until 31 March 2018.

(in PLN '000)

- Under the bank guarantee agreement made with CaixaBank S.A. (Joint Stock Company) Branch in Poland, at the request of the Company the bank issued bank guarantees to secure liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. totalling PLN 13 834 thousand and to secure the transactions performed by the Company:
  - for Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. – up to PLN 2 661 thousand, valid until 30 November 2018;
  - for Polskie Sieci Elektroenergetyczne S.A. – up to PLN 4 041 thousand, valid until 11 February 2018.

Mining companies from the Capital Group have established a Mine Decommissioning Fund to ensure funds for covering future decommissioning costs.

49. Related-Party Disclosures

49.1. Transactions with joint ventures

The Group has interest in the following joint ventures: Elektrociepłownia Stalowa Wola S.A. and the TAMEH HOLDING Sp. z o.o. Capital Group, which has been discussed in more detail in Note 22 to these consolidated financial statements.

The total amount of transactions with jointly-controlled entities has been presented in the following table.

	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	52 306	111 268
Costs	(36 655)	(46 321)

The key revenue item arises from transactions with the TAMEH HOLDING Sp. z o.o. Capital Group. In the years ended 31 December 2017 and 31 December 2016, transactions with the joint venture amounted to PLN 30 214 thousand and PLN 100 520 thousand, respectively. In the year ended 31 December 2017, revenue was mainly derived from sales of emission allowances of PLN 19 994 thousand. In the year ended 31 December 2016, sales of emission allowances totalling PLN 32 384 thousand and of coal totalling PLN 47 041 thousand were the key revenue items.

The key item of receivables from and liabilities to jointly-controlled entities is a loan granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 23 to these consolidated financial statements.

The Company has also pledged collateral for the benefit of joint ventures, in the form of a pledge on the shares in TAMEH HOLDING Sp. z o.o., which has been discussed in more detail in Note 48 to these consolidated financial statements.

In relation to agreements entered into with the joint venture Elektrociepłownia Stalowa Wola S.A., the Company recognized provisions for onerous contracts and for costs. In the year ended 31 December 2017 the Company reversed all these provisions, which has been discussed in more detail in Note 34.3 to these consolidated financial statements.

49.2. Transactions with State Treasury companies

As the State Treasury of the Republic of Poland is the Company's major shareholder, State Treasury companies are treated as related parties.

The total value of transactions with State Treasury companies has been presented in the table below.

Revenue and expense

	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	1 803 577	2 293 142
Costs	(3 007 059)	(2 527 466)

(in PLN '000)

Receivables and liabilities

	As at 31 December 2017	As at 31 December 2016
Receivables	253 834	356 595
Payables	322 002	298 786

As at 31 December 2017, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 9 757 thousand. As at 31 December 2016, receivables presented in the table above comprised advance payments of PLN 109 364 thousand, including advance payments for deliveries of coal of PLN 99 607 thousand and advance payments for purchases of fixed assets of PLN 9 757 thousand.

In the year ended 31 December 2017, KGHM Polska Miedź S.A., PSE S.A., Polska Grupa Górnicza Sp. z o.o. and Jastrzębska Spółka Węglowa S.A. were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. The total sales to these contracting parties accounted for 85% of revenue generated on transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Polska Grupa Górnicza Sp. z o.o. Purchases from these contracting parties accounted for 89% of the value of purchases from State Treasury companies during the year ended 31 December 2017.

In the year ended 31 December 2016, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. incorporated on 1 May 2016 were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. Total sales to these contracting parties accounted for 83% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. Purchases from these contracting parties accounted for 87% of the value of purchases from State Treasury companies during the year ended 31 December 2016.

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

Transactions with State Treasury companies are mainly related to the operating activities of the Group and they are concluded on arm's length terms.

49.3. Executive compensation

The amount of compensation and other benefits paid and/or due to the Management Board, Supervisory Boards and other key executives of the Parent and the subsidiaries in the year ended 31 December 2017 and in the comparative period has been presented in the table below.

	Year ended 31 December 2017		Year ended 31 December 2016	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	**6 957**	**20 556**	**12 858**	**24 604**
Short-term benefits (with surcharges)	4 545	16 822	6 367	19 051
Employment termination benefits	2 104	3 082	5 806	4 990
Other	308	652	685	563
Supervisory Board	**739**	**684**	**1 159**	**641**
Short-term employee benefits (salaries and surcharges)	739	672	1 159	612
Other	–	12	–	29
Other key management personnel	**13 832**	**41 144**	**13 284**	**39 375**
Short-term employee benefits (salaries and surcharges)	12 151	39 267	10 554	38 242
Jubilee bonuses	–	1 214	–	391
Post-employment benefits	–	–	–	16
Employment termination benefits	776	340	1 911	511
Other	905	323	819	215
Total	**21 528**	**62 384**	**27 301**	**64 620**

In accordance with the adopted accounting policy, the Group recognizes provisions for termination benefits for members of the Management Board and other key executives, which may be paid or due in future reporting periods. The above table presents amounts paid and/or due until 31 December 2017.

50. Operating Leases

Under lease agreements, the Parent uses a real property located in Katowice at ul. ks. Piotra Ściegiennego 3, where its registered office is located. The usable area is 9 931.39 square meters and in 2017, the average monthly rental fee with the service charges was PLN 818 thousand.

Moreover, TAURON Wydobycie S.A. uses mining machines and equipment based on lease agreements. The annual cost of lease in the years 2017 and 2016 reached PLN 24 626 thousand and PLN 34 027 thousand, respectively.

51. Finance and Capital Management

The key tools enabling effective management of financial resources include the central financing model and the TAURON Group's liquidity management policy along with a cash pooling arrangement made by the Group. Additionally, the finance management system is supported by the Group's central financial risk management policy and central insurance policy with the Company acting as a manager directing activities, thus allowing relevant risk exposure limits to be established.

Detailed information regarding finance management has been provided in Section 4.10 of the Management Board's report on the activities of the TAURON Polska Energia S.A Capital Group.

In 2017, the TAURON Group was fully able to pay its liabilities at maturity.

The key objective of the capital management policy developed by the Group is maintaining a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value. The Group manages its capital structure and modifies it in accordance with changes in economic conditions. In order to maintain or adjust the capital structure, the Group may establish a dividend policy for its shareholders, return equity to them, issue new shares or influence external debt level accordingly.

The Group focuses primarily on monitoring the debt ratio, which is defined as net financial debt relative to EBITDA.

Net financial debt is the financial debt of the TAURON Group arising from loans, borrowings and debt securities as well as finance leases, except the liability arising from the issue of subordinated bonds in December 2016 with the par value of EUR 190 000 thousand, less cash and short-term investments maturing within one year. EBITDA is the operating profit or loss of the TAURON Group increased by amortization/depreciation and impairment of non-financial assets. Financial debt means the obligation to pay or refund money (both principal and interest). The value of the ratio is also monitored by the institutions providing financing to the Group and rating agencies and has a measurable impact on the Company's ability to obtain funding and its cost, as well as on evaluation of its credit standing.

As at the end of the reporting period, the debt ratio was 2.3, which is regarded as safe according to the market standards and enables the entity to take on further financial liabilities.

(in PLN '000)

	Year ended 31 December 2017	Year ended 31 December 2016
Loans and borrowings	901 734	1 070 162
Bonds*	7 808 300	6 826 751
Finance lease	25	23 546
Non-current debt liabilities	**8 710 059**	**7 920 459**
Loans and borrowings	289 654	193 391
Bonds*	36 183	13 354
Finance lease	23 948	11 302
Short-term debt liabilities	**349 785**	**218 047**
Total debt	**9 059 844**	**8 138 506**
Cash and cash equivalents	909 249	384 881
Short-term investments maturing within one year	108 370	50 023
Net debt	**8 042 225**	**7 703 602**
EBITDA	**3 544 591**	**3 336 814**
Operating profit (loss)	1 806 271	801 522
Depreciation/amortization	(1 693 468)	(1 668 726)
Impairment	(44 852)	(866 566)
Net debt / EBITDA	**2.3**	**2.3**

* *Debt does not include liabilities arising from subordinated bonds.*

Changes in the balance of debt have been presented below.

	Debt liabilities
As at 1 January 2016	**8 138 647**
Proceeds arising from debt taken out	**4 274 293**
financing received	4 285 521
transaction costs	(11 228)
Interest accrued	**350 399**
charged to profit or loss	254 428
capitalized to property, plant and equipment and intangible assets	95 971
Debt related payments	**(3 806 689)**
principal repaid	(3 455 602)
interest paid	(255 116)
interest paid, capitalized to investment projects	(95 971)
Change in the balance of overdraft facility and cash pooling	**(8 332)**
Change in debt measurement	**27 772**
Other non-monetary changes	**3 439**
As at 31 December 2016	**8 979 529**
subordinated bonds	(841 023)
As at 31 December 2016 – debt in the calculation of debt ratio	**8 138 506**
Proceeds arising from debt taken out	**2 703 643**
financing received	2 707 462
transaction costs	(3 819)
Interest accrued	**313 382**
charged to profit or loss	207 434
capitalized to property, plant and equipment and intangible assets	105 948
Debt related payments	**(2 106 885)**
principal repaid	(1 816 388)
interest paid	(184 549)
interest paid, capitalized to investment projects	(105 948)
Change in the balance of overdraft facility and cash pooling	**83 471**
Change in debt measurement	**(119 858)**
Other non-monetary changes	**(486)**
As at 31 December 2017	**9 852 796**
subordinated bonds	(792 952)
As at 31 December 2017 – debt in the calculation of debt ratio	**9 059 844**

52. Fee of the Certified Auditor or the Entity Authorized to Audit Financial Statements

Information concerning the fee of the certified auditor has been presented in the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the 2017 financial year (Section 4.12).

53. Events After the End of the Reporting Period

Loans to a joint venture

On 12 January 2018 and 28 February 2018, the Company entered into a loan agreement with Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 27 000 thousand and an agreement to consolidate the borrower's debt in the amount of PLN 609 951 thousand, respectively, which has been discussed in more detail in Note 23 to these consolidated financial statements.

Financing a joint venture Elektrociepłownia Stalowa Wola S.A.

After the end of the reporting period, on 8 March 2018 year, a joint venture Elektrociepłownia Stalowa Wola S.A. signed a loan agreement with Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., which has been discussed in more detail in Note 23 to these consolidated financial statements.

Signing annexes to agreements concerning the bond issue scheme

After the end of the reporting period, on 9 March 2018 year, a part of the banks extended the availability period of funds under the Bond issue scheme dated 24 November 2015, based on the signed annexes to the agency and custody agreement as well as the underwriting agreement, which has been discussed in more detail in Note 32.2 to these consolidated financial statements.

Management Board of the Company

Katowice, 12 March 2018

Filip Grzegorczyk	– President of the Management Board	....
Jarosław Broda	– Vice-President of the Management Board	....
Kamil Kamiński	– Vice-President of the Management Board	....
Marek Wadowski	– Vice-President of the Management Board	....

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