

TAURON POLSKA ENERGIA S.A.

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

TABLE OF CONTENTS

STATEMENT OF COMPREHENSIVE INCOME	5
STATEMENT OF FINANCIAL POSITION	6
STATEMENT OF FINANCIAL POSITION – CONTINUED	7
STATEMENT OF CHANGES IN EQUITY	8
STATEMENT OF CASH FLOWS	9
INFORMATION ABOUT TAURON POLSKA ENERGIA S.A. AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS	10
1. General information about TAURON Polska Energia S.A.	10
2. Shares in related parties	10
3. Statement of compliance	12
4. Going concern	12
5. Functional and presentation currency	12
6. Material figures based on professional judgement and estimates	12
7. New standards and interpretations which have been published but are not yet effective	13
8. Changes in the accounting policies	19
9. Significant accounting policies	20
9.1. Property, plant and equipment	20
9.2. Investment property	20
9.3. Intangible assets	20
9.4. Shares in subsidiaries	21
9.5. Shares in jointly-controlled entities	21
9.6. Bonds	21
9.7. Loans granted	21
9.8. Impairment of financial assets	21
9.9. Derivative financial instruments	22
9.10. Hedge accounting	22
9.11. Other non-financial assets	22
9.12. Inventories	23
9.13. Receivables from buyers	23
9.14. Other financial assets	23
9.15. Cash and cash equivalents	23
9.16. Issued capital	23
9.17. Debt	24
9.18. Provisions for employee benefits	24
9.19. Other provisions	24
9.20. Liabilities to suppliers and other financial liabilities	24
9.21. Receivables / Liabilities arising from taxes and charges	25
9.22. Current and deferred income tax	25
9.23. Sales revenue	26
9.24. Operating expenses	26
9.25. Finance income and costs	27
9.26. Translation of items denominated in foreign currencies	27
9.27. Business combinations	28
9.28. Statement of cash flows	28
9.29. Earnings (loss) per share	28
OPERATING SEGMENTS	29
10. Information on operating segments	29
10.1. Operating segments	29
10.2. Geographic areas of operations	31
IMPAIRMENT OF FINANCIAL ASSETS	32
11. Impairment of financial assets	32

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME		35
12.	Sales revenue	35
13.	Expenses by type	35
14.	Employee benefits expenses	36
15.	Finance income and costs	36
16.	Income tax	37
16.1.	Tax expense in the statement of comprehensive income	37
16.2.	Reconciliation of the effective tax rate	37
16.3.	Deferred income tax	38
16.4.	Tax Capital Group	38
17.	Earnings (loss) per share	39
EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION		40
18.	Property, plant and equipment	40
19.	Investment property	40
20.	Non-current intangible assets	41
21.	Shares	41
22.	Bonds	43
23.	Derivative instruments	44
24.	Other financial assets	45
25.	Loans granted	45
26.	Inventories	48
27.	Receivables from buyers	48
28.	Receivables arising from taxes and charges	49
29.	Other non-financial assets	49
30.	Cash and cash equivalents	49
31.	Equity	50
31.1.	Issued capital	50
31.2.	Major shareholders	50
31.3.	Reserve capital	50
31.4.	Revaluation reserve from valuation of hedging instruments	50
31.5.	Retained earnings and dividend limitation	51
32.	Dividends paid	51
33.	Debt	52
33.1.	Bonds issued	52
33.2.	Loans from the European Investment Bank	55
33.3.	Loans from a subsidiary	55
33.4.	Cash pool service	55
33.5.	Overdraft facilities	56
33.6.	Finance lease liabilities	56
33.7.	Operating lease liabilities	56
34.	Provisions for employee benefits	57
35.	Other provisions	58
36.	Accruals, deferred income and government grants	60
37.	Liabilities to suppliers	60
38.	Other financial liabilities	60
39.	Liabilities arising from taxes and charges	61
EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS		62
40.	Significant items of the statement of cash flows	62
40.1.	Cash flows from operating activities	62
40.2.	Cash flows from investing activities	62
40.3.	Cash flows from financing activities	63

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT		64
41.	Financial instruments	64
41.1.	Carrying amount and fair value of financial instrument classes and categories	64
41.2.	Revenue, expenses, gain and loss items included in the statement of comprehensive income by category of financial instruments	65
42.	Finance and financial risk management	66
42.1.	Credit risk	67
42.1.1.	Credit risk related to receivables from buyers	67
42.1.2.	Credit risk related to other financial assets	67
42.2.	Liquidity risk	68
42.3.	Market risk	69
42.3.1.	Interest rate risk	69
42.3.2.	Currency risk	70
42.3.3.	Raw material and commodity price risk related to commodity derivative instruments and price risk related to units held by the Company	71
42.3.4.	Market risk – sensitivity analysis	71
43.	Operational risk	75
OTHER INFORMATION		76
44.	Contingent liabilities	76
45.	Security for liabilities	81
46.	Capital commitments	81
47.	Related-party disclosures	82
47.1.	Transactions with related parties and State Treasury companies	82
47.2.	Executive compensation	83
48.	Finance and capital management	83
49.	Employment structure	84
50.	Fee of the certified auditor or the entity authorized to audit financial statements	84
51.	Structure of financial statements broken down by business activity type in line with Article 44 of the Energy Law	84
52.	Events after the end of the reporting period	87

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Sales revenue	12	7 792 025	7 995 328
Cost of sales	13	(7 414 707)	(7 837 567)
Profit on sale		377 318	157 761
Selling and distribution expenses	13	(23 309)	(19 326)
Administrative expenses	13	(88 751)	(81 368)
Other operating income and expenses		(2 470)	(91 670)
Operating profit (loss)		262 788	(34 603)
Dividend income	15	560 832	1 485 152
Interest income on bonds and loans	15	456 426	503 897
Interest expense on debt	15	(334 638)	(356 947)
Revaluation of shares and loans	15	(134 372)	(1 610 396)
Other finance income and costs	15	108 529	(136 237)
Profit (loss) before tax		919 565	(149 134)
Income tax expense	16.1	(65 214)	(17 119)
Net profit (loss)		854 351	(166 253)
Measurement of hedging instruments	31.4	(8 159)	127 252
Income tax expense	16.1	1 550	(24 178)
Other comprehensive income subject to reclassification to profit or loss		(6 609)	103 074
Actuarial gains/(losses)		(128)	1 173
Income tax expense	16.1	24	(223)
Other comprehensive income not subject to reclassification to profit or loss		(104)	950
Other comprehensive income, net of tax		(6 713)	104 024
Total comprehensive income		847 638	(62 229)
Earnings (loss) per share (in PLN):			
– basic and diluted, for net profit	17	0.49	(0.09)

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

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2017	As at 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	18	449	1 276
Investment property	19	21 701	25 318
Intangible assets	20	1 263	2 191
Shares	21	20 912 679	14 874 418
Bonds	22	6 009 920	9 615 917
Loans granted	25	382 989	1 292 800
Derivative instruments	23	26 445	35 814
Other financial assets	24	2 724	1 524
Other non-financial assets	29	13 255	6 071
		27 371 425	25 855 329
Current assets			
Inventories	26	198 428	284 799
Receivables from buyers	27	719 133	840 656
Receivables arising from taxes and charges	28	36 094	120 586
Bonds	22	562 776	242 465
Loans granted	25	520 191	30 966
Derivative instruments	23	6 971	20 603
Other financial assets	24	131 640	55 354
Other non-financial assets	29	4 857	23 528
Cash and cash equivalents	30	721 577	198 090
		2 901 667	1 817 047
TOTAL ASSETS		30 273 092	27 672 376

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

STATEMENT OF FINANCIAL POSITION – CONTINUED

	Note	As at 31 December 2017	As at 31 December 2016
EQUITY AND LIABILITIES			
Equity			
Issued capital	31.1	8 762 747	8 762 747
Reserve capital	31.3	7 657 086	7 823 339
Revaluation reserve from valuation of hedging instruments	31.4	23 051	29 660
Retained earnings / (Accumulated losses)	31.5	935 022	(85 478)
		17 377 906	16 530 268
Non-current liabilities			
Debt	33	9 472 454	8 754 047
Other financial liabilities	38	20 126	27 918
Derivative instruments	23	4 958	–
Deferred income tax liabilities	16.3	29 843	32 364
Provisions for employee benefits	34	3 147	2 534
Other provisions	35	–	152 943
Accruals, deferred income and government grants	36	–	170
		9 530 528	8 969 976
Current liabilities			
Debt	33	2 725 763	1 433 929
Liabilities to suppliers	37	413 265	473 637
Other financial liabilities	38	62 590	111 759
Derivative instruments	23	9 226	560
Liabilities arising from taxes and charges	39	70 119	20 209
Provisions for employee benefits	34	330	299
Other provisions	35	68 771	110 406
Accruals, deferred income and government grants	36	14 594	21 333
		3 364 658	2 172 132
Total liabilities		12 895 186	11 142 108
TOTAL EQUITY AND LIABILITIES		30 273 092	27 672 376

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

STATEMENT OF CHANGES IN EQUITY

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2016		8 762 747	11 277 247	(73 414)	(3 374 083)	16 592 497
Coverage of prior years loss		–	(3 453 908)	–	3 453 908	–
Transactions with shareholders		–	(3 453 908)	–	3 453 908	–
Net profit (loss)		–	–	–	(166 253)	(166 253)
Other comprehensive income		–	–	103 074	950	104 024
Total comprehensive income		–	–	103 074	(165 303)	(62 229)
As at 31 December 2016		8 762 747	7 823 339	29 660	(85 478)	16 530 268
Coverage of prior years loss	31.3	–	(166 253)	–	166 253	–
Transactions with shareholders		–	(166 253)	–	166 253	–
Net profit (loss)		–	–	–	854 351	854 351
Other comprehensive income		–	–	(6 609)	(104)	(6 713)
Total comprehensive income		–	–	(6 609)	854 247	847 638
As at 31 December 2017		8 762 747	7 657 086	23 051	935 022	17 377 906

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

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities			
Profit before taxation (loss)		919 565	(149 134)
Depreciation and amortization		5 532	7 722
Interest and dividends, net		(685 709)	(1 625 894)
Impairment losses on shares and loans		134 372	1 610 396
Foreign exchange difference		(130 351)	23 367
Other adjustments of profit before tax		31 218	61 988
Change in working capital	40.1	(57 218)	(130 749)
Income tax paid		28 618	(30 583)
Net cash from (used in) operating activities		246 027	(232 887)
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(524)	(1 344)
Purchase of bonds	40.2	(350 000)	(2 770 000)
Purchase of shares	40.2	(6 169 590)	(543 603)
Loans granted	40.2	(307 132)	(23 575)
Purchase of investment fund units		(75 000)	(25 000)
Total payments		(6 902 246)	(3 363 522)
Redemption of bonds	40.2	3 547 110	540 000
Repayment of loans granted	40.2	1 000 000	142 024
Dividends received		359 787	1 485 152
Interest received	40.2	642 017	474 126
Other proceeds		44	102 677
Total proceeds		5 548 958	2 743 979
Net cash from (used in) investing activities		(1 353 288)	(619 543)
Cash flows from financing activities			
Payment of finance lease liabilities		(3 442)	(3 208)
Repayment of loans and borrowings	40.3	(175 695)	(132 818)
Redemption of debt securities	40.3	(1 650 000)	(3 300 000)
Interest paid	40.3	(265 223)	(351 147)
Commission paid		(19 632)	(11 411)
Total payments		(2 113 992)	(3 798 584)
Issue of debt securities	40.3	2 707 462	4 284 607
Other proceeds		-	141
Total proceeds		2 707 462	4 284 748
Net cash from financing activities		593 470	486 164
Net increase / (decrease) in cash and cash equivalents		(513 791)	(366 266)
Net foreign exchange difference		2 038	1 179
Cash and cash equivalents at the beginning of the period	30	(1 045 441)	(679 175)
Cash and cash equivalents at the end of the period, of which:	30	(1 559 232)	(1 045 441)
restricted cash	30	49 792	56 787

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

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

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

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

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

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

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

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

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

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

The financial statements prepared by the Company cover the financial year ended 31 December 2017 and include comparative information for the year ended 31 December 2016. These financial statements were approved for publication by the Management Board on 12 March 2018.

The consolidated financial statements for the year ended 31 December 2017 prepared by the Company were approved for publication by the Management Board on 12 March 2018.

Composition of the Management Board

As at 31 December 2017, the composition of the Management Board was as follows:

- Filip Grzegorzczak – 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 in 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. 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.

As at 31 December 2016, the composition of the Management Board was as follows:

- Filip Grzegorzczak – 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. Shares in related parties

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

TAURON Polska Energia S.A.

Financial statements for the year ended 31 December 2017 prepared in accordance with IFRS, as endorsed by the EU
(in PLN '000)

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

¹ On 3 April 2017 TAURON Wytwarzanie S.A. was spun off and an organized part of the enterprise 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	Core business	Share of TAURON Polska Energia S.A. in the entity's capital and governing body
1	Elektrociepłownia Stalowa Wola S.A. ¹	Stalowa Wola	Generation of electricity	50.00%
2	TAMEH HOLDING Sp. z o.o. ²	Dąbrowa Górnicza	Head office and holding operations	50.00%
3	TAMEH POLSKA Sp. z o.o. ²	Dąbrowa Górnicza	Generation, transmission, distribution and sale of electricity and heat	50.00%
4	TAMEH Czech s.r.o. ²	Ostrawa, Czech Republic	Production, trade and services	50.00%

¹ TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. through a subsidiary, TAURON Wytwarzanie S.A.

² 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 capitals and the governing bodies of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

3. Statement of compliance

These 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.

4. Going concern

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

5. Functional and presentation currency

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

6. Material figures based on professional judgement and estimates

When applying the accounting policy to the issues mentioned below, professional judgement of the management, along with accounting estimates, have been of key importance; they have impacted the figures disclosed in these 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 financial statements, there were no significant changes in estimates or estimation methods applied, which would affect the current or future periods, other than those presented below or mentioned further in these financial statements.

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

Item	Significant accounting policies	Note	Estimates and assumptions
Shares	Note 9.4 Note 9.8	Note 21	As at the end of each reporting period, the Company verifies whether there is any objective indication that investment in shares may be impaired. If the objective indication appears, the Company is obliged to perform impairment tests and to recognize the impairment or the reversal of the impairment recognized earlier.
Loan to a subsidiary	Note 9.7 Note 9.8	Note 25	As at the end of each reporting period, the Company verifies whether there is any objective indication that loans granted to subsidiary may be impaired. If the objective indication appears, the Company is obliged to perform impairment tests and to recognize the impairment or the reversal of the impairment recognized earlier. As at the end of each reporting period, the Company classifies the loan granted to subsidiary as non-current or current assets. In the event of planned maintenance of involvement in entity for longer than one year, the Company classifies the loan as non-current assets.
Provisions	Note 9.18 Note 9.19	Note 34 Note 35	The value of provisions is determined based on assumptions made by the Company as well as a methodology and calculation method that is appropriate for a specific provision. To this end, the Company verifies the probability of an outflow of resources embodying economic benefits and estimates reliably the amount necessary to fulfil the obligation. The Company recognized provisions if the probability of an outflow of resources embodying economic benefits is higher than 50%.
Deferred tax assets	Note 9.22	Note 16	As at the end of each reporting period, the Company assesses the realisation of deferred tax assets and verifies deferred tax assets which were not recognized.
Derivative instruments	Note 9.9	Note 23	The Company measured derivative financial instruments at fair value at the end of each reporting period. Derivative instruments acquired and held for internal purposes are not measured at the end of the reporting period.
Intra-group bonds	Note 9.6	Note 22	As at the end of each reporting period, the Company classifies the intra-group bonds as non-current or current assets. In the event of intended rollover, bonds maturing within one year as of the end of reporting period are classified as long-term instruments.

Additionally, the Company's material estimates include contingent liabilities recognized, in particular, in relation to legal proceedings to which it is a party. Contingent liabilities have been discussed in more detail in Note 44 to these financial statements.

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

The Company did not choose an early application of any standards, 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 four classes of financial assets as determined under IAS 39 *Financial Instruments: Measurement and Recognition*, IFRS 9 *Financial Instruments* has introduced three:

- 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).

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

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

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

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

Impact on the financial statements as at 1 January 2018

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
	At amortised/ at historical cost	At fair value	At amortised cost	Fair value through:		
				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	39 244	-	-	39 244	-	-
Long-term shares*	39 244	-	-	39 244	-	-
3 Loans and receivables	8 228 015	-	7 550 923	177 274	-	(499 818)
Receivables from buyers	719 133	-	716 526	-	-	(2 607)
Gross value	720 057	-	720 057	-	-	-
Impairment loss	(924)	-	(3 531)	-	-	(2 607)
Bonds	6 572 696	-	6 176 103	-	-	(396 593)
Gross value	6 572 696	-	6 572 696	-	-	-
Impairment loss	-	-	(396 593)	-	-	(396 593)
Loans granted under cash pool agreement	190 526	-	190 526	-	-	-
Other loans granted	712 654	-	461 077	150 959	-	(100 618)
Gross value	712 654	-	471 887	150 959	-	(89 808)
Impairment loss	-	-	(10 810)	-	-	(10 810)
Other financial receivables	33 006	-	6 691	26 315	-	-
4 Hedging derivative instruments	-	28 482	-	28 482	-	-
5 Cash and cash equivalents	-	721 577	-	721 577	-	-
Total estimated effect of the application of IFRS 9 on financial assets						(499 818)
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 liabilities						33 111
Estimated effect on retained earnings						(466 707)
Deferred tax						88 674
Estimated effect on retained earnings after deferred tax						(378 033)

* 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 Company has developed a method of classification of financial assets which sets the terms of SPPI test (Solely Payments of Principal and Interest) and business model tests. The Company 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. Implementation of IFRS 9 *Financial Instruments* in this scope, would decrease retained earnings on 1 January 2018 in total amount of PLN 89 808 thousand.

As 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, considering that the key factors affecting the value of acquired shares did not change as at the end of the reporting period versus initial recognition, the Company relied on the historical cost as a reasonable approximation of fair value. 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 testing model based on expected credit losses**

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

- receivables from buyers and
- subsidiaries' bonds purchased and loans granted.

As far as receivables from buyers are concerned, the Company has designated a portfolio of strategic counterparties in the case of which it is expected that the historical performance (lack of material delinquencies) does not provide full information on the expected credit losses to which the Company 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 analyses carried out the Company 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 increase compared to the value estimated in line with the earlier principles, which will consequently decrease the retained earnings as at 1 January 2018, by PLN 2 607 thousand.

As far as loans granted and bonds purchased by the Company are concerned, the Company assesses the risk of insolvency on the part of the borrowers and issuers based on the ratings assigned to the counterparties using an internal scoring model, appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, 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 and bonds purchased, measured at amortized cost, will decrease retained earnings of Company as at 1 January 2018 by PLN 407 403 thousand.

- **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 Company 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 Company estimates that the implementation of IFRS 9 *Financial Instruments* in this respect will increase the retained earnings of Company as at 1 January 2018 by PLN 33 111 thousand.

- **Hedge Accounting**

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

An analysis of risks and rewards related to the adoption of the hedge accounting solutions introduced by IFRS 9 *Financial Instruments* in light of the Company's portfolio of financial instruments revealed that the principles defined in IAS 39 *Financial Instruments: Recognition and Measurement* should still be applied. It is not expected that the application of the provisions of IFRS 9 *Financial Instruments* concerning hedge accounting will have a material impact on the Company's financial statements as regards its transactions. The Company has been monitoring 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 Company 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 and requires more detailed 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.

Key principles introduced by IFRS 15 *Revenue from Contracts with Customers* include:

- 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 financial statements as at 1 January 2018

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

In accordance with IFRS 15 *Revenue from Contracts with Customers*, if the consideration specified in the contract includes a variable amount, the entity estimates the amount of the consideration to which it will be entitled in exchange for the transfer of promised goods or services to the customer and includes part or all of the variable consideration only in the transaction price to the extent that there is a high probability that there will be no reversal of a significant portion of the amount of previously recognized cumulative revenues when the uncertainty about the amount of variable consideration is subsequently resolved. On the basis of the analysis, the Company did not identify contracts containing variable amounts of consideration.

Under contracts concluded with customers the Company does not offer any warranties for the products sold.

In accordance with IFRS 15 *Revenue from Contracts with Customers*, the transaction price is allocated to the performance obligations by reference to their relative standalone selling prices. According to the Company, the existing contracts with customers do not meet the requirements to be aggregated and treated as a single contract. Therefore, the implementation of IFRS 15 *Revenue from Contracts with Customers* will not affect the allocation of the transaction price to each performance obligation.

In terms of the services provided, the Company believes that the customer simultaneously receives and consumes the benefits from the service at the same time as the Company performs the service. Consequently, the Company transfers control and thus fulfills the obligation to perform the service over time. Therefore, in accordance with IFRS 15 *Revenue from Contracts with Customers*, the Company will continue to recognize revenues from the sale of services over time.

Pursuant to IFRS 15 *Revenue from Contracts with Customers*, the Company considers whether their contracts include a significant financing arrangement. As a practical expedient, the Company will not adjust the promised amount of consideration for the effects of a significant financing arrangement as it expects, at contract inception, that the interval between the transfer of the promised goods or services and payment by the customer is expected to be less than one year. Therefore, the Company shall not separate a significant financing arrangement for short-term advance payments.

The Company has not identified any contracts with customers for which the interval between the transfer of the promised goods or services and payment exceeds one year and therefore it is believed the contracts do not include a significant financing arrangement.

IFRS 15 *Revenue from Contracts with Customers* introduces new requirements regarding disclosures. According to the Company the effects of these disclosures will be insignificant.

The recognition and measurement requirements under IFRS 15 *Revenue from Contracts with Customers* apply also to the recognition and measurement of gain/loss on sale of non-financial assets (such as property, plant and equipment or intangible assets) if the sale does not take place in the usual course of business activity. Therefore, in the opinion of the Company the impact of implementation IFRS 15 *Revenue from Contracts with Customers* should not be material.

Following an analysis, of the contracts with customers the Company has concluded that implementation of IFRS 15 *Revenue from Contracts with Customers* does not affect the equity 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. The lease liability is initially measured at the present value of the lease payments payable 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 shall use the incremental borrowing rate. Lessors continue to classify leases as operating or finance leases, with the approach to lessor accounting substantially unchanged from IAS 17 *Leases*. A lease is classified by a lessor as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. A lessor recognizes finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Impact on the financial statements

A preliminary analysis of the impact of IFRS 16 *Leases* on the accounting policies has shown a change material for the Company, i.e. the need to recognize lease assets and liabilities for leases currently classified as operating leases in the financial statements. The Company analyses all its lease agreements to identify leases which require recognition of assets and liabilities in the financial statements. As at the date of approval of these financial statements for publication the Company had not carried out any analyses which would enable it to determine the impact of the planned changes on the financial statements. The analysis will be conducted at a later time.

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

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

The accounting principles (policy) adopted for the preparation of these financial statements are consistent with those used for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 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 date in the EU (annual periods beginning on or after the date provided)
Revised IAS 7 <i>Statement of Cash Flows</i>	1 January 2017
Revised IAS 12 <i>Income Taxes</i>	1 January 2017
Annual <i>Improvements to IFRS (cycle 2014–2016)</i> :	
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	1 January 2017

9. Significant accounting policies

9.1. Property, plant and equipment

Note 18

Items of property, plant and equipment are measured at acquisition price or manufacturing cost less depreciation and impairment losses. The initial value of fixed assets includes their cost increased by all expenses directly related to the purchase and bringing the asset to a usable condition. Depreciation is calculated by reference to the cost of the asset less its residual value. The depreciation method applied reflects the manner of the Company's consuming economic benefits generated by the asset.

Average residual useful lives by fixed asset group:

Tangible fixed assets by type	Average remaining depreciation period in years
Plant and machinery	–
Motor vehicles	less than 1 year
Other tangible fixed assets	2 years

The depreciation method and rate, as well as the residual value of fixed assets are reviewed at least at the end of each financial year with possible changes recognized as changes in estimates. Depreciation is recognized in profit or loss in an appropriate cost category corresponding to the function of the non-current asset.

9.2. Investment property

Note 19

The Company holds an investment property generating revenue from rental fees. The property is rented to a subsidiary. At initial recognition investment property is measured at cost including transaction costs. After initial recognition all investment properties held are measured in line with IAS 16 *Property, Plant and Equipment*, i.e. at cost. This means that the Company gradually depreciates the real property throughout its useful life.

9.3. Intangible assets

Note 20

Intangible assets include mostly software and licences as well as copyrights and related rights.

Intangible assets are measured at cost at initial recognition. After initial recognition intangible assets are measured at cost less accumulated amortization and impairment losses.

The Company assesses whether the useful life of an intangible asset is finite or indefinite and, if finite, estimates its duration or another measure providing the basis for determination of the useful life.

Intangible assets with a finite useful life are amortized over the period of their estimated use and tested for impairment each time when impairment indications occur. The period and method of amortizing intangible assets with a finite useful life are verified at least at the end of each reporting period; changes in the expected useful life or a pattern of consuming economic benefits generated by a given asset are treated as changes in estimates. Amortization of intangible assets with a finite useful life is recognized in profit or loss in an appropriate cost category corresponding to the function of the intangible asset.

The Company does not have any intangible assets with an indefinite useful life.

Average residual useful lives by intangible asset group:

Intangible assets by type	Average remaining amortization period in years
Software	2 years
Other intangible assets	6 years

9.4. Shares in subsidiaries	Note 21
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Shares in subsidiaries are measured at cost less impairment losses. Impairment losses are recognized in line with IAS 36 *Impairment of Assets*, where the carrying amount is compared to the higher of the fair value less costs to sell and the value in use.

9.5. Shares in jointly-controlled entities	Note 21
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Shares in co-subsidiaries are recognized at cost less impairment losses, if any.

9.6. Bonds	Note 22
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Under the central funding model, the Company acquires bonds issued by the TAURON Group companies. The bonds are classified to loans and receivables, i.e. financial assets with fixed or determinable payments. Bonds with maturity of up to 12 months as of the end of the reporting period are classified to current assets and those with maturity of over 12 months as of the end of the reporting period – to non-current assets, however, it is not only the maturity, but also the Company's plans with respect to the rollover that matter.

Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term.

9.7. Loans granted	Note 25
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Loans granted by the Company are mostly loans to subsidiaries and include cash pooling loans and loans to joint ventures. Loans are classified to loans and receivables and measured at amortized cost. Loans maturing within 12 months as of the end of the reporting period are classified to current assets and loans maturing in more than 12 months as of the end of the reporting period – to non-current assets considering the expectations as regards the loan repayment as at the end of the reporting period.

9.8. Impairment of financial assets	Note 11
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As at the end of each reporting period, the Company verifies whether there is any objective indication that a financial asset or a group of financial assets may be impaired.

Shares in subsidiaries and intra-group loans and bonds

The main item in the Company's financial assets are shares in subsidiaries and intra-group loans and bonds. The assets are tested for impairment, if there is any objective indication that the assets may be impaired. The amount of the impairment loss is the difference between the carrying amount of a financial asset or group of financial assets and the recoverable amount, which is the fair value less costs of disposal or the value in use, whichever is higher. The value in use is calculated as the present value of estimated future cash flows from the operations of subsidiaries and the estimated residual value discounted using the weighted average cost of capital.

Other financial assets

Other financial assets measured at amortized cost are tested for impairment, if there is any objective indication that the assets may be impaired. The amount of the impairment loss is the difference between the carrying amount of a financial asset and the present value of estimated future cash flows discounted using the initial effective interest rate (i.e. the one determined at initial recognition).

If the impairment loss decreases in the subsequent period and the decrease can be objectively related to an event taking place after the loss has been recognized, the prior impairment loss is reversed. The subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost as at the date of reversal.

9.9. Derivative financial instruments

Note 23

Derivative financial instruments falling within the scope of IAS 39 *Financial Instruments: Measurement and Recognition* 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: Measurement and Recognition* 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 presented as assets if their value is positive or as liabilities if their value is 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 9.10). Other derivative instruments held by the Company as at the end of the reporting period are not subject to hedge accounting.

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

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

9.10. Hedge accounting

In order to hedge the interest rate risk, the Company uses IRS (Interest Rate Swap) contracts. 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 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.

9.11. Other non-financial assets

Note 29

Other non-financial assets include mostly prepayments and advance payments for deliveries.

Prepayments are measured at the amount of reliably estimated expenses incurred by the entity, related to future reporting periods and resulting in an inflow of economic benefits to the entity in the future. Prepaid expenses may be settled based on the elapsed time or amounts paid.

9.12. Inventories

Note 26

The Company's inventories include acquired emission allowances and certificates of energy generated using renewable sources and in CHP units, intended for trading purposes.

At initial recognition inventories are measured at cost. At the end of the reporting period inventories are measured at cost or net realizable value, whichever is lower. If the cost is higher than the net realizable value, the Company recognizes an appropriate impairment loss.

Greenhouse gas emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices are recognized within inventories. They are measured at fair value at initial recognition and at the end of each reporting period.

Releases of consumables and goods are measured using the weighted average method.

9.13. Receivables from buyers

Note 27

Receivables from buyers are recognized at originally invoiced amounts, except situations where the effect of the time value of money is material, less allowances/write-downs.

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.

9.14. Other financial assets

Note 24

Other financial assets include investment fund units, Tax Capital Group receivables, deposits, performance bonds, collateral transferred and receivables arising from sales of property, plant and equipment and intangible assets.

9.15. Cash and cash equivalents

Note 30

Cash and short-term deposits recognized in the statement of financial position include in particular cash at bank and in hand and short-term deposits with original maturity of up to three months.

The balance of cash and cash equivalents recognized in the statement of cash flows consists of the aforesaid cash and cash equivalent items. If the entity uses overdraft facilities as a cash management solution, in line with IAS 7 *Statement of Cash Flows* the balance of cash is presented in the statement of cash flows less the outstanding balance of such facilities. Additionally, cash is adjusted by the balances of loans granted and taken out in a cash pool transaction as their main objective is to manage liquidity on a day-to-day basis.

9.16. Issued capital

Note 31.1

In the financial statements, issued capital is presented at the amount specified in the articles of association and entered in the Company's court register.

9.17. Debt

Note 33

Loans, borrowings, bonds issued and finance lease liabilities are presented as debt in the statement of financial position of the Company.

At initial recognition, all loans, borrowings and bonds issued are measured at fair value less the cost incurred to obtain a loan or borrowing. After initial recognition interest-bearing loans and debt securities are measured at amortized cost using the effective interest method.

Amortized cost includes the cost incurred to obtain a loan, borrowing or debt securities and discounts or premiums relating to the liability.

Finance leases transferring substantially all the risks and rewards of ownership of a lease object to the Company 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.

9.18. Provisions for employee benefits

Note 34

In accordance with the Compensation Policy the employees of the Company 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;
- benefits from the Company's Social Benefit Fund.

The present value of such liabilities is calculated by an independent actuary at the end of each reporting period. 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 employee turnover data are based on historical information.

Actuarial gains and losses on post-employment benefits are fully charged to other comprehensive income.

9.19. Other provisions

Note 35

Provisions are recognized if the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

As at the end of the reporting period, a provision was recognized against the risk of an adverse decision arising from the pending inspection procedure.

In the reporting period, the Company recognized also a provision for the obligation to surrender energy certificates.

9.20. Liabilities to suppliers and other financial liabilities

Note 37, 38

Current liabilities to suppliers are recognized at amount due. Other financial liabilities include Tax Capital Group settlements, payroll liabilities, deposits, performance bonds, collateral received and liabilities arising from purchases of property, plant and equipment and intangible assets, measured at amount due since the discount effects are immaterial.

9.21. Receivables / Liabilities arising from taxes and charges

Note 28, 39

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

- Income tax receivables and liabilities;
- VAT and excise duty;
- PIT and social insurance;
- Environmental fees and other regulatory settlements.

9.22. 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 determined by the Company in line with provisions of the CIT Act and including the settlement of the Tax Capital Group the Company belongs to, as well as any previous year tax adjustments.

Deferred tax

The Company 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 carrying amount of the deferred tax asset is reviewed at the end of each reporting period. The Company reduces the carrying amount of the deferred tax asset to the extent the generation of taxable income sufficient to use the deferred tax asset in part or in whole is not probable. Unrecognized deferred tax asset is reviewed at the end of each reporting period and recognized to the extent its use is probable following generation of taxable income in the future. Deferred tax asset related to deductible differences concerning investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences.

The deferred tax asset and liability are measured with the application of tax rates expected to be applicable in the period of realization of the asset or derecognition of the liability, with the consideration of tax rates (and tax regulations) that had been enacted or substantively enacted at the end of the reporting period.

Income tax related to items which are not recognized in profit or loss, i.e. items recognized in other comprehensive income or directly in equity, is recognized in other comprehensive income or in equity, respectively.

The Company offsets its deferred tax asset and deferred tax liability only if it has an enforceable legal title to offset its current tax receivables with liabilities and the deferred tax asset and liability concern the same tax authority.

9.23. Sales revenue

Note 12

Revenue is recognized in the amount it is probable that future economic benefits relating to a transaction will flow to the Company and the amount of the revenue can be measured reliably. 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 recognition criteria set out below apply as well.

Revenue from sales of goods and materials is recognized if significant ownership-related risks and benefits from goods and materials have been transferred to the buyer and if the revenue amount can be reliably measured and incurred costs can be reliably estimated.

Revenue also includes amounts due for the sale of goods, materials and services related to the core business and determined based on the net price, adjusted by granted rebates and discounts and excise duty.

Revenue from sales of goods includes gains on the inventory of greenhouse gas emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices, including the aggregate gain on:

- trading in the inventory of greenhouse gas emission allowances classified to the trading portfolio;
- change in fair value measurement of the inventory of greenhouse gas emission allowances classified to the trading portfolio;
- change in measurement and gains/losses on derivative commodity instruments falling within the scope of IAS 39 *Financial Instruments: Measurement and Recognition*, related to purchases and sales of greenhouse gas emission allowances.

Gains on change in measurement and on exercising derivative commodity instruments falling within the scope of IAS 39 *Financial Instruments: Measurement and Recognition* and related to purchases and sales of other commodities are recognized in revenue from sales of goods.

9.24. Operating expenses

Note 13

The Company presents expenses by function.

They include:

- cost of goods, 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;
- total sales, general and administrative expenses incurred in the reporting period (disclosed separately in the statement of comprehensive income).

The cost of sales includes losses on the inventory of greenhouse gas emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices, including the aggregate loss on:

- trading in the inventory of greenhouse gas emission allowances classified to the trading portfolio;
- change in fair value measurement of the inventory of greenhouse gas emission allowances classified to the trading portfolio;
- change in measurement and gains/losses on derivative commodity instruments falling within the scope of IAS 39 *Financial Instruments: Measurement and Recognition*, related to purchases and sales of greenhouse gas emission allowances.

Losses on change in measurement and on exercising derivative commodity instruments falling within the scope of IAS 39 *Financial Instruments: Measurement and Recognition* and related to purchases and sales of other commodities are recognized in cost of sales.

Costs that can be assigned directly to revenue generated by the Company impact 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 Company impact the profit or loss in the portion pertaining to the given reporting period, and match the revenue or other economic benefits.

9.25. Finance income and costs

Note 15

Finance income and costs include in particular items relating to:

- revenue from profit sharing in other entities, including dividends;
- interest;
- disposal/liquidation of financial assets;
- revaluation of financial instruments, except derivative commodity instruments falling within the scope of IAS 39 *Financial Instruments: Measurement and Recognition* in the case of which gains/losses on change in measurement and on exercising are presented within operating activities where gains/losses on the related trading in goods are also recognized;
- interest expense related to measurement of employee benefits, in line with IAS 19 *Employee Benefits*;
- changes in the balance of a provision resulting from the nearing deadline to incur the expense (discount unwinding effect);
- foreign exchange differences resulting from transactions performed during the reporting period and balance sheet measurement of assets and liabilities at the end of the reporting period, except for differences recognized in the initial value of a fixed asset;
- other items related to financing activities.

9.26. Translation of items denominated in foreign currencies

Foreign currency transactions are translated into PLN at initial recognition at the exchange rate applicable as at the transaction date. As at the end of the reporting period:

- monetary items denominated in foreign currencies are translated at the closing rate (the average exchange rate published by the National Bank of Poland as at the date);
- non-monetary items measured at historical cost and denominated in foreign currencies are translated at the exchange rate as at the original transaction date; and
- non-monetary items measured at fair value and denominated in foreign currencies are translated at the exchange rate as at the fair value measurement date.

Exchange differences from translation are recognized within finance income (costs), or, in the cases specified in the accounting principles (policy), capitalized in the value of assets.

Exchange rates applied for the purpose of balance sheet measurement:

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

9.27. Business combinations

Business combinations of entities under common control are accounted for using the pooling of interest method.

The method is based on the assumption that the combining entities are controlled by the same shareholder before and after the business combination, and therefore the continuity of common control is presented in the financial statements, while the changes in the net value of assets to reflect their fair value (or recognition of new assets) or goodwill measurement 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.

The following items are eliminated when a business combination is accounted for using the pooling of interest method:

- issued capital of the acquiree;
- mutual receivables and liabilities or other similar settlements of the combined entities;
- revenue and costs of business transactions executed in the period covered by the financial statements, which were effected before the business combination.
- gains or losses on business transactions concluded between the combined entities prior to the business combination, included in the amounts of the pooled assets and liabilities.

When accounting for business combinations of subsidiaries from the TAURON Group, the Company uses the consolidated financial statements as the source of the value of assets and liabilities in a subsidiary acquired. The value of the acquiree's shares in the subsidiaries was measured by reference to the entities' net asset value from the consolidated financial statements and the subsidiary's goodwill.

The difference between the net book value of assets recognized as a result of a business combination in the statement of financial position of the acquirer and the value of investments recognized thus far in the accounting records of the acquirer is recognized in the equity of the acquirer.

9.28. Statement of cash flows

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

9.29. Earnings (loss) per share

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 that period.

OPERATING SEGMENTS

10. Information on operating segments

10.1. Operating segments

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

“Holding activity” segment assets include:

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

“Holding activity” segment liabilities include:

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

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

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

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

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

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

For the year ended 31 December 2017

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	995 252	–	–	995 252
Sales within the Group	6 765 388	31 385	–	6 796 773
Segment revenue	7 760 640	31 385	–	7 792 025
Profit/(loss) of the segment				
Unallocated expenses	–	–	(88 751)	(88 751)
EBIT	320 154	31 385	(88 751)	262 788
Net finance income/(costs)	–	812 855	(156 078)	656 777
Profit/(loss) before income tax	320 154	844 240	(244 829)	919 565
Income tax expense	–	–	(65 214)	(65 214)
Net profit/(loss) for the year	320 154	844 240	(310 043)	854 351
Assets and liabilities				
Segment assets	1 748 324	28 423 410	–	30 171 734
Unallocated assets	–	–	101 358	101 358
Total assets	1 748 324	28 423 410	101 358	30 273 092
Segment liabilities	543 154	12 115 606	–	12 658 760
Unallocated liabilities	–	–	236 426	236 426
Total liabilities	543 154	12 115 606	236 426	12 895 186
EBIT	320 154	31 385	(88 751)	262 788
Depreciation/amortization	(5 532)	–	–	(5 532)
Impairment	100	–	–	100
EBITDA	325 586	31 385	(88 751)	268 220
Other segment information				
Capital expenditure*	160	–	–	160

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

For the year ended 31 December 2016

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 669 734	–	–	1 669 734
Sales within the Group	6 323 024	2 570	–	6 325 594
Segment revenue	7 992 758	2 570	–	7 995 328
Profit/(loss) of the segment				
Unallocated expenses	–	–	(113 868)	(113 868)
EBIT	76 695	2 570	(113 868)	(34 603)
Net finance income (costs)	–	(101 050)	(13 481)	(114 531)
Profit/(loss) before income tax	76 695	(98 480)	(127 349)	(149 134)
Income tax expense	–	–	(17 119)	(17 119)
Net profit/(loss) for the year	76 695	(98 480)	(144 468)	(166 253)
Assets and liabilities				
Segment assets	1 450 322	26 114 360	–	27 564 682
Unallocated assets	–	–	107 694	107 694
Total assets	1 450 322	26 114 360	107 694	27 672 376
Segment liabilities	785 879	10 221 533	–	11 007 412
Unallocated liabilities	–	–	134 696	134 696
Total liabilities	785 879	10 221 533	134 696	11 142 108
EBIT	76 695	2 570	(113 868)	(34 603)
Depreciation/amortization	(7 722)	–	–	(7 722)
Impairment	197	–	–	197
EBITDA	84 220	2 570	(113 868)	(27 078)
Other segment information				
Capital expenditure*	837	–	–	837

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

In the financial year ended 31 December 2017, revenue from sales to two major clients from the Capital Group accounted for 67% and 10% of the Company's total revenue in the "Sales" segment and amounted to PLN 5 208 284 thousand and PLN 799 943 thousand, respectively.

In the financial year ended 31 December 2016, revenue from sales to two major clients from the TAURON Capital Group accounted for 62% and 10% of the Company's total revenue in the "Sales" segment and amounted to PLN 4 934 454 thousand and PLN 810 728 thousand, respectively.

10.2. Geographic areas of operations

The majority of the Company's business operations are carried out in Poland. In the years ended 31 December 2017 and 31 December 2016, export sales amounted to PLN 147 938 thousand and PLN 164 540 thousand, respectively.

IMPAIRMENT OF FINANCIAL ASSETS

11. Impairment of financial assets

Considering the circumstances underlying the Company's long-term market cap being below its carrying amount and changes in the global commodity prices as well as changes in the local power coal market following the consolidation in the mining sector; amendments to the Act on Renewable Energy Sources and the publication of related obligations for the years 2018–2019 which affected the prices of renewable energy certificates; the adoption of the Act on capacity market and the analysis of functional solutions described in the draft regulation of the capacity market; continuing unfavourable market conditions as far as the profitability of conventional power industry is concerned; as well as the increase in the risk free rate, shares, borrowings and intra-group bonds were tested for impairment as at 31 December 2017 and 30 June 2017. Shares and intra-group loans and bonds accounted for about 94% of the balance sheet total as at the end of the reporting period.

The recoverable amount is the value in use. The calculation method has been presented below.

Relevant tests were conducted based on the present value of projected cash flows from operations of the key entities, by reference to detailed projections by 2027 and the estimated residual value. The projections used for the power generating and mining units cover the entire period of their operation. 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.

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

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. WACC is calculated by taking into account 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 at 31 December 2017 increased comparing to level as at 31 December 2016, mainly due to increase of risk-free rate and increase of debt cost.

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

- There was adopted 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 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 3% compares to 2017 year is assumed by 2020, with a 13% growth rate by 2027 (vs. 2020), an increase of 10% between 2027 and 2040 and 2040 year prices thereafter (fixed);
- 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;
- Procedural changes of the Polish market model towards the implementation of the power market mechanism were taken into account in accordance with the adopted and notified Capacity Market Act and the draft of capacity market regulations. It was planned to launch the capacity payment from 2021 and maintain it until 2035. The auctions will take the form of a one-time solution with division of capacity contracts according to the level of investment outlays – division of units into new, modernized and existing ones. The average annual capacity market budget in the period of the mechanism's operation was assumed at the level of approximately PLN 4,000 million;
- There were adopted greenhouse gas emission limits for heat generation in line with the regulation of the Council of Ministers adjusted by level of operations, i.e. generation of heat;
- There was adopted greenhouse gas 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% compares to 2017 year by 2027, 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;
- 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;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- Sales volumes taking into account GDP growth and increased market competition;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Maintaining or expanding the production capacity of the existing non-current assets as a result of replacement and development investments.

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

Sensitivity analyses conducted by the Company reveal that the capacity market mechanism (assuming that other market factors remain unchanged), the projected prices of electricity and coal, the prices of greenhouse gas emission allowances and the adopted discount rates are the key factors exerting an effect on the estimated cash flows of the key entities. If the capacity market mechanism was not taken into account in the assumptions made for estimating the value in use of shares and intra-group loans and bonds, the additional net impairment loss that would be recognized in the Company's profit or loss would be ca. PLN 4 970 million, provided that other market conditions remained unchanged.

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

Test results

The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 31 December 2017 indicated impairment of the carrying amount of shares in subsidiaries of PLN 211 398 thousand and reversal of an impairment loss of subsidiaries shares of PLN 72 603 thousand.

The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 30 June 2017 indicated impairment of the carrying amount of loans of subsidiaries of PLN 60 578 thousand and a reversal of an impairment loss of subsidiaries shares of PLN 120 057 thousand.

The aforesaid impairment losses were recognized in the Company's finance costs and concerned the following entities:

Company	WACC* assumed in tests as at			Recoverable amount of shares, intra-group loans and bonds as at 31 December 2017	Impairment loss recognized in the year ended 31 December 2017		Impairment loss reversed in the year ended 31 December 2017
	31 December 2017	30 June 2017 (unaudited)	31 December 2016		Shares	Loans granted	Shares
TAURON Wytwarzanie S.A.	8.39%	8.20%	7.79%	2 814 014	(63 528)	–	120 057
TAURON Ekoenergia Sp. z o.o.	8.78%	8.42%	7.67%	953 340	–	(60 578)	72 603
TAURON Wydobywanie S.A.	10.20%	10.20%	6.95%	1 428 477	(147 870)	–	–

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

Following the repayment of a portion of an impaired loan of PLN 1 000 000 thousand by the subsidiary TAURON Ekoenergia Sp. z o.o. in October 2017 and the Company's acquisition of shares in the increased issued capital of TAURON Ekoenergia Sp. z o.o. totalling PLN 1 000 000 thousand, the previous impairment losses on loans of PLN 197 953 thousand and of PLN 60 578 thousand, recognized in the year ended 31 December 2016 and in the year ended 31 December 2017, respectively, have been reclassified and allocated to the value of shares.

Changes in impairment losses on shares in the year ended 31 December 2017 have been presented in the following table.

Company	Impairment as at 1 January 2017	Impairment loss recognized in the year ended 31 December 2017	Impairment loss reversed in the year ended 31 December 2017	Impairment loss reclassification	Impairment as at 31 December 2017	Carrying amount of shares including impairment losses as at 31 December 2017
TAURON Wytwarzanie S.A.	(5 403 825)	(63 528)	120 057	–	(5 347 296)	1 738 405
TAURON Ekoenergia Sp. z o.o.	(939 765)	–	72 603	(258 531)	(1 125 693)	814 072
TAURON Wydobywanie S.A.	–	(147 870)	–	–	(147 870)	853 885

The necessity to recognize an impairment loss on shares in TAURON Wytwarzanie S.A. as at 31 December 2017 was mainly driven by the effect of the deferred tax liabilities, while the possibility to reverse the impairment loss as at 30 June 2017 was attributable, in particular, to the following circumstances:

- the functional solutions related to the capacity market discussed in the capacity market bill were analysed which led to a better understanding of the future of the market;
- the life of generating units has been extended and the production volumes increased as a result of greater modernization and replacement expenditure.

The possibility to reverse an impairment loss on shares in TAURON Ekoenergia Sp. z o.o. as at 31 December 2017 was mainly attributable to the effect of the deferred tax asset, while the necessity to recognize an impairment loss as at 30 June 2017 was driven, in particular, by the following circumstances:

- the prices of renewable energy certificates went down, the Act on Renewable Energy Sources was amended and an auction system was introduced;
- the risk-free rate and WACC for wind farms went up.

The necessity to recognize an impairment loss on shares in TAURON Wydobywanie S.A. in the year ended 31 December 2017 was mainly driven by the following circumstances:

- the market prices of materials (including steel, copper and rubber) and the market rates for renting mining machines and equipment as well as the cost of labour in the coal mining industry went up;
- the effect of the deferred tax liabilities.

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

EXPLANATORY NOTES TO THE 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	7 667 345	7 899 621
Excise	(2 630)	–
Revenue from sales of goods for resale and materials	7 664 715	7 899 621
Electricity	7 117 988	7 255 819
Gas	190 507	236 215
Property rights arising from energy certificates	14 939	36 137
Emission allowances	336 566	363 500
Other	4 715	7 950
Rendering of services	127 310	95 707
Trading income	52 711	54 517
Use of shares	31 385	2 570
Other	43 214	38 620
Total	7 792 025	7 995 328

The Company has been acting as an agent coordinating and supervising purchases, supplies and transportation of fuel. The Company purchases raw materials from third parties and from the TAURON Group companies, which were subsequently sold to related parties. It recognizes revenue from agency services (supply management).

In the year ended 31 December 2017, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 753 663 thousand. The Company recognized revenue from agency services of PLN 32 526 thousand.

Greenhouse gas emission allowances include:

- sales to the Group companies for purposes of allowance surrendering in fulfilment of the obligations related to greenhouse gas emissions – in the year ended 31 December 2017 sales to subsidiaries totalled PLN 336 290 thousand (versus PLN 363 007 thousand in the comparable period); and
- the total profit generated from trading in emission allowances and profit generated in a short term due to fluctuations in the market prices (trading portfolio), which has been described in more detail in note 9.23 to these financial statements, of PLN 276 thousand (in the year ended 31 December 2016 it was PLN 493 thousand).

13. Expenses by type

	Year ended 31 December 2017	Year ended 31 December 2016
Depreciation of property, plant and equipment and amortization of intangible assets	(5 532)	(7 722)
Materials and energy	(1 311)	(1 211)
Consultancy services	(6 598)	(7 994)
IT services	(13 160)	(12 422)
Rental services	(10 366)	(6 360)
Stock market services	(9 621)	(4 468)
Other external services	(9 532)	(7 638)
Taxes and charges	(4 375)	(3 238)
Employee benefits expense	(87 068)	(78 993)
Impairment loss on inventories	100	–
Allowance for receivables from clients	34	1 543
Advertising expenses	(22 207)	(29 198)
Other	(1 983)	(2 107)
Total costs by type	(171 619)	(159 808)
Selling and distribution expenses	23 309	19 326
Administrative expenses	88 751	81 368
Cost of goods for resale and materials sold	(7 355 148)	(7 778 453)
Cost of sales	(7 414 707)	(7 837 567)

In the year ended 31 December 2017 the decrease cost of goods for resale and materials sold, includes the result of reversal of the provisions for onerous contracts with Elektrociepownia Stalowa Wola S.A., totaling PLN 201 174 thousand, which has been discussed in more detail in Note 35 to these financial statements.

14. Employee benefits expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Wages and salaries	(70 026)	(63 237)
Social security costs	(9 662)	(8 657)
Jubilee bonuses	(247)	526
Appropriations to the Social Fund	(520)	(404)
Costs of employee retirement plans	(2 475)	(3 075)
Post-employment benefits expenses – actuarial provisions	(606)	(787)
Other employee benefits expenses	(3 532)	(3 359)
Total	(87 068)	(78 993)
Items included in cost of sales	(22 741)	(23 131)
Items included in selling and distribution expenses	(7 640)	(8 910)
Items included in administrative expenses	(56 687)	(46 952)

15. Finance income and costs

	Year ended 31 December 2017	Year ended 31 December 2016
Income and costs from financial instruments	659 477	(92 654)
Dividend income	560 832	1 485 152
Interest income on bonds and loans	456 426	503 897
Other interest income	19 539	6 829
Interest expense	(334 638)	(356 947)
Commissions due to external financing	(19 068)	(18 814)
Gain/(loss) on derivative instruments	(18 042)	14 127
Exchange gains/(losses)	127 476	(29 669)
Surplus of impairment losses (recognised)/reversed on shares	(134 372)	(1 610 396)
Loss on disposal/liquidation of investment	–	(87 260)
Other	1 324	427
Other finance income and costs	(2 700)	(21 877)
Interest on discount (other provisions)	(2 330)	(11 502)
Other	(370)	(10 375)
Total, incl. recognized in the statement of comprehensive income:	656 777	(114 531)
Dividend income	560 832	1 485 152
Interest income on bonds and loans	456 426	503 897
Interest expense on debt	(334 638)	(356 947)
Revaluation of shares and loans	(134 372)	(1 610 396)
Other finance income and costs	108 529	(136 237)

In the year ended 31 December 2017 the Company recognized an impairment loss on shares in and loans of subsidiaries totalling PLN 327 032 thousand and released an impairment loss on shares of PLN 192 660 thousand. Impairment losses on shares have been presented in more detail in Note 21 hereto.

In the year ended 31 December 2017, exchange gains exceeded exchange losses by PLN 127 476 thousand. Exchange gains were mainly related to the Company's debt in the euro, i.e. loans obtained from a subsidiary, subordinated bonds issued in December 2016 and eurobonds issued in July 2017. The related surplus of exchange gains over exchange losses was PLN 128 270 thousand.

16. Income tax

16.1. Tax expense in the statement of comprehensive income

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

	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax	(66 160)	(9 541)
Current income tax expense	(66 429)	(9 541)
Adjustments of current income tax from prior years	269	–
Deferred tax	946	(7 578)
Income tax expense in profit or loss	(65 214)	(17 119)
Income tax expense in other comprehensive income	1 574	(24 401)

16.2. Reconciliation of the effective tax rate

	Year ended 31 December 2017	Year ended 31 December 2016
Profit/(loss) before tax	919 565	(149 134)
Tax at Poland's statutory tax rate of 19%	(174 717)	28 335
Adjustments to income tax from previous years	269	–
Tax resulting from tax non-deductible costs	(66 366)	(413 933)
Impairment loss on shares and loans in subsidiaries	(62 136)	(390 193)
Recognition of non-deductible provisions	(798)	(19 032)
Other	(3 432)	(4 708)
Tax resulting from income not included in taxable base	154 377	366 397
Dividends	106 558	282 179
Reversal of impairment loss on shares in subsidiaries	36 605	84 218
Reversal of non-deductible provisions	10 419	–
Other	795	–
Settlement of the TCG	21 223	2 082
Tax at the effective tax rate of 7.1% (2016: -11.5%)	(65 214)	(17 119)
Income tax expense in profit/(loss)	(65 214)	(17 119)

16.3. Deferred income tax

Deferred income tax results from the following items:

	As at 31 December 2017	As at 31 December 2016
due interest on bonds and loans	29 275	66 356
difference between tax base and carrying amount of other financial assets	520	4 861
valuation of hedging instruments	5 412	6 962
other	4 812	4 300
Deferred tax liabilities	40 019	82 479
provision for employee benefits	660	544
other provisions and accruals	2 270	31 122
difference between tax base and carrying amount of fixed and intangible assets	821	1 107
difference between tax base and carrying amount of financial liabilities	4 125	15 887
other	2 300	1 455
Deferred tax assets	10 176	50 115
Deferred tax assets/(liabilities), net, of which:	(29 843)	(32 364)
Deferred tax assets/(liabilities), net – recognized in profit or loss	(24 403)	(25 349)
Deferred tax assets/(liabilities), net – recognized in other comprehensive income	(5 440)	(7 015)

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

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

16.4. 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.

At the same time, due to the Company’s settlements, as the Representative Company, with the Tax Capital Group companies, it has reported a liability to these subsidiaries arising from tax overpayment of PLN 34 836 thousand, which has been presented in the statement of financial position as “Other financial liabilities”, as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 6 133 thousand, which have been presented in the statement of financial position as “Other financial assets”.

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 major companies which are members of the Tax Capital Group have not changed with respect to those listed in the Tax Capital Group agreement for the years 2015–2017.

17. Earnings (loss) per share

Earnings (loss) per share (in PLN)	Year ended 31 December 2017	Year ended 31 December 2016
Basic and diluted, for profit (loss) for the financial year	0.49	(0.09)

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

	Year ended 31 December 2017	Year ended 31 December 2016
Net profit (loss) attributable to ordinary shareholders	854 351	(166 253)
Number of ordinary shares	1 752 549 394	1 752 549 394

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

18. Property, plant and equipment

For the year ended 31 December 2017

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
COST					
Opening balance	5 918	6 857	11 635	–	24 410
Direct purchase	–	–	–	130	130
Allocation of assets under construction	–	–	32	(32)	–
Sale	–	(580)	–	–	(580)
Liquidation	–	–	(932)	–	(932)
Closing balance	5 918	6 277	10 735	98	23 028
ACCUMULATED DEPRECIATION					
Opening balance	(5 917)	(5 732)	(11 485)	–	(23 134)
Depreciation for the period	(1)	(847)	(109)	–	(957)
Sale	–	580	–	–	580
Liquidation	–	–	932	–	932
Closing balance	(5 918)	(5 999)	(10 662)	–	(22 579)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	1	1 125	150	–	1 276
NET CARRYING AMOUNT AT THE END OF THE PERIOD	–	278	73	98	449

For the year ended 31 December 2016

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
COST					
Opening balance	6 761	6 857	10 798	–	24 416
Direct purchase	–	–	–	837	837
Allocation of assets under construction	–	–	837	(837)	–
Sale/Liquidation	(843)	–	–	–	(843)
Closing balance	5 918	6 857	11 635	–	24 410
ACCUMULATED DEPRECIATION					
Opening balance	(6 438)	(4 771)	(9 771)	–	(20 980)
Depreciation for the period	(322)	(961)	(1 714)	–	(2 997)
Sale/Liquidation	843	–	–	–	843
Closing balance	(5 917)	(5 732)	(11 485)	–	(23 134)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	323	2 086	1 027	–	3 436
NET CARRYING AMOUNT AT THE END OF THE PERIOD	1	1 125	150	–	1 276

19. Investment property

	Year ended 31 December 2017	Year ended 31 December 2016
COST		
Opening balance	36 169	36 169
Closing balance	36 169	36 169
ACCUMULATED DEPRECIATION		
Opening balance	(10 851)	(7 234)
Depreciation for the period	(3 617)	(3 617)
Closing balance	(14 468)	(10 851)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	25 318	28 935
NET CARRYING AMOUNT AT THE END OF THE PERIOD	21 701	25 318

The investment property is composed of buildings located in Katowice-Szopienice, in ul. Lwowska 23 used based on a finance lease agreement with PKO Leasing S.A. The monthly lease payment is ca. PLN 346 thousand, while the monthly depreciation charge is PLN 301 thousand.

The Company is a party to a lease agreement with a subsidiary (the lessee) valid until 30 April 2018, whereby buildings and structures the rights to which result from the aforesaid lease agreement have been subleased. In the year ended 31 December 2017, rental income related to the investment property totalled PLN 5 654 thousand.

The Company estimates that fair value of investment property as at the end of reporting period accounts for about PLN 26 000 thousand.

20. Non-current intangible assets

For the year ended 31 December 2017

	Software and licenses	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST				
Opening balance	2 259	4 125	-	6 384
Direct purchase	-	-	30	30
Allocation of intangible assets not made available for use	-	30	(30)	-
Closing balance	2 259	4 155	-	6 414
ACCUMULATED AMORTIZATION				
Opening balance	(2 046)	(2 147)	-	(4 193)
Amortization for the period	(209)	(749)	-	(958)
Closing balance	(2 255)	(2 896)	-	(5 151)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	213	1 978	-	2 191
NET CARRYING AMOUNT AT THE END OF THE PERIOD	4	1 259	-	1 263

For the year ended 31 December 2016

	Software and licenses	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST				
Opening balance	3 539	4 185	-	7 724
Liquidation	(1 280)	(60)	-	(1 340)
Closing balance	2 259	4 125	-	6 384
ACCUMULATED AMORTIZATION				
Opening balance	(2 985)	(1 440)	-	(4 425)
Amortization for the period	(341)	(767)	-	(1 108)
Liquidation	1 280	60	-	1 340
Closing balance	(2 046)	(2 147)	-	(4 193)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	554	2 745	-	3 299
NET CARRYING AMOUNT AT THE END OF THE PERIOD	213	1 978	-	2 191

21. Shares

Change in shares for the year ended 31 December 2017

No.	Company	Gross value				Impairment losses				Net value	
		Opening balance	(De-creases)	In-creases	Closing balance	Opening balance	De-creases	(In-creases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobywanie S.A.	841 755	-	160 000	1 001 755	-	-	(147 870)	(147 870)	841 755	853 885
2	TAURON Wytwarzanie S.A.	7 236 727	(151 026)	-	7 085 701	(5 403 825)	120 057	(63 528)	(5 347 296)	1 832 902	1 738 405
3	TAURON Ciepło Sp. z o.o.	1 328 043	-	600 000	1 928 043	-	-	-	-	1 328 043	1 928 043
4	TAURON Ekoenergia Sp. z o.o.	939 765	-	1 000 000	1 939 765	(939 765)	72 603	(258 531)	(1 125 693)	-	814 072
5	Marselwind Sp. z o.o.	107	-	200	307	-	-	-	-	107	307
6	TAURON Serwis Sp. z o.o.	1 268	-	-	1 268	-	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	-	-	3 551 026	3 551 026	-	-	-	-	-	3 551 026
8	TAURON Dystrybucja S.A.	9 511 628	-	1 000 000	10 511 628	-	-	-	-	9 511 628	10 511 628
9	TAURON Dystrybucja Serwis S.A.	-	-	201 045	201 045	-	-	-	-	-	201 045
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	-	613 505	-	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	-	129 823	-	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	-	4 223	-	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	-	41 178	-	-	-	-	41 178	41 178
14	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	55 056	-	-	55 056	-	-	(55 056)	(55 056)	55 056	-
15	TAURON Sweden Energy AB (publ)	28 382	-	-	28 382	-	-	-	-	28 382	28 382
16	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	-	1 269	-	-	-	-	1 269	1 269
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	-	39 831	-	-	-	-	39 831	39 831
18	TAMEH HOLDING Sp. z o.o.	415 852	-	-	415 852	-	-	-	-	415 852	415 852
19	PGE EJ 1 Sp. z o.o.	26 546	-	-	26 546	-	-	-	-	26 546	26 546
20	Magenta Grupa TAURON Sp. z o.o.	500	-	9 000	9 500	-	-	-	-	500	9 500
21	ElectroMobility Poland S.A.	2 500	-	-	2 500	-	-	-	-	2 500	2 500
22	Other	50	-	341	391	-	-	-	-	50	391
Total		21 218 008	(151 026)	6 521 612	27 588 594	(6 343 590)	192 660	(524 985)	(6 675 915)	14 874 418	20 912 679

Changes in the balance of long-term investments in the year ended 31 December 2017 resulted mainly from the following transactions:

- Increase in the capital of TAURON Wydobywanie S.A.

On 21 March 2017, the Extraordinary General Shareholders' Meeting of TAURON Wydobywanie S.A. adopted a resolution to increase the company's issued capital from PLN 355 511 thousand to PLN 357 111 thousand,

i.e. by PLN 1 600 thousand, through the issue of 160 000 new shares with the nominal value of PLN 10 each, which were subscribed by the Company for PLN 1 000 per one share, i.e. for the total of PLN 160 000 thousand. The aforesaid increase in the issued capital of TAURON Wydobywanie S.A. was registered on 7 April 2017.

- TAURON Wytwarzanie S.A. to Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 3 April 2017 TAURON Wytwarzanie S.A. was spun off under Article 529.1.4 of the Code of Commercial Companies by way of separation and transfer of a branch of activity involved in the preparation, development and operations of a new unit with the capacity of 910 MW in Elektrownia Jaworzno III to Nowe Jaworzno Grupa TAURON Sp. z o.o. An appropriate resolution was taken by the Extraordinary General Shareholders' Meeting of TAURON Wytwarzanie S.A. on 31 January 2017. Following the spin-off the Company reclassified the investment in TAURON Wytwarzanie S.A. in the amount of PLN 151 026 thousand to Nowe Jaworzno Grupa TAURON Sp. z o.o.

- Increase in the capital of TAURON Ciepło Sp. z o.o.

On 11 May 2017, the Extraordinary General Shareholders' Meeting of TAURON Ciepło Sp. o.o. adopted a resolution to increase the company's issued capital from PLN 1 098 348 thousand to PLN 1 104 348 thousand, i.e. by PLN 6 000 thousand, through the issue of 120 000 new shares with the nominal value of PLN 50 each and the total nominal value of PLN 6 000 thousand. The shares were acquired for PLN 5 thousand each, i.e. the total value of PLN 600 000 thousand. The aforesaid increase in the issued capital of TAURON Ciepło Sp. o.o. was registered on 20 June 2017.

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

On 16 May 2017, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution (to change the terms and conditions of increasing the issued capital of the company determined by the Extraordinary General Shareholders' Meeting on 19 April 2017) to increase the company's issued capital from PLN 1 850 thousand to PLN 31 850 thousand, i.e. by PLN 30 000 thousand, through the issue of 600 000 new shares with the nominal value of PLN 50 each and the total nominal value of PLN 30 000 thousand. The shares were acquired for PLN 5 thousand each, i.e. the total value of PLN 3 000 000 thousand. The aforesaid increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered on 26 June 2017.

On 29 June 2017, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 4 000 thousand, through the issue of 80 000 new shares with the nominal value of PLN 50 each. TAURON Polska Energia S.A. took all of new shares in the company for PLN 5 thousand per share, i.e. the total acquisition price of PLN 400 000 thousand. The increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered on 13 July 2017.

- Agreement for the transfer of shares in TAURON Dystrybucja Serwis S.A.

On 9 August 2017, the Company concluded an agreement for the transfer of shares with TAURON Dystrybucja S.A., a subsidiary, under the acceptance in lieu scheme in accordance with Article 453 of the Civil Law Act of 23 April 1964 (Journal of Laws of 2017 item 459 as amended). In line with the agreement TAURON Dystrybucja S.A. transferred 5 101 003 shares, constituting 100% of the issued capital of TAURON Dystrybucja Serwis S.A. with the value of PLN 201 045 thousand to the Company in order to be discharged from a portion of its obligation to pay out dividend to the Company in the amount of PLN 201 046 thousand.

- Increase in the capital of TAURON Ekoenergia Sp. z o.o.

On 24 October 2017 the Extraordinary Meeting of Shareholders of TAURON Ekoenergia Sp. z o.o. resolved to increase the issued capital of the company by PLN 10 000 thousand by creating 10 000 new shares with the nominal value of PLN 1000 each which were acquired by the Company for PLN 100 000 each, totalling PLN 1 000 000 thousand. On 26 and 27 October 2017 the Company advanced monies to increase the capital. After the end of the reporting period, on 2 March 2018 year, the increase in the issued capital of TAURON Ekoenergia Sp. z o.o. was registered.

- Increase in the capital of Magenta Grupa TAURON Sp. z o.o.

On 24 October 2017 the Extraordinary Meeting of Shareholders of Magenta Grupa TAURON Sp. z o.o. resolved to increase the issued capital of the company by PLN 1 000 thousand by creating 20 000 new shares with the nominal value of PLN 50 each which were acquired by the Company for PLN 450 each, totalling PLN 9 000 thousand. On 26 October 2017 the Company advanced monies to increase the capital. After the end of reporting period, on 11 January 2018, the increase in the issued capital of Magenta Grupa TAURON Sp. z o.o. was registered.

- Increase in the capital of TAURON Dystrybucja S.A.

On 26 October 2017 the Extraordinary Meeting of Shareholders of TAURON Dystrybucja S.A. resolved to increase the issued capital of the company by PLN 48 685 thousand by issuing 2 434 274 587 shares with the nominal value of PLN 0.02 each, which will be acquired by the Company for PLN 0.4108 each, totalling PLN 1 000 000 thousand. The increase in the issued capital of TAURON Dystrybucja S.A. was registered on 29 December 2017.

- Impairment loss on shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

In the year ended 31 December 2017 the Company recognized an impairment loss of PLN 55 056 thousand on its shares in a subsidiary.

- Impairment of shares

In the year ended 31 December 2017 shares in subsidiaries were tested for impairment following which the impairment loss on the shares in TAURON Wytwarzanie S.A. totalling PLN 120 057 thousand and TAURON Ekoenergia Sp. z o.o. totalling PLN 72 603 thousand were released and an impairment loss on the shares in TAURON Wytwarzanie S.A. of PLN 63 528 thousand and shares in TAURON Wydobycie S.A. of PLN 147 870 thousand were recognized. Additionally, following the repayment of a loan by TAURON Ekoenergia Sp. z o.o. and subscription of shares in the company, the impairment loss on the loan of PLN 258 531 thousand was reclassified to the shares in TAURON Ekoenergia Sp. z o.o. The impairment tests have been discussed in more detail in Note 11 to these financial statements.

Change in shares for the year ended 31 December 2016

No.	Company	Gross value				Impairment losses				Net value	
		Opening balance	(De-creases)	In-creases	Closing balance	Opening balance	De-creases	(In-creases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	494 755	-	347 000	841 755	-	-	-	-	494 755	841 755
2	Nowe Brzeszcze Grupa TAURON Sp. z o.o.	2 102	(185 002)	182 900	-	-	-	-	-	2 102	-
3	TAURON Wytwarzanie S.A.	7 236 727	-	-	7 236 727	(4 487 895)	-	(915 930)	(5 403 825)	2 748 832	1 832 902
4	TAURON Wytwarzanie GZE Sp. z o.o. in liquidation	4 935	(4 935)	-	-	-	-	-	-	4 935	-
5	TAURON Ciepło Sp. z o.o.	1 328 043	-	-	1 328 043	(443 252)	443 252	-	-	884 791	1 328 043
6	TAURON Ekoenergia Sp. z o.o.	939 765	-	-	939 765	-	-	(939 765)	(939 765)	939 765	-
7	Marselwind Sp. z o.o.	107	-	-	107	-	-	-	-	107	107
8	TAURON Serwis Sp. z o.o.	-	-	1 268	1 268	-	-	-	-	-	1 268
9	TAURON Dystrybucja S.A.	9 511 628	-	-	9 511 628	-	-	-	-	9 511 628	9 511 628
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	-	613 505	-	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	-	129 823	-	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	-	4 223	-	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	-	41 178	-	-	-	-	41 178	41 178
14	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	-	6 000	55 056	-	-	-	-	49 056	55 056
15	TAURON Sweden Energy AB (publ)	28 382	-	-	28 382	-	-	-	-	28 382	28 382
16	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	-	1 269	-	-	-	-	1 269	1 269
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	-	39 831	-	-	-	-	39 831	39 831
18	TAMEH HOLDING Sp. z o.o.	415 852	-	-	415 852	-	-	-	-	415 852	415 852
19	PGE EJ 1 Sp z o.o.	23 046	-	3 500	26 546	-	-	-	-	23 046	26 546
20	Magenta Grupa TAURON Sp. z o.o.	-	-	500	500	-	-	-	-	-	500
21	ElectroMobility Poland S.A.	-	-	2 500	2 500	-	-	-	-	-	2 500
22	Other	114	(1 267)	1 203	50	-	-	-	-	114	50
Total		20 864 341	(191 204)	544 871	21 218 008	(4 931 147)	443 252	(1 855 695)	(6 343 590)	15 933 194	14 874 418

22. Bonds

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

The table below presents the balances of acquired bonds and interest accrued as at the end of the reporting period, i.e. 31 December 2017 and as at 31 December 2016, broken down by individual companies issuing the bonds.

Company	As at 31 December 2017		As at 31 December 2016	
	par value of purchased bonds	accrued interest	par value of purchased bonds	accrued interest
TAURON Wytwarzanie S.A.	1 064 920	10 689	3 548 770	55 396
TAURON Dystrybucja S.A.	3 770 000	62 326	3 800 000	62 470
TAURON Ciepło Sp. z o.o.	1 075 000	15 169	1 673 260	46 848
TAURON Wydobycie S.A.	570 000	4 592	570 000	4 592
TAURON Obsługa Klienta Sp. z o.o.	-	-	85 000	12 046
Total	6 479 920	92 776	9 677 030	181 352
Non-current	6 009 920	-	9 612 030	3 887
Current	470 000	92 776	65 000	177 465

Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements provide for the possibility to roll over the bonds. As at 31 December 2017, the par value of bonds maturing within one year, which were classified as long-term bonds, was PLN 864 920 thousand.

Internal bonds maturing over one year, totalling PLN 470 000 thousand, were classified to short-term as their redemption took place at 22 February 2018.

23. 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 future/forward	395	-	4 934	(4 539)	15 999	-	16 559	(560)
Currency forward	(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 hierarchy for derivative financial instruments is as follows:

	As at 31 December 2017		As at 31 December 2016	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments – commodity	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				
Derivative instruments – commodity	4 539	-	560	-
Derivative instruments – currency	-	346	-	-
Derivative instruments – CCIRS	-	9 299	-	-
Total	4 539	9 645	560	-

The methodology of fair value measurement of the derivative financial instruments presented in the table above has been discussed in Note 9.9 to these financial statements.

Hedging derivative instruments (subject to hedge accounting) – IRS

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

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

As at 31 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; and
- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

The CCIRs have been used with respect to the Company's Coupon Only Cross Currency Swap fixed-fixed transactions concluded on 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.

24. Other financial assets

	As at 31 December 2017	As at 31 December 2016
Receivables from the TCG	6 133	20 945
Units in investment funds	101 358	25 316
Bid bonds, deposits, collateral transferred	15 343	10 156
Initial margin deposits	11 140	–
Other	390	461
Total	134 364	56 878
Non-current	2 724	1 524
Current	131 640	55 354

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

25. Loans granted

	As at 31 December 2017			As at 31 December 2016		
	Principal	Interest	Total	Principal	Interest	Total
Value of items before allowance/write-down						
Loan granted to TAURON Ekoenergia Sp. z o.o.	120 000	19 268	139 268	1 120 000	129 802	1 249 802
Loans granted to EC Stalowa Wola S.A.	529 007	41 425	570 432	218 525	37 542	256 067
Loans granted to PGE EJ 1 Sp. z o.o.	2 940	14	2 954	–	–	–
Granted cash pool loans including accrued interest	189 928	598	190 526	15 306	544	15 850
Total	841 875	61 305	903 180	1 353 831	167 888	1 521 719
Allowance/write-down						
Loan granted to TAURON Ekoenergia Sp. z o.o.			–			(197 953)
Value of item net of allowance (carrying amount)			903 180			1 323 766
Non-current			382 989			1 292 800
Current			520 191			30 966

Loan to a subsidiary

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

On 26 and 27 October 2017 a portion of the loan extended by the Company to subsidiary TAURON Ekoenergia Sp. z o.o. was prematurely repaid. On both dates the amount prepaid by the subsidiary was PLN 500 000 thousand, i.e. PLN 1 000 000 thousand in total. Since the subsidiary TAURON Ekoenergia Sp. z o.o. repaid a portion of the loan and the shares in its increased capital were acquired by the Company, the impairment loss on the loan was reclassified to the shares in TAURON Ekoenergia Sp. z o.o., which has been discussed in more detail in Note 11 to these financial statements.

After the end of the reporting period, on 27 February 2018, a subsidiary repaid the remanding part of a loan of PLN 120 000 thousand.

As at 31 December 2017, the loan, including interest, whose carrying amount was PLN 139 268 thousand, was classified by the Company as a long-term loan, as the exposure was planned to be maintained for a period of more than one year of the end of the reporting period.

Loans granted to joint ventures

The table below presents loans granted to joint venture Elektrociepłownia Stalowa Wola S.A. as at the end of the reporting period, i.e. 31 December 2017 and as at 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			
	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 purposes of debt repayment totalled PLN 290 742 thousand. The said loans were granted for purposes of the debtor's 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 35 to these financial statements.

Under agreements concluded on 16 February 2017 and 28 April 2017, the Company granted 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 a long 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 loan, 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.

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.

Loans granted under cash pool agreement

Detailed information on the cash pool service has been presented in Note 33.4 to these financial statements.

26. Inventories

	As at 31 December 2017	As at 31 December 2016
Gross Value		
Energy certificates	250	250
Greenhouse gas emission allowances	198 459	271 729
Materials	40	23
Total	198 749	272 002
Measurement to net realisable value		
Energy certificates	(184)	(195)
Greenhouse gas emission allowances	(145)	(234)
Measurement to fair value		
Greenhouse gas emission allowances	8	13 226
Total	(321)	12 797
Net value		
Energy certificates	66	55
Greenhouse gas emission allowances	198 322	284 721
Materials	40	23
Total	198 428	284 799

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

27. Receivables from buyers

	As at 31 December 2017	As at 31 December 2016
Gross Value		
Receivables from buyers	719 144	840 665
Receivables claimed at court	913	890
Total	720 057	841 555
Allowance/write-down		
Receivables from buyers	(11)	(9)
Receivables claimed at court	(913)	(890)
Total	(924)	(899)
Net Value		
Receivables from buyers	719 133	840 656
Receivables claimed at court	-	-
Total	719 133	840 656

As at 31 December 2017 and 31 December 2016, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 481 526 thousand and PLN 478 220 thousand, respectively.

Ageing analysis of receivables from buyers as at 31 December 2017

	Not past due	Past due			Total
		<30 days	30–360 days	>360 days	
Value of item before allowance/write-down	719 112	39	37	869	720 057
Allowance/write-down	(33)	-	(22)	(869)	(924)
Net Value	719 079	39	15	-	719 133

Ageing analysis of receivables from buyers as at 31 December 2016

	Not past due	Past due			Total
		<30 days	30–360 days	>360 days	
Value of item before allowance/write-down	840 494	172	35	854	841 555
Allowance/write-down	(3)	(7)	(35)	(854)	(899)
Net Value	840 491	165	-	-	840 656

Impairment losses on receivables from buyers

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	(899)	(2 582)
Recognised	(74)	(66)
Reversed	49	1 749
Closing balance	(924)	(899)

Related-party transactions as well as related party receivables and liabilities have been presented in Note 47.1 hereto.

28. Receivables arising from taxes and charges

	As at 31 December 2017	As at 31 December 2016
Corporate Income Tax	–	83 162
VAT receivables	36 094	35 674
Excise duty receivables	–	1 750
Total	36 094	120 586

A drop in receivables arising from taxes and charges results mostly from a drop in CIT receivables in the Tax Capital Group. As at 31 December 2017, the Tax Capital Group had income tax liabilities of PLN 37 629 thousand, which has been discussed in more detail in Note 16.4 to these financial statements. As at 31 December 2016, the Tax Capital Group reported income tax receivables of PLN 83 153 thousand.

29. Other non-financial assets

	As at 31 December 2017	As at 31 December 2016
Prepaid expenses, including:		
<i>Prepaid fee on borrowings</i>	16 799	10 284
Advance payments for deliveries	16 169	9 531
	1 313	19 315
Total	18 112	29 599
Non-current	13 255	6 071
Current	4 857	23 528

30. Cash and cash equivalents

	As at 31 December 2017	As at 31 December 2016
Cash at bank and in hand	521 343	198 087
Short-term deposits (up to 3 months)	200 234	3
Total cash and cash equivalents presented in the statement of financial position, including:	721 577	198 090
restricted cash	49 792	56 787
Cash pool	(2 186 508)	(1 229 639)
Overdraft	(93 502)	(15 131)
Foreign exchange	(799)	1 239
Total cash and cash equivalents presented in the statement of cash flows	(1 559 232)	(1 045 441)

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

Restricted cash includes mainly cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A), amounting to PLN 49 380 thousand.

Detailed information on cash pool balances has been presented in Note 33.4 to these financial statements.

31. Equity

31.1. 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
		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.

31.2. Major shareholders

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

Shareholder	Number of shares	Nominal value of shares	% of issued capital	% of total vote
State Treasury	526 848 384	2 634 242	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	910 553	10.39%	10.39%
Nationale - Nederlanden Otworthy 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.

31.3. Reserve capital

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

31.4. Revaluation reserve from valuation 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 23 to these 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.

31.5. Retained earnings and dividend limitation

Reserve capital – dividend limitation

	As at 31 December 2017	As at 31 December 2016
amounts subject to distribution	4 032 169	4 032 169
amounts from distribution of prior years profits	4 032 169	4 032 169
non-distributable amounts	3 624 917	3 791 170
decrease in the value of issued capital	3 390 037	3 556 290
settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	7 657 086	7 823 339

Retained earnings – dividend limitation

	As at 31 December 2017	As at 31 December 2016
distributable amounts or losses to be covered	854 364	(166 240)
profit (loss) for the year ended 31 December 2017	854 351	–
profit (loss) for the year ended 31 December 2016	–	(166 253)
adjustment of prior years profit	13	13
non-distributable amounts	80 658	80 762
actuarial gains and losses on provisions for post-employment benefits	140	244
settlement of mergers with subsidiaries	80 518	80 518
Total retained earnings (accumulated losses)	935 022	(85 478)

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

32. Dividends paid

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.

33. Debt

	As at 31 December 2017	As at 31 December 2016
Long-term portion of debt		
Subordinated hybrid bonds	791 355	839 330
Other issued bonds	7 113 161	6 089 821
Loans received from the European Investment Bank	873 770	1 035 927
Loans from the subsidiary	694 168	765 450
Finance lease	–	23 519
Total	9 472 454	8 754 047
Short-term portion of debt		
Subordinated hybrid bonds	1 597	1 693
Other issued bonds	34 233	11 287
Cash pool loans received, including accrued interest	2 377 034	1 245 489
Loans from the European Investment Bank	168 340	154 574
Loans from the subsidiary	27 112	2 300
Overdraft	93 502	15 131
Finance lease	23 945	3 455
Total	2 725 763	1 433 929

33.1. Bonds issued

Bonds issued as at 31 December 2017

Tranche/Bank	Maturity date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (after the balance sheet date)		
				Accrued interest	Principal at amortized cost	up to 2 years	2–5 years	over 5 years
	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
Bank Gospodarstwa Krajowego	20.12.2028	PLN	100 000	107	99 752	–	–	99 752
	20.12.2020	PLN	70 000	74	69 963	–	69 963	–
	20.12.2021	PLN	70 000	74	69 961	–	69 961	–
	20.12.2022	PLN	70 000	74	69 959	–	69 959	–
	20.12.2023	PLN	70 000	74	69 958	–	–	69 958
	20.12.2024	PLN	70 000	74	69 957	–	–	69 957
	20.12.2025	PLN	70 000	74	69 956	–	–	69 956
	20.12.2026	PLN	70 000	74	69 956	–	–	69 956
	20.12.2027	PLN	70 000	74	69 955	–	–	69 955
	20.12.2028	PLN	70 000	74	69 955	–	–	69 955
	20.12.2029	PLN	70 000	74	69 955	–	–	69 955
Bond Issue Scheme of 24 November 2015	29.12.2020	PLN	1 600 000	389	1 597 188	–	1 597 188	–
TPEA1119	4.11.2019	PLN	1 750 000	7 609	1 749 277	1 749 277	–	–
European Investment Bank	16.12.2034	EUR	190 000	1 597	791 355	–	–	791 355
Eurobonds EURBD050727	5.07.2027	EUR	500 000	24 425	2 069 193	–	–	2 069 193
Total				35 830	7 904 516	1 849 146	2 106 526	3 948 844

Bonds issued as at 31 December 2016

Tranche/Bank	Maturity date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (after the balance sheet date)		
				Accrued interest	Principal at amortized cost	up to 2 years	2-5 years	over 5 years
	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
Bank Gospodarstwa Krajowego	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 November 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
Total				12 980	6 929 151	-	4 831 804	2 097 347

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 the underwriting agreement were signed, the result of which is an extension by some banks of the period of availability of the funds under the Program. This means that the maximum value of the Program:

- 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 can 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 on the Polish market are dematerialized, unsecured coupon bonds with floating 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.

A change in the balance of bonds, excluding interest which increased the carrying amount in the year ended 31 December 2017 and in the comparable period, has been presented below.

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	6 929 151	5 956 033
Issue*	2 703 643	4 273 379
Redemption	(1 650 000)	(3 300 000)
Measurement change	(78 278)	(261)
Closing balance	7 904 516	6 929 151

* Costs of discount and 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		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	Bond Issue Scheme dated 24 November 2015	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 23 to these 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 net debt/ EBITDA ratio (for the domestic bond programmes), which defines the maximum level of debt diminished by cash versus EBITDA produced. As at 31 December 2017, none of these covenants had been breached and the contractual provisions were complied with.

33.2. Loans from the European Investment Bank

As at 31 December 2017, the balance of loans obtained from the European Investment Bank was PLN 1 042 110 thousand, including interest accrued of PLN 6 100 thousand. As at 31 December 2016, the balance of loans obtained from the European Investment Bank was PLN 1 190 501 thousand, including interest accrued of PLN 7 086 thousand.

A change in the balance of loans from the European Investment Bank, excluding interest increasing their carrying amount, is presented below.

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	1 183 415	1 316 061
Repaid	(147 568)	(132 818)
Measurement change	163	172
Closing balance	1 036 010	1 183 415

In the year ended 31 December 2017, the Company repaid PLN 147 568 thousand of the principal amount and PLN 41 017 thousand of interest.

33.3. Loans from a subsidiary

As at 31 December 2017, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 721 280 thousand (EUR 172 932 thousand), including interest of PLN 27 112 thousand (EUR 6 500 thousand) accrued as at the end of the reporting period. As at 31 December 2016, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 767 750 thousand (EUR 173 542 thousand), including interest of PLN 2 300 thousand (EUR 520 thousand) accrued as at the end of the reporting period.

A change in the balance of the loan from the subsidiary, excluding interest increasing its carrying amount, is presented below.

	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance	765 450	737 296
Repaid	(28 127)	–
Measurement change	(43 155)	28 154
Closing balance	694 168	765 450

The Company's liability is a long-term loan granted under an agreement entered into in December 2014 by TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ). The interest rate on the loan is fixed and interest is paid annually, in December, until the final loan repayment date. The loan will be fully repaid on 29 November 2029.

In the year ended 31 December 2017, on 31 July 2017, the Company repaid the loan granted by the subsidiary TAURON Sweden Energy AB (publ) from 27 July 2015 of PLN 28 127 thousand (EUR 6 600 thousand) with interest of PLN 197 thousand (EUR 46 thousand).

33.4. Cash pool service

In order to optimize cash management, financial liquidity and finance income and costs, the TAURON Group has implemented a cash pool structure. On 18 December 2014, the Company concluded a new zero-balancing agreement with PKO Bank Polski S.A. for a 3-year term which may be extended by 12 months, with TAURON Polska Energia S.A. acting as an agent. The interest rates were determined on market terms.

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

	As at 31 December 2017	As at 31 December 2016
Receivables from cash pool loans granted	189 928	15 306
Interest receivable on loans granted under cash pool agreement	598	544
Total Receivables	190 526	15 850
Loans received under cash pool agreement	2 374 430	1 244 471
Interest payable on loans received under cash pool agreement	2 604	1 018
Total Liabilities	2 377 034	1 245 489

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

Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand. As at 31 December 2017, the Company did not have any related liabilities.

33.5. Overdraft facilities

As at 31 December 2017, the balance of overdraft facilities included:

- an agreement for an overdraft in EUR with Bank Gospodarstwa Krajowego, concluded by the Company to finance transactions in emission allowances, power and gas, of EUR 22 069 thousand (PLN 92 048 thousand), together with interest accrued in the amount of EUR 9 thousand (PLN 39 thousand);
- an agreement for an overdraft in USD with mBank S.A., concluded by the Company for the purpose of financing margin deposits and commodity transactions, of USD 418 thousand (PLN 1 454 thousand).

As at 31 December 2016, the balance of overdraft facilities was PLN 15 131 thousand.

33.6. Finance lease liabilities

	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	24 142	23 945	4 105	3 455
Within 1 to 2 years	–	–	23 716	23 519
Minimum lease payments, total	24 142	23 945	27 821	26 974
Less amounts representing finance charges	(197)	–	(847)	–
Present value of minimum lease payments	23 945	23 945	26 974	26 974
Non-current	–	–	23 519	23 519
Current	23 945	23 945	3 455	3 455

As at 31 December 2017 and 31 December 2016, the finance lease liability resulted from a lease of investment property.

33.7. Operating lease liabilities

As at 31 December 2017, the Company used a real property located in Katowice at ul. ks. Piotra Ściegiennego 3, based on a lease agreement.

The Company's registered office is located in the leased premises with the usable area of 9 931.39 square meters. In 2017, the average monthly rental fee with the service charges was PLN 818 thousand.

34. Provisions for employee benefits

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	Provisions, total
Opening balance	1 653	1 083	97	2 833
Current service costs	348	240	18	606
Actuarial gains and losses, of which:	153	(32)	7	128
arising from changes in financial assumptions	(19)	–	–	(19)
arising from changes in demographic assumptions	–	–	–	–
arising from other changes	172	(32)	7	147
Benefits paid	(158)	(7)	(1)	(166)
Interest expense	41	32	3	76
Closing balance	2 037	1 316	124	3 477
Non-current	1 719	1 307	121	3 147
Current	318	9	3	330

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	Jubilee bonuses	Provisions, total
Opening balance	1 547	1 314	282	5 422	8 565
Current service costs	210	85	26	924	1 245
Actuarial gains and losses, of which:	(364)	(563)	(246)	(526)	(1 699)
arising from changes in financial assumptions	(30)	(304)	(32)	–	(366)
arising from changes in demographic assumptions	(130)	(119)	(12)	–	(261)
arising from other changes	(204)	(140)	(202)	(526)	(1 072)
Benefits paid	(9)	(4)	(1)	(693)	(707)
Past service costs	225	213	28	(5 280)	(4 814)
Interest expense	44	38	8	153	243
Closing balance	1 653	1 083	97	–	2 833
Non-current	1 361	1 077	96	–	2 534
Current	292	6	1	–	299

Measurement of provisions for employee benefits

Provisions for employee benefits were estimated using actuarial methods. Key actuarial assumptions made as at the end of the reporting period for purposes of calculation of the provision:

	31 December 2017	31 December 2016
Discount rate (%)	3.00%	3.00%
Estimated inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	7.93%	7.94%
Estimated salary increase rate (%)	2.50%	2.50%
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	17.11	13.06

A sensitivity analysis of measurement results as at 31 December 2017 to changes in key actuarial assumptions by 0.5 percentage point has been presented below:

Provision	Measurement as at 31 December 2017	Financial discount rate		Planned increases in base amount	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	2 037	2 136	1 948	1 948	2 136
Employee electricity rates	1 316	1 477	1 180	1 180	1 475
Social Fund	124	136	110	110	136
Total	3 477	3 749	3 238	3 238	3 747

A discount rate reduction by 0.5 percentage point would result in an increase in the provision for employee benefits from PLN 3 477 thousand to PLN 3 749 thousand. A discount rate increase by 0.5 percentage point, i.e. application of a 3.50% discount rate, would result in a decrease in the provision to PLN 3 238 thousand.

The benefits were calculated based on the assumptions set out in the Compensation Policy. Reducing the planned increases of compensation bases by 0.5 percentage point would result in a decrease in the provision for employee benefits down to PLN 3 238 thousand, while their increase by 0.5 percentage point would cause an increase in the provision up to PLN 3 747 thousand.

35. Other provisions

Change in other provisions for the year ended 31 December 2017

	Provisions for onerous contracts with a jointly-controlled entity and provision for costs	Other provisions	Provisions total
Opening balance	198 844	64 505	263 349
Unwinding of discount and change in discount rate	2 330	–	2 330
Recognition	2 250	4 277	6 527
Reversal	(203 424)	–	(203 424)
Utilisation	–	(11)	(11)
Closing balance	–	68 771	68 771
Non-current	–	–	–
Current	–	68 771	68 771

Change in other provisions for the year ended 31 December 2016

	Provisions for onerous contracts with a jointly-controlled entity and provision for costs	Other provisions	Provisions total
Opening balance	182 877	15	182 892
Unwinding of discount and change in discount rate	13 759	–	13 759
Recognition	2 221	64 509	66 730
Reversal	(13)	(3)	(16)
Utilisation	–	(16)	(16)
Closing balance	198 844	64 505	263 349
Non-current	152 943	–	152 943
Current	45 901	64 505	110 406

Provision 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	Total provisions for onerous contracts with a jointly-controlled entity and provision for costs
Opening balance	133 327	54 837	10 680	198 844
Unwinding of discount	1 626	475	229	2 330
Recognition	-	-	2 250	2 250
Reversal	(134 953)	(55 312)	(13 159)	(203 424)
Closing balance	-	-	-	-

In year 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 total amount the 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. 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 25 to these 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 changes to the gaseous fuel supply contract and the electricity sales contract 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 aforesaid changes 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 Q1 2017.

Other provisions

As at 31 December 2017 other provisions included mainly the provisions for tax risks due to the pending inspection proceedings. As at 31 December 2016 the Company recognized a related provision of PLN 64 494 thousand. As at 31 December 2017, the relevant provision amounted to PLN 68 694 thousand. An increase in the provision by PLN 4 200 thousand, is attributable to interest accrued as at the year ended 31 December 2017.

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

36. Accruals, deferred income and government grants

	As at 31 December 2017	As at 31 December 2016
Unused holidays	2 587	2 577
Bonuses	6 499	10 867
Accruals relating to post-service benefits for members of the Management Board/key management personnel	1 764	2 230
Accruals relating to payments in lieu of jubilee bonuses	–	4 356
Other	3 744	1 473
Total	14 594	21 503
Non-current	–	170
Current	14 594	21 333

37. Liabilities to suppliers

As at 31 December 2017, the value of the said liabilities to the subsidiaries TAURON Wytwarzanie S.A. and TAURON Sprzedaż Sp. z o.o. was the highest: PLN 163 952 thousand and PLN 87 255 thousand, respectively. As at 31 December 2016, liabilities to the subsidiaries TAURON Wytwarzanie S.A. and TAURON Wydobywanie S.A. were the highest and totalled PLN 106 417 thousand and PLN 98 682 thousand, respectively.

38. Other financial liabilities

	As at 31 December 2017	As at 31 December 2016
Liabilities arising from the TCG	34 836	75 662
Margin deposits	7 163	13 106
Commissions related to securities	5 889	8 020
Bid bonds, deposits and collateral received	5 400	5 681
Wages and salaries, deductions on wages and salaries as well as other employee related liabilities	6 424	3 770
Other	23 004	33 438
Total	82 716	139 677
Non-current	20 126	27 918
Current	62 590	111 759

39. Liabilities arising from taxes and charges

	As at 31 December 2017	As at 31 December 2016
Corporate Income Tax	37 629	–
Personal Income Tax	1 878	1 484
VAT	25 385	15 850
Excise	880	–
Social security	4 311	2 846
Other	36	29
Total	70 119	20 209

An increase in liabilities arising from taxes and charges results mainly from a rise in CIT liabilities in the Tax Capital Group. As at 31 December 2017, the Tax Capital Group had income tax liabilities of PLN 37 629 thousand, which has been discussed in more detail in Note 16.4 to these financial statements. As at 31 December 2016, the Tax Capital Group reported income tax receivables of PLN 83 153 thousand.

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

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

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

40. Significant items of the statement of cash flows

40.1. Cash flows from operating activities

Changes in working capital

	Year ended 31 December 2017	Year ended 31 December 2016
Change in receivables	105 267	(254 506)
Change in inventories	86 371	(35 307)
Change in payables excluding loans and borrowings	(59 096)	21 190
Change in other non-current and current assets	11 211	60 110
Change in deferred income, government grants and accruals	(6 909)	1 867
Change in provisions	(194 062)	75 897
Change in working capital	(57 218)	(130 749)

40.2. Cash flows from investing activities

Purchase of bonds

Payments to purchase bonds, in the amount of PLN 350 000 thousand, are related to purchases of intra-group bonds issued by the following subsidiaries:

- TAURON Wytwarzanie S.A., totalling PLN 250 000 thousand;
- TAURON Wydobywanie S.A., totalling PLN 100 000 thousand.

Purchase of shares

Payments to acquire shares of PLN 6 169 590 thousand were mainly related to the Company's transfer of funds to increase the issued capital of subsidiaries:

- Nowe Jaworzno Grupa TAURON Sp. z o.o., totalling PLN 3 400 000 thousand;
- TAURON Ekoenergia Sp. z o.o., totalling PLN 1 000 000 thousand;
- TAURON Dystrybucja S.A., totalling PLN 1 000 000 thousand;
- TAURON Ciepło Sp. z o.o., totalling PLN 600 000 thousand;
- TAURON Wydobywanie S.A., totalling PLN 160 000 thousand;
- Magenta Grupa TAURON Sp. z o.o., totalling PLN 9 000 thousand;
- Marselwind Sp. z o.o., totalling PLN 200 thousand.

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.

Redemption of bonds

Proceeds from redemption of bonds, in the amount of PLN 3 547 110 thousand, are related to redemption of intra-group bonds issued by the following subsidiaries:

- Nowe Jaworzno Grupa TAURON Sp. z o.o., totalling PLN 2 533 850 thousand;
- TAURON Ciepło Sp. z o.o., totalling PLN 598 260 thousand;
- TAURON Wytwarzanie S.A., totalling PLN 200 000 thousand;
- TAURON Wydobywanie S.A., totalling PLN 100 000 thousand;
- TAURON Obsługa Klienta Sp. z o.o., totalling PLN 85 000 thousand;
- TAURON Dystrybucja S.A., totalling PLN 30 000 thousand.

Repayment of loans granted

Loan repayment of PLN 1 000 000 thousand constitutes partial repayment of a loan granted to the subsidiary TAURON Ekoenergia Sp. z o.o., which has been discussed in more detail in Note 25 to these financial statements.

Interest received

	Year ended 31 December 2017	Year ended 31 December 2016
Interest received in relation to debt securities	642 017	472 445
Interest received in relation to loans granted	–	1 681
Total	642 017	474 126

40.3. Cash flows from financing activities

Repayment of loans and borrowings

The expenditure on repayment of loans and borrowings in the year ended 31 December 2017 totalling PLN 175 695 thousand is the repayment of:

- the loan installments to the European Investment Bank, totalling PLN 147 568 thousand;
- the loan obtained from the subsidiary TAURON Sweden Energy AB (publ), totalling PLN 28 127 thousand.

Redemption of debt securities

Payments on the redemption of debt securities in the year ended 31 December 2017 resulted from the redemption of a tranche of bonds with the par value of PLN 1 650 000 thousand under a bond issue scheme of November 2015, which has been discussed in more detail in Note 33.1 to these financial statements.

Interest paid

	Year ended 31 December 2017	Year ended 31 December 2016
Interest paid in relation to debt securities	(221 832)	(271 220)
Interest paid in relation to loans	(41 295)	(51 205)
Interest paid in relation to borrowings	(1 446)	(27 644)
Interest paid in relation to the finance lease	(650)	(603)
Exchange differences on loans and borrowings	–	(475)
Total	(265 223)	(351 147)

Issue of debt securities

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

- the issue of eurobonds totalling PLN 2 107 462 thousand, which has been discussed in more detail in Note 33.1 to these financial statements;
- 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 33.1 to these financial statements.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

41. Financial instruments

41.1. 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 Financial assets at fair value through profit or loss, held for trading		106 292	106 292	45 092	45 092
Derivative instruments	23	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		39 244		29 703	
Long-term shares	21	39 244		29 703	
3 Loans and receivables		8 228 015	8 072 480	12 054 366	11 920 587
Receivables from buyers	27	719 133	719 133	840 656	840 656
Bonds	22	6 572 696	6 506 729	9 858 382	9 814 505
Loans granted under cash pool agreement	33.4	190 526	190 526	15 850	15 850
Other loans granted	25	712 654	623 086	1 307 916	1 218 014
Other financial receivables		33 006	33 006	31 562	31 562
4 Financial assets excluded from the scope of IAS 39		20 873 435		14 844 715	
Shares in subsidiaries	21	20 457 583		14 428 863	
Shares in jointly-controlled entities	21	415 852		415 852	
5 Hedging derivative instruments	23	28 482	28 482	36 641	36 641
6 Cash and cash equivalents	30	721 577	721 577	198 090	198 090
Total financial assets, of which in the statement of financial position:		29 997 045		27 208 607	
Non-current assets		27 334 757		25 820 473	
Shares		20 912 679		14 874 418	
Bonds		6 009 920		9 615 917	
Loans granted		382 989		1 292 800	
Derivative instruments		26 445		35 814	
Other financial assets		2 724		1 524	
Current assets		2 662 288		1 388 134	
Receivables from buyers		719 133		840 656	
Bonds		562 776		242 465	
Loans granted		520 191		30 966	
Derivative instruments		6 971		20 603	
Other financial assets		131 640		55 354	
Cash and cash equivalents		721 577		198 090	

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	14 184	560	560
Derivative instruments	23	14 184	14 184	560	560
2 Financial liabilities measured at amortized cost		12 670 253	12 699 476	10 774 316	10 808 300
Arm's length loans, of which:		4 140 424	4 135 000	3 203 740	3 237 724
Liability under the cash pool loan	33.4	2 377 034	2 377 034	1 245 489	1 245 489
Loans from the European Investment Bank	33.2	1 042 110	1 044 424	1 190 501	1 193 410
Loans from the subsidiary	33.3	721 280	713 542	767 750	798 825
Overdraft	33.5	93 502	93 502	15 131	15 131
Bonds issued	33.1	7 940 346	7 974 993	6 942 131	6 942 131
Liabilities to suppliers	37	413 265	413 265	473 637	473 637
Other financial liabilities	38	82 586	82 586	139 177	139 177
Liabilities due to purchases of fixed and intangible assets	38	130	130	500	500
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		23 945	23 945	26 974	26 974
Liabilities under finance leases	33.6	23 945	23 945	26 974	26 974
Total financial liabilities, of which in the statement of financial position:		12 708 382		10 801 850	
Non-current liabilities		9 497 538		8 781 965	
Debt		9 472 454		8 754 047	
Other financial liabilities		20 126		27 918	
Derivative instruments		4 958		-	
Current liabilities		3 210 844		2 019 885	
Debt		2 725 763		1 433 929	
Liabilities to suppliers		413 265		473 637	
Derivative instruments		9 226		560	
Other financial liabilities		62 590		111 759	

Derivative financial instruments measured at fair value as at the end of the reporting period and classified as assets and liabilities measured at fair value through profit or loss, or designated as hedging derivatives (subject to hedge accounting), have been measured in line with the method described in Note 9.9 to these financial statements. Fair value hierarchy disclosures are provided in Note 23 to these financial statements. 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:

- Fixed rate financial instruments – bonds purchased by the Company, a loan to a subsidiary, loans from the European Investment Bank, a loan from a subsidiary, subordinated bonds and eurobonds issued – were measured at fair value. The subordinated loan and the loans for repayment of debt granted to Elektrociepłownia Stalowa Wola S.A. were also subject to the fair value measurement, 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 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 financial assets available for sale and those 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 differ significantly from their values presented in the financial statements for the respective periods, due to the following reasons:
 - the potential discounting effect relating to short-term instruments is not significant;
 - the instruments are related to arm's length transactions.

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

- The Company did not disclose the fair value as at the end of the reporting period of shares in companies not quoted in active markets, categorised 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 Company estimated the fair value of the above shares as at that date, which has been discussed in more detail in Note 7 to these financial statements. In accordance with the Company's accounting policy, shares in subsidiaries and jointly-controlled entities (joint ventures) – financial assets excluded from the scope of IAS 39 *Financial Instruments: Recognition and Measurement* – are also measured at cost less impairment losses.

41.2. 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	Financial assets available for sale	Loans and receivables	Financial liabilities measured at amortized cost	Hedging instruments	Financial assets / liabilities excluded from the scope of IAS 39	Total
Dividends	–	2 858	–	–	–	557 974	560 832
Interest income/(expense)	19 321	–	456 413	(335 282)	1 525	(650)	141 327
Commissions	–	–	–	(19 068)	–	–	(19 068)
Exchange differences	(2 483)	–	1 689	128 270	–	–	127 476
Impairment / revaluation	(11 820)	–	(32)	–	–	(134 372)	(146 224)
Other	(4 866)	–	–	–	–	–	(4 866)
Net financial income/(costs)	152	2 858	458 070	(226 080)	1 525	422 952	659 477
Revaluation	(13 514)	–	34	–	–	–	(13 480)
Gain/(loss) on realized commodity derivative instruments	8 737	–	–	–	–	–	8 737
Net operating income/(costs)	(4 777)	–	34	–	–	–	(4 743)
Remeasurement of IRS	–	–	–	–	(8 159)	–	(8 159)
Other comprehensive income	–	–	–	–	(8 159)	–	(8 159)

For the year ended 31 December 2016

	Assets / liabilities at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Financial liabilities measured at amortized cost	Hedging instruments	Financial assets / liabilities excluded from the scope of IAS 39	Total
Dividends	–	2 201	–	–	–	1 482 951	1 485 152
Interest income/(expense)	6 371	–	504 355	(275 686)	(80 658)	(603)	153 779
Commissions	–	–	–	(18 814)	–	–	(18 814)
Exchange differences	(2 148)	–	183	(27 704)	–	–	(29 669)
Impairment / revaluation	14 495	–	(197 840)	–	–	(1 412 443)	(1 595 788)
Gain/(loss) on disposal of investments	–	1 051	–	–	–	(88 311)	(87 260)
Other	(54)	–	–	–	–	–	(54)
Net financial income/(costs)	18 664	3 252	306 698	(322 204)	(80 658)	(18 406)	(92 654)
Revaluation	15 982	–	1 543	–	–	–	17 525
Gain/(loss) on realized commodity derivative instruments	(34 365)	–	–	–	–	–	(34 365)
Net operating income/(costs)	(18 383)	–	1 543	–	–	–	(16 840)
Remeasurement of IRS	–	–	–	–	127 252	–	127 252
Other comprehensive income	–	–	–	–	127 252	–	127 252

Impairment losses/revaluation

Following the performance of impairment tests for shares, bonds and loans as at 31 December 2017 and as at 30 June 2017, which has been discussed in more detail in Note 21 to these financial statements, the Company revalued its shares in subsidiaries.

Revaluation recognized within finance income (costs) affected mostly the following classes of financial instruments:

- shares in subsidiaries – impairment losses recognized by the Company exceeded those which were reversed by PLN 134 372 thousand;
- units in investment funds – a gain on measurement of PLN 1 356 thousand;
- derivative instruments – a loss on measurement of PLN 13 176 thousand.

Costs of derivative instruments used as hedges

In the year ended 31 December 2017, gains/losses from valuation of an IRS hedging instrument subject to hedge accounting were recognized within other comprehensive income. In 2017, the change in valuation was PLN (8 159) thousand. Gains/losses from revaluation of the hedging instrument, recognized in other comprehensive income, were recognized in profit/loss for the period as finance costs resulting from interest on issued bonds when the hedged item, i.e. interest on bonds, affected the profit/loss for the period. The amount of PLN 1 525 thousand was recognized in profit/loss for the period as a payment relating to a realized hedge for past interest periods.

42. Finance and financial risk management

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

Hedge accounting

As at 31 December 2017, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance and subject to hedge accounting. The Company hedges a portion of the interest rate risk inherent in cash flows related to issued bonds, which has been discussed in more detail in Note 23 to these financial statements.

Risks related to financial instruments which the Company is exposed to in its business operations:

- credit risk;
- liquidity risk;

- market risk, including:
 - 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 Company.

42.1. Credit risk

Credit risk regards potential credit events that may have the form of: a contractor's insolvency, partial repayment of receivables, a material payment delay or another unpredicted breach of contract terms.

The credit risk related to financial assets of the Company results from the inability to make payment by the other party to the agreement and the maximum exposure is equal to the carrying amount of these instruments.

Categories of financial assets held by the Company that give rise to credit risk exposure with different characteristics include:

- receivables from buyers;
- bonds;
- loans granted;
- other financial receivables;
- cash and cash equivalents;
- derivatives;
- units in investment funds;
- other financial assets.

42.1.1. Credit risk related to receivables from buyers

The Company monitors credit risk related to its operations on an ongoing basis. In 2017, the Company was exposed to counterparty credit risk resulting from commercial contracts. To mitigate the risk, as part of the regular analysis of reliability and financial standing of its counterparties, in justified cases the Company required security.

Receivables from buyers include amounts due from subsidiaries and corporate buyers from outside the Group. They do not bear any interest and mature within seven to thirty days, depending on the contract. Sales transactions are only entered into with clients subject to a verification procedure. This – in the opinion of the management – eliminates any additional credit risk, over the level defined by the allowance for bad debts applied to the Company's trade receivables.

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 financial statements.

42.1.2. Credit risk related to other financial assets

According to the Company credit risk exposure of other categories of financial assets is insignificant. Bonds acquired by the Company and loans granted concern mostly transactions with related parties. The items in question had not been overdue as at the end of the reporting period.

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

The entities the Company concludes derivative transactions with in order to hedge against interest rate and currency risk operate in the financial sector. They are Polish banks with high financial rating, sufficient equity and strong, stable market position.

42.2. Liquidity risk

The Company maintains a balance between continuity, flexibility and cost of financing by using various sources of funding, which enable management of liquidity risk and effective mitigation of risk consequences.

Liquidity is managed at the Group level. The TAURON Group has adopted *Liquidity management policy for the TAURON Group*, which facilitates optimization of liquidity management at the TAURON Group and reduces the risk of liquidity loss by the Group and each company from the TAURON Group.

Additionally, 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 Company 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.

Ageing structure of financial liabilities presenting undiscounted payments under applicable agreements has been presented below.

Financial liabilities as at 31 December 2017

	Carrying amount	Contractual undiscounted payments	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings (including bonds issued)	12 174 272	(14 560 425)	(2 537 566)	(413 335)	(2 322 897)	(2 189 338)	(981 420)	(6 115 869)
Liabilities to suppliers	413 265	(413 265)	(413 265)	–	–	–	–	–
Liabilities due to purchases of fixed and intangible assets	130	(130)	(130)	–	–	–	–	–
Other financial liabilities	82 586	(82 586)	(57 182)	(5 281)	(2 500)	(2 500)	(5 000)	(10 124)
Liabilities under finance lease	23 945	(24 142)	(1 474)	(22 668)	–	–	–	–
Derivative financial liabilities								
Derivative 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	12 708 382	(15 132 443)	(3 009 892)	(450 473)	(2 330 091)	(2 196 586)	(995 847)	(6 149 555)

Financial liabilities as at 31 December 2016

	Carrying amount	Contractual undiscounted payments	Including contractual undiscounted payments maturing during the period (from the reporting date)					over 5 years
			less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings (including bonds issued)	10 161 002	(12 283 976)	(1 297 437)	(399 745)	(475 139)	(2 290 161)	(3 668 348)	(4 153 146)
Liabilities to suppliers	473 637	(473 637)	(473 616)	(21)	-	-	-	-
Liabilities due to purchases of fixed and intangible assets	500	(500)	(500)	-	-	-	-	-
Other financial liabilities	139 177	(139 177)	(110 621)	(638)	(7 918)	(2 500)	(5 000)	(12 500)
Liabilities under finance lease	26 974	(27 821)	(1 021)	(3 084)	(23 716)	-	-	-
Derivative financial liabilities								
Derivate instruments – commodity	560	(538)	-	(538)	-	-	-	-
Total	10 801 850	(12 925 649)	(1 883 195)	(404 026)	(506 773)	(2 292 661)	(3 673 348)	(4 165 646)

As at 31 December 2017, the Company had granted guarantees, sureties and other forms of collateral to related parties in the total amount of PLN 825 876 thousand (excluding registered and financial pledges on shares) versus PLN 1 338 438 thousand as at 31 December 2016, which has been discussed in more detail in Note 44 to these financial statements. As at 31 December 2017, a corporate guarantee granted to a subsidiary to collateralize bonds issued by the entity up to EUR 168 000 thousand (PLN 700 711 thousand) was the key item. The guarantee is valid in the entire bond period, i.e. until the redemption date – 3 December 2029.

The guarantees and sureties granted by the Company constitute contingent liabilities and do not considerably affect the liquidity risk of the Company.

42.3. Market risk

Market risk results from possible adverse impact of fluctuations of the fair value of financial instruments or related future cash flows due to market price changes on the Company's performance.

The Company 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 Company.

42.3.1. Interest rate risk

The Company is exposed to the risk of interest rate changes related to floating interest rate borrowings acquired and investing in assets with floating and fixed interest rates. The Company is also exposed to lost benefit risk related to a decrease in interest rates in the case of fixed interest rate debt.

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Company's cash flows to an acceptable level and to minimize finance costs. In order to hedge interest rate risk related to floating-rate bonds issued, the Company entered into interest rate swap contracts (IRS), which has been discussed in more detail in Note 23 to these financial statements.

Carrying amounts of financial instruments of the Company exposed to the interest rate risk have been presented in tables below. Except the hybrid bonds issued in December 2016 with fixed interest in the first funding period and the fixed-rate eurobonds issued in July 2017, other bonds issued by the Company bear floating interest. As the Company has adopted a dynamic financial risk management strategy where the hedged item concern 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.

Financial instruments by interest rate type as at 31 December 2017

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Bonds	6 572 696	–	6 572 696
Loans granted	142 223	760 957	903 180
Cash and cash equivalents	–	721 577	721 577
Derivative instruments – IRS	28 482	–	28 482
Financial liabilities			
Bank overdrafts	–	93 502	93 502
Arm's length loans	1 763 390	2 377 034	4 140 424
Bonds issued	4 984 389	2 955 957	7 940 346
Obligations under finance leases	–	23 945	23 945
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			
Bonds	9 858 382	–	9 858 382
Loans granted*	1 051 849	271 917	1 323 766
Cash and cash equivalents	–	198 090	198 090
Derivative instruments – IRS	36 641	–	36 641
Financial liabilities			
Bank overdrafts	–	15 131	15 131
Arm's length loans	1 958 251	1 245 489	3 203 740
Bonds issued	2 938 091	4 004 040	6 942 131
Obligations under finance leases	–	26 974	26 974

* The amount of a loan granted to a subsidiary on which an impairment loss has been recognized has been presented in the table above on a net basis, i.e. less the impairment loss.

Other financial instruments of the Company which have not been presented in the tables above bear no interest and therefore are not exposed to the interest rate risk.

42.3.2. Currency risk

The Company's exposure to currency risk by financial instrument class as at 31 December 2017 and 31 December 2016 has been presented below.

Currency position as at 31 December 2017

	Total carrying amount in PLN	EUR		USD		GBP		CZK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets									
Receivables from buyers	719 133	250	1 043	–	–	–	–	–	–
Other financial receivables	33 006	3 321	13 852	–	–	–	–	–	–
Cash and cash equivalents	721 577	2 577	10 748	314	1 093	485	2 280	11 003	1 796
Derivatives (assets)	33 416	1 169	4 876	16	58	–	–	–	–
Total	1 507 132	7 317	30 519	330	1 151	485	2 280	11 003	1 796
Financial liabilities									
Arm's length loans	4 140 424	172 932	721 282	–	–	–	–	–	–
Overdraft	93 502	22 069	92 048	418	1 454	–	–	–	–
Bonds issued	7 940 346	692 073	2 886 567	–	–	–	–	–	–
Liabilities to suppliers	413 265	65	271	3	10	1	5	–	–
Other financial liabilities	82 586	1 717	7 161	–	–	–	–	–	–
Derivatives (liabilities)	14 184	1 061	4 425	33	114	–	–	–	–
Total	12 684 307	889 917	3 711 754	454	1 578	1	5	–	–
Net currency position		(882 600)	(3 681 235)	(124)	(427)	484	2 275	11 003	1 796

Currency position as at 31 December 2016

	Total carrying amount in PLN	EUR		USD		GBP		
		in currency	in PLN	in currency	in PLN	in currency	in PLN	
Financial assets								
Receivables from buyers	840 656	12	53	–	–	–	–	
Other financial receivables	31 562	342	1 515	–	–	–	–	
Cash and cash equivalents	198 090	5 983	26 469	306	1 279	499	2 567	
Derivatives (assets)	56 417	3 649	16 143	100	416	–	–	
Total	1 126 725	9 986	44 180	406	1 695	499	2 567	
Financial liabilities								
Arm's length loans	3 203 740	173 542	767 750	–	–	–	–	
Overdraft	15 131	3 032	13 415	410	1 716	–	–	
Bonds issued	6 942 131	190 105	841 023	–	–	–	–	
Liabilities to supplier	473 637	32	144	12	50	–	–	
Other financial liabilities	139 177	2 958	13 088	94	393	2	10	
Derivatives (liabilities)	560	122	538	5	22	–	–	
Total	10 774 376	369 791	1 635 958	521	2 181	2	10	
Net currency position		(359 805)	(1 591 778)	(115)	(486)	497	2 557	

In 2017 and in 2016, TAURON Polska Energia S.A. used forward contracts for currency risk management purposes. The objective of these transactions is to hedge currency risk related to the operations of the Company. The Company did not use hedge accounting to hedge currency risk. As at 31 December 2017, liabilities arising from valuation of FX forwards held by the Company 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 23 to these financial statements.

42.3.3. Raw material and commodity price risk related to commodity derivative instruments and price risk related to units held by the Company

The Company concludes derivative contracts, with underlying instruments being commodities and raw materials. The Company's exposure to price risk inherent in commodity derivative instruments is related to a risk of changes in the fair value of the said instruments, driven by fluctuations of prices of the underlying raw materials/commodities. This way the Company hedges the price risk related to commodity derivative instruments by entering to opposite transaction. The risk is limited to open long and short positions concerning a given commodity or raw material.

As at 31 December 2017, open positions mostly included 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 mostly included 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.

As at 31 December 2017, the Company held units in investment funds with the carrying amount of PLN 101 358 thousand. As they are measured at fair value at the end of the reporting period, they are exposed to the price risk.

42.3.4. Market risk – sensitivity analysis

As for financial instruments held, the Company is exposed mostly to the risk of EUR/PLN, USD/PLN and GBP/PLN exchange rate changes as well as changes in reference interest rates for PLN, EUR and USD.

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Company relies on expert scenarios reflecting its judgment concerning the behaviour of individual market risk factors in the future.

The scenario analyses presented herein are aimed at examining the effect of changes in market risk factors on the Company's financial performance. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

Presented below is the sensitivity analysis for the interest rate, currency and price risks to which the Company is exposed as at the end of the reporting period, along with the effect of potential changes in individual risk factors on the gross profit/loss as well as other comprehensive income (gross), by class of financial assets and liabilities.

Interest rate risk sensitivity analysis

The interest rate risk sensitivity analysis is conducted by the Company 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 Company to the interest rate risk as at the end of the reporting period.

The Company 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. The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) 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.

For the year ended 31 December 2017

Classes of financial instruments	31 December 2017		Sensitivity analysis for interest rate risk as at 31 December 2017					
	Carrying amount	Value at risk	WIBOR				EURIBOR	
			WIBOR + 43 bp		WIBOR - 43 bp		EURIBOR + 1 bp	EURIBOR - 1 bp
			Profit/(Loss)	Other comprehensive income	Profit/(Loss)	Other comprehensive income	Profit/(Loss)	
Loans granted	903 180	760 957	3 272	-	(3 272)	-	-	-
Cash and cash equivalents	721 577	721 577	3 034	-	(3 034)	-	1	(1)
Derivatives (assets)	33 416	28 482	-	21 217	-	(21 217)	-	-
Bank overdrafts	93 502	93 502	-	-	-	-	(9)	9
Arm's length loans	4 140 424	2 377 034	(10 221)	-	10 221	-	-	-
Bonds issued	7 940 346	5 053 777	(21 731)	-	21 731	-	-	-
Obligations under finance leases	23 945	23 945	(103)	-	103	-	-	-
Derivates (liabilities)	14 184	9 299	5 995	-	(5 995)	-	(146)	146
Total			(19 754)	21 217	19 754	(21 217)	(154)	154

The exposure to risk as at 31 December 2017 is representative for the Company'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 in November and December 2017, which are sensitive to both changes in WIBOR and EURIBOR interest rates. CCIRS instruments have been discussed in more detail in Note 23 to these financial statements.

For the year ended 31 December 2016

Classes of financial instruments	31 December 2016		Sensitivity analysis for interest rate risk as at 31 December 2016			
	Carrying amount	Value at risk	WIBOR			
			WIBOR + 60 bp		WIBOR -60 bp	
			Profit/(Loss)	Other comprehensive income	Profit/(Loss)	Other comprehensive income
Loans granted	1 323 766	271 917	1 632	–	(1 632)	–
Cash and cash equivalents	198 090	198 090	1 007	–	(1 007)	–
Derivatives (assets)	56 417	36 641	–	40 992	–	(40 992)
Arm's length loans	3 203 740	1 245 489	(7 473)	–	7 473	–
Bonds issued	6 942 131	6 101 108	(36 607)	–	36 607	–
Obligations under finance leases	26 974	26 974	(162)	–	162	–
Total			(41 603)	40 992	41 603	(40 992)

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

Currency risk sensitivity analysis

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 Company identifies its exposure to foreign currency risk related to EUR/PLN, USD/PLN and GBP/PLN exchange rates, and additionally the CZK/PLN exchange rate in the year ended 31 December 2017. The tables below present sensitivity of the gross profit/loss to reasonably possible changes in the EUR/PLN, USD/PLN, GBP/PLN and CZK/PLN exchange rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

For the year ended 31 December 2017

Classes of financial instruments	31 December 2017		Sensitivity analysis for currency risk as at 31 December 2017							
	Carrying amount	Value at risk	EUR/PLN		USD/PLN		GBP/PLN		CZK/PLN	
			exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	exchange rate
			EUR/PLN	EUR/PLN	USD/PLN	USD/PLN	GBP/PLN	GBP/PLN	CZK/PLN	CZK/PLN
			+6.2%	-6.2%	+9.76%	-9.76%	+9.35%	-9.35%	+6.34%	-6.34%
		Profit/(Loss)	Profit/(Loss)	Profit/(Loss)	Profit/(Loss)	Profit/(Loss)	Profit/(Loss)			
Receivables from buyers	719 133	1 043	65	(65)	–	–	–	–	–	–
Other financial receivables	33 006	13 852	859	(859)	–	–	–	–	–	–
Cash and cash equivalents	721 577	15 917	667	(667)	107	(107)	213	(213)	114	(114)
Derivatives (assets)	33 416	4 934	302	(302)	6	(6)	–	–	–	–
Overdraft	93 502	93 502	(5 705)	5 705	(142)	142	–	–	–	–
Arm's length loans	4 140 424	721 282	(44 720)	44 720	–	–	–	–	–	–
Bonds issued	7 940 346	2 886 567	(178 967)	178 967	–	–	–	–	–	–
Liabilities to suppliers	413 265	286	(17)	17	(1)	1	–	–	–	–
Other financial liabilities	82 586	7 161	(444)	444	–	–	–	–	–	–
Derivatives (liabilities)	14 184	14 184	19 394	(19 394)	(11)	11	–	–	–	–
Total			(208 566)	208 566	(41)	41	213	(213)	114	(114)

The exposure to risk as at 31 December 2017 is representative for the Company'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 33.1 to these financial statements, and derivatives (liabilities), consisting of CCIRS transactions entered into in November and December 2017, which has been discussed in more detail in Note 23 to these financial statements.

For the year ended 31 December 2016

Classes of financial instruments	31 December 2016		Sensitivity analysis for currency risk as at 31 December 2016					
	Carrying amount	Value at risk	EUR/PLN		USD/PLN		GBP/PLN	
			exchange rate	exchange rate	exchange rate	exchange rate	exchange rate	exchange rate
			EUR/PLN +7.8%	EUR/PLN -7.8%	USD/PLN +13.8%	USD/PLN -13.8%	GBP/PLN +11.55%	GBP/PLN -11.55%
		Profit/(Loss)		Profit/(Loss)		Profit/(Loss)		
Receivables from buyers	840 656	53	4	(4)	-	-	-	-
Other financial receivables	31 562	1 515	118	(118)	-	-	-	-
Cash and cash equivalents	198 090	30 315	2 065	(2 065)	177	(177)	296	(296)
Derivatives (assets)	56 417	19 776	6 624	(6 624)	57	(57)	-	-
Overdraft	15 131	15 131	(1 046)	1 046	(237)	237	-	-
Arm's length loans	3 203 740	767 750	(59 884)	59 884	-	-	-	-
Bonds issued	6 942 131	841 023	(65 600)	65 600	-	-	-	-
Liabilities to suppliers	473 637	194	(11)	11	(7)	7	-	-
Other financial liabilities	139 177	13 491	(1 021)	1 021	(54)	54	(1)	1
Derivatives (liabilities)	560	560	(42)	42	(3)	3	-	-
Total			(118 793)	118 793	(67)	67	295	(295)

The exposure to risk as at 31 December 2016 is representative for the Company'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.

Analysis of sensitivity to commodity price risk related to commodity derivative instruments

The analysis of sensitivity to changes in emissions risk factors is conducted by the Company 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 Company's financial performance.

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

Unit price risk sensitivity analysis

For purposes of the analysis of sensitivity to changes in the quoted prices of the units in investment funds held by the Company, the Company 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			
	Carrying amount	Value at risk	Price change		Price change	
			+1.3%	-1.3%	+0.8%	-0.8%
	<i>Impact on gross profit</i>					
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			
	Carrying amount	Value at risk	Price change		Price change	
			+1.0%	-1.0%	+0.7%	-0.7%
	<i>Impact on gross profit</i>					
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)

43. Operational risk

The Company is exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in prices of goods in the open market position.

Commercial operational risk is managed at the level of the TAURON Group, which has been discussed in more detail in Notes 45 and 46 to the consolidated financial statements of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2017. The Company manages its commercial risk following the Commercial risk management policy developed and adopted in the TAURON Group.

The Company's exposure to the risk of prices of goods reflects the volume of electricity and gas acquired. The volume and cost of electricity and gas acquired have been presented below.

Fuel type	Unit	2017		2016	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	42 245 897	6 962 695	41 966 994	7 152 963
Gas	MWh	2 561 368	201 315	3 084 545	249 878
Total			7 164 010		7 402 841

As for trading in coal, the Company is not exposed to the price risk, as it acts as an agent generating revenue from agency services only.

OTHER INFORMATION

44. Contingent liabilities

As at 31 December 2017 and 31 December 2016 the Company's contingent liabilities arise mainly from collateral and guarantees granted to related parties. Contingent liabilities recognized as of below:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	Validity	As at 31 December 2017		As at 31 December 2016	
				EUR	PLN	EUR	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	3.12.2029	168 000	700 711	168 000	743 232
corporate guarantee	TAURON Ekoenergia Sp. z o.o.	Business entities and buyers being parties to contracts with TAURON Ekoenergia Sp. z o.o. based on the electricity trading licence issued by the President of the Energy Regulatory Office	31.12.2030		16 400		–
blank promissory note with a promissory note declaration	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022		40 000		40 000
	TAURON Ciepło Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022		30 000		30 000
financing commitment	TAURON Ciepło Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Katowice				–	178 300
guarantees issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd.	Elektrociepłownia Stalowa Wola S.A.	Bank Polska Kasa Opieki S.A.				–	74 992
		European Investment Bank				–	156 000
		European Bank for Reconstruction and Development				–	83 494
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028*		415 852		415 852
surety contract	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	15.06.2021		914		930
surety contract	TAURON Wydobywanie S.A.	Millennium Leasing Sp. z o.o.				–	2 900
surety contract	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Fund Advisors	28.09.2025		2 350		–
surety contract	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.	4.08.2019		5 000		5 000
	TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	31.03.2018		15 000		15 000
	Elektrociepłownia Stalowa Wola S.A.	Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	30.07.2020		1 667		–
	TAURON Czech Energy s.r.o.	CEZ a.s.			–	–	1 500 6 636
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	TAURON Ciepło Sp. z o.o.	Elektrobudowa S.A.	31.12.2018		12 300		–
	other subsidiaries	various entities	2018–2020		1 534		263
liability towards Powszechna Kasa Oszczędności Bank Polski S.A. being result of guarantees issued by the bank for subsidiaries	subsidiaries	various entities			–		1 691

* 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.

The key items of contingent liabilities arising from guarantees, collateral and financing commitments are:

- Corporate guarantee

Corporate guarantee given to secure the bonds issued by TAURON Sweden Energy AB (publ). The guarantee remains valid until 3 December 2029, i.e. until the date of redemption of bonds, and amounts to EUR 168 000 thousand (PLN 700 711 thousand). The beneficiaries of the guarantee are the bondholders.

- Registered and financial pledges on shares

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

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

As at 31 December 2017, the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand.

- Financing commitments

In order to enable TAURON Ciepło Sp. z o.o. to apply for a non-refundable grant for the projects undertaken under the "Low emission liquidation in the Silesia and Dabrowa urban area" scheme funded by the Regional Fund for Environmental Protection and Water Management in Katowice, the Company provided TAURON Ciepło Sp. z o.o. with a commitment to finance the latter with the total amount of PLN 178 300 thousand. The commitments were valid until 31 December 2017; they were not renewed.

- Bank guarantees issued on the Company's request by The Bank of Tokyo-Mitsubishi UFJ, Ltd.

The Company requested bank guarantees to secure the liabilities of Elektrociepłownia Stalowa Wola S.A. under the standstill agreement. The bank guarantees, valid until 14 April 2017 and totalling PLN 314 486 thousand, were issued to:

- the European Investment Bank – in the amount of PLN 156 000 thousand;
- the European Bank for Reconstruction and Development – in the amount of PLN 83 494 thousand;
- Bank Polska Kasa Opieki S.A. – in the amount of PLN 74 992 thousand.

On 31 March 2017, Elektrociepłownia Stalowa Wola S.A. paid all its liabilities to the financing banks. The guarantees expired on 14 April 2017.

- Blank promissory notes

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

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

- Claims relating 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.

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 and among other things requested that the claim be dismissed in full as manifestly unfounded. On 1 December 2017 Gorzyca Wind Invest Sp. z o.o. filed a reply to the defence in which it sustained the position presented in the claims and denied the position and arguments of the Company presented in the reply. 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 responded to the claim and among other things requested that the claim be dismissed in full as manifestly unfounded. On 1 December 2017 Pękanino Wind Invest Sp. z o.o. filed a reply to the defence in which it sustained the position presented in the claims and denied the position and arguments of the Company

presented in the reply. By the date of approval of these financial statements for issue the date of the hearing had not been 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 responded to the claim and among other things requested that the claim be dismissed in full as manifestly unfounded. By the date of approval of these financial statements for issue the date of the hearing had not been 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 date of approval of these financial statements for issue, the Company stands a good chance of a favourable ruling, i.e. the changes are estimated at 70%.

- **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.

- **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 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.

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.

45. Security for liabilities

Agreement/transaction	Collateral	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Agreement for hybrid funding in the form of a subordinated bond issue scheme of 6 September 2017	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 30 June 2034
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Gield Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreement and intra-day limit (bank account agreement) at PKO Bank Polski S.A. (overdraft of up to PLN 300 000 thousand and intra-day limit of up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 17 December 2021
	declaration of submission to enforcement	up to PLN 360 000 thousand, valid until 29 December 2021
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 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
Security for adequate performance of obligations under Grant Agreements with the National Centre for Research and Development	blank promissory notes to secure the payment of the Company's liabilities	up to the total amount of PLN 4 244 thousand
Finance lease agreement concerning an investment property	The agreement covers an investment property. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.	As at 31 December 2017 the carrying amount of the leased asset was PLN 21 702 thousand.

Under the bank guarantee agreement made with Bank Zachodni WBK S.A., the bank issued guarantees to secure stock exchange transactions resulting from the membership in the Commodity Clearing House. As at 31 December 2017, the guarantees issued by the bank totalled PLN 50 000 thousand and were valid until 31 March 2018.

Under the bank guarantee agreement made with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, at the request of the Company the bank issued bank guarantees to secure liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. totalling PLN 13 834 thousand (Note 44 to these financial statements) 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.

46. Capital commitments

As at 31 December 2017 and 31 December 2016, the Company did not have any material capital commitments.

47. Related-party disclosures

47.1. Transactions with related parties and State Treasury companies

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

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

Revenue and costs

	Year ended 31 December 2017	Year ended 31 December 2016
Revenue from subsidiaries	8 629 630	9 706 997
Revenue from operating activities	7 602 324	7 650 113
Dividend income	542 474	1 458 951
Revenue from sale of shares	–	96 691
Other operating income	5 669	5 345
Other finance income	479 163	495 897
Revenue from jointly-controlled entities	56 611	126 811
Revenue from State Treasury companies	411 956	162 649
Costs from subsidiaries	(3 175 156)	(2 852 147)
Costs of operating activities	(3 127 698)	(2 814 659)
Finance costs	(47 458)	(37 488)
Costs incurred with relation to transactions with jointly-controlled entities	(3 183)	(12 521)
Costs from State Treasury companies	(532 007)	(571 124)

Receivables and liabilities

	As at 31 December 2017	As at 31 December 2016
Loans granted to subsidiaries and receivables from subsidiaries	7 561 140	11 940 640
Receivables from buyers	658 936	795 482
Loans granted under cash pool agreement plus interest accrued	182 933	15 800
Other loans granted	139 268	1 249 802
Receivables from the TCG	6 078	20 945
Bonds	6 572 696	9 858 382
Other financial receivables	240	229
Other non-financial receivables	989	–
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	579 381	274 502
Receivables from State Treasury companies	49 941	25 210
Liabilities to subsidiaries	3 406 474	2 413 451
Liabilities to suppliers	288 965	335 344
Loans received under cash pool agreement plus interest accrued	2 355 765	1 229 344
Other loans received	721 280	767 750
Liabilities arising from the TCG	34 836	75 415
Other financial liabilities	5 257	5 259
Other non-financial liabilities	371	339
Liabilities to jointly-controlled entities	503	1 209
Liabilities to State Treasury companies	28 952	55 389

Revenue from subsidiaries includes revenue from sales of coal to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o., which is presented in the statement of comprehensive income less cost in the amount of the surplus constituting the revenue due to agency services, presented in detail in Note 12 to these financial statements.

In the year ended 31 December 2017, the major contracting party as regards sales revenue from transactions made by TAURON Polska Energia S.A. with State Treasury companies was PSE S.A. Sales to that entity accounted for 95% of the total revenue from State Treasury companies.

In the year ended 31 December 2017, Polska Grupa Górnicza Sp. z o.o., PSE S.A. and Jastrzębska Spółka Węglowa S.A. were the major contracting parties of TAURON Polska Energia S.A. as regards costs incurred in transactions with State Treasury companies. Costs incurred in transactions with those entities represented 97% of total costs incurred in purchase transactions entered into with State Treasury companies.

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 35 to these financial statements.

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

47.2. Executive compensation

The amount of compensation and other benefits paid or payable to the Management Board, Supervisory Board and other key executives of the Company in the 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
Management Board	6 957	12 858
Short-term benefits (with surcharges)	4 545	6 367
Termination benefits	2 104	5 806
Other	308	685
Supervisory Board	739	1 159
Short-term employee benefits (salaries and surcharges)	739	1 159
Other members of key management personnel	13 832	13 284
Short-term employee benefits (salaries and surcharges)	12 151	10 554
Termination benefits	776	1 911
Other	905	819
Total	21 528	27 301

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

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

48. Finance and capital management

Finance and capital are managed at the level of the TAURON Polska Energia S.A. Capital Group. During the period covered by these financial statements there were no significant changes in finance and capital management objectives, principles or procedures. Finance and capital management at the level of the TAURON Polska Energia S.A. Capital Group has been discussed in more detail in Note 51 to the Consolidated Financial Statements for the year ended 31 December 2017.

49. Employment structure

The following note presents average employment in the annual periods ended 31 December 2017 and 31 December 2016.

	Year ended 31 December 2017	Year ended 31 December 2016
Management	1	5
Administration	330	249
Sales department	104	115
Total	435	369

50. 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 TAURON Polska Energia S.A. for the 2017 financial year (Section 4.8).

51. Structure of financial statements broken down by business activity type in line with Article 44 of the Energy Law

Under Article 44.2 of the Energy Law, TAURON Polska Energia S.A., as an energy company, is obliged to disclose specific items of the balance sheet and the statement of profit or loss broken down by individual types of business activity in notes to these financial statements.

The Company has identified the following types of business activities in accordance with Article 44.2 of the Energy Law:

- trade in gaseous fuels;
- other activity.

The principles of preparing a statement of comprehensive income (statement of profit or loss) broken down by type of business activity

The Company keeps accounting records which enable separate calculation of expense and revenue and the profit/loss for the activities mentioned above.

The Company has directly separated sales revenue and cost of sales related to individual types of activities.

Selling and distribution costs related to the entire sales process carried out by the Company have been divided proportionally to the sales revenue generated by the Company.

Other operating and financing activities have been identified as those related to other business activities of the Company.

Administrative expenses of the Company are incurred for the benefit of the entire Capital Group, hence they have been recognized in the statement of comprehensive income as unallocated items and are not directly attributable to a specific business activity, as such attribution would be unjustified. Also CIT charged to profit or loss has been presented under unallocated items.

Statement of comprehensive income by type of activity for the 2017 financial year

	Gas	Other activity	Unallocated items	Total
Sales revenue	194 290	7 597 735	–	7 792 025
Cost of sales	(194 375)	(7 220 332)	–	(7 414 707)
Gross profit (loss)	(85)	377 403	–	377 318
Selling and distribution expenses	(580)	(22 729)	–	(23 309)
Administrative expenses	–	–	(88 751)	(88 751)
Other operating expenses	–	(2 470)	–	(2 470)
Operating profit (loss)	(665)	352 204	(88 751)	262 788
Dividend income	–	560 832	–	560 832
Interest income on bonds and loans	–	456 426	–	456 426
Interest expense on debt	–	(334 638)	–	(334 638)
Revaluation of shares and loans	–	(134 372)	–	(134 372)
Other finance income and costs	–	108 529	–	108 529
Profit (loss) before tax	(665)	1 008 981	(88 751)	919 565
Income tax expense	–	–	(65 214)	(65 214)
Net profit (loss) for the year	(665)	1 008 981	(153 965)	854 351

Statement of comprehensive income by type of activity for the 2016 financial year

	Gas	Other activity	Unallocated items	Total
Sales revenue	242 615	7 752 713	–	7 995 328
Cost of sales	(233 922)	(7 603 645)	–	(7 837 567)
Gross profit (loss)	8 693	149 068	–	157 761
Selling and distribution expenses	(586)	(18 740)	–	(19 326)
Administrative expenses	–	–	(81 368)	(81 368)
Other operating income and expenses	–	(59 170)	(32 500)	(91 670)
Operating profit (loss)	8 107	71 158	(113 868)	(34 603)
Dividend income	–	1 485 152	–	1 485 152
Interest income on bonds and loans	–	503 897	–	503 897
Interest expense on debt	–	(356 947)	–	(356 947)
Revaluation of shares and loans	–	(1 610 396)	–	(1 610 396)
Other finance income and costs	–	(136 237)	–	(136 237)
Profit (loss) before tax	8 107	(43 373)	(113 868)	(149 134)
Income tax expense	–	–	(17 119)	(17 119)
Net profit (loss) for the year	8 107	(43 373)	(130 987)	(166 253)

The principles of preparing a statement of financial position (balance sheet) broken down by type of business activity

The Company has directly separated receivables from buyers, liabilities to suppliers and other receivables and other liabilities related to individual types of its business activities.

Equity, provisions for employee benefits, cash as well as receivables and liabilities relating to taxes and charges have been presented as unallocated items in the statement of financial position.

The remaining assets and liabilities are related to other activities of the Company.

Statement of financial position by type of activity as at 31 December 2017

	Gas	Other activity	Unallocated items	Total
ASSETS				
Non-current assets, of which:	834	27 370 591	–	27 371 425
Shares	–	20 912 679	–	20 912 679
Bonds	–	6 009 920	–	6 009 920
Loans granted	–	382 989	–	382 989
Other financial assets	834	1 890	–	2 724
Current assets, of which:	20 912	2 123 084	757 671	2 901 667
Receivables from buyers	20 413	698 720	–	719 133
Receivables arising from taxes and charges	–	–	36 094	36 094
Bonds	–	562 776	–	562 776
Loans granted	–	520 191	–	520 191
Other financial assets	499	131 141	–	131 640
Cash and cash equivalents	–	–	721 577	721 577
TOTAL ASSETS	21 746	29 493 675	757 671	30 273 092
EQUITY AND LIABILITIES				
Equity	–	–	17 377 906	17 377 906
Non-current liabilities, of which:	–	9 497 538	32 990	9 530 528
Debt	–	9 472 454	–	9 472 454
Deferred income tax liability	–	–	29 843	29 843
Provisions for employee benefits	–	–	3 147	3 147
Current liabilities, of which:	4 081	3 290 128	70 449	3 364 658
Debt	–	2 725 763	–	2 725 763
Liabilities to suppliers	4 081	409 184	–	413 265
Liabilities arising from taxes and charges	–	–	70 119	70 119
Provisions for employee benefits	–	–	330	330
Other financial liabilities	–	62 590	–	62 590
TOTAL EQUITY AND LIABILITIES	4 081	12 787 666	17 481 345	30 273 092

Statement of financial position by type of activity as at 31 December 2016

	Gas	Other activity	Unallocated items	Total
ASSETS				
Non-current assets, of which:	1 109	25 854 220	–	25 855 329
Shares	–	14 874 418	–	14 874 418
Bonds	–	9 615 917	–	9 615 917
Loans granted	–	1 292 800	–	1 292 800
Other financial assets	984	540	–	1 524
Current assets, of which:	24 292	1 474 079	318 676	1 817 047
Receivables from buyers	23 230	817 426	–	840 656
Receivables arising from taxes and charges	–	–	120 586	120 586
Bonds	–	242 465	–	242 465
Loans granted	–	30 966	–	30 966
Other financial assets	594	54 760	–	55 354
Cash and cash equivalents	–	–	198 090	198 090
TOTAL ASSETS	25 401	27 328 299	318 676	27 672 376
EQUITY AND LIABILITIES				
Equity	–	–	16 530 268	16 530 268
Non-current liabilities, of which:	–	8 935 078	34 898	8 969 976
Debt	–	8 754 047	–	8 754 047
Deferred income tax liability	–	–	32 364	32 364
Provisions for employee benefits	–	–	2 534	2 534
Current liabilities, of which:	3 591	2 148 033	20 508	2 172 132
Debt	–	1 433 929	–	1 433 929
Liabilities to suppliers	3 173	470 464	–	473 637
Liabilities arising from taxes and charges	–	–	20 209	20 209
Provisions for employee benefits	–	–	299	299
Other financial liabilities	418	111 341	–	111 759
TOTAL EQUITY AND LIABILITIES	3 591	11 083 111	16 585 674	27 672 376

52. Events after the end of the reporting period

Increase in the capital of Magenta Grupa TAURON Sp. z o.o.

On 11 January 2018, an increase in the issued capital of Magenta Grupa TAURON Sp. z o.o. of PLN 9 000 thousand in accordance with a resolution of the Extraordinary General Shareholders' Meeting of 24 October 2017 was registered by the National Court Register.

Loans to a joint venture

On 12 January 2018 and 28 February 2018, the Company entered into a loan agreement for PLN 27 000 thousand with Elektrociepłownia Stalowa Wola S.A. and an agreement to consolidate the borrower's debt of PLN 609 951 thousand, respectively, which has been discussed in more detail in Note 25 to these financial statements.

Increase in the capital of TAURON Ekoenergia Sp. z o.o.

On 2 March 2018, an increase in the issued capital of TAURON Ekoenergia Sp. z o.o. of PLN 1 000 000 thousand in accordance with a resolution of the Extraordinary General Shareholders' Meeting of 24 October 2017 was registered by the National Court Register.

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

On 1 March 2018, the Extraordinary General Shareholders' Meeting of Polska Energia Pierwsza Kopalnia Handlowa Sp. z o.o. adopted a resolution to impose an additional contribution of PLN 6 000 thousand on the Company, as the sole shareholder. On 7 March 2018, the contributions were made by the Company.

Financing a joint venture Elektrociepłownia Stalowa Wola S.A.

After the end of the reporting period, on 8 March 2018, 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 25 to these financial statements.

Signing amendments to Bond Issue Scheme agreements

After the end of the reporting period, on 8 March 2018 the period of availability of the funds under Bond Issue Scheme of 24 November 2015 was extended as a result of signing amendments to the agency and custody agreement as well as the underwriting agreement, as described in Note 33.1 to these financial statements.

Management Board of the Company

Katowice, 12 March 2018

Filip Grzegorzczak – 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