The TAURON Polska Energia S.A. Capital Group

Condensed Interim Consolidated Financial Statements
prepared in accordance with the International Financial Reporting Standards,
as endorsed by the European Union
for the 3-month period ended 31 March 2017

(PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited restated figures)*
Sales revenue	**11**	4 589 537	4 564 505
Cost of sales	**12**	(3 554 543)	(3 842 319)
Profit on sale		**1 034 994**	**722 186**
Selling and distribution expenses	**12**	(110 209)	(107 069)
Administrative expenses	**12**	(153 492)	(167 643)
Other operating income and expenses		2 260	9 706
Operating profit		**773 553**	**457 180**
Share in profit/(loss) of joint ventures	**20**	37 241	23 035
Interest expense on debt	**13**	(50 073)	(72 739)
Other finance income and costs	**13**	58 386	4 119
Profit before tax		**819 107**	**411 595**
Income tax expense	**14.1**	(178 572)	(87 789)
Net profit		**640 535**	**323 806**
Measurement of hedging instruments	**28.2**	(4 217)	25 149
Foreign exchange differences from translation of foreign entities		(13 865)	(4)
Income tax	**14.1**	801	(4 778)
Other comprehensive income subject to reclassification to profit or loss		**(17 281)**	**20 367**
Actuarial gains/(losses)	**30.1**	2 130	(2 512)
Income tax	**14.1**	(404)	478
Share in other comprehensive income of joint ventures	**20**	(10)	28
Other comprehensive income not subject to reclassification to profit or loss		**1 716**	**(2 006)**
Other comprehensive income, net of tax		**(15 565)**	**18 361**
Total comprehensive income		**624 970**	**342 167**
Net profit:			
Attributable to equity holders of the Parent		639 830	323 245
Attributable to non-controlling interests		705	561
Total comprehensive income:			
Attributable to equity holders of the Parent		624 261	341 606
Attributable to non-controlling interests		709	561
Basic and diluted earnings per share (in PLN):		0.37	0.18

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	**16**	26 577 498	26 355 189
Goodwill	**17**	40 156	40 156
Energy certificates and emission allowances for surrender	**18.1**	12 342	126 260
Other intangible assets	**19**	1 224 507	1 224 427
Investments in joint ventures	**20**	487 146	461 348
Loans granted to joint ventures	**21**	243 079	240 951
Other financial assets	**22**	227 583	227 140
Other non-financial assets	**23.1**	395 180	422 400
Deferred tax assets	**14.2**	43 537	50 382
		29 251 028	**29 148 253**
Current assets			
Energy certificates and emission allowances for surrender	**18.2**	593 390	980 348
Inventories	**24**	346 459	486 120
Receivables from clients	**25**	1 891 656	1 894 065
Receivables arising from taxes and charges	**26**	257 866	263 854
Loans granted to joint ventures	**21**	308 049	15 116
Other financial assets	**22**	119 984	79 637
Other non-financial assets	**23.2**	202 761	185 008
Cash and cash equivalents	**27**	229 386	384 881
Non-current assets classified as held for sale		15 552	19 612
		3 965 103	**4 308 641**
TOTAL ASSETS		**33 216 131**	**33 456 894**

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**28.1**	8 762 747	8 762 747
Reserve capital		7 823 339	7 823 339
Revaluation reserve from valuation of hedging instruments	**28.2**	26 244	29 660
Foreign exchange differences from translation of foreign entities		(4 665)	9 200
Retained earnings/(Accumulated losses)	**28.3**	665 862	24 320
		17 273 527	**16 649 266**
Non-controlling interests		**30 761**	**30 052**
Total equity		**17 304 288**	**16 679 318**
Non-current liabilities			
Debt	**29**	8 850 672	8 759 789
Provisions for employee benefits	**30**	1 377 726	1 373 385
Provisions for disassembly of fixed assets, land restoration and other provisions	**31**	303 029	449 310
Accruals, deferred income and government grants	**34**	544 219	554 293
Deferred tax liabilities	**14.2**	893 738	759 568
Other financial liabilities	**38**	68 476	72 374
		12 037 860	**11 968 719**
Current liabilities			
Debt	**29**	648 162	219 740
Liabilities to suppliers	**35**	775 241	829 729
Capital commitments	**36**	214 358	1 033 804
Provisions for employee benefits	**30**	154 944	158 228
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	**32**	488 519	964 821
Other provisions	**33**	329 562	366 456
Accruals, deferred income and government grants	**34**	229 974	267 662
Liabilities arising from taxes and charges	**37**	463 197	410 943
Other financial liabilities	**38**	190 654	256 295
Other non-financial liabilities	**39**	379 372	301 179
		3 873 983	**4 808 857**
Total liabilities		**15 911 843**	**16 777 576**
TOTAL EQUITY AND LIABILITIES		**33 216 131**	**33 456 894**

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2017	**8 762 747**	**7 823 339**	**29 660**	**9 200**	**24 320**	**16 649 266**	**30 052**	**16 679 318**
Net profit	-	-	-	-	639 830	**639 830**	705	**640 535**
Other comprehensive income	-	-	(3 416)	(13 865)	1 712	**(15 569)**	4	**(15 565)**
Total comprehensive income	**-**	**-**	**(3 416)**	**(13 865)**	**641 542**	**624 261**	**709**	**624 970**
As at 31 March 2017 *(unaudited)*	**8 762 747**	**7 823 339**	**26 244**	**(4 665)**	**665 862**	**17 273 527**	**30 761**	**17 304 288**

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2016 (*unaudited*)

	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2016	**8 762 747**	**11 277 247**	**(73 414)**	**(791)**	**(3 947 461)**	**16 018 328**	**29 829**	**16 048 157**
Accounting for acquisition of ZCP Brzeszcze	-	-	-	-	(10 196)	**(10 196)**	-	**(10 196)**
Other transactions with non-controlling shareholders	-	-	-	-	-	**-**	(46)	**(46)**
Transactions with shareholders	**-**	**-**	**-**	**-**	**(10 196)**	**(10 196)**	**(46)**	**(10 242)**
Net profit	-	-	-	-	323 245	**323 245**	561	**323 806**
Other comprehensive income	-	-	20 371	(4)	(2 006)	**18 361**	-	**18 361**
Total comprehensive income	**-**	**-**	**20 371**	**(4)**	**321 239**	**341 606**	**561**	**342 167**
As at 31 March 2016 *(unaudited)*	**8 762 747**	**11 277 247**	**(53 043)**	**(795)**	**(3 636 418)**	**16 349 738**	**30 344**	**16 380 082**

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Cash flows from operating activities			
Profit (loss) before taxation		**819 107**	**411 595**
Share in (profit)/loss of joint ventures		(37 241)	(23 035)
Depreciation and amortization		410 270	413 618
Exchange differences		(75 630)	(1 666)
Interest and commissions		48 142	64 254
Other adjustments of profit before tax		12 553	(15 716)
Change in working capital	**40.1**	(260 214)	(164 810)
Income tax paid	**40.1**	(41 284)	(218 706)
Net cash from operating activities		**875 703**	**465 534**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**40.2**	(1 251 411)	(993 936)
Public aid refund		-	(131 077)
Purchase of financial assets		(4 703)	(1 690)
Loans granted	**40.2**	(292 742)	(6 000)
Total payments		**(1 548 856)**	**(1 132 703)**
Proceeds from sale of property, plant and equipment and intangible assets		10 092	5 442
Other proceeds		1 749	661
Total proceeds		**11 841**	**6 103**
Net cash used in investing activities		**(1 537 015)**	**(1 126 600)**
Cash flows from financing activities			
Redemption of debt securities		-	(2 250 000)
Repayment of loans and borrowings	**40.3**	(22 462)	(22 323)
Interest paid	**40.3**	(12 677)	(25 165)
Other payments		(12 838)	(10 779)
Total payments		**(47 977)**	**(2 308 267)**
Issue of debt securities	**40.3**	500 000	2 860 000
Subsidies received		218	4 133
Total proceeds		**500 218**	**2 864 133**
Net cash from financing activities		**452 241**	**555 866**
Net increase / (decrease) in cash and cash equivalents		**(209 071)**	**(105 200)**
Net foreign exchange difference		(7)	2 680
Cash and cash equivalents at the beginning of the period	**27**	**354 733**	**327 715**
Cash and cash equivalents at the end of the period, *of which*:	**27**	**145 662**	**222 515**
restricted cash	**27**	141 511	177 743

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

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

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

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, Entry No. KRS 0000271562.

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

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

The Group's condensed interim consolidated financial statements cover the 3-month period ended 31 March 2017 and present comparative data for the 3-month period ended 31 March 2016 as well as figures as at 31 December 2016. The data for the 3-month period ended 31 March 2017 and the comparative data for the 3-month period ended 31 March 2016, as contained herein, have not been audited or reviewed by a certified auditor. The comparative data as at 31 December 2016 were audited by a certified auditor.

These condensed interim consolidated financial statements for the 3-month period ended 31 March 2017 were approved for publication on 9 May 2017.

2. Composition of the TAURON Capital Group and joint ventures

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

Item	Company name	Registered office	Operating segment	Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%
3	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%
4	Marselwind Sp. z o.o.	Katowice	Generation	100.00%
5	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%
6	TAURON Serwis Sp. z o.o.	Katowice	Generation	95.61%
7	TAURON Dystrybucja S.A.	Kraków	Distribution	99.72%
8	TAURON Dystrybucja Serwis S.A.[1]	Wrocław	Distribution	99.72%
9	TAURON Dystrybucja Pomiary Sp. z o.o.[1]	Tarnów	Distribution	99.72%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%
12	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%
13	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%
14	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%
15	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.[2]	Warszawa	Other	100.00%
16	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%
17	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%
18	KOMFORT - ZET Sp. z o.o.[1]	Tarnów	Other	99.72%

[1] TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A. ,TAURON Dystrybucja Pomiary Sp. z o.o. and KOMFORT - ZET Sp. z o.o. through a subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses the shares of TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiary Sp. z o.o.

[2] 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.

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

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

[1] TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o. in liquidation 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 condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"), as endorsed by the European Union ("EU").

The condensed interim consolidated financial statements do not contain all information and disclosures required for annual consolidated financial statements and they should be read jointly with the Group's consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2016.

4. Going concern

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

5. Functional and presentation currency

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

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

6. Material values based on professional judgment and estimates

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

Items of the consolidated financial statements exposed to a considerable risk of material adjustment of the carrying amounts of assets and liabilities are presented below. Detailed information regarding assumptions adopted has been presented in the relevant notes to these condensed interim consolidated financial statements, in line with the table below.

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Item	Value of item to which the estimate figure applies		Details regarding assumptions made and calculation of significant estimates
	As at 31 March 2017 *(unaudited)*	As at 31 December 2016	
Property, plant and equipment	26 577 498	26 355 189	An analysis of the environment, conducted as at 31 March 2017, did not reveal any considerable changes in the market situation in the first quarter of the year as compared to the information available as at 31 December 2016. Therefore, it was assumed that the most recent results of impairment tests focusing on property, plant and equipment, which were performed as at 31 December 2016, were up-to-date. Recognition/reversal of impairment losses in the current period concern individual asset items. note 16
Goodwill	40 156	40 156	An analysis of the environment, conducted as at 31 March 2017, did not reveal any considerable changes in the market situation in the first quarter of the year as compared to the information available as at 31 December 2016. Therefore, it was assumed that the most recent results of impairment tests focusing on intangible assets, including goodwill, which were performed as at 31 December 2016, were up-to-date and that no additional impairment losses needed to be recognized as at the end of the reporting period. note 17
Provisions for employee benefits	1 532 670	1 531 613	• Description of actuarial assumptions made and valuation method. note 30
Provision for gas emission obligations	96 246	209 736	• Provision calculation note 32
Provision for obligation to submit energy certificates	392 273	755 085	• Provision calculation note 32
Provision for mine decommissioning costs	148 198	146 885	• Provision calculation note 31
Provision for restoration of land and dismantling and removal of fixed assets	116 045	115 302	• Provision calculation note 31
Provision for onerous contracts and for costs	13 004	198 844	• In the 3-month period ended 31 March 2017, the provision relating to the electricity contract and the one relating to the "take or pay" clause were reversed in whole. The balance as at 31 March 2017 concerned the provision for costs of operation of Elektrociepłownia Stalowa Wola S.A. note 31
Other provisions	329 562	366 456	• Provision calculation. Description of key provision items. Note 33
Deferred tax assets	850 851	957 118	• Realisation of deferred tax assets. note 14.2
Derivative instruments: Assets Liabilities	 46 088 5 203	 56 417 560	• Fair value measurement note 41.2
Receivables from clients	1 891 656	1 894 065	• Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 206 820 thousand. note 25

7. New standards and interpretations

The Group did not choose an early application of any standards or amendments to standards 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.

Major changes introduced by IFRS 9 *Financial Instruments*:

- a change in the principles of classification and measurement of financial assets based on a business model whose objective is to manage financial assets as well as characteristics of the contractual cash flows.

  The existing four categories of financial assets, as defined in IAS 39 *Financial Instruments*: *Recognition and Measurement*, will be replaced by two categories, namely amortized cost and fair value;
- introduction of a new impairment testing model based on expected credit losses;
- a modified hedge accounting model.

Impact on the consolidated financial statements

A change in the principles of classification and measurement of financial assets will drive a change in the classification of financial assets in the consolidated financial statements of the Group but it will not have a considerable impact on the measurement, profit/loss or equity of the Group. An analysis of the financial assets held by the Group as at 31 March 2017 has shown that, provided that the Group maintains similar financial assets when IFRS 9 *Financial Instruments* becomes effective, the new classification will not materially change the measurement and hence the Group's profit/loss or equity. The instruments which have thus far been classified as loans and receivables meet the conditions to be classified as assets measured at amortized cost. Hence, the change will not result in any changes in the measurement. The Group does not have any assets held to maturity. Other categories of financial assets measured at fair value in line with IFRS 9 are assets measured at fair value.

The above results of the analysis do not apply to shares held by the Group in entities which are not quoted on active markets, which cannot be reliably measured and therefore are currently measured at cost less impairment losses. An analysis of the impact of IFRS 9 *Financial Instruments* on the consolidated financial statements as regards this group of assets has not been completed yet.

As far as the expected credit losses are concerned, the Group is analyzing receivables from buyers in the Sales segment. This class of financial instruments constitutes the key item of the Group's financial assets. Receivables have been classified based on customer groups which, according to historical data, show considerable differences in credit losses. Next, impairment ratios have been defined for each group, considering the effect of available information about the future on the historical ratios.

A preliminary analysis has not revealed a significant impact of IFRS 9 on the consolidated financial statements.

As at 31 March 2017, the Group held instruments hedging fluctuations in cash flows related to issued bonds due to interest rate risk. These interest rate swaps are subject to hedge accounting. It is not expected that the entry into force of IFRS 9 *Financial Instruments* will have a material impact on the Group's consolidated financial statements as regards the applied hedge accounting principles.

IFRS 15 *Revenue from Contracts with Customers*

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

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. It replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations applicable to revenue recognition.

Impact on the consolidated financial statements

The Group is conducting 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. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements. Due to a large number of changes, the impact of IFRS 15 on the consolidated financial statements is being analyzed further. It is likely that the new IFRS 15 guidance will necessitate changes to systems.

A preliminary analysis of the impact of IFRS 15 on the accounting policies applied thus far has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which may be especially important in the Sales segment. This concerns mainly electricity and gas sales contracts whereby customers are offered additional services or equipment for the electricity and gas sales price. The scope of such services will include electrician or technician support to customers in the event of an electric power or gas failure. Another issue subject to analysis is the consideration for price guarantees in sales contracts, ensuring fixed prices for services over a specified term, which benefit is reflected in the price paid by the customer. In accordance with the new standard, the Group is required to recognize each identifiable obligation to provide a supply separately, thus to allocate the transaction price to such obligations. The Group is analyzing its contractual obligations so as to identify single items and allocate transaction prices accordingly.

Additionally, in the Distribution segment, the Group is analyzing contracts constituting the basis for recognition of revenue from the connection of new buyers as well as distribution and comprehensive services contracts in light of IFRS 15 so identify separate services as required by the standard. To this end, the Group focuses on the sources of law which form the basis for the provision of the aforesaid services, the legal obligations imposed on it with respect to the connection of new buyers, its discretion to set the prices of services, the relationship and interdependence of the consideration received for the provision of the aforesaid services, the possibility to include both supplies in one contract, the rights of customers being parties to the connection contract and the distribution/comprehensive contract to resign from the purchase of distribution/comprehensive services.

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

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

IFRS 16 *Leases*

Effective date given in the standard, not endorsed by 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 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 consolidated financial statements

A preliminary analysis of the impact of IFRS 16 *Leases* on the accounting policies has shown a change material for the Group, i.e. the need to recognize lease assets and liabilities for leases currently classified as operating leases in the financial statements. The Group intends to analyze all its lease agreements to identify leases which require recognition of assets and liabilities in the financial statements. As the effective date of IFRS 16 *Leases* is remote and the standard has not been endorsed by the EU yet, as at the date of approval of these financial statements for publication the Group 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.

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Clarifications to IFRS 15 *Revenue from Contracts with Customers*

Effective date given in the standard, not endorsed by 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 standards, amendments to standards and interpretation will not materially impact the accounting policies applied thus far:

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
Revised IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture with subsequent amendments	the effective date has been postponed until completion of research on the equity method
Revised IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*	1 January 2017
Revised IAS 7 *Statement of Cash Flows – Disclosure Initiative.* The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities.	1 January 2017
Revised IFRS 2 *Share-based Payments: Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Revised IFRS 4 *Insurance Contracts – application of IFRS 9 Financial Instruments along with IFRS 4 Insurance Contracts*	1 January 2018 or at the date of first-time adoption of IFRS 9
Annual Improvements to IFRS (2014-2016):	
IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2017
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2018
IAS 28 *Investments in Associates and Joint Ventures*	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Revised IAS 40 *Investment Property – Transfers of Investment Property*	1 January 2018

**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 condensed interim consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2016.

Presentation change

In the year ended 31 December 2016, the Group decided to change the presentation of gains/losses on forward and futures transactions – derivative commodity instruments falling within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* as well as gains/losses on trading in emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices, in the financial statements, which was discussed in more detail in the consolidated financial statements of the Group for the year ended 31 December 2016, where the aforesaid change was recognized for the first time.

The effect of the presentation change on the condensed interim consolidated statement of comprehensive income for the 3-month period ended 31 March 2016 is presented in the table below. The change has not had any effect on the Group's profit/loss.

(PLN '000)

	3-month period ended 31 March 2016 *(approved figures)*	Change in presentation of gains/losses on trading in emission allowances and on commodity derivative instruments	3-month period ended 31 March 2016 *(unaudited restated figures)*
Sales revenue	4 647 035	(82 530)	4 564 505
Cost of sales	(3 923 059)	80 740	(3 842 319)
Profit on sale	**723 976**	**(1 790)**	**722 186**
Selling and distribution expenses	(110 057)	2 988	(107 069)
Operating profit	**455 982**	**1 198**	**457 180**
Other finance income and costs	5 317	(1 198)	4 119
Net profit	**323 806**	**-**	**323 806**

9. Seasonality of operations

The Group's operations are seasonal in nature, particularly in the area of generation, distribution and sale of heat, distribution and sale of electricity to individual customers and sale of coal to individual customers for heating purposes.

Sale of heat depends on atmospheric conditions, in particular air temperature, and is higher in autumn and wintertime. The level of sale of electricity to individual customers depends on the length of day, as a result of which sales of electricity in this group of customers are usually lower in spring and summertime and higher in autumn and wintertime. Sale of coal to individual customers is higher in autumn and wintertime. The seasonality of other areas of the Group's operations is insignificant.

OPERATING SEGMENTS

10. Information on operating segments

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

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

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

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

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

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

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

The Group's financing (including finance income and costs) and income tax are monitored at the Group level and they are not allocated to segments.

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

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

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

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

** Entities recognized with the equity method*

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

(PLN '000)

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

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	168 140	549 901	819 504	3 032 912	19 080	-	**4 589 537**
Inter-segment sales	215 953	669 256	913 917	584 525	175 701	(2 559 352)	**-**
Segment revenue	**384 093**	**1 219 157**	**1 733 421**	**3 617 437**	**194 781**	**(2 559 352)**	4 589 537
Profit/(loss) of the segment	**(59 645)**	**92 258**	**345 611**	**377 274**	**16 735**	**24 386**	**796 619**
Unallocated expenses	-	-	-	-	-	(23 066)	**(23 066)**
EBIT	**(59 645)**	**92 258**	**345 611**	**377 274**	**16 735**	**1 320**	**773 553**
Share in profit/(loss) of joint ventures	-	37 241	-	-	-	-	**37 241**
Net finance income (costs)	-	**-**	-	-	-	8 313	**8 313**
Profit/(loss) before income tax	**(59 645)**	**129 499**	**345 611**	**377 274**	**16 735**	**9 633**	**819 107**
Income tax expense	-	-	-	-	**-**	(178 572)	**(178 572)**
Net profit/(loss) for the period	**(59 645)**	**129 499**	**345 611**	**377 274**	**16 735**	**(168 939)**	**640 535**
Assets and liabilities							
Segment assets	2 011 921	10 307 567	16 773 561	2 252 443	461 173	-	**31 806 665**
Investments in joint ventures	-	487 146	-	-	-	-	**487 146**
Unallocated assets	-	-	-	-	-	922 320	**922 320**
Total assets	**2 011 921**	**10 794 713**	**16 773 561**	**2 252 443**	**461 173**	**922 320**	**33 216 131**
Segment liabilities	648 260	1 414 258	2 007 030	1 043 556	266 569	-	**5 379 673**
Unallocated liabilities	-	-	-	-	-	10 532 170	**10 532 170**
Total liabilities	**648 260**	**1 414 258**	**2 007 030**	**1 043 556**	**266 569**	**10 532 170**	**15 911 843**
EBIT	**(59 645)**	**92 258**	**345 611**	**377 274**	**16 735**	**1 320**	**773 553**
Depreciation/amortization	**(30 194)**	**(97 505)**	**(261 438)**	**(2 185)**	**(18 948)**	**-**	**(410 270)**
Impairment	**2**	**(903)**	**38**	**(512)**	**(43)**	**-**	**(1 418)**
EBITDA	**(29 453)**	**190 666**	**607 011**	**379 971**	**35 726**	**1 320**	**1 185 241**
Other segment information							
Capital expenditure *	29 221	334 693	262 087	249	9 838	-	**636 088**

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

For the 3-month period ended 31 March 2016 (*restated, unaudited*) or as at 31 December 2016

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	89 651	769 760	777 223	2 910 115	17 756	-	**4 564 505**
Inter-segment sales	164 503	502 064	839 164	598 543	199 686	(2 303 960)	**-**
Segment revenue	**254 154**	**1 271 824**	**1 616 387**	**3 508 658**	**217 442**	**(2 303 960)**	4 564 505
Profit/(loss) of the segment	**(103 507)**	**89 222**	**291 592**	**161 419**	**12 439**	**26 607**	**477 772**
Unallocated expenses	-	-	-	-	-	(20 592)	**(20 592)**
EBIT	**(103 507)**	**89 222**	**291 592**	**161 419**	**12 439**	**6 015**	**457 180**
Share in profit/(loss) of joint ventures	-	23 035	-	-	-	-	**23 035**
Net finance income (costs)	-	-	-	-	-	(68 620)	**(68 620)**
Profit/(loss) before income tax	**(103 507)**	**112 257**	**291 592**	**161 419**	**12 439**	**(62 605)**	**411 595**
Income tax expense	-	-	-	-	-	(87 789)	**(87 789)**
Net profit/(loss) for the period	**(103 507)**	**112 257**	**291 592**	**161 419**	**12 439**	**(150 394)**	**323 806**
Assets and liabilities							
Segment assets	2 069 263	10 412 940	16 761 938	2 659 458	468 202	-	**32 371 801**
Investments in joint ventures	-	461 348	-	-	-	-	**461 348**
Unallocated assets	-	-	-	-	-	623 745	**623 745**
Total assets	**2 069 263**	**10 874 288**	**16 761 938**	**2 659 458**	**468 202**	**623 745**	**33 456 894**
Segment liabilities	829 974	1 936 334	2 162 907	1 660 156	288 365	-	**6 877 736**
Unallocated liabilities	-	-	-	-	-	9 899 840	**9 899 840**
Total liabilities	**829 974**	**1 936 334**	**2 162 907**	**1 660 156**	**288 365**	**9 899 840**	**16 777 576**
EBIT	**(103 507)**	**89 222**	**291 592**	**161 419**	**12 439**	**6 015**	**457 180**
Depreciation/amortization	**(34 950)**	**(102 590)**	**(254 848)**	**(3 263)**	**(17 967)**	**-**	**(413 618)**
Impairment	**(3 799)**	**663**	**3 181**	**(3 278)**	**(80)**	**-**	**(3 313)**
EBITDA	**(64 758)**	**191 149**	**543 259**	**167 960**	**30 486**	**6 015**	**874 111**
Other segment information							
Capital expenditure *	63 417	255 934	328 315	679	5 378	-	**653 723**

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

(PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited restated figures)*
Sale of goods for resale, finished goods and materials without elimination of excise	**2 915 119**	**2 993 878**
Excise	(112 113)	(102 384)
Sale of goods for resale, finished goods and materials, *of which*:	**2 803 006**	**2 891 494**
Electricity	2 266 711	2 421 304
Heat energy	252 450	238 276
Energy certificates	17 663	57 387
Coal	155 942	77 710
Gas	67 162	69 091
Other goods for resale, finished goods and materials	43 078	27 726
Rendering of services, *of which:*	**1 771 475**	**1 658 225**
Distribution and trade services	1 690 733	1 586 731
Connection fees	20 726	20 529
Maintenance of road lighting	26 703	28 149
Other services	33 313	22 816
Other revenue	**15 056**	**14 786**
Total sales revenue	**4 589 537**	**4 564 505**

12. Expenses by type

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited restated figures)*
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(410 270)	(413 618)
Impairment of property, plant and equipment and intangible assets	(4 373)	3 541
Materials and energy	(317 462)	(391 654)
Maitenance and repair services	(57 800)	(55 250)
Distribution services	(508 959)	(453 283)
Other external services	(207 568)	(178 048)
Cost of obligation to remit the emission allowances	(55 845)	(81 668)
Other taxes and charges	(192 723)	(175 348)
Employee benefits expense	(654 390)	(656 087)
Allowance for doubtful debts	(4 458)	(1 981)
Other	(13 567)	(22 977)
Total costs by type	**(2 427 415)**	**(2 426 373)**
Change in inventories, prepayments, accruals and deferred income	(81 006)	29 871
Cost of goods produced for internal purposes	90 010	109 114
Selling and distribution expenses	110 209	107 069
Administrative expenses	153 492	167 643
Cost of goods for resale and materials sold	(1 399 833)	(1 829 643)
Cost of sales	**(3 554 543)**	**(3 842 319)**

(PLN '000)

13. Finance income and costs

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited restated figures)*
Income and costs from financial instruments, *of which*:	**24 370**	**(51 623)**
Interest income	8 314	9 003
Interest costs	(50 073)	(72 739)
Commission relating to borrowings and debt securities	(1 913)	(2 782)
Gain/loss on derivative instruments	(6 489)	16 747
Foreign exchange gains/losses	74 043	(1 428)
Other	488	(424)
Other finance income and costs, *of which:*	**(16 057)**	**(16 997)**
Interest on employee benefits	(10 195)	(12 501)
Interest on discount of other provisions	(4 242)	(4 393)
Other	(1 620)	(103)
Total finance income and costs, *including recognized in the statement of comprehensive income:*	**8 313**	**(68 620)**
Interest expense on debt	(50 073)	(72 739)
Other finance income and costs	58 386	4 119

An increase in other finance income and costs in the 3-month period ended 31 March 2017 was mainly driven by a surplus of exchange gains over exchange losses of PLN 74 043 thousand. Exchange gains were mainly related to the Parent's debt in the euro, i.e. loans obtained from a subsidiary and subordinated bonds issued in December 2016. The related surplus of exchange gains over exchange losses was PLN 74 568 thousand.

14. Income tax

14.1. Tax expense in the statement of comprehensive income

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Current income tax	**(37 159)**	**(19 707)**
Current income tax expense	(33 041)	(13 899)
Adjustments to current income tax from previous years	(4 118)	(5 808)
Deferred tax	**(141 413)**	**(68 082)**
Income tax expense in profit/(loss)	**(178 572)**	**(87 789)**
Income tax expense relating to other comprehensive income	**397**	**(4 300)**

(PLN '000)

14.2. Deferred income tax

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
difference between tax base and carrying amount of fixed and intangible assets	1 514 441	1 511 102
difference between tax base and carrying amount of financial assets	52 867	45 981
different timing of recognition of sales revenue for tax purposes	72 561	49 299
difference between tax base and carrying amount of energy certificates	13 818	15 766
other	47 365	44 156
Deferred tax liabilities	**1 701 052**	**1 666 304**
provisions	518 492	638 914
difference between tax base and carrying amount of fixed and intangible assets	150 655	143 403
power infrastructure received free of charge and received connection fees	50 526	51 811
difference between tax base and carrying amount of financial assets and financial liabilities	54 769	50 387
different timing of recognition of cost of sales for tax purposes	48 509	39 940
tax losses	12 758	12 758
other	15 142	19 905
Deferred tax assets	**850 851**	**957 118**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**43 537**	**50 382**
Deferred tax liability	**(893 738)**	**(759 568)**

As at 31 March 2017 and 31 December 2016, the deferred tax asset was set off against deferred tax liabilities of companies from the Tax Capital Group ("TCG") due to the fact that the said companies had filed a combined tax return under the new Tax Capital Group agreement for the years 2015-2017, concluded on 22 September 2014.

Based on the forecasts prepared for the TCG, according to which taxable income will be earned in 2017 and in the following years, it has been concluded that there is no risk that the deferred tax asset recognized in these condensed interim consolidated financial statements will not be realized.

15. Dividends paid and proposed

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 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.

(PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

16. Property, plant and equipment

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

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**121 980**	**21 603 044**	**18 164 046**	**850 102**	**3 261 173**	**44 000 345**
Direct purchase	-	-	-	-	561 401	**561 401**
Borrowing costs	-	-	-	-	22 201	**22 201**
Transfer of assets under construction	138	163 086	101 310	4 843	(269 377)	**-**
Sale, disposal	(76)	(2 173)	(2 304)	(6 100)	(3)	**(10 656)**
Liquidation	(3)	(6 243)	(29 766)	(1 851)	-	**(37 863)**
Received free of charge	-	1 779	-	-	-	**1 779**
Transfers to/from assets held for sale	-	(4 849)	(2 221)	(14)	(11)	**(7 095)**
Overhaul expenses	-	-	-	-	20 066	**20 066**
Items generated internally	-	-	-	-	10 540	**10 540**
Other movements	(111)	109	101	(26)	410	**483**
Foreign exchange differences from translation of foreign entities	-	-	(18)	(23)	-	**(41)**
Closing balance	**121 928**	**21 754 753**	**18 231 148**	**846 931**	**3 606 400**	**44 561 160**
ACCUMULATED DEPRECIATION						
Opening balance	**(433)**	**(7 825 966)**	**(9 268 038)**	**(517 062)**	**(33 657)**	**(17 645 156)**
Depreciation for the period	-	(195 955)	(176 712)	(18 092)	-	**(390 759)**
Increase of impairment	-	(38)	(71)	(23)	-	**(132)**
Decrease of impairment	-	690	297	40	-	**1 027**
Sale, disposal	-	1 577	2 177	5 828	-	**9 582**
Liquidation	-	5 290	29 398	1 793	-	**36 481**
Transfers to/from assets held for sale	-	3 227	1 966	14	-	**5 207**
Other movements	-	20	49	-	-	**69**
Foreign exchange differences from translation of foreign entities	-	-	11	8	-	**19**
Closing balance	**(433)**	**(8 011 155)**	**(9 410 923)**	**(527 494)**	**(33 657)**	**(17 983 662)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**121 547**	**13 777 078**	**8 896 008**	**333 040**	**3 227 516**	**26 355 189**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**121 495**	**13 743 598**	**8 820 225**	**319 437**	**3 572 743**	**26 577 498**
of which operating segments:						
Mining	**2 774**	**722 039**	**603 633**	**16 728**	**351 761**	**1 696 935**
Generation	**41 252**	**2 384 529**	**3 898 107**	**35 892**	**2 538 060**	**8 897 840**
Distribution	**60 609**	**10 542 913**	**4 190 722**	**249 214**	**678 431**	**15 721 889**
Other segments and other operations	**16 860**	**94 117**	**127 763**	**17 603**	**4 491**	**260 834**

(PLN '000)

For the 3-month period ended 31 March 2016 (*unaudited*)

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**119 536**	**19 928 399**	**16 910 428**	**804 020**	**2 599 980**	**40 362 363**
Direct purchase	-	-	-	-	605 359	**605 359**
Borrowing costs	-	-	-	-	23 595	**23 595**
Transfer of assets under construction	236	310 671	196 506	10 985	(518 398)	**-**
Sale, disposal	(45)	(724)	(3 794)	(8 422)	(2)	**(12 987)**
Liquidation	-	(14 609)	(25 688)	(1 578)	-	**(41 875)**
Received free of charge	-	882	-	-	-	**882**
Transfers to/from assets held for sale	(43)	(1 639)	-	-	-	**(1 682)**
Overhaul expenses	-	-	-	-	55	**55**
Items generated internally	-	-	-	-	10 098	**10 098**
Acquisition of ZCP Brzeszcze	1 544	165 401	22 429	1 637	14 405	**205 416**
Other movements	(5)	8 072	(7 335)	(340)	(1 724)	**(1 332)**
Closing balance	**121 223**	**20 396 453**	**17 092 546**	**806 302**	**2 733 368**	**41 149 892**
ACCUMULATED DEPRECIATION						
Opening balance	**(466)**	**(6 692 656)**	**(8 304 965)**	**(467 731)**	**(13 728)**	**(15 479 546)**
Depreciation for the period	-	(202 052)	(172 506)	(20 401)	-	**(394 959)**
Increase of impairment	-	(11)	(67)	-	-	**(78)**
Decrease of impairment	43	2 888	279	38	5	**3 253**
Sale, disposal	-	389	3 066	8 068	-	**11 523**
Liquidation	-	13 325	25 168	1 537	-	**40 030**
Transfers to/from assets held for sale	16	163	-	-	-	**179**
Other movements	-	(763)	748	11	-	**(4)**
Closing balance	**(407)**	**(6 878 717)**	**(8 448 277)**	**(478 478)**	**(13 723)**	**(15 819 602)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**119 070**	**13 235 743**	**8 605 463**	**336 289**	**2 586 252**	**24 882 817**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**120 816**	**13 517 736**	**8 644 269**	**327 824**	**2 719 645**	**25 330 290**
of which operating segments:						
Mining	**2 732**	**744 685**	**626 507**	**14 802**	**201 001**	**1 589 727**
Generation	**41 611**	**2 586 035**	**3 960 962**	**39 751**	**1 760 372**	**8 388 731**
Distribution	**59 643**	**10 086 228**	**3 920 800**	**252 872**	**755 099**	**15 074 642**
Other segments and other operations	**16 830**	**100 788**	**136 000**	**20 399**	**3 173**	**277 190**

In the 3-month period ended 31 March 2017, the Group acquired property, plant and equipment of PLN 583 602 thousand, including capitalized costs of external financing. The major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Distribution	247 420	317 828
Generation	307 730	245 458
Mining	25 475	63 208

Impairment tests

Considering external factors resulting in the Company's market cap being lower than its carrying amount for a long time and the continued overall unfavorable conditions in the coal power industry, an analysis of the environment was conducted as at 31 March 2017 which revealed that the market situation in the first quarter of the year had not changed considerably as compared to 31 December 2016. Therefore, it was assumed that the most recent results of impairment tests focusing on property, plant and equipment, which were performed as at 31 December 2016, were up-to-date.

As at 31 December 2016, impairment tests were performed for property, plant and equipment based on the following indications:

- the market value of the Company's net assets remaining below their carrying amount for a long period;
- a drop in the prices of certificates for energy produced from renewable sources;
- introduction of new RES regulations;
- the continued unfavorable market conditions in the coal power industry;
- an increase in the risk-free rate.

The tests conducted as at 31 December 2016 required estimating the value in use of cash-generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

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

- TAURON Wytwarzanie S.A. – where cash-generating units ("CGU") were identified based on the cost nature and analysis of the applied methods of contracting and allocating generation from particular generation units. Consequently, the test was performed for CGU understood as generation units or groups of generation units;
- TAURON Ekoenergia Sp. z o.o. – where hydroelectric power stations and windfarms were individually tested for impairment;
- TAURON Ciepło Sp. z o.o. – where generation of heat and electricity was separated from transmission and distribution of heat (former thermal energy companies). Additional tests were carried out for individual generation units.

Key assumptions made for purposes of tests performed as at 31 December 2016:

- the adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will increase by ca. 9% in real terms by 2026 and after 2026 insignificant changes in 2026 year prices (fixed) are anticipated;
- the adopted electricity wholesale price path for the years 2017-2026 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 emission allowances. A drop of ca. 5% is assumed by 2020 with a dynamic growth rate by 2026 (16% vs. 2020), an increase of 11% between 2026 and 2040 and 2040 year prices thereafter (fixed);
- estimated changes in the Polish market model aimed to introduce the capacity market or other incentive mechanisms for production capacity have been taken into account;
- emission limits for generating electricity specified in the regulation of the Council of Ministers, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- the adopted emission allowance price path for the years 2017-2026 with the perspective by 2040. It is assumed that the market price will increase by ca. 70% by 2026, followed by a rise of ca. 16% between 2026 and 2040, with 2040 year price level thereafter (fixed);
- green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A drop of ca. 6% is assumed for renewable energy prices by 2020, followed by a rise by 2026 (13% vs. 2020), an increase of 13% between 2026 and 2040 and 2040 year prices thereafter (fixed);
- 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. At the same time, hydropower plants with installed capacity of more than 5 MW do not qualify for support;
- 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 the production capacity of the existing non-current assets as a result of replacement investments;

(PLN '000)

- the level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 5.94% to 8.44% in nominal terms before tax.

As at 31 December 2016, the impairment test revealed that an additional impairment loss of PLN 581 900 thousand should be recognized on a portion of the Generation segment assets. The test also identified the possibility to reverse an impairment loss in this segment in the amount of PLN 505 083 thousand.

The recoverable amount of that asset group is equal to its value in use. The impairment losses were charged to the cost of sales.

The impairment loss and its reversal resulting from the tests performed in 2016 are related to the following cash-generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:			Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		31 December 2016	30 June 2016	31 December 2015	As at 31 December 2016	Year ended 31 December 2016	
Elektrownia Jaworzno II	TAURON Wytwarzanie S.A.	7.78%	7.49%	7.69%	235 750	269 823	86 034
Elektrownia Jaworzno III					1 024 583	14 410	433 638
Elektrownia Łaziska					319 744	-	54 124
Elektrownia Łagisza					1 289 344	193 430	-
Elektrownia Siersza					157 356	232 253	156 571
Elektrownia Stalowa Wola					(99 426)	40 216	46 802
Capital projects in progress					-	19 328	-
ZW Bielsko Biała EC 1	TAURON Ciepło Sp. z o.o.	7.63%	7.17%	7.61%	615 489	-	209 433
ZW Bielsko Biała EC 2					(45 965)	7 061	-
ZW Tychy					499 172	382 719	221 643
Hydropower plants	TAURON Ekoenergia Sp. z o.o.	8.44%	8.25%	8.39%	611 273	42 310	-
FW Lipniki		6.71%	6.34%	8.90%	19 112	65 513	-
FW Wicko		6.97%	6.48%	8.17%	69 309	164 121	-
FW Marszewo		7.04%	6.49%	8.14%	228 352	464 839	-
Total CGU						**1 896 023**	**1 208 245**
Common assets	TAURON Wytwarzanie S.A.	7.78%	7.49%	7.69%	(19 511)	46 914	-
Total impairment losses						**1 942 937**	**1 208 245**

17. Goodwill

Goodwill in segment	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	581	581
Total	**40 156**	**40 156**

Impairment tests

Considering external factors resulting in the Company's market cap being lower than its carrying amount for a long time and the continued overall unfavorable conditions in the coal power industry, an analysis of the environment was conducted as at 31 March 2017, which revealed that the market situation in the first quarter of the year had not changed considerably as compared to 31 December 2016. Therefore, it was assumed that the most recent results of impairment tests focusing on intangible assets, including goodwill, which were performed as at 31 December 2016, were up-to-date and that no additional impairment losses needed to be recognized as at the end of the reporting period.

The tests were performed for the net assets increased by goodwill in each operating segment, except Generation, where the test was carried out at each company level. The recoverable amount in each company was determined based on the value in use.

The tests were performed based on the present value of estimated operating cash flows. The calculations were based on detailed projections for the period from 2017 to 2026 and the estimated residual value. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

The discount rate used for calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (3.63%) 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 the level of 2.5% and it corresponds to the estimated long-term inflation rate.

(PLN '000)

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

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

The key assumptions affecting the estimated value in use and the discount rates applied to individual segments in impairment tests focusing on the carrying amount of goodwill as at 31 December 2016 are as follows:

Goodwill in the segment	Key assumptions	Discount rate (before tax) assumed in tests as at: 31 December 2016
Mining	• The adopted price path of power coal and other coal sizes. The actual increase in the price of power coal assumed by 2026 approximates 9%, with slight fluctuations of 2026 prices thereafter (fixed); • The adopted retail price path of electricity based on the wholesale price of black energy including excise costs, cost of energy certificates surrender and a relevant markup; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	6.95%
Distribution	• Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	6.39%

The impairment test performed as at 31 December 2016 did not reveal impairment of the carrying amount of goodwill in the segments.

18. Energy certificates and gas emission allowances

18.1. Long-term energy certificates and gas emission allowances

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**110 430**	**15 830**	**126 260**
Direct purchase	8 606	-	**8 606**
Reclassification	(106 694)	(15 830)	**(122 524)**
Closing balance	**12 342**	**-**	**12 342**

For the 3-month period ended 31 March 2016 (*unaudited*)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**232 973**	**277 867**	**510 840**
Direct purchase	-	-	**-**
Reclassification	(232 973)	(205 290)	**(438 263)**
Closing balance	**-**	**72 577**	**72 577**

(PLN '000)

18.2. Short-term energy certificates and gas emission allowances

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

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**556 501**	**423 847**	**980 348**
Direct purchase	137 675	-	**137 675**
Generated internally	15 685	-	**15 685**
Cancellation	(492 432)	(169 335)	**(661 767)**
Reclassification	105 619	15 830	**121 449**
Closing balance	**323 048**	**270 342**	**593 390**

For the 3-month period ended 31 March 2016 (*unaudited*)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**652 305**	**153 083**	**805 388**
Direct purchase	134 849	-	**134 849**
Generated internally	45 264	-	**45 264**
Cancellation	(681 587)	-	**(681 587)**
Reclassification	223 548	205 290	**428 838**
Closing balance	**374 379**	**358 373**	**732 752**

19. Other intangible assets

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

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**5 434**	**786 283**	**610 578**	**211 873**	**93 060**	**1 707 228**
Direct purchase	-	-	-	-	21 880	**21 880**
Transfer of intangible assets not made available for use	-	-	8 952	2 601	(11 553)	**-**
Sale, disposal / Liquidation	-	(710)	(58)	(29)	-	**(797)**
Other movements	15	(918)	(6 142)	6 189	(763)	**(1 619)**
Foreign exchange differences from translation of foreign entities	-	-	(57)	-	-	**(57)**
Closing balance	**5 449**	**784 655**	**613 273**	**220 634**	**102 624**	**1 726 635**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 120)**	**(25 617)**	**(387 075)**	**(64 982)**	**(7)**	**(482 801)**
Amortization for the period	(20)	-	(15 257)	(4 234)	-	**(19 511)**
Decrease of impairment	-	8	-	-	-	**8**
Sale, disposal / Liquidation	-	-	53	24	-	**77**
Other movements	(15)	-	2 178	(2 114)	-	**49**
Foreign exchange differences from translation of foreign entities	-	-	50	-	-	**50**
Closing balance	**(5 155)**	**(25 609)**	**(400 051)**	**(71 306)**	**(7)**	**(502 128)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**314**	**760 666**	**223 503**	**146 891**	**93 053**	**1 224 427**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**294**	**759 046**	**213 222**	**149 328**	**102 617**	**1 224 507**

(PLN '000)

For the 3-month period ended 31 March 2016 (*unaudited*)

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**5 690**	**786 504**	**550 892**	**188 004**	**51 885**	**1 582 975**
Direct purchase	-	-	-	-	14 616	**14 616**
Transfer of intangible assets not made available for use	-	40	4 108	10 671	(14 819)	**-**
Sale, disposal / Liquidation	-	(68)	(1 874)	(60)	-	**(2 002)**
Acquisition of ZCP Brzeszcze	-	10 266	95	147	-	**10 508**
Other movements	-	1 368	118	163	1 214	**2 863**
Foreign exchange differences from translation of foreign entities	-	-	1	-	-	**1**
Closing balance	**5 690**	**798 110**	**553 340**	**198 925**	**52 896**	**1 608 961**
ACCUMULATED AMORTIZATION						
Opening balance	**(4 893)**	**(13 064)**	**(332 862)**	**(49 391)**	**-**	**(400 210)**
Amortization for the period	(39)	-	(14 905)	(3 715)	-	**(18 659)**
Decrease of impairment	-	189	-	-	-	**189**
Sale, disposal / Liquidation	-	-	1 874	60	-	**1 934**
Other movements	-	-	(26)	-	-	**(26)**
Closing balance	**(4 932)**	**(12 875)**	**(345 919)**	**(53 046)**	**-**	**(416 772)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**797**	**773 440**	**218 030**	**138 613**	**51 885**	**1 182 765**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**758**	**785 235**	**207 421**	**145 879**	**52 896**	**1 192 189**

20. Shares in joint ventures

Investments in joint-ventures measured using the equity method as at 31 March 2017 and for the 3-month period ended 31 March 2017 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o. in liquidation	TAMEH HOLDING Sp. z o.o. *	As at 31 March 2017 or for the 3-month period ended 31 March 2017 *(unaudited)*
Non-current assets	1 171 298	-	1 473 274	**2 644 572**
Current assets, *including:*	2 420	37 071	626 306	**665 797**
cash and cash equivalents	*99*	*37 049*	*179 578*	***216 726***
Non-current liabilities (-) *including:*	(523 874)	-	(599 343)	**(1 123 217)**
debt	*(475 935)*	-	*(516 744)*	***(992 679)***
Current liabilities (-) *including:*	(681 544)	(12)	(481 063)	**(1 162 619)**
debt	*(616 139)*	-	*(24 359)*	***(640 498)***
Total net assets	(31 700)	37 059	1 019 174	**1 024 533**
Share in net assets	(15 850)	18 529	509 587	**512 266**
Investment in joint ventures	**-**	**18 529**	**468 617**	**487 146**
Share in revenue of joint ventures	3	76	174 352	**174 431**
Share in profit/(loss) of joint ventures	**-**	**50**	**37 191**	**37 241**
Share in other comprehensive income of joint ventures	**-**	**-**	**(10)**	**(10)**

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

(PLN '000)

Investments in joint-ventures measured using the equity method as at 31 December 2016 and for the 3-month period ended 31 March 2016 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o. in liquidation	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2016 or for the 3-month period ended 31 March 2016 *(unaudited)*
Non-current assets	1 126 668	-	1 479 845	**2 606 513**
Current assets, *including:*	5 739	37 056	501 547	**544 342**
cash and cash equivalents	*3 809*	*37 009*	*196 442*	***237 260***
Non-current liabilities (-) *including:*	(1 028 954)	-	(664 603)	**(1 693 557)**
debt	*(980 977)*	-	*(536 585)*	***(1 517 562)***
Current liabilities (-) *including:*	(132 395)	(97)	(349 101)	**(481 593)**
debt	*(65 752)*	-	*(1 647)*	***(67 399)***
Total net assets	(28 942)	36 959	967 688	**975 705**
Share in net assets	(14 471)	18 479	483 844	**487 852**
Investment in joint ventures	**-**	**18 479**	**442 869**	**461 348**
Share in revenue of joint ventures	6 540	115	147 737	**154 392**
Share in profit/(loss) of joint ventures	**-**	**-**	**23 035**	**23 035**
Share in other comprehensive income of joint ventures	**-**	**-**	**28**	**28**

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

Elektrociepłownia Stalowa Wola S.A.

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

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

The conditions precedent were satisfied on 31 March 2017, which was followed by the entry into force of the aforesaid agreement and annexes. The issue has been discussed in more detail in Note 31.3 to these condensed interim consolidated financial statements.

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

Additionally, the Company has receivables due to loans granted to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 551 128 thousand, which has been discussed in more detail in Note 21, as well as a provision costs of operation of Elektrociepłownia Stalowa Wola S.A. of PLN 13 004 thousand, which have been discussed in Note 31.3.

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

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

TAURON Polska Energia S.A. holds 50% indirect interest in the issued capital of this company and in its governing body through TAURON Wytwarzanie S.A.

On 28 July 2016, TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. signed an agreement pursuant to which they unanimously decided to discontinue the construction of the gas and steam unit in Elektrownia Blachownia Nowa Sp. z o.o. and terminate the shareholders agreement concluded by KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A., which denotes expiration of all contractual obligations and discontinuation of all works specified in the agreement. KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. unanimously decided to commence the liquidation of the company, in line with its articles of association and laws of general application. On 11 October 2016, the Extraordinary General Shareholders' Meeting dissolved Elektrownia Blachownia Nowa Sp. z o.o. and placed it into liquidation, in addition to appointing a receiver. As Elektrownia Blachownia Nowa Sp. z o.o. in liquidation holds current assets which may be subject to distribution among the partners in the joint venture to a considerable extent, the Group does not recognize any additional impairment losses on its interest in the company.

(PLN '000)

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014, the TAURON Group entered into an agreement with the ArcelorMittal Group. The shareholders agreement states that TAMEH HOLDING Sp. z o.o. shall carry out investment and operational projects related to industrial power sector. The agreement was concluded for a term of 15 years with possible term extension. Following the transactions concluded in 2014, each capital group holds 50% of shares in TAMEH HOLDING Sp. z o.o.

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

21. Loans granted to joint ventures

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

	Agreement date	Contractual loan amount	As at 31 March 2017 *(unaudited)*		As at 31 December 2016		Maturity date	Purpose
			Principal	Interest	Principal	Interest		
Subordinated loan	20 June 2012	177 000	177 000	38 227	177 000	36 381	31.12.2032	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14 December 2015	15 850	15 850	864	15 850	699	31.12.2027	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 December 2016	15 300	11 000	138	11 000	21		
	30 March 2017	145 991	145 991	17	-	-	30.06.2017	Payment of all 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.
		73 518	73 518	8	-	-		
		71 233	71 233	8	-	-		
Other loans	25 November 2015	2 600	2 600	145	2 600	117	30.06.2017	Financing of current operations
	22 January 2016	5 500	5 500	270	5 500	214		
	22 April 2016	1 200	600	23	600	17		
	27 May 2016	3 100	3 100	96	3 100	65		
	31 August 2016	3 800	2 875	58	2 875	28		
	16 February 2017	3 000	2 000	7	-	-		
Total loans			**511 267**	**39 861**	**218 525**	**37 542**		
Non-current			203 850	39 229	203 850	37 101		
Current			307 417	632	14 675	441		

In the 3-month period ended 31 March 2017, the loans granted by the Company to Elektrociepłownia Stalowa Wola S.A. for purposes of debt repayment totaled 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 steam and gas unit in Stalowa Wola, which has been discussed in more detail in Note 31.3 to these condensed interim consolidated financial statements.

In the 3-month period ended 31 March 2017, the interest income due to loans granted reached PLN 2 319 thousand.

(PLN '000)

22. Other financial assets

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Shares	131 698	127 698
Deposits	42 168	38 472
Derivative instruments	46 088	56 417
Investment fund units	28 000	27 761
Loans granted	6 154	50
Bid bonds, deposits and collateral transferred	39 762	41 818
Other	53 697	14 561
Total	**347 567**	**306 777**
Non-current	227 583	227 140
Current	119 984	79 637

The shares held by the Group are mainly shares in the following entities:

- SCE Jaworzno III Sp. z o.o., in the amount of PLN 36 283 thousand;
- Przedsiębiorstwo Energetyki Cieplnej Tychy Sp. z o.o., in the amount of PLN 32 113 thousand;
- PGE EJ 1 Sp. z o.o., in the amount of PLN 26 546 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 15 063 thousand.

The financial assets of the Mine Decommissioning Fund comprise deposits and term deposits.

23. Other non-financial assets

23.1. Other non-current non-financial assets

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Prepayments for assets under construction and intangible assets *including:*	247 383	274 301
related to project realization: Construction of 910 MW Power Unit in Jaworzono III Power Plant	*244 795*	*271 667*
Costs of preparing production in hard coal mines	132 473	132 862
Other prepayments	15 324	15 237
Total	**395 180**	**422 400**

23.2. Other current non-financial assets

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Costs settled over time, *including:*	**89 680**	**78 457**
Costs of preparing production in hard coal mines	41 476	36 175
Property and tort insurance	14 633	10 922
IT, telecom and postal services	14 858	17 994
Other prepayments	18 713	13 366
Other current non-financial assets, *including:*	**113 081**	**106 551**
Advance payments for deliveries	47 191	103 601
Surplus of Social Benefit Fund assets over its liabilities	-	338
Transfers made to the Social Benefit Fund	42 249	-
Other current assets	23 641	2 612
Total	**202 761**	**185 008**

(PLN '000)

24. Inventories

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Historical cost		
Coal, *of which:*	222 124	320 201
Raw materials	*70 295*	*98 759*
Semi-finished goods and work-in-progress	*146 984*	*216 831*
Energy certificates	-	783
Emission allowances	15 399	45 912
Other inventories	116 852	115 591
Total	**354 375**	**482 487**
Write-downs to net realisable value / Revaluation		
Emission allowances	(1 279)	13 226
Other inventories	(6 637)	(9 593)
Total	**(7 916)**	**3 633**
Net realisable value / Fair value		
Coal, *of which:*	222 124	320 201
Raw materials	*70 295*	*98 759*
Semi-finished goods and work-in-progress	*146 984*	*216 831*
Energy certificates	-	783
Emission allowances	14 120	59 138
Other inventories	110 215	105 998
Total	**346 459**	**486 120**

The inventory of emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices is measured at fair value as at the end of the reporting period. The Company recognized a loss on measurement of PLN 1 279 thousand as at 31 March 2017 following a decline in the prices of emission allowances.

25. Receivables from buyers

Current receivables from buyers as at 31 March 2017 and 31 December 2016 have been presented in the table below.

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Value of items before allowance/write-down		
Receivables from clients	1 467 814	1 527 921
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	483 211	425 705
Receivables claimed at court	147 451	146 086
Total	**2 098 476**	**2 099 712**
Allowance/write-down		
Receivables from clients	(83 845)	(84 036)
Receivables claimed at court	(122 975)	(121 611)
Total	**(206 820)**	**(205 647)**
Value of item net of allowance (carrying amount)		
Receivables from clients	1 383 969	1 443 885
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	483 211	425 705
Receivables claimed at court	24 476	24 475
Total	**1 891 656**	**1 894 065**

(PLN '000)

26. Receivables due to taxes and charges

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Corporate Income Tax receivables	86 836	83 468
VAT receivables	131 175	154 181
Excise duty receivables	38 495	24 205
Other	1 360	2 000
Total	**257 866**	**263 854**

As at 31 March 2017 the Group had the following income tax receivables and liabilities:

- income tax receivables of PLN 86 836 thousand, where PLN 85 616 thousand relates to the Tax Capital Group;
- income tax liability of PLN 1 631 thousand, not related to the Tax Capital Group.

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 March 2017, the Tax Capital Group had income tax receivables of PLN 85 616 thousand, constituting:

- a surplus of advance income tax payments made by the Tax Capital Group in the amount of PLN 300 053 thousand for 2016 and tax overpaid by a subsidiary before joining the Tax Capital Group in the amount of PLN 301 thousand over the tax charge of the Tax Capital Group for 2016 in the amount of PLN 221 535 thousand;
- a surplus of advance constant, monthly income tax payments made by the Tax Capital Group in the amount of PLN 39 245 thousand for the first quarter of 2017 over the tax charge of the Tax Capital Group for the first quarter of 2017 in the amount of PLN 32 448 thousand.

27. Cash and cash equivalents

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Cash at bank and in hand	210 980	368 274
Short-term deposits (up to 3 months)	18 088	16 450
Other	318	157
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**229 386**	**384 881**
restricted cash	141 511	144 404
Bank overdraft	(78 722)	(15 156)
Cash pool	(6 112)	(16 095)
Foreign exchange	1 110	1 103
Total cash and cash equivalents presented in the statement of cash flows	**145 662**	**354 733**

The difference between the balance of cash presented in the statement of financial position and the one in the statement of cash flows results from overdrafts, cash pool loans granted by entities not subject to consolidation due to the overall immateriality and exchange gains and losses on measurement of cash on currency accounts.

As at 31 March 2017, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 78 595 thousand and cash on the accounts used for the settlement of electricity and emission allowances traded on the Polish Power Exchange (Towarowa Giełda Energii S.A.) of PLN 60 105 thousand.

(PLN '000)

28. Equity

28.1. Issued capital

Issued capital as at 31 March 2017 (*unaudited*)

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

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

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

Shareholder	Number of shares	Value of shares	Percentage of share capital	Percentage of total vote
State Treasury	526 848 384	2 634 242	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	910 553	10.39%	10.39%
Nationale - Nederlanden Otwarty Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	**1 752 549 394**	**8 762 747**	**100.00%**	**100.00%**

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

28.2. Revaluation reserve from valuation of hedging instruments

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Opening balance	**29 660**	**(73 414)**
Remeasurement of hedging instruments	(3 842)	1 961
Remeasurement of hedging instruments charged to profit or loss	(375)	23 188
Deferred income tax	801	(4 778)
Closing balance	**26 244**	**(53 043)**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued bonds, which has been discussed in more detail in Note 41.2 to these condensed interim consolidated financial statements.

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

As at 31 March 2017, the Company recognized PLN 26 244 thousand in the revaluation reserve from valuation of hedging instruments. It represents receivables arising from valuation of interest rate swaps as at the end of the reporting period, totaling PLN 32 799 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The amount of PLN 375 thousand constituting a change in valuation of instruments related to interest accrued on bonds as at the end of the reporting period was recognized in the profit for the period. In the statement of comprehensive income, the income related to a change in valuation of instruments relating to interest accrued on bonds decreased finance costs arising from such interest.

(PLN '000)

28.3. Retained earnings and dividend limitation

In the current period, changes in retained earnings (unabsorbed loss) included:

- net profit for the period attributable to the shareholders of the Parent of PLN 639 830 thousand;
- actuarial gains on provisions for post-employment benefits, recognized in other comprehensive income, of PLN 1 712 thousand.

29. Debt

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Loans and borrowings	1 300 863	1 263 553
Bonds issued	8 168 438	7 681 128
Finance lease	29 533	34 848
Total	**9 498 834**	**8 979 529**
Non-current	8 850 672	8 759 789
Current	648 162	219 740

29.1. Loans and borrowings

Loans and borrowings taken out as at 31 March 2017 (*unaudited*)

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within *(after the balance sheet date):*					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	74 251	74 251	36 325	5 041	7 409	7 341	14 529	3 606
	fixed	1 163 000	1 163 000	20 445	141 786	162 231	162 231	324 464	351 843
Total PLN		**1 237 251**	**1 237 251**	**56 770**	**146 827**	**169 640**	**169 572**	**338 993**	**355 449**
EUR	floating	13 005	54 878	54 878	-	-	-	-	-
Total EUR		**13 005**	**54 878**	**54 878**	**-**	**-**	**-**	**-**	**-**
USD	floating	412	1 625	1 625	-	-	-	-	-
Total USD		**412**	**1 625**	**1 625**	**-**	**-**	**-**	**-**	**-**
Total			**1 293 754**	**113 273**	**146 827**	**169 640**	**169 572**	**338 993**	**355 449**
Interest increasing carrying amount			7 109						
Total loans and borrowings			**1 300 863**						

Loans and borrowings taken out as at 31 December 2016

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

Changes in the balance of loans and borrowings, excluding interest increasing their carrying amount, in the 3-month period ended 31 March 2017 and in the comparative period, have been presented below.

(PLN '000)

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Opening balance	**1 256 467**	**1 403 618**
Movement in bank overdrafts and cash pool loans received	**59 688**	**97 726**
Movement in loans (excluding bank overdrafts and cash pool loans):	**(22 401)**	**(22 148)**
Repaid	(22 462)	(22 323)
Change in valuation	61	175
Closing balance	**1 293 754**	**1 479 196**

** Costs of granting the loan have been included.*

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

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	105 603	105 039
		Construction and start-up of a co-generation unit at EC Bielsko Biała	Fixed	15.12.2021	150 859	150 056
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	311 278	307 362
			Fixed – agreed until 15 March 2018	15.09.2024	136 540	147 091
			Fixed – agreed until 15 March 2018	15.09.2024	170 667	183 783
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	295 145	297 170
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	23 000	24 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	15 824	16 561
Other loans and borrowings					91 947	32 491
Total					**1 300 863**	**1 263 553**

(PLN '000)

29.2. Bonds issued

Bonds issued as at 31 March 2017 (*unaudited*)

Issuer	Tranche/ Bank	Redemption date	Currrency	As at balance sheet date		of which maturing within *(after the balance sheet date):*			
				Interest accrued	Principal at amortised cost	up to 3 months	3 months - 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20 December 2019	PLN	911	99 856	-	-	99 856	-
		20 December 2020	PLN	911	99 834	-	-	99 834	-
		20 December 2021	PLN	911	99 819	-	-	99 819	-
		20 December 2022	PLN	911	99 807	-	-	-	99 807
		20 December 2023	PLN	911	99 798	-	-	-	99 798
		20 December 2024	PLN	911	99 792	-	-	-	99 792
		20 December 2025	PLN	911	99 785	-	-	-	99 785
		20 December 2026	PLN	911	99 779	-	-	-	99 779
		20 December 2027	PLN	911	99 775	-	-	-	99 775
		20 December 2028	PLN	911	99 773	-	-	-	99 773
		20 December 2020	PLN	628	69 979	-	-	69 979	-
		20 December 2021	PLN	628	69 978	-	-	69 978	-
		20 December 2022	PLN	628	69 978	-	-	-	69 978
		20 December 2023	PLN	628	69 977	-	-	-	69 977
		20 December 2024	PLN	628	69 977	-	-	-	69 977
		20 December 2025	PLN	628	69 977	-	-	-	69 977
		20 December 2026	PLN	628	69 977	-	-	-	69 977
		20 December 2027	PLN	628	69 977	-	-	-	69 977
		20 December 2028	PLN	628	69 976	-	-	-	69 976
		20 December 2029	PLN	628	69 976	-	-	-	69 976
	Bond Issue Scheme of 24.11.2015	29 December 2020	PLN	16 969	2 245 106	-	-	2 245 106	-
		25 March 2020	PLN	57	99 788	-	-	99 788	-
		9 December 2020	PLN	2 749	299 331	-	-	299 331	-
		30 January 2020	PLN	495	99 782	-	-	99 782	-
		1 March 2020	PLN	251	99 780	-	-	99 780	-
		30 June 2017	PLN	24	300 000	300 000	-	-	-
	TPEA1119	4 November 2019	PLN	19 341	1 749 185	-	-	1 749 185	-
	European Investment Bank	16 December 2034	EUR	10 700	800 600	-	-	-	800 600
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	8 091	703 009	-	-	-	703 009
Total debentures				**74 067**	**8 094 371**	**300 000**	**-**	**5 032 438**	**2 761 933**

Bonds issued as at 31 December 2016

Issuer	Tranche/ Bank	Redemption date	Currrency	As at balance sheet date		of which maturing within *(after the balance sheet date):*			
				Interest accrued	Principal at amortised cost	up to 3 months	3 months - 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20 December 2019	PLN	107	99 805	-	-	99 805	-
		20 December 2020	PLN	107	99 786	-	-	99 786	-
		20 December 2021	PLN	107	99 773	-	-	99 773	-
		20 December 2022	PLN	107	99 763	-	-	-	99 763
		20 December 2023	PLN	107	99 754	-	-	-	99 754
		20 December 2024	PLN	107	99 749	-	-	-	99 749
		20 December 2025	PLN	107	99 744	-	-	-	99 744
		20 December 2026	PLN	107	99 738	-	-	-	99 738
		20 December 2027	PLN	107	99 734	-	-	-	99 734
		20 December 2028	PLN	107	99 733	-	-	-	99 733
		20 December 2020	PLN	74	69 976	-	-	69 976	-
		20 December 2021	PLN	74	69 976	-	-	69 976	-
		20 December 2022	PLN	74	69 976	-	-	-	69 976
		20 December 2023	PLN	74	69 976	-	-	-	69 976
		20 December 2024	PLN	74	69 975	-	-	-	69 975
		20 December 2025	PLN	74	69 975	-	-	-	69 975
		20 December 2026	PLN	74	69 975	-	-	-	69 975
		20 December 2027	PLN	74	69 975	-	-	-	69 975
		20 December 2028	PLN	74	69 975	-	-	-	69 975
		20 December 2029	PLN	74	69 975	-	-	-	69 975
	Bond Issue Scheme of 24.11.2015	29 December 2020	PLN	549	2 244 801	-	-	2 244 801	-
		25 March 2020	PLN	790	99 771	-	-	99 771	-
		9 December 2020	PLN	560	298 761	-	-	298 761	-
	TPEA1119	4 November 2019	PLN	7 578	1 749 155	-	-	1 749 155	-
	European Investment Bank	16 December 2034	EUR	1 693	839 330	-	-	-	839 330
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	2 067	736 930	-	-	-	736 930
Total debentures				**15 047**	**7 666 081**	**-**	**-**	**4 831 804**	**2 834 277**

(PLN '000)

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

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

Bonds issued by TAURON Sweden Energy AB (publ), a subsidiary, are fixed-rate securities with interest payable annually. The euro is the issue currency and repayment currency. As at 31 March 2017, the carrying amount of the bonds with interest in the bond currency was EUR 168 515 thousand (versus EUR 167 043 thousand as at 31 December 2016). The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ) to secure the bonds in question. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand.

Changes in the balance of bonds, excluding interest increasing their carrying amount, in the 3-month period ended 31 March 2017 and in the comparative period, have been presented below.

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Opening balance	**7 666 081**	**6 665 528**
Issue*	499 543	2 852 461
Redemption	-	(2 250 000)
Change in valuation	(71 253)	2 302
Closing balance	**8 094 371**	**7 270 291**

** Including the cost of issue.*

In the 3-month period ended 31 March 2017, the Company issued three tranches of bonds with the total par value of PLN 500 000 thousand under the Bond Issue Scheme of 24 November 2015:

- a tranche of PLN 300 000 thousand with the maturity date on 30 June 2017;
- a tranche of PLN 100 000 thousand with the maturity date on 30 January 2020;
- a tranche of PLN 100 000 thousand with the maturity date on 1 March 2020.

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 41.2 to these condensed interim consolidated financial statements.

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. As at 31 March 2017, none of these covenants had been breached and the contractual provisions were complied with.

(PLN '000)

30. Provisions for employee benefits

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Provision for post-employment benefits and jubilee bonuses	1 480 558	1 480 391
Provision for employment termination benefits	52 112	51 222
Total	**1 532 670**	**1 531 613**
Non-current	1 377 726	1 373 385
Current	154 944	158 228

30.1. Provisions for post-employment benefits and jubilee bonuses

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**307 281**	**532 184**	**112 469**	**2 248**	**526 209**	**1 480 391**
Current service costs	3 675	2 901	586	-	7 064	**14 226**
Actuarial gains and losses	(1 964)	-	(166)	-	(6 417)	**(8 547)**
Benefits paid	(6 857)	(22)	(921)	-	(7 907)	**(15 707)**
Interest expense	2 039	3 832	809	-	3 515	**10 195**
Closing balance	**304 174**	**538 895**	**112 777**	**2 248**	**522 464**	**1 480 558**
Non-current	271 729	518 705	108 326	-	467 324	**1 366 084**
Current	32 445	20 190	4 451	2 248	55 140	**114 474**

For the 3-month period ended 31 March 2016 (*unaudited*)

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**341 124**	**722 734**	**131 110**	**2 242**	**653 165**	**1 850 375**
Current service costs	3 442	8 414	470	-	9 046	**21 372**
Actuarial gains and losses	2 518	-	(6)	-	(6 976)	**(4 464)**
Benefits paid	(8 388)	(24)	(924)	(386)	(22 497)	**(32 219)**
Interest expense	2 319	4 957	896	-	4 329	**12 501**
Acquisition of ZCP Brzeszcze	9 436	-	-	-	17 026	**26 462**
Closing balance	**350 451**	**736 081**	**131 546**	**1 856**	**654 093**	**1 874 027**
Non-current	327 309	712 219	127 252	-	596 123	**1 762 903**
Current	23 142	23 862	4 294	1 856	57 970	**111 124**

Measurement of provisions for employee benefits

Provisions for post-employment benefits and jubilee bonuses have been estimated using actuarial methods.

The provisions for employee benefits were measured as at 31 March 2017 based on actuarial projections. Actuarial assumptions made in preparing the projections for 2017 were the same as those used for measuring provisions as at 31 December 2016. Key actuarial assumptions made as at 31 December 2016 for the purpose of calculation of the liability:

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

(PLN '000)

30.2. Provisions for employment termination benefits

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

	Voluntary redundancy schemes in operating segments		Other	Total
	Generation	Distribution		
Opening balance	**17 599**	**17 062**	**16 561**	**51 222**
Recognition	11 104	-	-	**11 104**
Utilization	(2 413)	(3 204)	(4 597)	**(10 214)**
Closing balance	**26 290**	**13 858**	**11 964**	**52 112**
Non-current	11 642	-	-	**11 642**
Current	14 648	13 858	11 964	**40 470**

For the 3-month period ended 31 March 2016 (*unaudited*)

	Voluntary redundancy schemes in operating segments		Other	Total
	Generation	Distribution		
Opening balance	**23 460**	**25 432**	**8 444**	**57 336**
Recognition	4 907	-	-	**4 907**
Utilization	(3 741)	(5 420)	(516)	**(9 677)**
Closing balance	**24 626**	**20 012**	**7 928**	**52 566**
Non-current	9 038	**-**	**-**	**9 038**
Current	15 588	20 012	7 928	**43 528**

n the 3-month period ended 31 March 2017, a company from the Generation segment launched further voluntary redundancy schemes. A provision of PLN 10 974 thousand was recognized for the expected costs of the schemes. The Group companies also continued their prior year schemes. The amount recognized includes PLN 130 thousand related to the unwinding of discount.

31. Provisions for dismantling fixed assets, restoration of land and other

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

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity and provision for costs	Provisions, total
Opening balance	**146 885**	**115 302**	**198 844**	**461 031**
Interest cost (discounting)	1 285	743	2 214	**4 242**
Recognition/(reversal), net	28	-	(188 054)	**(188 026)**
Closing balance	**148 198**	**116 045**	**13 004**	**277 247**
Non-current	148 198	103 728	4 625	**256 551**
Current	-	12 317	8 379	**20 696**
Other provisions, long-term portion				**46 478**
Total				**303 029**

For the 3-month period ended 31 March 2016 (*unaudited*)

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity and provision for costs	Provisions, total
Opening balance	**111 675**	**101 244**	**182 877**	**395 796**
Interest cost (discounting)	773	690	2 929	**4 392**
Recognition/(reversal), net	410	-	-	**410**
Acquisition of ZCP Brzeszcze	65 992	-	-	**65 992**
Closing balance	**178 850**	**101 934**	**185 806**	**466 590**
Non-current	178 850	101 030	158 803	**438 683**
Current	-	904	27 003	**27 907**
Other provisions, long-term portion	**-**	-	**-**	**1 899**
Total	**-**	-	**-**	**440 582**

31.1. Provision for mine decommissioning costs

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

As at 31 March 2017, the balance of the provision was PLN 148 198 thousand, and the change concerned mainly the unwinding of discount – PLN 1 285 thousand.

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

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

- provision for ash pile reclamation costs, which totaled PLN 39 711 thousand as at 31 March 2017 (versus PLN 39 415 thousand as at 31 December 2016);
- provision for windfarm dismantling costs, which totaled PLN 51 535 thousand as at 31 March 2017 (versus PLN 51 088 thousand as at 31 December 2016);
- provision for costs of liquidation of fixed assets (a chimney in Elektrownia Jaworzno) as well as cooling towers and a unit in Elektrownia Łagisza, which totaled PLN 24 799 thousand as at 31 March 2017 and did not change as compared to 31 December 2016.

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

As the schedule had not been met and the material technical terms of the contract signed with the general contractor on the gas and steam unit construction project in Stalowa Wola, determining the safety and failure-free operation as well as the future efficiency and costs of operation of the unit, had been breached, Elektrociepłownia Stalowa Wola S.A. terminated the contract with the general contractor on 29 January 2016 and officially took over the construction site on 22 February 2016. The inventory of works performed by the general contractor was completed. Acceptance of the post-inventory documentation is in progress. Asset maintenance works are performed on an ongoing basis to prevent degradation.

In view of the foregoing, in 2015, the Company recognized provisions for onerous contracts with a joint venture, Elektrociepłownia Stalowa Wola S.A. As at 31 December 2016, the related provisions totaled PLN 198 844 thousand.

In the 3-month period ended 31 March 2017, the Company revalued the provisions for onerous contracts with a joint venture due to the unwinding of discount as at the end of the reporting period, which increased the provisions by PLN 2 214 thousand. It also recognized an additional provision for costs of operation of PLN 2 211 thousand and reversed in whole the following provisions:

- 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 might be 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. In accordance with the aforesaid clause, Elektrociepłownia Stalowa Wola S.A. was obliged to make a payment to PGNiG S.A. for uncollected gas.

Changes in provisions in the 3-month period ended 31 March 2017 have been presented in the table below.

(PLN '000)

	Provision for electricity contract	Provision for "take or pay" clause in gas contract	Provision for costs	Total provisions
Opening balance	**133 327**	**54 837**	**10 680**	**198 844**
Unwinding of discount	1 626	475	113	**2 214**
Recognision	-	-	2 211	**2 211**
Reversal	(134 953)	(55 312)	-	**(190 265)**
Closing balance	**-**	**-**	**13 004**	**13 004**
Non-current	-	-	4 625	**4 625**
Current	-	-	8 379	**8 379**

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 fulfilling the conditions precedent resulting from agreement signed on 27 October 2016 setting out the key boundary restructuring conditions for the project "Construction of a gas and steam unit in Stalowa Wola". The conditions precedent were considered satisfied after repaying by Elektrociepłownia Stalowa Wola S.A. on 31 March 2017 all its liabilities to the financing institutions, i.e. the European Investment Bank, the 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 21 to these condensed interim consolidated financial statements. Once the conditions precedent were considered satisfied, the following documents entered into force:

- 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 favorable than those under the existing agreements.

The annexes to the gaseous fuel supply contract and the electricity sales contract which entered into force, include in particular the application of market price formulas for the contracts in question. Furthermore, due to delays in the project, the annex to the gaseous fuel supply contract provides for changes in the amount, time limits and methodologies of imposition of liquidated damages. According to the Management Board of the Company, the changes to the contracts enforced by the annexes, constituted a basis for reversal of the provision for costs related to the electricity sales contract and the provision for losses which might be incurred under the take or pay clause as at 31 March 2017.

As at the end of the reporting period, the balance of the provisions was PLN 13 004 and it was related to the provision for costs of operations of Elektrociepłownia Stalowa Wola S.A.. The Company may be required to incur additional costs necessary for the operation of Elektrociepłownia Stalowa Wola S.A. due to delays in project completion. The provision for additional costs of operation has been recognized in proportion to the Company's interest in the joint venture.

32. Provisions for liabilities due to gas emission and energy certificates

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

(PLN '000)

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

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**209 736**	**755 085**	**964 821**
Recognition	55 927	185 484	**241 411**
Reversal	(82)	(23)	**(105)**
Utilisation	(169 335)	(548 273)	**(717 608)**
Closing balance	**96 246**	**392 273**	**488 519**

For the 3-month period ended 31 March 2016 (*unaudited*)

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**153 083**	**865 051**	**1 018 134**
Recognition	81 691	201 748	**283 439**
Reversal	(23)	(3 494)	**(3 517)**
Utilisation	-	(770 959)	**(770 959)**
Closing balance	**234 751**	**292 346**	**527 097**

32.1. Provision for gas emission liabilities

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

As at 31 March 2017, the provision for gas emission liabilities amounted to PLN 96 246 thousand and concerned:

- the obligation to surrender emission allowances for the year ended 31 December 2016 by TAURON Ciepło Sp. z o.o. in the amount of PLN 40 319 thousand.
- the obligation to surrender emission allowances for the 3-month period ended 31 March 2017. Provisions were recognized for current period emission allowances in the amount of:
  - TAURON Ciepło Sp. z o.o.: PLN 8 852 thousand;
  - TAURON Wytwarzanie S.A.: PLN 47 075 thousand.

A change in the balance of the provision in the 3-month period ended 31 March 2017 arises from:

- remeasurement of the provision for the obligation for 2016 - reversal of the provision of PLN 82 thousand;
- recognition of the provision for the obligation for the 3-month period ended 31 March 2017 – recognition of the provision of PLN 55 927 thousand;
- use of the provision due to the fulfilment of the remaining obligation for 2016 by TAURON Wytwarzanie S.A. and surrender of emission allowances in the amount of PLN 169 335 thousand. The obligation to surrender emission allowances for 2016 was partially fulfilled by TAURON Wytwarzanie S.A. in December 2016.

32.2. Provision for the obligation to surrender energy certificates

As at 31 March 2017, the Group recognized a short-term provision for the obligation to surrender energy certificates for 2017 and partly for 2016 in the estimated amount of PLN 392 273 thousand, out of which the amount of PLN 218 486 thousand was covered by certificates held as at the end of the reporting period, the amount of PLN 134 297 thousand was planned to be paid in the form of a substitution fee and the amount of PLN 39 490 thousand through the purchase of property rights.

(PLN '000)

In the 3-month period ended 31 March 2017, the Group fulfilled in part the obligation to surrender certificates of electricity generated using renewable sources, in cogeneration and energy efficiency certificates for 2016. Therefore, a provision of PLN 548 273 thousand was used.

33. Other provisions

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

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**92 143**	**262 592**	**354 735**
Recognition/(reversal), net	369	2 518	**2 887**
Utilisation	(63)	(2 215)	**(2 278)**
Closing balance	**92 449**	**262 895**	**355 344**
Non-current	-	46 478	**46 478**
Current	92 449	216 417	**308 866**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**20 696**
Total current other provisions			**329 562**

For the 3-month period ended 31 March 2016 (*unaudited*)

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**91 909**	**67 711**	**159 620**
Recognition/(reversal), net	2 151	3 471	**5 622**
Utilisation	(68)	(996)	**(1 064)**
Closing balance	**93 992**	**70 186**	**164 178**
Non-current	-	1 899	**1 899**
Current	93 992	68 287	**162 279**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**27 907**
Total current other provisions			**190 186**

Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 31 March 2017, the relevant provision amounted to PLN 92 449 thousand and was related to the following segments:

- Generation: PLN 50 278 thousand;
- Distribution: PLN 42 171 thousand.

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

(PLN '000)

Provisions for counterparty claims, court disputes and other provisions

Material provisions recognized as other provisions have been discussed below:

Item	Operating segment	Description	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Provisions for penalties fixed by the contracts	Generation	Considering the risk that the two projects listed below will not be continued (their continuity is required under the subsidy contracts): • Construction of a biomass boiler in Elektrownia Jaworzno III – Elektrownia II; • Construction of a system of power generation from renewable sources in Stalowa Wola, a provision has been recognised for the costs of returning the subsidy totalling PLN 52,297 thousand. Considering the risk that Polski Fundusz Rozwoju S.A. may terminate the agreement, as a result of TAURON Wytwarzanie S.A. withdrawal from the construction of a gas and steam unit in Elektrownia Łagisza in Będzin and the risk of accruing liquidated damages, a provision totalling PLN 11,250 has been recognised.	63 547	63 547
Provision for a fine to the Energy Regulatory Office	Distribution	The provision concerning the risks of the violation of the Energy Law of 10 April 1997 by providing misleading information to the President of the Energy Regulatory Office.	20 436	20 436
Provision for increased transmission easement charges	Distribution	The provision concerns a risk of increased periodic charges for transmission easement related to energy infrastructure located within the Forestry Commission areas overseen by the Regional State Forest Directorate in Wrocław, following a change in the nature of the land from forestry to business.	21 700	21 700
Proceedings before the Office of Competition and Consumer Protection	Distribution	A provision for fines imposed by the President of the Office of Competition and Consumer Protection for the abuse by ENION S.A. (now TAURON Dystrybucja S.A.) of its dominant position on the electricity distribution market. As at 31 March 2017, the provision was recognized for fines related to proceedings before the Court of Competition and Consumer Protection which had not been closed as at that date. The balance of the provision had not changed as compared to 31 December 2016.	7 302	7 302
Provision for real estate tax	Mining	Provisions for proceedings related to real estate tax on underground mining excavations.	23 810	23 008
Provision for VAT	Sales	The provision was recognized in connection with pending inspection proceedings instituted by the Director of the Tax Inspection Office in Warsaw in relation to the value added tax. The period of the inspection proceedings was prolonged by the Director of the Tax Inspection Office a few times and the new deadline has been set at 28 June 2017. As at 31 March 2017 the provision amounts to PLN 65 530 thousand and the increase of the provision relates to interest accrued for the 3-month period ended 31 march 2017.	65 530	64 494

(PLN '000)

34. Accruals, deferred income and government grants

34.1. Deferred income and government grants

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Deferred income, *of which:*	**284 319**	**293 284**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	69 623	71 849
Connection fees	212 473	218 075
Other	2 223	3 360
Government grants, *of which:*	**312 198**	**317 505**
Subsidies obtained from EU funds	208 980	211 981
Forgiven loans from environmental funds	27 641	28 068
Measurement of preferential loans	37 425	37 777
Other	38 152	39 679
Total	**596 517**	**610 789**
Non-current	543 994	553 874
Current	52 523	56 915

34.2. Accruals

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Unused holidays	65 781	48 640
Bonuses	93 594	140 930
Environmental protection charges	8 162	3 806
Other	10 139	17 790
Total	**177 676**	**211 166**
Non-current	225	419
Current	177 451	210 747

35. Liabilities to suppliers

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

Liabilities to suppliers in operating segments	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Distribution	296 998	294 573
including from Polskie Sieci Elektroenergetyczne S.A.	*230 814*	*200 732*
Sales	193 679	247 487
Mining	139 755	144 722
Generation	104 185	100 857
Other	40 624	42 090
Total	**775 241**	**829 729**

36. Capital commitments

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

Capital commitments in operating segments	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Generation	61 445	511 403
Distribution	126 217	336 624
Mining	23 699	159 138
Sales and other	2 997	26 639
Total	**214 358**	**1 033 804**

(PLN '000)

A drop in capital commitments in the Generation segment concerned mainly a decrease related to the construction of unit no. 910 in Jaworzno in the amount of PLN 412 566 thousand, which totaled PLN 45 918 thousand as at 31 March 2017. As at 31 December 2016, capital commitments totaled PLN 458 484 thousand.

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

Long-term capital commitments have been presented in the condensed interim consolidated statement of financial position within other financial liabilities. As at 31 March 2017 and 31 December 2016, the related commitments totaled PLN 269 thousand (Distribution) and PLN 299 thousand (Distribution), respectively.

Commitments to incur capital expenditure

As at 31 March 2017 and 31 December 2016, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 4 097 480 thousand and PLN 4 368 685 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Generation	Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	2 384 218	2 579 313
	Design, installation, set-up and launch of individual systems and facilities required for the operation of a 910 MW power unit in Elektrownia Jaworzno III	262 852	229 150
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	10 000	10 000
Distribution	Redevelopment of the double track overhead line Przybków-Kąty Wrocławskie-Klecina	21 588	31 446
	Implementation of Smart City Wrocław, an intelligent measurement system	16 472	18 880
	Construction of Grid Management Centre in Kraków and in Wrocław	19 771	30 951
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	14 749	16 484
	Construction of the 800 m drift at Janina Mining Plant	12 118	19 578
	Investment Program in Brzeszcze Mining Plant	31 786	32 731

37. Liabilities due to taxes and charges

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Corporate Income Tax	1 631	2 371
Personal Income Tax	39 829	51 084
Excise	45 852	41 549
VAT	200 873	98 114
Social security	161 436	170 039
Environmental charges	6 865	40 964
Other	6 711	6 822
Total	**463 197**	**410 943**

(PLN '000)

38. Other financial liabilities

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Wages, salaries and related charges	125 114	174 212
Bid bonds, deposits and collateral received	78 853	79 415
Insurance contracts	11 030	12 560
Derivative instruments	5 203	560
Other	38 930	61 922
Total	**259 130**	**328 669**
Non-current	68 476	72 374
Current	190 654	256 295

39. Other current non-financial liabilities

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Payments from customers relating to future periods, *of which:*	**310 745**	**298 606**
Prepayments for connection fees	20 474	21 369
Amounts overpaid by customers	252 980	245 544
Other	37 291	31 693
Other current non-financial liabilities, *of which:*	**68 627**	**2 573**
Surplus of Social Benefit Fund liabilities over its assets	54 396	-
Other non-financial liabilities	14 231	2 573
Total	**379 372**	**301 179**

(PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

40. Significant items of the consolidated statement of cash flows

40.1. Cash flows from operating activities

Changes in working capital

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited)
Change in receivables:	**(40 392)**	**(85 570)**
Change in receivables from clients in statement of financial position	2 409	18 663
Change in other financial receivables	(37 080)	(103 317)
Other adjustments	(5 721)	(916)
Change in inventories:	**138 580**	**14 231**
Change in inventories in statement of financial position	139 661	13 981
Adjustment related to transfer of invetories to/from property, plant and equipment	(1 081)	(1 099)
Other adjustments	-	1 349
Change in payables excluding loans and borrowings:	**(143 995)**	**(119 081)**
Change in liabilities to suppliers in statement of financial position	(54 488)	(97 985)
Change in payroll, social security and other financial liabilities	(74 152)	(110 085)
Change in non-financial liabilities in statement of financial position	78 193	67 532
Change in liabilities due to taxes excluding income tax	52 994	111 755
Adjustment of VAT change related to capital commitments	(154 060)	(96 456)
Other adjustments	7 518	6 158
Change in other non-current and current assets:	**491 954**	**558 169**
Change in other current and non-current non-financial assets	9 467	(43 508)
Change in receivables due to taxes excluding income tax	9 356	78 510
Change in non-current and current emission allowances	169 335	-
Change in non-current and current energy certificates	331 541	510 899
Change in advance payments for property, plant and equipment and intangible assets	(26 918)	21 101
Other adjustments	(827)	(8 833)
Change in deferred income, government grants and accruals:	**(49 806)**	**(40 547)**
Change in deferred income, government grants and accruals	(47 762)	(31 173)
Adjustmet related to property, plant and equipment and intangible assets received free of charge	(1 826)	(1 050)
Adjustment related to subsidies received	(218)	(4 121)
Adjustment related to acquisition of orgnanized part of the enterprise (ZCP Brzeszcze)	-	(4 203)
Change in provisions:	**(656 555)**	**(492 012)**
Change of short term and long term provisions in statement of financial position	(658 420)	(396 803)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	2 130	(2 512)
Adjustment related to acquisition of orgnanized part of the enterprise (ZCP Brzeszcze)	-	(92 454)
Other adjustments	(265)	(243)
Total	**(260 214)**	**(164 810)**

Income tax paid

Income tax paid in the amount of PLN 41 284 thousand results mainly from the Tax Capital Group's payment of advance income tax for the first quarter of 2017 in the 3-month period ended 31 March 2017 totaling PLN 39 245 thousand.

(PLN '000)

40.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited)
Purchase of property, plant and equipment	(561 401)	(605 359)
Purchase of intangible assets	(21 880)	(14 616)
Change in the balance of VAT-adjusted capital commitments	(665 416)	(343 664)
Change in the balance of advance payments	26 918	(21 101)
Costs of overhaul and internal manufacturing	(30 606)	(10 153)
Other	974	957
Total	**(1 251 411)**	**(993 936)**

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 292 742 thousand, which has been discussed in more detail in Note 21 to these condensed interim consolidated financial statements.

40.3. Cash flows from financing activities

Loans and borrowings repaid

Payments to repay loans and borrowings, as presented in the consolidated statement of cash flows in the amount of PLN 22 462 thousand, arise mainly from the Parent's repayment of loan installments to the European Investment Bank, totaling PLN 20 455 thousand, during the 3-month period ended 31 March 2017.

Interest paid

	3-month period ended 31 March 2017 (unaudited)	3-month period ended 31 March 2016 (unaudited)
Interest paid in relation to debt securities	(1 459)	(13 004)
Interest paid in relation to loans and borrowings	(11 001)	(11 916)
Interest paid in relation to the finance lease	(217)	(245)
Total	**(12 677)**	**(25 165)**

Issue of debt securities

Proceeds from issue of debt securities in the 3-month period ended 31 March 2017 resulted from the issue of three tranches of bonds with the total par value of PLN 500 000 thousand under a Bond Issue Scheme of November 2015.

(PLN '000)

OTHER INFORMATION

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 March 2017 *(unaudited)*		As at 31 December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss, held for trading		**38 744**		**45 092**	
Derivative instruments	**41.2**	13 289	13 289	19 776	19 776
Investment fund units	**22**	25 455	25 455	25 316	25 316
2 Financial assets available for sale		**134 243**		**130 143**	
Shares (non-current)	**22**	127 594		123 594	
Shares (current)	**22**	4 104		4 104	
Investment fund units	**22**	2 545	2 545	2 445	2 445
3 Loans and receivables		**2 584 565**		**2 245 033**	
Receivables from clients	**25**	1 891 656	1 891 656	1 894 065	1 894 065
Deposits	**22**	42 168	42 168	38 472	38 472
Loans granted		557 282	557 282	256 117	256 117
Other financial receivables		93 459	93 459	56 379	56 379
4 Financial assets excluded from the scope of IAS 39		**487 146**		**461 348**	
Investments in joint ventures	**20**	487 146		461 348	
5 Derivative hedging instruments	**41.2**	**32 799**	**32 799**	**36 641**	**36 641**
6 Cash and cash equivalents	**27**	**229 386**	**229 386**	**384 881**	**384 881**
Total financial assets, *of which in the statement of financial position:*		**3 506 883**		**3 303 138**	
Non-current assets		**957 808**		**929 439**	
Investments in joint ventures		487 146		461 348	
Loans granted to joint ventures		243 079		240 951	
Other financial assets		227 583		227 140	
Current assets		**2 549 075**		**2 373 699**	
Receivables from clients		1 891 656		1 894 065	
Loans granted to joint ventures		308 049		15 116	
Other financial assets		119 984		79 637	
Cash and cash equivalents		229 386		384 881	

Categories and classes of financial liabilities	Note	As at 31 March 2017 *(unaudited)*		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		**5 203**		**560**	
Derivative instruments	**41.2**	5 203	5 203	560	560
2 Financial liabilities measured at amortized cost		**10 712 827**		**11 136 323**	
Preferential loans	**29.1**	39 783	39 783	41 748	41 748
Arm's length loans	**29.1**	1 182 358	1 183 129	1 206 649	1 209 558
Bank overdrafts	**29.1**	78 722	78 722	15 156	15 156
Bonds issued	**29.2**	8 168 438	8 204 203	7 681 128	7 719 015
Liabilities to suppliers	**35**	775 241	775 241	829 729	829 729
Other financial liabilities		134 822	134 822	158 383	158 383
Capital commitments	**36**	214 627	214 627	1 034 103	1 034 103
Salaries and wages		107 806	107 806	156 867	156 867
Insurance contracts	**38**	11 030	11 030	12 560	12 560
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**29 533**		**34 848**	
Obligations under finance leases		29 533	29 533	34 848	34 848
Total financial liabilities, *of which in the statement of financial position:*		**10 747 563**		**11 171 731**	
Non-current liabilities		**8 919 148**		**8 832 163**	
Debt		8 850 672		8 759 789	
Other financial liabilities		68 476		72 374	
Current liabilities		**1 828 415**		**2 339 568**	
Debt		648 162		219 740	
Liabilities to suppliers		775 241		829 729	
Capital commitments		214 358		1 033 804	
Other financial liabilities		190 654		256 295	

(PLN '000)

Derivative financial instruments classified as assets and liabilities measured at fair value through profit or loss and designated as hedging instruments, which are measured at fair value as at the end of the reporting period, were measured in line with the method described in Note 41.2 to these condensed interim consolidated financial statements. Disclosures regarding the fair value hierarchy have also been presented in Note 41.2. Measurement of units in investment funds has been classified to Level 1 in the fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- As at 31 March 2017, fixed-rate financial instruments, which included loans obtained from the European Investment Bank, subordinated bonds and bonds issued by a subsidiary, were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable currently to a given bond or loan, i.e. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy;
- The fair value of other financial instruments (except for shares classified as financial assets available for sale and excluded from the scope of IAS 39, as described below) as at 31 March 2017 and 31 December 2016 did not significantly differ from their values presented in the financial statements for the respective periods, for the following reasons:

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

  - the instruments are related to arm's length transactions.

  Consequently, the fair value of the instruments in question has been disclosed in the tables above at the carrying amount.
- The Group does not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Group is unable to reliably estimate the fair value of shares held in companies which are not quoted on active markets. They are measured at cost less impairment losses as at the end of the reporting period. Similarly, interest in joint ventures – financial assets excluded from the scope of IAS 39 – are measured using the equity method in line with the accounting policies adopted by the Group.

41.2. Derivative instruments

	As at 31 March 2017 *(unaudited)*				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
IRS	398	32 401	**32 799**	**-**	23	36 618	**36 641**	**-**
Commodity forwards/futures	11 229	-	**13 289**	**(2 060)**	15 999	-	**16 559**	**(560)**
Currency forwards	(3 143)	-	**-**	**(3 143)**	3 217	-	**3 217**	**-**
Total derivative instruments, *including:*			**46 088**	**(5 203)**			**56 417**	**(560)**
Non-current			31 727	**(36)**			35 814	-
Current			14 361	(5 167)			20 603	(560)

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

Derivative instrument	Methodology of determining fair value hierarchy
IRS	Based on discounted future cash flows accounting for the difference between the forward price (calculated based on zero-coupon interest rate curve) and the transaction price.
Forward currency contracts	Based on discounted future cash flows accounting for the difference between the forward price (calculated based on NBP fixing and the interest rate curve implied by fx swap transactions) and the transaction price.
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.

(PLN '000)

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

	As at 31 March 2017 *(unaudited)*		As at 31 December 2016	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity-related derivatives	13 289	-	16 559	-
Derivative instruments - IRS	-	32 799	-	36 641
Derivative instruments - currency	-	-	-	3 217
Liabilities				
Commodity-related derivatives	2 060	-	560	-
Currency derivatives	-	3 143	-	-

Hedging derivative instruments (subject to hedge accounting) – IRS

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

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

As at 31 March 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:

- commodity derivatives (futures, forward) including emission allowance and other commodity purchase and sale transactions;
- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

42. Principles and objectives of financial risk management

The objectives and principles of financial risk management have not changed since 31 December 2016.

As at 31 March 2017, the Parent was a party to hedging transactions covered by the policy for specific risk management in the area of finance, entered into with a view to hedging interest cash flows from issued bonds. The Parent applies hedge accounting to the aforementioned transactions. The accounting treatment of the aforementioned hedging transactions has been discussed in more detail in Note 41.2 to these condensed interim consolidated financial statements.

43. Finance and capital management

During the period covered by these condensed interim consolidated financial statements, there were no significant changes in finance and capital management objectives, principles or procedures.

(PLN '000)

44. Contingent liabilities

Item	Description
Use of real estate without contract	Entities of the Group do not hold legal titles to all plots of land where distribution networks, heating installation and the related devices are located. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential not submitted claims of owners of land with unregulated legal status, since their detailed records do not exist. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.
Amount	As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 92 449 thousand (Note 33).
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 Energy Regulatory Office (ERO). At present, the case is pending at District Court in Warsaw. Based on a decision of 12 October 2001, the President of the Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had failed to pay its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006 the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgement of the Court of Appeals in Warsaw, which was dismissed by the judgement of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the above decision issued by the President of ERO 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 Huta has 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 ERO dated 12 October 2001. In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the judgement of the Regional Court and remanded the case for re-examination by the latter. The first hearing before the first instance court was held on 27 November 2012. In May 2015, a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by the parties as evidence. After the issue of the decision, the Company tried to change the proceeding concept adopted by the Court stating that taking evidence from a court expert opinion is unacceptable. Finally, the Court commissioned an additional opinion to be prepared by the court expert. On 5 September 2016, the additional opinion by the court expert was delivered to the Company. The Company filed charges against the said opinion on 12 and 19 September 2016. Charges were also brought by the State Treasury and Huta. Another hearing was held on 24 March 2017 but the expert witness appointed by the court did not appear. The hearing was adjourned for an unspecified period. Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.
Amount	Claim regarding payment of damages of PLN 182 060 thousand.
Litigation related to termination of long-term contracts	On 18 March 2015 Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. in liquidation terminated long-term agreements regarding purchase of power and property rights from windfarms. Court proceedings were instigated against the Company to consider the termination notices invalid. In 2016 the claims against the company were changed through the incorporation of claims for damages related to termination of the agreements in the total amount of ca. PLN 40 000 thousand. Since the court proceedings regarding the above issues are pending, the final amount of possible financial effects on the Company and the Group cannot be reliably estimated. In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both in terms of the termination notes being declared invalid and of securing both non-monetary claims and the claims for damages does not exceed 50%. Therefore, no provision for the related costs has been recognized.

(PLN '000)

Item	Description
Claim filed by ENEA S.A.	The claim filed by ENEA S.A. ("ENEA") to the District Court in Katowice regards the payment of PLN 17 086 thousand with statutory interest calculated from 31 March 2015 until the payment date for unjust enrichment of the Company arising from settlement of balances on the Balancing Market performed with Polskie Sieci Elektroenergetyczne S.A. in the period from January to December 2012. The claim was delivered to the Company on 11 January 2016. As stated by ENEA, the improper settlement was caused by inconsistency in measurement data collected by ENEA Operator Sp. z o.o. (as the Distribution System Operator, DSO) and made available to the Balancing Market participants (PSE S.A., ENEA S.A. and the Company) for the settlement purposes. The error resulted in PSE S.A. assigning to ENEA S.A. (as the official seller in the distribution area of ENEA Operator Sp. z o.o.) the amount of consumed power that should have been assigned to the Company (as the entity in charge of trade balances of power sellers operating in the distribution area of ENEA Operator Sp. z o.o.). The dispute concerns the fact that pursuant to the Power Transmission Grid Traffic and Operation Instruction (IRiESP) binding all participants of the Balancing Market, settlements regarding trade balances for a given period may be adjusted within 2 months, 4 months and 15 months after the settlement period. According to IRiESP, after 15 months the settlements become final. ENEA Operator Sp. z o.o. informed TAURON Polska Energia S.A. about the necessity to adjust measurement data and the entire settlement after the permitted adjustment period. Therefore, settlements between PSE S.A. and ENEA S.A. and between PSE S.A. and the Company have not been adjusted. TAURON Polska Energia S.A. responded to the claim with a series of charges. The Court obliged ENEA to reply to the response, which was done on 5 April 2016. On 20 June 2016, TAURON Polska Energia S.A. filed a petition for inviting ENEA Operator Sp. z o.o. to take part in the litigation. The Court also admitted evidence from the witnesses' testimonies. On 4 July 2016 TAURON Polska Energia S.A. filed a process document with the court. Six witnesses were questioned in the course of the proceedings. The last hearing was conducted on 6 March 2017. During that hearing the Court following the motion filed by ENEA S.A. (expressed in its pleading of 8 December 2016) ruled to summon before the Court (in accordance with Article 194.1 of the Code of Civil Procedure) seven sellers for which TARON 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 case is pending. The hearing was deferred with the deadline ex officio so that the additional defendants (sellers) could respond. No provision has been recognized as the Company believes that the risk of losing the case is below 50%.
Amount	The claim regards the payment of PLN 17 086 thousand.
Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o	On 15 May 2015 TAURON Polska Energia S.A. established a financial pledge and registered pledges of 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o., with the unit face value of PLN 100 and the total face value of PLN 329 340 thousand, constituting ca. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company established a first lien registered pledge of shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge of shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges of new shares acquired or taken. Moreover, the Company assigned the rights to dividend and other payments. Agreement on establishing registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as original borrowers, TAMEH HOLDING Sp. z o.o. as the parent and the guarantor, and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. Registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until a release by the pledgee, not later than on 31 December 2028. On 15 September 2016, Annex 1 was executed to the aforesaid agreement, whereby the maximum amount of the collateral was changed to PLN 1 370 000 thousand.
Amount	As at 31 March 2017 the carrying amount of investments in joint venture recognized using the equity method in the TAMEH HOLDING Sp. z o.o. capital group was PLN 468 617 thousand.
Bank guarantees issued at the request of TAURON Polska Energia S.A. to secure the payment of liabilities of a joint venture	Following the entry into agreements setting out the terms of further implementation of the gas and steam unit construction project in Elektrociepłownia Stalowa Wola S.A. on 27 October 2016, and with a view to enforcing the standstill agreement entered into by the Company, Elektrociepłownia Stalowa Wola S.A., PGNiG S.A., the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. aimed to ensure that the financing institutions will refrain from accelerating the loans granted to the company and satisfying their claims through the use of the related collateral, at the request of the Company The Bank of Tokyo-Mitsubishi UFJ, Ltd. issued three bank guarantees for: - 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. All these bank guarantees are valid from 30 October 2016 to 14 April 2017. A notarized declaration of voluntary submission to enforcement is a security under the Agreement. On 31 March 2017, Elektrociepłownia Stalowa Wola S.A. paid all its liabilities to the financing banks. Between the end of the reporting period and the guarantee expiry date, i.e. 14 April 2017, The Bank of Tokyo-Mitsubishi UFJ, Ltd.MUFG BANK (EUROPE) N.V. did not file any claims against the Company on the basis of the guarantees.
Amount	The total value of guarantees issued PLN 314 486 thousand.

(PLN '000)

Item	Description
Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	President of UOKiK instigated the following procedures against the Sales segment company: - Proceedings instigated on 17 September 2013 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 and therefore constitutes a breach of the Act on competition and consumer protection of 16 February 2007 (Journal of Laws of 2007 No. 50, item 331 as amended; "Act on competition and consumer protection"). The company committed to discontinue practices violating the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. On 22 December 2014 the company received a decision of UOKiK closing the evidentiary proceedings. On 14 December 2015 the President of UOKiK requested the company to demonstrate whether the practices have been discontinued. The company responded to the request in February 2016 informing that the practices have been discontinued and motioned for a decision not to charge a fine. No such decision had been issued by the date of the financial statements. On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydroelectric power stations constitute a breach of the Act on competition and consumer protection. The actions in question include enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement. By a decision of 15 October 2015 the President of UOKiK instigated anti-trust proceedings. On 1 February 2016 UOKiK accepted the company's decision regarding presentation of a specific commitment. On 24 August 2016, the President of UOKiK issued a decision obliging the company to fulfil the obligation to take steps to prevent the alleged violations through the employment of specific measures within two months of the said decision becoming final. On 29 September 2016, the company filed an appeal against the decision with the Court of Competition and Consumer Protection. On 2 December 2016, the President of the Office of Competition and Consumer Protection issued a decision amending the statement of reasons supporting the previous decision. The decision became final on 2 February 2017. A report on its implementation was prepared and sent to UOKiK on 31 March 2017. The company does not recognize provisions for fines related to the above proceedings, since its management board believe the risk of losing the cases and paying the fines is low.
Explanatory proceedings instigated by the President of UOKiK	Explanatory proceedings have been instigated against the company from the Sales segment to preliminarily determine whether their actions have been in breach of the Act on competition and consumer protection. The company provided requested documents and explanations and responded to statements included in the letters of UOKiK. The company's Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned case is low; hence no provision has been recognized for these events.
Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)	In a notice of 5 April 2016, the President of the Energy Regulatory Office informed TAURON Dystrybucja S.A. of the instigation of administrative proceedings to impose a fine for a failure to maintain facilities, installations and equipment in a proper technical condition and for non-compliance with the terms of the electricity distribution licence. In a notice of 30 March 2017, the President of the Energy Regulatory Office informed the Company that the matter would be looked into on 30 April 2017. The Company has not recognized any provisions for the potential penalties related to the aforesaid proceedings as the matter has not been decided yet and no forecasts concerning the amount of the potential penalty are available.
Real estate tax	There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities and on equipment used in underground excavations. Since the tax is imposed on the local self-government level, there is no unified approach and in several cases, the tax base calculation has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation and transmission facilities, as well as on underground excavations, may change in future. Following the changes introduced in 2017 to the definition of construction facilities in the Investment Act, there is no consistent approach to defining structures at present. This entails the risk of potential disputes with local authorities (municipalities) over the determination of the tax base for real estate tax on wind farms.
Amount	As at the end of the reporting period, provisions were recognized for costs of disputes regarding real estate tax and for the related business risk (totaling PLN 35 810 thousand). The potential disputed tax on wind farms is PLN 13 000 thousand.

(PLN '000)

45. Collateral against liabilities

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

The carrying amounts of assets pledged as collateral for the payment of liabilities at the end of each reporting period have been presented in the table below.

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

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Real estate	80 273	81 363
Plant and machinery	13 852	14 059
Cash	9	13 740
Total	**94 134**	**109 162**

Other forms of collateral

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

Agreement	Collateral form	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 25 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 105 495 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to PLN 210 990 thousand (EUR 50 000 thousand) valid until 31 December 2019
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 11 837 thousand (USD 3 000 thousand) valid until 31 March 2019

(PLN '000)

Other forms of collateral against liabilities of the Group

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

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Capital Group company that has issued a blank promissory note	As at 31 March 2017 *(unaudited)*
Agreements concerning loans granted to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000
Performance bonds to include co-funding of engagements carried out	TAURON Dystrybucja S.A.	170 888
Performance bonds related to co-funding agreements concluded with the National Fund for Environmental Protection and Water Management and the return of funds	TAURON Ciepło Sp. z o.o.	87 251
Agreements for connecting to the industrial network, agreements for power transmission services and agreements for partial loan cancelling concluded with the National Fund for Environmental Protection and Water Management	TAURON Wytwarzanie S.A.	66 844

- Collateral under finance lease agreements

Finance lease agreement	Lessee	Carrying amount of the leased asset as at 31 March 2017 *(unaudited)*	Collateral
Leaseback agreement concerning real estate, plant and machinery	TAURON Ciepło Sp. z o.o.	22 479	Blank promissory note for PLN 92 215 thousand. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate, plant and machinery and authorization to debit bank accounts.
Finance lease agreement concerning real estate in Katowice	TAURON Polska Energia S.A.	24 414	The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

- The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ), a subsidiary, to secure bonds issued by the entity in December 2014. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 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 March 2017, the guarantees issued by the bank totaled PLN 50 000 thousand and were valid until April 2017.
- Under the bank guarantee agreement made with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland ("CaixaBank S.A."), 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. totaling PLN 13 554 thousand and to secure the transactions performed by the Company:
    - for GAZ-SYSTEM S.A. - up to PLN 3 664 thousand, valid until 30 November 2017;
    - for Polskie Sieci Elektroenergetyczne S.A. - up to PLN 17 007 thousand, valid until 11 February 2018.

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

(PLN '000)

46. Related-party disclosures

46.1. Transactions with joint ventures

The Group has interest in the following joint ventures: Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa Sp. z o.o. in liquidation and the TAMEH HOLDING Sp. z o.o. Capital Group, which has been discussed in more detail in Note 20 to these condensed interim consolidated financial statements.

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

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Revenue	17 511	6 622
Costs	(13 345)	(15 488)

The key income item arises from transactions with the TAMEH HOLDING Sp. z o.o. Capital Group, a joint venture. In the 3-month periods ended 31 March 2017 and 31 March 2016, transactions with the joint venture amounted to PLN 14 736 thousand and PLN 3 682 thousand, respectively.

The key item of receivables from and liabilities to jointly-controlled entities is a loan granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 21 to these condensed interim consolidated financial statements.

The Company has also pledged collateral for the benefit of joint ventures, in the form of a pledge on the shares in TAMEH HOLDING Sp. z o.o., which has been discussed in more detail in Note 44 to these condensed interim consolidated financial statements.

In relation to agreements entered into with the joint venture Elektrociepłownia Stalowa Wola S.A., the Company recognizes provisions for onerous contracts and for costs. As at 31 March 2017, they totaled PLN 13 004 thousand. In the 3-month period ended 31 March 2017, the Company reversed provisions of PLN 190 265 thousand, which has been discussed in more detail in Note 31.3 to these condensed interim consolidated financial statements.

46.2. Transactions with State Treasury companies

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

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

Revenue and expense

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Revenue	423 148	617 415
Costs	(773 536)	(615 104)

Receivables and liabilities

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Receivables	250 379	356 595
Payables	323 317	298 786

As at 31 March 2017, receivables presented in the table above comprised advance payments of PLN 54 124 thousand, including advance payments for deliveries of coal of PLN 44 367 thousand and advance payments for purchases of fixed assets of PLN 9 757 thousand. As at 31 December 2016, receivables presented in the table above comprised advance payments of PLN 109 364 thousand, including advance payments for deliveries of coal of PLN 99 607 thousand and advance payments for purchases of fixed assets of PLN 9 757 thousand.

Among the State Treasury companies, in the 3-month period ended 31 March 2017, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Katowicki Holding Węglowy S.A. and Polska Grupa Górnicza Sp. z o.o. were the major customers of the TAURON Polska Energia S.A. Capital Group. Total sales to these contracting parties accounted for 84% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Polska Grupa Górnicza Sp. z o.o. Purchases from these contracting parties accounted for 87% of the value of purchases from State Treasury companies during the 3-month period ended 31 March 2017.

(PLN '000)

In the 3-month period ended 31 March 2016, KGHM Polska Miedź S.A., PSE S.A., Kompania Węglowa S.A. and Jastrzębska Spółka Węglowa S.A. were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. Total sales to these contracting parties accounted for 87% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these contracting parties accounted for 87% of the value of purchases from State Treasury companies during the 3-month period ended 31 March 2016.

Additionally, in the year ended 31 December 2016, the Polish National Foundation was established by 17 founders being key State Treasury companies. The Company is among the founders. As a result of its declaration to make contributions to the initial capital of the Polish National Foundation and the commitment to make annual contributions to be used for purposes of its statutory activities for a period of 10 years, the Company recognized a liability of PLN 32 500 thousand as at 31 March 2017.

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

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

46.3. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Parent and subsidiaries, paid or due in the 3-month period ended 31 March 2017 and in the comparative period, has been presented in the table below.

	3-month period ended 31 March 2017 *(unaudited)*		3-month period ended 31 March 2016 *(unaudited)*	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	**2 079**	**5 942**	**3 417**	**5 741**
Short-term benefits (with surcharges)	1 239	4 751	1 216	4 446
Employment termination benefits	634	1 051	2 077	1 041
Other	206	140	124	254
Supervisory Board	**214**	**164**	**305**	**137**
Short-term employee benefits (salaries and surcharges)	214	146	305	137
Other	-	18	-	-
Other key management personnel	**3 437**	**8 838**	**4 229**	**10 304**
Short-term employee benefits (salaries and surcharges)	2 675	8 278	3 372	9 989
Jubilee bonuses	-	93	-	123
Employment termination benefits	530	292	609	134
Other	232	175	248	58
Total	**5 730**	**14 944**	**7 951**	**16 182**

According to the accounting policy adopted the Group recognises provisions for termination benefits for the Management Board members and other members of key management personnel which may be paid or payable in the future reporting periods.

As regards employment termination benefits for Members of the Management Board, presented in the table above, the amount of PLN 395 thousand was accounted for as the use of a provision recognized as at 31 December 2016 by the Parent and the amount of PLN 865 thousand as the use of provisions recognized as at 31 December 2016 by the subsidiaries.

Additionally, in the 3-month period ended 31 March 2017, the Group companies recognized provisions for employment termination benefits for Members of the Management Board, in the amount of PLN 1 093 thousand. The aforesaid benefits have not become due yet. The table does not present the aforesaid costs of recognition of provisions which have not been paid.

47. Events after the end of the reporting period

Registration of Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 3 April 2017, Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered with the National Court Register.

On 31 January 2017, the General Shareholders' Meeting of TAURON Wytwarzanie S.A. adopted resolutions to spin off the company under Article 529.1.4 of the Code of Commercial Companies by way of separation of assets and their transfer to the newly established entity, Nowe Jaworzno Grupa TAURON sp. z o.o. in formation.

Following the incorporation of Nowe Jaworzno Grupa TAURON sp. z o.o. in formation, TAURON Polska Energia S.A. received 37 000 shares in the issued capital of that entity with the nominal value of PLN 50 each and the total nominal value of PLN 1 850 thousand, in return for the assets transferred to that entity from the spun-off company in the form of an organized part of the enterprise relating to the preparation, construction and operation of a new power plant 910 MW in Elektrownia Jaworzno III.

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 3-month period ended 31 March 2017 in accordance with International Accounting Standard 34 have been presented on 63 consecutive pages.

Katowice, 9 May 2017

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

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

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