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 2016

(PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited restated figures)*
Sales revenue	**11**	4 647 035	4 789 786
Cost of sales	**12**	(3 923 059)	(3 963 915)
Profit on sale		**723 976**	**825 871**
Selling and distribution expenses	**12**	(110 057)	(107 668)
Administrative expenses	**12**	(167 643)	(156 212)
Other operating income and expenses		9 706	23 580
Operating profit		**455 982**	**585 571**
Share in profit/(loss) of joint ventures	**21**	23 035	20 400
Finance income	**13**	29 193	58 510
Interest expense on debt	**14**	(72 739)	(74 262)
Other finance costs	**14**	(23 876)	(15 846)
Profit before tax		**411 595**	**574 373**
Income tax expense	**15**	(87 789)	(71 643)
Net profit		**323 806**	**502 730**
Measurement of hedging instruments		25 149	15 514
Foreign exchange differences from translation of foreign entities		(4)	(508)
Income tax	**15**	(4 778)	(2 948)
Other comprehensive income subject to reclassification to profit or loss		**20 367**	**12 058**
Actuarial gains/(losses)		(2 512)	(3 409)
Income tax	**15**	478	649
Share in other comprehensive income of joint ventures		28	-
Other comprehensive income not subject to reclassification to profit or loss		**(2 006)**	**(2 760)**
Other comprehensive income, net of tax		**18 361**	**9 298**
Total comprehensive income		**342 167**	**512 028**
Net profit:			
Attributable to equity holders of the Parent		323 245	502 043
Attributable to non-controlling interests		561	687
Total comprehensive income:			
Attributable to equity holders of the Parent		341 606	511 333
Attributable to non-controlling interests		561	695
Basic and diluted earnings per share (in PLN):		0.18	0.29

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	**17**	25 330 290	24 882 817
Goodwill	**18**	92 059	92 059
Energy certificates and emission allowances for surrender	**19.1**	72 577	510 840
Other intangible assets	**20**	1 192 189	1 182 765
Investments in joint ventures	**21**	441 190	418 127
Loans granted to joint ventures	**22**	223 832	221 803
Other financial assets	**23**	237 841	211 215
Other non-financial assets	**24.1**	564 338	550 375
Deferred tax asset	**15.2**	52 696	54 184
		28 207 012	**28 124 185**
Current assets			
Energy certificates and emission allowances for surrender	**19.2**	732 752	805 388
Inventories	**25**	419 298	433 279
Receivables from clients	**26**	1 811 370	1 830 033
Receivables arising from taxes and charges	**27**	263 847	228 345
Other financial assets	**23**	175 292	34 334
Other non-financial assets	**24.2**	262 604	233 059
Cash and cash equivalents	**28**	360 118	364 912
Non-current assets classified as held for sale		18 258	17 898
		4 043 539	**3 947 248**
TOTAL ASSETS		**32 250 551**	**32 071 433**

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**29.1**	8 762 747	8 762 747
Reserve capital		11 277 247	11 277 247
Revaluation reserve from valuation of hedging instruments	**29.2**	(53 043)	(73 414)
Foreign exchange differences from translation of foreign entities		(795)	(791)
Retained earnings/(Accumulated losses)		(3 636 418)	(3 947 461)
		16 349 738	**16 018 328**
Non-controlling interests		**30 344**	**29 829**
Total equity		**16 380 082**	**16 048 157**
Non-current liabilities			
Debt	**31**	7 751 518	4 924 127
Provisions for employee benefits	**33**	1 771 941	1 735 206
Provisions for disassembly of fixed assets, land restoration and other provisions	**34**	440 582	377 372
Accruals, deferred income and government grants	**37**	640 413	650 364
Deferred tax liability	**15.2**	863 524	795 176
Other financial liabilities		48 296	101 705
		11 516 274	**8 583 950**
Current liabilities			
Debt	**31**	1 105 494	3 214 520
Derivative instruments	**32**	154 470	96 953
Liabilities to suppliers		692 721	790 706
Capital commitments		327 252	766 843
Provisions for employee benefits	**33**	154 652	172 505
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	**35**	527 097	1 018 134
Other provisions	**36**	190 186	178 044
Accruals, deferred income and government grants	**37**	233 115	254 337
Liabilities arising from taxes and charges	**38**	456 419	429 649
Other financial liabilities		171 358	243 713
Other non-financial liabilities	**39**	341 431	273 922
		4 354 195	**7 439 326**
Total liabilities		**15 870 469**	**16 023 276**
TOTAL EQUITY AND LIABILITIES		**32 250 551**	**32 071 433**

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Equity attributable to the equity holders of the Parent							
	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total	Non-controlling interests	Total equity
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**
Profit for the period	-	-	-	-	323 245	**323 245**	561	**323 806**
Other comprehensive income	-	-	20 371	(4)	(2 006)	**18 361**	-	**18 361**
Total comprehensive income for the period	**-**	**-**	**20 371**	**(4)**	**321 239**	**341 606**	**561**	**342 167**
Accounting for acquisition of ZCP Brzeszcze	-	-	-	-	(10 196)	**(10 196)**	-	**(10 196)**
Mandatory squeeze-out	-	-	-	-	-	**-**	(46)	**(46)**
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**

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2015 (*unaudited restated figures*)

	Equity attributable to the equity holders of the Parent							
	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total	Non-controlling interests	Total equity
As at 1 January 2015	**8 762 747**	**10 393 686**	**(143 019)**	**(1 386)**	**(1 045 580)**	**17 966 448**	**30 116**	**17 996 564**
Profit for the period	-	-	-	-	502 043	**502 043**	687	**502 730**
Other comprehensive income	-	-	12 566	(508)	(2 768)	**9 290**	8	**9 298**
Total comprehensive income for the period	**-**	**-**	**12 566**	**(508)**	**499 275**	**511 333**	**695**	**512 028**
Mandatory squeeze-out	-	-	-	-	12	**12**	(149)	**(137)**
As at 31 March 2015 *(unaudited restated figures)*	**8 762 747**	**10 393 686**	**(130 453)**	**(1 894)**	**(546 293)**	**18 477 793**	**30 662**	**18 508 455**

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Cash flows from operating activities			
Profit before taxation		**411 595**	**574 373**
Share in (profit)/loss of joint ventures		(23 035)	(20 400)
Depreciation and amortization		413 618	435 307
Impairment losses on property, plant and equipment and intangible assets		(3 364)	167
Interest and commissions		64 254	68 135
Other adjustments of profit before tax		(14 018)	(50 069)
Change in working capital	**40.1**	(164 810)	(323 054)
Income tax paid		(218 706)	(2 600)
Net cash from operating activities		**465 534**	**681 859**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**40.2**	(993 936)	(900 356)
Purchase of financial assets		(1 690)	(5 332)
Loans granted	**40.2**	(6 000)	(8 150)
Total payments		**(1 001 626)**	**(913 838)**
Proceeds from sale of property, plant and equipment and intangible assets		5 442	7 465
Repayment of loans granted		-	12 200
Other proceeds		661	6 390
Total proceeds		**6 103**	**26 055**
Net cash used in investing activities		**(995 523)**	**(887 783)**
Cash flows from financing activities			
Redemption of debt securities	**40.3**	(2 250 000)	(150 000)
Repayment of loans and borrowings	**40.3**	(22 323)	(22 353)
Interest paid	**40.3**	(25 165)	(11 710)
Public aid refund	**40.3**	(131 077)	-
Other payments		(10 779)	(10 341)
Total payments		**(2 439 344)**	**(194 404)**
Issue of debt securities	**40.3**	2 860 000	-
Subsidies received		4 133	2 888
Total proceeds		**2 864 133**	**2 888**
Net cash from (used in) financing activities		**424 789**	**(191 516)**
Net increase / (decrease) in cash and cash equivalents		**(105 200)**	**(397 440)**
Net foreign exchange difference		2 680	(696)
Cash and cash equivalents at the beginning of the period	**28**	**327 715**	**1 408 071**
Cash and cash equivalents at the end of the period, *of which*:	**28**	**222 515**	**1 010 631**
restricted cash	**28**	177 743	180 223

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INTRODUCTION

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

The TAURON Polska Energia S.A. Capital Group ("Group", "Capital Group", "TAURON Group") is composed of TAURON Polska Energia S.A. ("Parent", "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, the Company 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 2016 and present comparative data for the 3-month period ended 31 March 2015 as well as figures as at 31 December 2015. The data for the 3-month period ended 31 March 2016 and the comparative data for the 3-month period ended 31 March 2015, as contained herein, have not been audited or reviewed by a certified auditor. The comparative data as at 31 December 2015 were audited by a certified auditor.

These condensed interim consolidated financial statements for the 3-month period ended 31 March 2016 were approved for publication on 9 May 2016.

2. Composition of the TAURON Capital Group and joint ventures

As at 31 March 2016, 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	Nowe Brzeszcze Grupa TAURON Sp. z o.o.[1]	Brzeszcze	Mining	100.00%
3	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%
4	TAURON Ekoenergia Sp. z o.o.[2]	Jelenia Góra	Generation	100.00%
5	Marselwind Sp. z o.o.[2]	Katowice	Generation	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%
7	TAURON Dystrybucja S.A.	Kraków	Distribution	99.72%
8	TAURON Dystrybucja Serwis S.A.[3]	Wrocław	Distribution	99.72%
9	TAURON Dystrybucja Pomiary Sp. z o.o.[3]	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. in liquidation	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%

[1]On 1 January 2016, Nowe Brzeszcze Grupa TAURON Sp. z o.o. acquired an organized part of an enterprise (Zakład Górniczy Brzeszcze). The company has been consolidated as of the aforesaid date.

[2]On 25 February 2016, spin-off of TAURON Ekoenergia Sp. z o.o. was registered. It was effected by way of a transfer of a part of the assets of the spun-off company constituting an organized part of the enterprise and comprising tangible and intangible assets related to generation of electricity in renewable energy sources – windfarms, onto Marselwind Sp. z o.o., which has been discussed in more detail in Note 30 to these condensed interim consolidated financial statements.

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

As at 31 March 2016, 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.[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. 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.

STATEMENT OF COMPLIANCE WITH IFRS

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 2015.

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, except for Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. As at the date of approval of these financial statements, no circumstances posing a risk to the remaining Group companies' ability to continue as a going concern had been identified.

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.

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ACCOUNTING POLICIES

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.

Item	Value of item to which the estimate figure in the consolidated financial statements applies		Details regarding assumptions made and calculation of significant estimates
	As at 31 March 2016 *(unaudited)*	As at 31 December 2015	
Property, plant and equipment	25 330 290	24 882 817	• As at 31 December 2015, having performed impairment tests, the Group recognized an impairment loss on property, plant and equipment of PLN 3 410 726 thousand – its amount did not change as at 31 March 2016. note 17
Goodwill	92 059	92 059	• As at 31 December 2015, having performed impairment tests, the Group recognized an impairment loss on goodwill in the amount of PLN 154 998 thousand. note 18
Provisions for employee benefits	1 926 593	1 907 711	• Description of actuarial assumptions made and valuation method. note 33
Provision for gas emission obligations	234 751	153 083	• Provision calculation note 35
Provision for obligation to submit energy certificates	292 346	865 051	• Provision calculation note 35
Provision for mine decommissioning costs	178 850	111 675	• Provision calculation note 34
Provision for restoration of land and dismantling and removal of fixed assets	101 934	101 244	• Provision calculation note 34
Provision for onerous contracts	185 806	182 877	• Provision calculation note 34
Deferred tax assets	52 696	54 184	• Realisation of deferred tax assets. note 15.2
Derivative instruments: Assets Liabilities	 64 123 154 476	 5 684 112 109	• Fair value measurement note 32
Receivables from clients	1 811 370	1 830 033	• Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 270 302 thousand. note 26

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. The following standards and amendments to standards issued by the International Accounting Standards Board ("IASB") have not been endorsed by the European Union yet and are not yet effective.

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

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Standard details	Estimated impact	Effective date specified in the Standard, not endorsed by the EU*
IFRS 9 *Financial Instruments* The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements.	Preliminary analysis of IFRS 9's impact on the accounting policies applied indicates one change important for the Group, i.e. replacing the existing classification and measurement models under IAS 39 with a single classification model assuming two categories only, i.e. amortized cost or fair value. IFRS 9 classification complies with the business model applied to manage financial assets. Additionally, the standard introduces a new hedge accounting model which requires detailed risk management disclosures. Evaluation of effects of IFRS 9 on the consolidated financial statements is subject to further analyses due to the large scope of amendments.	1 January 2018
IFRS 15 *Revenue from Contracts with Customers* The Standard specifies how and when revenue is recognized and requires more informative, relevant disclosures. The Standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and a number of interpretations concerning revenue recognition. On 11 September 2015 the IASB published an amendment to the standard introducing a new effective date - annual periods beginning on or after 1 January 2018. The original effective date was set at annual period beginning on or after 1 January 2017.	Preliminary analysis of the effects of IFRS 15 on the accounting policies applied 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 particularly important for the Sales segment. The new guidelines of IFRS 15 may result in the need to change the systems, but before the standard enters into force the Group intends to carry out a five-step analysis of contracts with customers including contract (or contract group) identification, indication of individual liabilities, determining prices, assigning them to individual liabilities and revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements. Evaluation of effects of IFRS 15 on the consolidated financial statements is subject to further analyses due to the large scope of amendments.	1 January 2018
IFRS 16 *Leases* Under IFRS 16 the lessee recognizes the right to use an asset and a lease liability. The right to use the asset is treated similarly to other non-financial assets and is depreciated. Lease liabilities are initially measured at the present value of future lease payments due in the lease period, discounted using the lease rate if its determination is not difficult. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Leases are classified by lessors the same as in accordance with IAS 17 - as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Otherwise a lease is classified as an operating lease. In finance lease the lessor recognizes finance income over the lease term, based on 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 if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.	Preliminary analysis of IFRS 16's impact on the accounting policies applied indicates certain changes important for the Group, i.e. the need to recognize lease assets and lease liabilities for leases currently classified as operating leases in the financial statements and the change in the presentation method applied to finance lease assets, which are currently recognized in property plant and equipment or intangible assets. The Group intends to analyse all lease agreements concluded to identify leases which require recognition of assets and liabilities or presentational changes. As the effective date of IFRS 16 is still distant, and it has not yet been approved by the EU, as at the date of approving these financial statements for publication the Group had not carried out any analyses which would enable determining the impact of the planned changes on the financial statements. The analysis will be conducted in future.	1 January 2019

**Annual periods beginning on or after the date*

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According to the Management Board, the following standards and amendments to standards 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*	1 January 2016
Revised IFRS 10 *Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*	1 January 2016
Revised IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses - explains the method of recognition of a deferred tax asset that is related to a debt instrument measured at fair value.*	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

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 used for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2015, except for the application of the following amendments to standards:

Standard	Effective in the EU as of *(annual periods beginning on or after this date)*
Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*	1 February 2015
Annual Improvements *to IFRS (Cycle 2010-2012)*	1 February 2015
Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations.*	1 January 2016
Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative*	1 January 2016
Revised IAS 16 *Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization*	1 January 2016
Revised IAS 16 *Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants*	1 January 2016
Revised IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements*	1 January 2016
Annual Improvements *to IFRS (Cycle 2012-2014)*	1 January 2016

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

Additionally, in the 3-month period ended 31 March 2016, the Group decided to change the presentation of actuarial provisions for the employee tariff for the existing pensioners in the interim financial statements, which has been discussed below.

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Changes in comparative data

In the 3-month period ended 31 March 2016, the Group decided to change the presentation of actuarial provisions for the employee tariff for the existing pensioners in the interim financial statements. In the interim financial statements, actuarial provisions are recognized based on actuarial projections. Previously, a change in the provision reflected the proportional change in its balance during the year. Currently, as payments from the said provision are not made evenly throughout the year, the Group decided that changes in the balance of the provision during an interim period, which are not proportional, would present more accurately actuarial provisions for the employee tariff. The aforementioned change affects other comprehensive income of the Group (but not its profit or loss). The comparative data for the 3-month period ended 31 March 2015 and as at 31 March 2015, as presented in these condensed interim consolidated financial statements, have been appropriately restated:

- Other comprehensive income, net of tax for the 3-month period ended 31 March 2015 has been decreased by PLN 4 880 thousand as compared to the approved data (decrease from PLN 14 178 thousand to PLN 9 298 thousand);
- The balance of provisions for employee benefits as at 31 March 2015 has been increased by PLN 6 024 thousand and deferred tax asset by PLN 1 144 thousand.

With a view to increasing the usefulness of the financial statements for its readers, in the year ended 31 December 2015, the Group decided to change the method of presentation of revenue and expenses relating to property rights arising from certificates of energy generated from renewable sources in the Group's windfarms and hydroelectric power stations as well as the definition of EBITDA, considering impairment of non-financial assets. Therefore, the comparative data for the 3-month period ended 31 March 2015, as presented in these condensed interim consolidated financial statements, have been appropriately restated (presented in the tables below).

	3-month period ended 31 March 2015 *(approved figures)*	Change in presentation of income from generation of energy certificates	3-month period ended 31 March 2015 *(unaudited restated figures)*
Sales revenue	4 753 816	35 970	4 789 786
Cost of sales	(3 927 945)	(35 970)	(3 963 915)

	3-month period ended 31 March 2015 *(approved figures)*	Including impairment of non-financial assets in the definition of EBITDA	3-month period ended 31 March 2015 *(unaudited restated figures)*
Operating profit - EBIT	585 571	-	585 571
Depreciation/amortization	(435 285)	-	(435 285)
Impairment	-	5 921	5 921
EBITDA	**1 020 856**	**(5 921)**	**1 014 935**

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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.

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 clients and other financial receivables 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, 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 2016 to 31 March 2016 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. Nowe Brzeszcze Grupa TAURON Sp. z o.o.
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. *Elektrownia Blachownia Nowa Sp. z o.o.** *TAMEH HOLDING Sp. z o.o.** *TAMEH POLSKA Sp. z o.o.** *TAMEH Czech s.r.o.**
	*Generation of electricity using renewable sources.*	TAURON Ekoenergia Sp. z o.o. Marselwind Sp. z o.o.
	*Generation, distribution and sales of heat.*	TAURON Ciepło Sp. z o.o. *Elektrociepłownia Stalowa Wola S.A.**
Distribution 	*Distribution of electricity*	TAURON Dystrybucja S.A. TAURON Dystrybucja Serwis S.A. TAURON Dystrybucja Pomiary Sp. z o.o.
Sales 	*Wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity.*	TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o.

** Entities recognized with the equity method*

In addition to the key operating segments listed above, the TAURON Group also conducts operations in quarrying stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet 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. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation are also treated as other operations of the Group.

(PLN '000)

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

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	89 651	769 760	777 223	2 992 645	17 756	-	**4 647 035**
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**	**3 591 188**	**217 442**	**(2 303 960)**	4 647 035
Profit/(loss) of the segment	**(103 507)**	**89 222**	**291 592**	**160 221**	**12 439**	**26 607**	**476 574**
Unallocated expenses	-	-	-	-	-	(20 592)	**(20 592)**
EBIT	**(103 507)**	**89 222**	**291 592**	**160 221**	**12 439**	**6 015**	**455 982**
Share in profit/(loss) of joint ventures	-	23 035	-	-	-	-	**23 035**
Net finance income (costs)	-	**-**	-	-	-	(67 422)	**(67 422)**
Profit/(loss) before income tax	**(103 507)**	**112 257**	**291 592**	**160 221**	**12 439**	**(61 407)**	**411 595**
Income tax expense	-	-	-	-	**-**	(87 789)	**(87 789)**
Net profit/(loss) for the period	**(103 507)**	**112 257**	**291 592**	**160 221**	**12 439**	**(149 196)**	**323 806**
Assets and liabilities							
Segment assets	1 952 787	10 334 512	16 019 643	2 398 142	460 262	-	**31 165 346**
Investments in joint ventures	-	441 190	-	-	-	-	**441 190**
Unallocated assets	-	-	-	-	-	644 015	**644 015**
Total assets	**1 952 787**	**10 775 702**	**16 019 643**	**2 398 142**	**460 262**	**644 015**	**32 250 551**
Segment liabilities	636 254	1 674 987	2 279 294	1 012 902	286 460	-	**5 889 897**
Unallocated liabilities	-	-	-	-	-	9 980 572	**9 980 572**
Total liabilities	**636 254**	**1 674 987**	**2 279 294**	**1 012 902**	**286 460**	**9 980 572**	**15 870 469**
EBIT	**(103 507)**	**89 222**	**291 592**	**160 221**	**12 439**	**6 015**	**455 982**
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**	**166 762**	**30 486**	**6 015**	**872 913**
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.*

For the 3-month period ended 31 March 2015 (*unaudited restated data*) or as at 31 December 2015

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	97 732	692 472	754 559	3 223 642	21 381	-	**4 789 786**
Inter-segment sales	171 027	870 599	888 413	954 640	242 759	(3 127 438)	**-**
Segment revenue	**268 759**	**1 563 071**	**1 642 972**	**4 178 282**	**264 140**	**(3 127 438)**	4 789 786
Profit/(loss) of the segment	**(72 045)**	**137 560**	**305 053**	**191 045**	**27 107**	**20 946**	**609 666**
Unallocated expenses	-	-	-	-	-	(24 095)	**(24 095)**
EBIT	**(72 045)**	**137 560**	**305 053**	**191 045**	**27 107**	**(3 149)**	**585 571**
Share in profit/(loss) of joint ventures	-	20 400	-	-	-	-	**20 400**
Net finance income (costs)	-	-	-	-	-	(31 598)	**(31 598)**
Profit/(loss) before income tax	**(72 045)**	**157 960**	**305 053**	**191 045**	**27 107**	**(34 747)**	**574 373**
Income tax expense	-	-	-	-	-	(71 643)	**(71 643)**
Net profit/(loss) for the period	**(72 045)**	**157 960**	**305 053**	**191 045**	**27 107**	**(106 390)**	**502 730**
Assets and liabilities							
Segment assets	1 657 407	10 370 286	15 974 893	2 706 907	478 618	-	**31 188 111**
Investments in joint ventures	-	418 127	-	-	-	-	**418 127**
Unallocated assets	-	-	-	-	-	465 195	**465 195**
Total assets	**1 657 407**	**10 788 413**	**15 974 893**	**2 706 907**	**478 618**	**465 195**	**32 071 433**
Segment liabilities	537 234	1 735 686	2 505 890	1 652 586	303 352	-	**6 734 748**
Unallocated liabilities	-	-	-	-	-	9 288 528	**9 288 528**
Total liabilities	**537 234**	**1 735 686**	**2 505 890**	**1 652 586**	**303 352**	**9 288 528**	**16 023 276**
EBIT	**(72 045)**	**137 560**	**305 053**	**191 045**	**27 107**	**(3 149)**	**585 571**
Depreciation/amortization	**(27 859)**	**(146 781)**	**(241 687)**	**(2 726)**	**(16 232)**	**-**	**(435 285)**
Impairment	**(95)**	**5 970**	**80**	**-**	**(34)**	**-**	**5 921**
EBITDA	**(44 091)**	**278 371**	**546 660**	**193 771**	**43 373**	**(3 149)**	**1 014 935**
Other segment information							
Capital expenditure *	60 213	423 190	285 401	1 638	21 236	-	**791 678**

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

(PLN '000)

11. Sales revenue

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited restated figures)*
Sale of goods for resale, finished goods and materials without elimination of excise	**3 076 408**	**3 196 379**
Excise	(102 384)	(107 594)
Sale of goods for resale, finished goods and materials, *of which*:	**2 974 024**	**3 088 785**
Electricity	2 421 304	2 558 276
Heat energy	238 276	231 076
Energy certificates and greenhouse gas emission allowances	139 918	169 756
Coal	77 710	92 458
Gas	69 091	11 350
Other goods for resale, finished goods and materials	27 725	25 869
Rendering of services, *of which:*	**1 658 225**	**1 687 126**
Distribution and trade services	1 586 731	1 600 410
Connection fees	20 529	32 467
Maintenance of road lighting	28 149	28 300
Other services	22 816	25 949
Other revenue	**14 786**	**13 875**
Total sales revenue	**4 647 035**	**4 789 786**

12. Expenses by type

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited restated figures)*
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(413 618)	(435 285)
Impairment of property, plant and equipment and intangible assets	3 541	(167)
Materials and energy	(504 106)	(510 684)
Maitenance and repair services	(76 330)	(70 963)
Distribution services	(453 283)	(432 783)
Other external services	(156 678)	(156 640)
Taxes and charges	(257 016)	(177 236)
Employee benefits expense	(656 087)	(628 706)
Allowance for doubtful debts	(1 981)	(7 519)
Other	(26 255)	(21 667)
Total costs by type	**(2 541 813)**	**(2 441 650)**
Change in inventories, prepayments, accruals and deferred income	29 871	(33 956)
Cost of goods produced for internal purposes	109 114	103 136
Selling and distribution expenses	110 057	107 668
Administrative expenses	167 643	156 212
Cost of goods for resale and materials sold	(1 797 931)	(1 855 325)
Cost of sales	**(3 923 059)**	**(3 963 915)**

(PLN '000)

13. Finance income

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Income from financial instruments, *of which*:	**27 238**	**57 487**
Interest income	9 003	12 367
Measurement of derivative instruments	14 134	15 258
Foreign exchange gains	-	29 165
Net gain on realized financial instruments	4 101	-
Gain on the disposal of investments	-	697
Other finance income	**1 955**	**1 023**
Total finance income	**29 193**	**58 510**

14. Finance costs

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Financial instrument costs, *of which:*	**(77 373)**	**(75 440)**
Interest costs	(72 739)	(74 262)
Surplus of impairment losses recognised	(103)	(79)
Foreign exchange losses	(1 428)	-
Commission relating to borrowings and debt securities	(2 782)	(1 034)
Net costs from realized derivative instruments	-	(65)
Sale of receivables	(321)	-
Other finance costs, *of which:*	**(19 242)**	**(14 668)**
Interest on employee benefits	(12 501)	(11 379)
Other finance costs	(6 741)	(3 289)
Total finance costs, *including recognized in the statement of comprehensive income:*	**(96 615)**	**(90 108)**
Interest expense on debt	(72 739)	(74 262)
Other finance costs	(23 876)	(15 846)

15. Income tax

15.1. Tax expense in the statement of comprehensive income

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited restated figures)*
Current income tax	**(19 707)**	**(78 533)**
Current income tax expense	(13 899)	(106 083)
Adjustments to current income tax from previous years	(5 808)	27 550
Deferred tax	**(68 082)**	**6 890**
Income tax expense in profit/(loss)	**(87 789)**	**(71 643)**
Income tax expense relating to other comprehensive income	**(4 300)**	**(2 299)**

(PLN '000)

15.2. Deferred income tax

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
- difference between tax base and carrying amount of fixed and intangible assets	1 518 149	1 490 408
- difference between tax base and carrying amount of financial assets	30 490	29 609
- different timing of recognition of sales revenue for tax purposes	65 308	69 064
- difference between tax base and carrying amount of energy certificates	31 233	48 817
- other	36 819	39 889
Deferred tax liability	**1 681 999**	**1 677 787**
- provisions	606 247	685 405
- power infrastructure received free of charge and received connection fees	55 767	57 071
- difference between tax base and carrying amount of financial assets and financial liabilities	52 122	49 471
- valuation of hedging instruments	17 766	18 139
- different timing of recognition of cost of sales for tax purposes	67 544	58 333
- tax losses	13 047	12 758
- difference between tax base and carrying amount of emission allowances	27 211	26 985
- other	31 467	28 633
Deferred tax assets	**871 171**	**936 795**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**52 696**	**54 184**
Deferred tax liability	**(863 524)**	**(795 176)**

As at 31 March 2016 and 31 December 2015, 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 2016 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.

16. Dividends paid and proposed

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. Additionally, the Management Board decided to submit a recommendation to the Ordinary General Shareholders' Meeting that the record date be the ninetieth day following the date of the General Shareholders' Meeting's resolution on the use of the Company's reserve capital and the payment date be the fourteenth business day following the record date.

On 17 March 2016, the Supervisory Board of the Company approved the recommendation presented by the Management Board 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 shareholders as well as determination of the record and the payment dates.

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

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

(PLN '000)

17. Property, plant and equipment

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 impairrment	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**

On 1 January 2016, a subsidiary, Nowe Brzeszcze Grupa TAURON Sp. z o.o., purchased property, plant and equipment of PLN 205 416 thousand under an agreement on the purchase of a designated part of Zakład Górniczy Brzeszcze as an organized part of the enterprise, which has been discussed in more detail in Note 30 to these condensed interim consolidated financial statements.

(PLN '000)

For the 3-month period ended 31 March 2015 (*unaudited*)

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**117 142**	**18 195 456**	**14 819 091**	**808 607**	**1 364 263**	**35 304 559**
Direct purchase	-	-	-	-	753 137	**753 137**
Borrowing costs	-	-	-	-	11 950	**11 950**
Transfer of assets under construction	896	210 023	175 098	12 592	(398 609)	**-**
Sale, disposal	(244)	(408)	(1 568)	(2 314)	(159)	**(4 693)**
Liquidation	-	(17 353)	(8 568)	(1 581)	-	**(27 502)**
Received free of charge	-	3 754	7	-	-	**3 761**
Spare parts allocated to fixed assets	-	493	482	-	(470)	**505**
Overhaul expenses	-	-	1 218	-	3 730	**4 948**
Items generated internally	-	-	-	-	9 314	**9 314**
Transfers to/from assets held for sale	-	(50)	(470)	(9)	(5 481)	**(6 010)**
Other movements	(1)	1 272	(1 510)	268	(981)	**(952)**
Foreign exchange differences from translation of foreign entities	-	-	(9)	(13)	-	**(22)**
Closing balance	**117 793**	**18 393 187**	**14 983 771**	**817 550**	**1 736 694**	**36 048 995**
ACCUMULATED DEPRECIATION						
Opening balance	**(458)**	**(5 049 663)**	**(4 957 467)**	**(440 706)**	**(5 323)**	**(10 453 617)**
Depreciation for the period	-	(201 120)	(197 000)	(21 043)	-	**(419 163)**
Increase of impairment	-	-	(4)	(13)	(287)	**(304)**
Decrease of impairrment	-	84	17	36	-	**137**
Sale, disposal	-	76	959	2 107	-	**3 142**
Liquidation	-	14 964	7 815	1 438	-	**24 217**
Transfers to/from assets held for sale	-	-	-	17	-	**17**
Other movements	-	(299)	(2 021)	(2 577)	-	**(4 897)**
Foreign exchange differences from translation of foreign entities	-	-	4	-	-	**4**
Closing balance	**(458)**	**(5 235 958)**	**(5 147 697)**	**(460 741)**	**(5 610)**	**(10 850 464)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**116 684**	**13 145 793**	**9 861 624**	**367 901**	**1 358 940**	**24 850 942**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**117 335**	**13 157 229**	**9 836 074**	**356 809**	**1 731 084**	**25 198 531**
of which operating segments:						
Mining	**1 076**	**572 309**	**547 286**	**16 051**	**164 383**	**1 301 105**
Generation	**42 476**	**2 872 306**	**5 605 797**	**40 991**	**886 312**	**9 447 882**
Distribution	**58 277**	**9 606 207**	**3 554 675**	**278 492**	**670 743**	**14 168 394**
Other segments and other operations	**15 506**	**106 407**	**128 316**	**21 275**	**9 646**	**281 150**

In the 3-month period ended 31 March 2016, the Group acquired property, plant and equipment of PLN 628 954 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 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Distribution	317 828	279 758
Generation	245 458	408 588
Mining	63 208	59 888

Impairment tests

Considering the conditions in the external environment determining the Company's market cap being lower than the carrying amount, mainly unfavorable conditions on the wholesale electricity market, a market analysis was conducted as at 31 March 2016 which revealed that the market conditions in the first quarter of the year had not changed considerably as compared to 31 December 2015. 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 2015, were up-to-date and that there is no need to recognize additional impairment losses as at the end of the reporting period.

As at 31 December 2015, 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;
- long-lasting unfavorable market conditions for power manufacturers and the resulting more conservative power price forecasts for the future;

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- power manufacturing volumes adjusted (i.e. limited) in the future to the existing unfavorable market situation and pessimistic outlooks;
- generation units to be decommissioned sooner than expected.

The impairment test for property, plant and equipment and non-current intangible assets was 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). For the purpose of a more detailed cost analysis, additional tests were carried out for individual generation units.

The recoverable amount of each CGU was determined based on its value in use. The value in use of the CGU was calculated on the basis of future cash flows relating to the CGU, which were subsequently discounted to their present value using a discount rate. The sensitivity analyses for each CGU revealed that changes in electricity prices and in the weighted average cost of capital are the key factors having the most significant effect on the value in use of the tested assets. As regards the adopted electricity wholesale price path for the years 2016-2025, 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 rise by ca. 22% was assumed by 2020, with a more dynamic increase in prices by 2025 and the price level observed in that year continuing after 2025 (fixed prices). The electricity retail price path was adopted 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. The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranged from 7.20% to 9.05% in nominal terms before tax.

The impairment test for assets carried out as at 31 December 2015 indicated that an additional impairment loss of PLN 3 410 726 thousand should be recognized for a portion of assets in the Generation segment. The impairment loss was recognized in the Group's profit for 2015.

18. Goodwill

Goodwill in segment	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	52 484	52 484
Total	**92 059**	**92 059**

Impairment tests

Considering the conditions in the external environment determining the Company's market cap being lower than the carrying amount, mainly unfavorable conditions on the wholesale electricity market, a market analysis was conducted as at 31 March 2016 which revealed that the market conditions in the first quarter of the year had not changed considerably as compared to 31 December 2015. 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 2015, were up-to-date and that there is no need to recognize additional impairment losses as at the end of the reporting period.

As at 31 December 2015, an impairment test was performed for the carrying amount of net assets increased by goodwill in each operating segment, except Generation, where the test was performed at the level of individual companies. The recoverable amount in each company was determined based on the value in use.

The test was performed based on the present value of estimated operating cash flows. The calculations were based on detailed projections for the period from 2016 to 2025 and the estimated residual value. The projection period for the generation units covers the whole period of their operations. 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.

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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 (3.22%) 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.

The impairment test performed as at 31 December 2015 revealed impairment of the carrying amount of goodwill in the Generation segment (TAURON Ciepło Sp. z o.o.). As a result, the Group recognized an impairment loss of PLN 154 998 thousand. The impairment loss was recognized in the Group's profit for 2015.

19. Energy certificates and gas emission allowances

19.1. Non-current energy certificates and gas emission allowances

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**

For the 3-month period ended 31 March 2015 (*unaudited*)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**207 397**	**265 103**	**472 500**
Direct purchase	5 581	-	**5 581**
Reclassification	(194 933)	(165 330)	**(360 263)**
Closing balance	**18 045**	**99 773**	**117 818**

19.2. Current energy certificates and gas emission allowances

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**

For the 3-month period ended 31 March 2015 (*unaudited*)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**724 918**	**8 130**	**733 048**
Direct purchase	119 936	3 101	**123 037**
Generated internally	83 838	-	**83 838**
Cancellation	(687 231)	-	**(687 231)**
Reclassification	195 962	165 330	**361 292**
Closing balance	**437 423**	**176 561**	**613 984**

(PLN '000)

20. Non-current intangible assets

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	-	(68)	-	-	-	**(68)**
Liquidation	-	-	(1 874)	(60)	-	**(1 934)**
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**
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**

For the 3-month period ended 31 March 2015 (*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	**4 670**	**789 670**	**475 291**	**153 770**	**53 436**	**1 476 837**
Direct purchase	-	-	1	-	12 328	**12 329**
Transfer of intangible assets not made available for use	-	1 050	8 043	11 716	(20 809)	**-**
Sale, disposal	-	(100)	(8 071)	-	-	**(8 171)**
Liquidation	-	-	(17)	(48)	-	**(65)**
Received free of charge	-	-	-	159	-	**159**
Other movements	-	(107)	115	(143)	1 098	**963**
Foreign exchange differences from translation of foreign entities	-	-	(28)	-	(5)	**(33)**
Closing balance	**4 670**	**790 513**	**475 334**	**165 454**	**46 048**	**1 482 019**
ACCUMULATED AMORTIZATION						
Opening balance	**(3 822)**	**(15 297)**	**(289 949)**	**(35 635)**	**-**	**(344 703)**
Amortization for the period	(120)	-	(12 904)	(3 098)	-	**(16 122)**
Sale, disposal	-	-	8 071	-	-	**8 071**
Liquidation	-	-	17	47	-	**64**
Other movements	-	-	(71)	(8)	-	**(79)**
Foreign exchange differences from translation of foreign entities	-	-	20	-	-	**20**
Closing balance	**(3 942)**	**(15 297)**	**(294 816)**	**(38 694)**	**-**	**(352 749)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**848**	**774 373**	**185 342**	**118 135**	**53 436**	**1 132 134**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**728**	**775 216**	**180 518**	**126 760**	**46 048**	**1 129 270**

(PLN '000)

21. Shares in joint ventures

Investments in joint ventures measured using the equity method as at 31 March 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.	TAMEH HOLDING Sp. z o.o. *	As at 31 March 2016 or for the 3-month period ended 31 March 2016 *(unaudited)*
Non-current assets	1 070 697	-	1 326 196	**2 396 893**
Current assets	47 947	37 081	468 022	**553 050**
Non-current liabilities (-)	(974 410)	-	(479 367)	**(1 453 777)**
Current liabilities (-)	(139 318)	(159)	(387 266)	**(526 743)**
Total net assets	4 916	36 922	927 585	**969 423**
Share in net assets	2 458	18 461	463 793	**484 712**
Invetment in joint ventures	**-**	**18 461**	**422 729**	**441 190**
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.*

Investments in joint ventures measured using the equity method as at 31 December 2015 or for the 3-month period ended 31 March 2015 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2015 or for the 3-month period ended 31 March 2015 *(unaudited)*
Non-current assets	1 085 917	-	1 295 743	**2 381 660**
Current assets	12 387	37 008	341 716	**391 111**
Non-current liabilities (-)	(965 514)	-	(378 507)	**(1 344 021)**
Current liabilities (-)	(125 610)	(85)	(377 432)	**(503 127)**
Total net assets	7 180	36 923	881 520	**925 623**
Share in net assets	3 590	18 461	440 760	**462 811**
Invetment in joint ventures	**-**	**18 461**	**399 666**	**418 127**
Share in revenue of joint ventures	6	92	152 494	**152 592**
Share in profit/(loss) of joint ventures	**(500)**	**11**	**20 889**	**20 400**

**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.

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 232 009 thousand, which has been discussed in more detail in Note 22, as well as provisions for onerous commercial contracts in the amount of PLN 185 806 thousand, which have been discussed in Note 34.

Elektrownia Blachownia Nowa Sp. z o.o.

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 combined cycle gas and steam unit with the capacity of ca. 850 MWe on the site of TAURON Wytwarzanie S.A. – Oddział Elektrownia Blachownia.

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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 30 December 2013, TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. concluded an agreement, based on which the construction of the gas and steam unit in Elektrownia Blachownia Nowa Sp. z o.o. has been suspended. The decision resulted from the current situation on the electricity and gas market entailing higher investment risk, which made the entities review and optimize the project.

The parties undertook to ensure further business operations of Elektrownia Blachownia Nowa Sp. z o.o., securing deliverables provided thus far, in particular updating project documentation and ensuring on-going monitoring of the energy market and regulatory environment in view of the possibility to restart project performance as soon as possible. The parties agreed that the decision to recommence the project will be adopted in the form of a separate agreement which is expected to be concluded by 31 December 2016.

In December 2015, following an analysis of the project, including the probability of its non-performance, recognition of an impartment loss on property, plant and equipment was deemed reasonable based on project documentation. The impairment loss amounted to PLN 27 351 thousand and was recognized in the company's profit for 2015.

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.

22. Loans granted to joint ventures

	As at 31 March 2016 *(unaudited)*		As at 31 December 2015	
	Principal	**Interest**	**Principal**	**Interest**
Loans originated to EC Stalowa Wola S.A., *including:*	200 950	31 059	194 950	28 959
Subordinated loan	177 000	30 784	177 000	28 922
Loan for debt repayment	15 850	198	15 850	31
Other loans	8 100	77	2 100	6
Total	**200 950**	**31 059**	**194 950**	**28 959**
Non-current	192 850	30 982	192 850	28 953
Current	8 100	77	2 100	6

Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted a subordinated loan and a VAT loan to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank. At the end of the reporting period, the balance of the subordinated loan was PLN 177 000 thousand and the VAT loan had fully been repaid. The subordinated loan with interest due is to be finally repaid no later than by the end of 2032.

In 2015, the Company entered into loan agreements with Elektrociepłownia Stalowa Wola S.A., whereby it granted a loan to Elektrociepłownia Stalowa Wola S.A. in the maximum amount of PLN 15 850 thousand to finance the first payment of principal and interest on loans provided to the borrower by the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. as well as a short-term loan of up to PLN 2 600 thousand to finance the day-to-day operations of the borrower. As at the end of the reporting period, the balance of loans granted was equal to the maximum amounts specified in the aforesaid agreements.

On 22 January 2016, the Company granted a cash loan of PLN 5 500 thousand to Elektrociepłownia Stalowa Wola S.A. to finance the day-to-day operations of the borrower. Under the loan agreement, the loan will be repaid in one instalment, along with accrued interest, by 31 December 2016.

In the 3-month period ended 31 March 2016, the interest income due to loans granted amounted to PLN 2 100 thousand.

(PLN '000)

23. Other financial assets

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Shares	134 385	136 488
Bonds, T-bills and other debt securities	1 890	1 890
Deposits	41 521	39 724
Derivative instruments	64 123	5 684
Bid bonds, deposits and collateral transferred	64 113	54 106
Other long-term receivables	4 059	4 669
Other	103 042	2 988
Total	**413 133**	**245 549**
Non-current	237 841	211 215
Current	175 292	34 334

As at 31 March 2016 *Other* in the table above mainly consists of non-return variation margin deposits in the amount of PLN 85 999 thousand arising from the exchange settlements concerning forward transactions made by the Company.

24. Other non-financial assets

24.1. Other non-current non-financial assets

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Prepayments for assets under construction and intangible assets	379 773	358 673
Costs of preparing production in hard coal mines	167 052	159 159
Other prepayments	17 513	32 543
Total	**564 338**	**550 375**

As at 31 March 2016 advance payments made for fixed assets under construction and intangible assets were mainly related to an investment project entitled "Construction of a 910 MW unit in Elektrownia Jaworzno III" and they totaled PLN 360 339 thousand.

24.2. Other current non-financial assets

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Costs settled over time, *including:*	**112 244**	**104 251**
Property and tort insurance	14 039	15 888
IT, telecom and postal services	20 883	26 367
Costs of preparing production in hard coal mines	46 406	33 411
Other prepayments	30 916	28 585
Other current non-financial assets, *including:*	**150 360**	**128 808**
Advance payments for deliveries	87 480	120 342
Surplus of Social Benefit Fund assets over its liabilities	-	3 984
Transfers made to the Social Benefit Fund	45 814	-
Other current assets	17 066	4 482
Total	**262 604**	**233 059**

(PLN '000)

25. Inventories

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Historical cost		
Raw materials	224 361	273 523
Semi-finished goods and work-in-progress	178 363	155 586
Finished goods	16 842	5 510
Goods for resale	3 410	4 053
Energy certificates	-	1 319
Emission allowances	13 310	3 424
Total	**436 286**	**443 415**
Write-downs to net realisable value		
Raw materials	(9 872)	(10 097)
Finished goods	(3 803)	(4)
Goods for resale	(35)	(35)
Emission allowances	(3 278)	-
Total	**(16 988)**	**(10 136)**
Net realisable value		
Raw materials	214 489	263 426
Semi-finished goods and work-in-progress	178 363	155 586
Finished goods	13 039	5 506
Goods for resale	3 375	4 018
Energy certificates	-	1 319
Emission allowances	10 032	3 424
Total	**419 298**	**433 279**

26. Receivables from clients

Current receivables from clients as at 31 March 2016 and 31 December 2015 have been presented in the table below.

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Value of items before allowance/write-down		
Receivables from clients	1 550 750	1 581 863
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	310 429	298 805
Receivables claimed at court	220 493	227 739
Total	**2 081 672**	**2 108 407**
Allowance/write-down		
Receivables from clients	(74 002)	(74 828)
Receivables claimed at court	(196 300)	(203 546)
Total	**(270 302)**	**(278 374)**
Value of item net of allowance (carrying amount)		
Receivables from clients	1 476 748	1 507 035
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	310 429	298 805
Receivables claimed at court	24 193	24 193
Total	**1 811 370**	**1 830 033**

(PLN '000)

27. Receivables due to taxes and charges

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Corporate Income Tax receivables	114 921	909
VAT receivables	106 752	205 713
Excise duty receivables	40 193	20 314
Other	1 981	1 409
Total	**263 847**	**228 345**

Income tax receivables and liabilities

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

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 2016, the Group had the following corporate income tax receivables and liabilities:

- income tax receivables of PLN 114 921 thousand, where PLN 113 019 thousand relates to settlements of the Tax Capital Group;
- income tax liability of PLN 373 thousand, which did not concern the settlements of the Tax Capital Group.

In the 3-month period ended 31 March 2016, the income tax expense of the Tax Capital Group amounted to PLN 13 855 thousand. At the same time, the Tax Capital Group prepaid CIT of PLN 126 603 thousand for the first two months of 2016. Moreover, as at 31 March 2016, the Group had CIT receivables for previous years of PLN 271 thousand.

28. Cash and cash equivalents

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Cash at bank and in hand	345 695	353 428
Short-term deposits (up to 3 months)	13 640	10 722
Other	783	762
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**360 118**	**364 912**
restricted cash	177 743	206 254
Bank overdraft	(102 445)	(10 206)
Cash pool	(34 864)	(29 377)
Foreign exchange	(294)	2 386
Total cash and cash equivalents presented in the statement of cash flows	**222 515**	**327 715**

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 or to 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 2016, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 77 247 thousand and cash on the accounts used for the settlement of electricity and emission allowances traded on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 74 577 thousand.

(PLN '000)

29. Equity

29.1. Issued capital

Issued capital as at 31 March 2016 (*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 2016, the value of issued capital, the number of shares and the nominal value of shares did not change as compared to 31 December 2015.

Shareholding structure as at 31 March 2016 (*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 2016 did not change as compared to 31 December 2015.

29.2. Revaluation reserve from valuation of hedging instruments

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Opening balance	**(73 414)**	**(143 019)**
Remeasurement of hedging instruments	1 961	(5 311)
Remeasurement of hedging instruments charged to profit or loss	23 188	20 825
Deferred income tax	(4 778)	(2 948)
Closing balance	**(53 043)**	**(130 453)**

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 32 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 2016, the Company recognized PLN (53 043) thousand in the revaluation reserve from valuation of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totaling PLN 93 505 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period as well as measurement of interest periods not covered by hedge accounting, including deferred tax.

The profit for the period was charged with PLN 23 188 thousand, where PLN 23 224 thousand was a change in measurement of instruments relating to interest on bonds accrued as at the end of the reporting period and PLN (36) thousand was a change in measurement of interest periods not covered by hedge accounting. In the statement of comprehensive income, the expense related to a change in measurement of instruments relating to interest accrued on bonds increased finance costs arising from such interest.

29.3. Retained earnings and dividend limitation

In the current period, changes in retained earnings (accumulated losses) included:

(PLN '000)

- net profit for the period attributable to the shareholders of the Parent of PLN 323 245 thousand;
- actuarial losses on provisions for post-employment benefits, recognized in other comprehensive income, of PLN 2 006 thousand;
- settlement of acquisition of an organized part of the enterprise ZCP Brzeszcze – loss in the amount of PLN 10 196 thousand.

Only PLN 13 thousand out of retained earnings may be distributed among the shareholders of the Parent.

30. Acquisition under common control and reorganization changes

Acquisition of an organized part of the enterprise of Zakład Górniczy Brzeszcze

On 31 December 2015, Nowe Brzeszcze Grupa TAURON Sp. z o.o and Spółka Restrukturyzacji Kopalń S.A. ("SRK") entered into an agreement for sale of a designated part of Zakład Górniczy Brzeszcze as an organized part of the enterprise ("ZCP Brzeszcze"). The aforesaid agreement was entered into in performance of the preliminary agreement of 19 October 2015 and under Article 8a.4 of the Act on Hard Coal Mining of 7 September 2007. Under the sale agreement, the date of the provision of the object of sale and making the acquired ZCP Brzeszcze available for use to Nowe Brzeszcze Grupa TAURON Sp. z o.o was 1 January 2016, as of which date the risks and rewards relating to the object of sale were transferred onto Nowe Brzeszcze Grupa TAURON Sp. z o.o.

The ZCP Brzeszcze selling price agreed by the parties and payable to SRK is PLN 1.00. Due to the fact that KWK Brzeszcze incurred losses at the time of its operation as part of SRK, under an agreement of 29 May 2015 between the Minister of Economy and SRK, funds from the government budget were allocated to SRK for purposes of offsetting current manufacturing losses of the mining company in 2015 ("Public Aid"). At the same time, in accordance with the aid refund agreement, Nowe Brzeszcze Grupa TAURON Sp. z o.o. committed to return the Public Aid, including interest accrued as of each date of disbursement of the Public Aid by its provider to SRK. Thus, the acquisition price comprises the agreed price of PLN 1.00 and the Public Aid amount to be refunded, including interest due as at 31 December 2015, i.e. PLN 130 218 thousand. In the 3-month period ended 31 March 2016, Nowe Brzeszcze Grupa TAURON Sp. z o.o. refunded the aforementioned Public Aid amount along with interest accrued by the repayment date. The expenditure relating to the Public Aid refund has been presented under financing activities in the consolidated statement of cash flows.

As the transaction involving the acquisition of ZCP Brzeszcze is carried out under joint control of the State Treasury, Nowe Brzeszcze Grupa TAURON Sp. z o.o. accounted for the business combination using the pooling of interest method, as provided for by the accounting policies adopted by the Group, on the assumption that comparative data could not be presented.

Presented below is the balance sheet as at the date of the acquisition of the designated part of Zakład Górniczy Brzeszcze by Nowe Brzeszcze Grupa TAURON Sp. z o.o.

	As at 1 January 2016		As at 1 January 2016
Non-current assets		**Equity**	**(10 196)**
Property, plant and equipment and intangible assets	215 924	**Provisions and liabilities**	
Deferred tax assets	2 538	Provision for mine decommissioning	65 992
	218 462	Provisions for employee benefits	26 462
		Accruals (provision for unused annual leave)	4 203
Current assets		Obligations under leases	3 132
Inventories	1 349	Liabilities arising from public aid refund	130 218
Other financial assets	25	Other financial liabilities	25
	1 374		**230 032**
Total assets	**219 836**	**Total equity and liabilities**	**219 836**

As Zakład Górniczy Brzeszcze did not prepare its financial statements in conformity with IFRS, for purposes of accounting for the transaction, the Group prepared the balance sheet of ZCP Brzeszcze in accordance with its own accounting policies. To this end, the following procedures were performed:

- fixed assets were measured by an independent property appraiser. In the absence of an active market, the major part of such assets were measured at amortized replacement cost.
- The following provisions were recognized:

(PLN '000)

- a mine decommissioning provision – estimated on the basis of third-party expert calculations;
- actuarial provision – estimated using actuarial methods on the basis of agreements setting out the terms of calculation and payment of retirement and disability benefits and jubilee bonuses at Kompania Węglowa S.A.;
- provision for unused annual leave – estimated by an actuary.

Following the acquisition of ZCP Brzeszcze, no trade receivables or liabilities relating to that part of the enterprise or inventories, except the inventory of materials of PLN 1 349 thousand, were transferred onto Nowe Brzeszcze Grupa TAURON Sp. z o.o.

On 22 March 2016, the Extraordinary General Shareholders' Meeting of Nowe Brzeszcze Grupa TAURON Sp. z o.o. adopted a resolution to increase the issued capital of the entity by PLN 50 000 thousand by way of issuing 500 000 shares with the nominal value of PLN 100 each, which will be acquired by the Parent at PLN 300 per share, for the total amount of PLN 150 000 thousand. The aforesaid capital increase was registered on 6 May 2016 as described in Note 49 to these condensed interim consolidated financial statements.

Spin-off of TAURON Ekoenergia Sp. z o.o.

On 25 February 2016, spin-off of TAURON Ekoenergia Sp. z o.o. (the acquiree) was registered. It was effected under Article 529.1.4 of the Code of Commercial Companies by way of a transfer of a part of the assets of the spun-off company constituting an organized part of the enterprise and comprising tangible and intangible assets related to generation of electricity in renewable energy sources – windfarms, onto Marselwind Sp. z o.o. (the acquirer), in return for shares in the increased issued capital of the acquirer, which were taken up by the sole shareholder of the spun-off company, i.e. TAURON Polska Energia S.A. The aforementioned spin-off did not have any effect on these condensed interim consolidated financial statements.

31. Debt

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Loans and borrowings	1 490 204	1 411 776
Bonds issued	7 321 981	6 680 433
Finance lease	44 827	46 438
Total	**8 857 012**	**8 138 647**
Current	1 105 494	3 214 520
Non-current	7 751 518	4 924 127

31.1. Loans and borrowings

Loans and borrowings taken out as at 31 March 2016 (*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	81 103	81 103	35 518	6 798	7 347	7 252	14 316	9 872
	fixed	1 295 648	1 295 648	20 444	112 300	147 481	162 218	324 437	528 768
Total PLN		**1 376 751**	**1 376 751**	**55 962**	**119 098**	**154 828**	**169 470**	**338 753**	**538 640**
EUR	floating	23 642	100 914	100 914	-	-	-	-	-
Total EUR		**23 642**	**100 914**	**100 914**	**-**	**-**	**-**	**-**	**-**
USD	floating	407	1 531	1 531	-	-	-	-	-
Total USD		**407**	**1 531**	**1 531**	**-**	**-**	**-**	**-**	**-**
Total			**1 479 196**	**158 407**	**119 098**	**154 828**	**169 470**	**338 753**	**538 640**
Interest increasing carrying amount			11 008						
Total loans and borrowings			**1 490 204**						

(PLN '000)

Loans and borrowings taken out as at 31 December 2015

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	77 350	77 350	29 993	6 864	7 333	7 308	14 316	11 536
	fixed	1 316 062	1 316 062	20 444	112 297	147 478	162 214	324 429	549 200
Total PLN		**1 393 412**	**1 393 412**	**50 437**	**119 161**	**154 811**	**169 522**	**338 745**	**560 736**
EUR	floating	2 025	8 630	8 630	-	-	-	-	-
Total EUR		**2 025**	**8 630**	**8 630**	**-**	**-**	**-**	**-**	**-**
USD	floating	404	1 576	1 576	-	-	-	-	-
Total USD		**404**	**1 576**	**1 576**	**-**	**-**	**-**	**-**	**-**
Total			**1 403 618**	**60 643**	**119 161**	**154 811**	**169 522**	**338 745**	**560 736**
Interest increasing carrying amount			8 158						
Total loans and borrowings			**1 411 776**						

Changes in the balance of loans and borrowings, excluding interest increasing their carrying amounts, in the 3-month period ended 31 March 2016 and in the comparative period have been presented below.

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Opening balance	**1 403 618**	**1 225 612**
Movement in bank overdrafts and cash pool loans	**97 726**	**101 491**
Movement in loans (excluding bank overdrafts and cash pool loans):	**(22 148)**	**(22 180)**
Repaid	(22 323)	(22 353)
Change in valuation	175	173
Closing balance	**1 479 196**	**1 304 923**

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 2016 *(unaudited)*	As at 31 December 2015
Loans	European Investment Bank	Coal unit at Jaworzno III Power Plant	Fixed – agreed until 15 June 2016	15.12.2021	127 922	126 218
		EC Bielsko Biała coal unit	Fixed – agreed until 15 June 2016	15.12.2021	182 687	180 303
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	352 763	348 325
			Fixed – agreed until 15 March 2018	15.09.2024	154 737	165 467
			Fixed – agreed until 15 March 2018	15.09.2024	193 413	206 746
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	295 106	297 132
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	27 000	28 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	18 566	19 216
Other loans and borrowings					138 010	40 369
Total					**1 490 204**	**1 411 776**

(PLN '000)

31.2. Bonds issued

Bonds issued as at 31 March 2016 (*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	3-12 months	1 - 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	C	12 December 2016	PLN	6 090	749 764	-	749 764	-	-	-
	BGK*	20 December 2019	PLN	909	99 843	-	-	-	99 843	-
		20 December 2020	PLN	909	99 831	-	-	-	99 831	-
		20 December 2021	PLN	909	99 822	-	-	-	-	99 822
		20 December 2022	PLN	909	99 814	-	-	-	-	99 814
		20 December 2023	PLN	909	99 808	-	-	-	-	99 808
		20 December 2024	PLN	909	99 805	-	-	-	-	99 805
		20 December 2025	PLN	909	99 801	-	-	-	-	99 801
		20 December 2026	PLN	909	99 796	-	-	-	-	99 796
		20 December 2027	PLN	909	99 794	-	-	-	-	99 794
		20 December 2028	PLN	900	99 793	-	-	-	-	99 793
		20 December 2020	PLN	565	70 000	-	-	-	70 000	-
		20 December 2021	PLN	565	70 000	-	-	-	-	70 000
		20 December 2022	PLN	565	70 000	-	-	-	-	70 000
		20 December 2023	PLN	511	70 000	-	-	-	-	70 000
		20 December 2024	PLN	511	70 000	-	-	-	-	70 000
		20 December 2025	PLN	511	70 000	-	-	-	-	70 000
	Bond Issue Scheme of 24.11.2015	29 December 2020	PLN	5 701	2 243 741	-	-	-	2 243 741	-
		25 March 2020	PLN	55	99 721	-	-	-	99 721	-
		30 March 2020	PLN	48	299 160	-	-	-	299 160	-
	TPEA1119	4 November 2019	PLN	19 304	1 749 061	-	-	-	1 749 061	-
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	8 183	710 737	-	-	-	-	710 737
Total debentures				**51 690**	**7 270 291**	**-**	**749 764**	**-**	**4 661 357**	**1 859 170**

** Bank Gospodarstwa Krajowego*

Bonds issued as at 31 December 2015

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	3-12 months	1 - 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	C	12 December 2016	PLN	4 389	2 998 938	2 249 203	749 735	-	-	-
	BGK*	20 December 2019	PLN	106	99 836	-	-	-	99 836	-
		20 December 2020	PLN	106	99 823	-	-	-	99 823	-
		20 December 2021	PLN	106	99 815	-	-	-	-	99 815
		20 December 2022	PLN	106	99 808	-	-	-	-	99 808
		20 December 2023	PLN	106	99 802	-	-	-	-	99 802
		20 December 2024	PLN	106	99 800	-	-	-	-	99 800
		20 December 2025	PLN	106	99 796	-	-	-	-	99 796
		20 December 2026	PLN	106	99 792	-	-	-	-	99 792
		20 December 2027	PLN	106	99 790	-	-	-	-	99 790
		20 December 2028	PLN	97	99 790	-	-	-	-	99 790
		20 December 2020	PLN	12	70 000	-	-	-	70 000	-
		20 December 2021	PLN	12	70 000	-	-	-	-	70 000
		20 December 2022	PLN	12	70 000	-	-	-	-	70 000
	TPEA1119	4 November 2019	PLN	7 508	1 749 043	-	-	-	1 749 043	-
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	1 921	709 495	-	-	-	-	709 495
Total debentures				**14 905**	**6 665 528**	**2 249 203**	**749 735**	**-**	**2 018 702**	**1 647 888**

** Bank Gospodarstwa Krajowego*

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

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 2016, the carrying amount of the bonds with interest in the bond currency was EUR 168 428 thousand (versus EUR 166 941 thousand as at 31 December 2015). 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.

(PLN '000)

Changes in the balance of bonds, excluding interest increasing their carrying amounts, in the 3-month period ended 31 March 2016 and in the comparative period have been presented below.

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Opening balance	**6 665 528**	**6 803 298**
Issue*	2 852 461	-
Redemption	(2 250 000)	(150 000)
Change in valuation	2 302	(28 254)
Closing balance	**7 270 291**	**6 625 044**

**Costs of issue have been included.*

Changes in the balance of bonds in the 3-month period ended 31 March 2016 resulted from the following events:

- On 8 January 2016, the Company issued long-term bonds with the total par value of PLN 210 000 thousand under the agreement with Bank Gospodarstwa Krajowego with the following maturity dates:
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2023;
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2024;
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2025.
- On 29 February 2016, the Company repurchased 22 500 out of 30 000 Tranche C bonds issued on 12 December 2011 under the bond issue scheme of 16 December 2010, for purposes of redemption. The remaining 7 500 Tranche C bonds were not repurchased early. In accordance with the terms of issue, they will be repurchased on 12 December 2016. The aforesaid bonds were repurchased at the issue price of PLN 100 thousand. Thus, the total par value of bonds which were repurchased and redeemed by the Company was PLN 2 250 000 thousand. This amount was increased by interest due between the beginning of the last interest period preceding the repurchase and the repurchase date. The bonds were repurchased for redemption under bilateral agreements concluded by TAURON Polska Energia S.A. with Tranche C Bond holders, mainly to prolong the date of the Company's repayment of debt incurred in the form of bonds. The funds for bond repurchase were secured under a new bond issue scheme of 24 November 2015, which has been discussed in more detail below.
- Under the new bond issue scheme of 24 November 2015, the Company issued 22 500 bonds with the total par value of PLN 2 250 000 thousand on 29 February 2016. The bonds will mature on 29 December 2020. The bonds were issued in the Polish zloty as unsecured, dematerialized coupon securities. They were purchased at the issue price equal to the par value of PLN 100 thousand. The interest on issued bonds was determined by reference to WIBOR 6M increased by a fixed margin. The bonds will be repurchased at the issue price at maturity, while interest will be paid in arrears at the end of each interest period to bond holders determined at the record date. Interest on the aforesaid bonds is payable in semi-annual periods (with the proviso that the first period is four months). The bonds were purchased by financial institutions being parties to the bond issue scheme agreements, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A. and Powszechna Kasa Oszczędności Bank Polski S.A.
- In March 2016, the Company issued further bonds under the agreement of 24 November 2015:
  - Tranche of PLN 100 000 thousand with the maturity date on 25 March 2020;
  - Tranche of PLN 300 000 thousand with the maturity date on 30 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 32 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 2016, none of these covenants were breached and the contractual provisions were complied with.

(PLN '000)

32. Derivative instruments

	As at 31 March 2016 *(unaudited)*				As at 31 December 2015			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
CCIRS	-	-	**-**	**-**	(11 368)	-	**3 055**	**(14 423)**
IRS	(28 021)	(65 484)	**410**	**(93 915)**	(4 833)	(90 634)	**-**	**(95 467)**
Commodity forwards/futures/swap	3 019	-	**63 580**	**(60 561)**	17	-	**2 225**	**(2 208)**
Currency forwards	133	-	**133**	**-**	393	-	**404**	**(11)**
Total derivative instruments, *including:*			**64 123**	**(154 476)**			**5 684**	**(112 109)**
Current			63 350	(154 470)			5 668	(96 953)
Non-current			773	(6)			16	(15 156)

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

Derivative instrument	Methodology of determining fair value hierarchy
IRS, CCIRS	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 and swaps	The fair value of forwards for the purchase and sale of emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.

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

Classes of financial instruments	As at 31 March 2016 *(unaudited)*		As at 31 December 2015	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity-related derivatives	63 580	-	2 225	-
Derivate instruments - CCIRS	-	-	-	3 055
Derivative instruments - IRS	-	410	-	-
Derivative instruments - currency	-	133	-	404
Liabilities				
Commodity-related derivatives	60 561	-	2 208	-
Currency derivatives	-	-	-	11
Derivate instruments - CCIRS	-	-	-	14 423
Derivative instruments - IRS	-	93 915	-	95 467

Hedging derivative instruments (subject to hedge accounting) – IRS

Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Company hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme (Tranche A and Tranche C), by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. The Tranche A transaction was settled at maturity of the instrument, i.e. in December 2015. On 29 February 2016, the Company repurchased and redeemed a portion of Tranche C bonds with the par value of PLN 2 250 000 thousand, which had been hedged using IRS, and at the same time issued bonds with the same par value under an agreement entered into in November 2015, which has been discussed in more detail in Note 31.2 to these condensed interim consolidated financial statements. In accordance with the dynamic interest rate risk hedging strategy adopted by the Company, whereby cash flows related to the exposure to the WIBOR 6M interest rate risk are the hedged instrument, the Company maintained the hedging relationship for the IRS transactions concluded in March 2012 with respect to the newly issued bonds. As the effectiveness of the hedge was considered high, the transactions are covered by hedge accounting.

In the 3-month period ended 31 March 2016, pursuant to a decision of the Financial and Credit Risk Management Team, the Company hedged a portion of the interest rate risk arising from bonds issued under an agreement with Bank Gospodarstwa Krajowego, with the par value of PLN 600 000 thousand, by entering into interest rate swap (IRS) transactions for a term of 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 is determined in advance, hence the entity may not apply hedge accounting principles to cash flows resulting from the first interest period.

(PLN '000)

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

In the 3-month period ended 31 March 2016, the Company closed a transaction involving a coupon cross currency swap (CCIRS), which was not subject to hedge accounting. Following the settlement of the aforesaid transaction in February 2016, the Company received PLN 5 400 thousand. The transaction involved a swap of interest payments on the nominal amount of EUR 168 000 thousand and its original maturity was 15 years. In accordance with the contract, the Company paid interest accrued based on a floating interest rate in PLN and received fixed-rate payments in EUR.

As at 31 March 2016, 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, swap) including emission allowance, electricity and other commodity purchase and sale transactions;
- FX forward transactions hedging foreign currency cash flows resulting from trading in emission allowances and gas.

33. Provisions for employee benefits

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Provision for post-employment benefits and jubilee bonuses	1 874 027	1 850 375
Provision for employment termination benefits	52 566	57 336
Total	**1 926 593**	**1 907 711**
Current	154 652	172 505
Non-current	1 771 941	1 735 206

33.1. Provisions for post-employment benefits and jubilee bonuses

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**
Current	23 142	23 862	4 294	1 856	57 970	**111 124**
Non-current	327 309	712 219	127 252	-	596 123	**1 762 903**

(PLN '000)

For the 3-month period ended 31 March 2015 (*unaudited restated data*)

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**357 017**	**769 975**	**170 242**	**67 661**	**679 510**	**2 044 405**
Current service costs	3 602	2 034	885	422	9 423	**16 366**
Actuarial gains and losses	3 785	-	(384)	8	(3 907)	**(498)**
Benefits paid	(9 212)	(61)	(825)	(479)	(9 558)	**(20 135)**
Interest expense	1 987	4 286	954	380	3 772	**11 379**
Closing balance *(unaudited restated figures)*	**357 179**	**776 234**	**170 872**	**67 992**	**679 240**	**2 051 517**
Current	22 817	22 885	4 697	1 592	52 940	**104 931**
Non-current	334 362	753 349	166 175	66 400	626 300	**1 946 586**

Measurement of provisions for employee benefits

Provisions for post-employment benefits and jubilee bonuses have been estimated using actuarial methods. Moreover, the Group recognized provisions for benefits resulting from voluntary redundancy schemes.

The provisions for employee benefits were measured as at 31 March 2016 based on actuarial projections. The actuarial assumptions made for purposes of the projections for 2016 were the same as those used for measuring provisions as at 31 December 2015. Key actuarial assumptions made as at 31 December 2015 for the purpose of calculation of the liabilities:

	31 December 2015
Discount rate (%)	2.75%
Estimated inflation rate (%)	2.35%
Employee rotation rate (%)	1.14% - 9.10%
Estimated salary increase rate (%)	0.23% - 2.43%
Estimated electricity price increase rate (%)	4.30%
Estimated increase rate for contribution to the Social Fund (%)	4.50%
Remaining average employment period	9.80 – 14.90

33.2. Provisions for employment termination benefits

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**
Current	15 588	20 012	7 928	**43 528**
Non-current	9 038	-	-	**9 038**

For the 3-month period ended 31 March 2015 (*unaudited*)

	Voluntary redundancy schemes in operating segments		Other	Total
	Generation	Distribution		
Opening balance	**38 867**	**22 236**	**1 769**	**62 872**
Recognition	208	-	-	**208**
Reversal	(545)	-	-	**(545)**
Utilization	(15 556)	(4 112)	(1 769)	**(21 437)**
Closing balance	**22 974**	**18 124**	**-**	**41 098**
Current	11 188	18 124	-	**29 312**
Non-current	11 786	-	-	**11 786**

(PLN '000)

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

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	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**
Current	-	904	27 003	**27 907**
Non-current	178 850	101 030	158 803	**438 683**
Other provisions, long-term portion				**1 899**
Total				**440 582**

For the 3-month period ended 31 March 2015 (*unaudited*)

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
Opening balance	**120 704**	**42 774**	**163 478**
Interest cost (discounting)	749	245	**994**
Recognition/(reversal), net	57	-	**57**
Closing balance	**121 510**	**43 019**	**164 529**
Current	-	880	**880**
Non-current	121 510	42 139	**163 649**
Other provisions, long-term portion			**2 714**
Total			**166 363**

34.1. Provision for mine decommissioning costs

The provision is recognized for mines included in the Group based on estimated costs of liquidating buildings and reclaiming land after completion of the exploitation process. The provision for mine decommissioning costs includes the balance of the Mine Decommissioning Fund, 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 financial assets, while the balance of the Fund is recognized under the provision for future costs of mine decommissioning.

In the 3-month period ended 31 March 2016, the provision increased by PLN 65 992 thousand following the acquisition of an organized part of the enterprise of Zakład Górniczy Brzeszcze, which has been discussed in more detail in Note 30 to these condensed interim consolidated financial statements.

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

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

- provision for ash pile reclamation costs, which totaled PLN 42 135 thousand as at 31 March 2016 (versus PLN 41 855 thousand as at 31 December 2015);
- provision for windfarm dismantling costs, which totaled PLN 59 799 thousand as at 31 March 2016 (versus PLN 59 389 thousand as at 31 December 2015).

34.3. Provision for onerous contracts with a joint venture

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. At present, analyses are being performed with a view to determining the further course of action and selecting a project implementation scenario. Elektrociepłownia Stalowa Wola S.A., its business partners and the banks financing the project agreed on the project completion formula.

(PLN '000)

All the parties expressed their willingness to continue the project. A solution aimed at restoring financing is being worked out with the banks. The construction site is being taken over from the general contractor and works aimed at securing the equipment and its maintenance are being performed. The Company is negotiating amendments to the gas and electricity contracts with PGNIG S.A.

In view of the foregoing, in the year ended 31 December 2015, the Company recognized provisions for onerous contracts with a joint venture, Elektrociepłownia Stalowa Wola S.A., totaling PLN 182 877 thousand.

In the 3-month period ended 31 March 2016, 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 2 929 thousand in total.

As at the end of the reporting period, the balances of provisions for onerous contracts were as follows:

- a provision of PLN 125 273 thousand 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 is obliged to purchase half of the volume of electricity at a price determined in the "cost plus" formula, which covers the manufacturing costs and the financing costs. The provision was estimated taking account of the difference between the planned market prices of electricity and the costs resulting from the "cost plus" formula;
- a provision of PLN 52 438 thousand resulting from the fact that the Company may be obliged to cover losses which may 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. is obliged to make a payment to PGNiG S.A. for uncollected gas or resell it on the market. The provision was estimated on the assumption that the gas volume for 2016-2018 was the same as the one specified in the contract. The short-term portion of the provision is PLN 24 167 thousand;
- a provision for costs of PLN 8 095 thousand (PLN 2 836 thousand of which is the short-term portion). 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 provisions for the costs of fulfilment of the gas contract and for additional costs of operation have been recognized in proportion to the Company's interest in the joint venture.

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

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

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	190 774	**272 465**
Reversal	(23)	(3 494)	**(3 517)**
Utilisation	-	(759 985)	**(759 985)**
Closing balance	**234 751**	**292 346**	**527 097**

(PLN '000)

For the 3-month period ended 31 March 2015 (*unaudited*)

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**8 130**	**914 926**	**923 056**
Recognition	11 420	220 617	**232 037**
Reversal	(2 290)	(3 652)	**(5 942)**
Utilisation	-	(773 351)	**(773 351)**
Closing balance	**17 260**	**358 540**	**375 800**

35.1. Provision for the obligation to surrender energy certificates

As at 31 March 2016, the Group recognized a short-term provision for the obligation to surrender energy certificates in the amount of PLN 292 346 thousand, out of which the amount of PLN 128 167 thousand was covered by certificates held as at the end of the reporting period, the amount of PLN 32 270 thousand was planned to be paid in the form of a substitution fee and the amount of PLN 131 909 thousand through the purchase of property rights.

In the 3-month period ended 31 March 2016, the Group fulfilled in part the obligation to surrender certificates of electricity generated using renewable sources, in cogeneration and energy efficiency certificates for 2015. Therefore, a provision of PLN 759 985 thousand was utilized.

35.2. 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 2016, the provision was recognized both for the installations of TAURON Wytwarzanie S.A. and of TAURON Ciepło Sp. z o.o., as in both these companies emissions in the year ended 31 December 2015 and in the 3-month period ended 31 March 2016 exceeded the number of free-of-charge emission allowances. The provision for the costs of eliminating the deficit, i.e. emissions in excess of the free-of-charge allowances, was recognized at the value of the emission allowances purchased by the Group and presented as current intangible assets.

As at 31 March 2016, the provision for gas emission liabilities amounted to PLN 234 751 thousand and concerned:

- the obligation for 2015: PLN 154 989 thousand. In the 3-month period ended 31 March 2016, the Group revalued the provision for the obligation to surrender emission allowances for 2015. TAURON Wytwarzanie S.A. increased the provision by PLN 1 929 thousand, while TAURON Ciepło Sp. z o.o. derecognized the provision in the amount of PLN 23 thousand.
- the obligation for the 3-month period ended 31 March 2016 – in the 3-month period ended 31 March 2016, the Group recognized a provision of PLN 79 762 thousand.

(PLN '000)

36. Other provisions

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**
Current	93 992	68 287	**162 279**
Non-current	-	1 899	**1 899**
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**

For the 3-month period ended 31 March 2015 (*unaudited*)

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**93 818**	**66 341**	**160 159**
Recognition/(reversal), net	(2 659)	1 170	**(1 489)**
Utilisation	(258)	(2 079)	**(2 337)**
Foreign exchange differences from translation of foreign entities	-	(21)	**(21)**
Closing balance	**90 901**	**65 411**	**156 312**
Current	90 901	62 697	**153 598**
Non-current	-	2 714	**2 714**
Current portion of provision for the costs of disassembly of fixed assets and land restoration			**880**
Total current other provisions			**154 478**

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 2016, the relevant provision amounted to PLN 93 992 thousand and was related to the following segments:

- Generation: PLN 51 426 thousand;
- Distribution: PLN 42 566 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)

37. Accruals, deferred income and government grants

37.1. Deferred income and government grants

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Deferred income, *of which:*	**317 225**	**325 861**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	80 438	83 308
Connection fees	234 883	240 485
Other	1 904	2 068
Government grants, *of which:*	**380 607**	**382 660**
Subsidies obtained from EU funds	282 297	286 222
Forgiven loans from environmental funds	15 600	11 801
Measurement of preferential loans	38 956	39 401
Other	43 754	45 236
Total	**697 832**	**708 521**
Non-current	640 413	650 364
Current	57 419	58 157

Other settlements of government grants include mainly government grants to greenfield investments in hard coal mines received by TAURON Wydobycie S.A. – as at 31 March 2016, they amounted to PLN 18 165 thousand.

37.2. Short-term accruals

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Unused holidays	61 317	37 468
Bonuses	93 899	140 946
Environmental protection charges	7 840	4 449
Other	12 640	13 317
Total	**175 696**	**196 180**

38. Liabilities due to taxes and charges

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Corporate Income Tax	373	85 357
Personal Income Tax	43 671	46 841
Excise	41 247	42 467
VAT	198 178	46 787
Social security	162 139	156 635
Environmental charges	5 090	46 889
Other	5 721	4 673
Total	**456 419**	**429 649**

(PLN '000)

39. Other current non-financial liabilities

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Payments from customers relating to future periods, *of which:*	**282 273**	**273 168**
Prepayments for connection fees	25 377	25 366
Amounts overpaid by customers	247 407	240 700
Other	9 489	7 102
Other current non-financial liabilities, *of which:*	**59 158**	**754**
Surplus of Social Benefit Fund liabilities over its assets	55 867	-
Other non-financial liabilities	3 291	754
Total	**341 431**	**273 922**

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 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Change in receivables	(85 570)	2 211
Change in inventories	14 231	46 033
Change in payables excluding loans and borrowings	(119 081)	(183 090)
Change in other non-current and current assets	558 169	424 448
Change in deferred income, government grants and accruals	(40 547)	(44 186)
Change in provisions	(492 012)	(568 470)
Total	**(164 810)**	**(323 054)**

40.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Purchase of property, plant and equipment	(605 359)	(753 137)
Purchase of intangible assets	(14 616)	(12 329)
Change in the balance of VAT-adjusted capital commitments	(343 664)	(92 685)
Change in the balance of advance payments	(21 101)	(32 686)
Costs of overhaul and internal manufacturing	(10 153)	(14 262)
Other	957	4 743
Total	**(993 936)**	**(900 356)**

Loans granted

Payments to grant loans result from the loans disbursed by the Parent to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 6 000 thousand under agreements entered into in November 2015 and January 2016, which has been discussed in more detail in Note 22 to these condensed interim consolidated financial statements.

40.3. Cash flows from financing activities

Repurchase of debt securities

Payments to repurchase debt securities result from the Company's repurchase and redemption of a portion of Tranche C bonds in the amount of PLN 2 250 000 thousand in the 3-month period ended 31 March 2016, which has been discussed in more detail in Note 31.2 to these condensed interim consolidated financial statements.

(PLN '000)

Loans and borrowings repaid

Payments to repay loans and borrowings, as presented in the consolidated statement of cash flows in the amount of PLN 22 323 thousand, arise mainly from the Parent's repayment of loan installments to the European Investment Bank, totaling PLN 20 455 thousand, in the 3-month period ended 31 March 2016.

Interest paid

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Interest paid in relation to debt securities	(13 004)	(2 715)
Interest paid in relation to loans and borrowings	(11 916)	(8 608)
Interest paid in relation to the finance lease	(245)	(387)
Total	**(25 165)**	**(11 710)**

Public aid refund

Payments to refund public aid are related to the refund made by Nowe Brzeszcze Grupa TAURON Sp. z o.o. under the public aid refund agreement, which has been discussed in more detail in Note 30 to these condensed interim consolidated financial statements.

Issue of debt securities

Proceeds from the issue of debt securities in the 3-month period ended 31 March 2016 are related to:

- the Company's issue of bonds with the total par value of PLN 2 650 000 thousand under a bond issue scheme of November 2015, which has been discussed in more detail in Note 31.2 to these condensed interim consolidated financial statements;
- the Company's issue of bond tranches under the agreement with Bank Gospodarstwa Krajowego in the total amount of PLN 210 000 thousand.

(PLN '000)

OTHER INFORMATION

41. 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 93 992 thousand (Note 36).
Claims filed by Huta Łaziska S.A.	Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. has become a party to a court dispute with Huta Łaziska S.A. ("Huta"). The key reason was the latter's failure to fulfil its obligation to pay the amounts due for electricity supplies, which led to discontinuation of electricity supplies to Huta Łaziska by GZE in 2001. Based on a decision of 12 October 2001, the President of Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006 the Court of Appeals in Warsaw issued a final and binding decision ending a dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgment of the Court of Appeals in Warsaw, which was dismissed by the judgment of the Supreme Court dated 10 May 2007. Due to discontinuation of electricity supplies, Huta has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of ERO for the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in its judgment of 29 November 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for reexamination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for reexamination. 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 both parties as evidence. In the most recent pleading lodged, the Company's representative requested that the court expert be promptly excluded from attending the following hearing and that the court expert evidence be rejected. The most recent court hearing was held on 20 January 2016. The next court hearing has been scheduled for 20 May 2016. Based on the Company's legal analysis of the claims raised by Huta and by its main shareholder, GEMI Sp. z o.o., the Company believes that they are groundless and the risk of their satisfaction is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.
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, a subsidiary, terminated long-term contracts concerning purchases of electricity and energy certificates from wind farms. Proceedings were instigated against the company, to consider its termination statements ineffective and to secure non-monetary claims resulting from the above purchase contracts. Since proceedings regarding the above cases are pending, the final claim amount of the potential financial effects on the company and the Capital Group cannot be estimated.

(PLN '000)

Item	Description
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.
Amount	As at 31 March 2016 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 422 729 thousand.
Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	President of UOKiK has instigated the following procedures: - On 12 December 2012 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 charging interest for overdue payments for projected use of electricity groundlessly. Such interest was determined by the automatic payment management system as a result of linking payments made by electricity users with amounts payable in future and marking the oldest liabilities as unpaid. On 16 April 2013 the President of UOKiK issued a decision that obliged the company to discontinue the activities. On 30 June 2015 the company filed a report concerning obligations met. - 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 (Journal of Laws No. 171 item 1206) 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; the "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 indicate whether the practices had been discontinued, to which the company responded in February 2016, informed UOKiK about the practices being discontinued and requested refraining from imposing the fine. - Under a decision of 19 December 2014 anti-trust proceedings were instigated regarding the alleged abuse of the dominant position by TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. on the reserve electricity distribution market. In 2015 the companies applied for a decision requesting the entities to discontinue activities violating the Act on competition and consumer protection and to take steps preventing the alleged violations. In July 2015 the President of the Office for Competition and Consumer Protection, issued a decision requesting the entities to take appropriate steps to prevent the alleged infringements within four months from the date when the decision becomes final and binding. The entities were obliged to report on fulfilling the obligations within 6 months from the date the decision becomes final and binding. On 22 February 2016 the companies informed UOKiK of the fulfilling of the obligations and filed the required reports. - On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydropower plants involving enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement, which may constitute a breach of the Act on competition and consumer protection. Under a decision of 15 October 2015 anti-monopoly proceedings were instigated by the President of UOKiK. On 1 February 2016, UOKiK accepted the company's statement regarding presentation of a determined liability. The proceedings are to be closed on 31 May 2016. The companies do not recognize provisions for potential fines arising from the above proceedings, since according to their Management Board, the risk of issuing an unfavorable ruling and imposing a fine is remote.
Explanatory proceedings instigated by the President of UOKiK	Explanatory proceedings have been instigated against companies from the Sales segment to preliminarily determine whether their actions have been in breach of the Act on competition and consumer protection. The companies provided requested documents and explanations and responded to statements included in the letters of UOKiK. The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low; hence no provision has been recognized for these events.

(PLN '000)

42. Contingent assets and liabilities related to tax returns

Tax returns may be inspected within five years, starting from the end of the year when the tax was paid. As a result of such inspections the Group's tax settlements may be increased by additional tax liabilities. As at 31 March 2016, according to the Group assessments, appropriate provisions had been recognized for identified and measurable tax risk.

As at the date of these condensed interim consolidated financial statements, the following proceedings regarding settlements under public law were pending in the Capital Group companies:

Item	Description
Excise duty	In view of the differences between the Polish and EU regulations concerning excise duty on electricity, following the judgment of the European Court of Justice ("ECJ") in Luksemburg of 12 February 2009 power and heat and power plants from the TAURON Capital Group filed tax return correction and applications to acknowledge excise tax excess payment for the years 2006 - 2008 and for January and February 2009. In the judgment in question ECJ conceded that Polish regulations determining the timing of recognition for excise tax purposes were not adjusted to the requirements of the Energy Directive neither before nor after the transition period. Proceedings concerning individual companies from the TAURON Capital Group (TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o.) have been carried out before competent tax authorities and Administrative Courts. As the final outcome of this dispute is highly unpredictable, the Group has not recognized any effects of possible reimbursement of excise duty overpayment or claims and possible claims of electricity buyers in these condensed interim consolidated financial statements.
Amount	The overpaid amounts claimed by the Group approximate PLN 908 500 thousand.
Income tax – an increase in tax-deductible costs by the amount of component repair cost	In accordance with the tax ruling, companies in the Tax Capital Group ("TCG") (TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o.) expensed costs incurred on component repairs over time. At the same time the Company, representing the TCG, appealed against the tax ruling, as in its opinion the repairs in question should be expensed when incurred, on one-off basis, irrespective of the way they are accounted for in the accounting records. Such position was confirmed by the Regional Administrative Court in Gliwice in its decision dated 18 September 2014. On 30 December 2014 the Company filed an application to acknowledge tax excess payment and a tax return correction for 2013, where the component repairs were recognized in tax-deductible expense on one-off basis. At the same time, an impairment loss for income tax receivable has been recognized with relation to the excess payment. In 2015, TCG received an overpayment refund of PLN 22 250 thousand. The impairment loss has been reversed, thus reducing the tax expense for 2015. Following a cassation appeal filed by the Minister of Finance, as at 31 March 2016 the case was awaiting the final decision of the Supreme Administrative Court.
Amount	The refunded overpayment of PLN 22 250 thousand
Real estate tax	There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities. 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 may change in future.
Amount	As at the end of the reporting period, provisions were recognized for costs of disputes regarding real estate tax (totaling to PLN 16 369 thousand).
Tax inspection proceedings	The Company is a party to inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The inspection covers the reliability of declared taxable amounts and the correctness of calculation and payment of value-added tax for individual months from October 2013 to April 2014. The Director of the TIO carries out evidentiary proceedings in the form of written communication with the Company and questioning witnesses. In its subsequent letters the Company responded to requests sent by the Director of the TIO and presented all explanations and documents required. The period of the inspection proceedings was prolonged by the Director of TIO a few times and the new deadline has been set at 28 June 2016. The inspection proceedings are expected to be closed in 2016 but no precise closing date can be determined. As at the date of preparing these interim condensed consolidated financial statements the Director of the TIO did not present any opinion on the evidence collected, at this stage any possible consequences of his final decision cannot be indicated yet.

43. Collateral against liabilities

The Group uses various forms of collateral against its liabilities. Those most frequently used include mortgages, registered pledges, liens relating to 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.

(PLN '000)

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

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Real estate	80 977	82 250
Plant and machinery	605	614
Cash	25 523	22 067
Total	**107 105**	**104 931**

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 2016 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 1 560 000 thousand, valid until 31 December 2016 – as regards Tranche A and Tranche B (repaid) • up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E (not disbursed)
Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Long-term Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Framework bank guarantee agreement with PKO Bank Polski S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies. As at 31 March 2016 the guarantee limit amounted to PLN 100 000 thousand.	authorization to debit the bank account maintained by PKO Bank Polski S.A.	up to PLN 125 000 thousand
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 106 710 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to PLN 213 420 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 11 277 thousand (USD 3 000 thousand) valid until 31 March 2019

Other forms of collateral against liabilities of the Group

As at 31 March 2016, other significant collateral for the liabilities of the TAURON Group included:

- Blank bills of exchange

Agreement/transaction secured by blank promissory notes	Capital Group company that has issued a blank promissory note	Value as at 31 March 2016 *(unaudited)*
Agreements concerning loans originated to subsidiaries: TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice	TAURON Polska Energia S.A.	71 180
Performance bonds to include co-funding of engagements carried out	TAURON Dystrybucja S.A.	131 390
Performance bonds related to co-funding agreements concluded with the National Fund for Environmental Protection and Water Management	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.	64 144

- Collateral under finance lease agreements

(PLN '000)

Finance lease agreement	Lessee	Carrying amount of the leased asset as at 31 March 2016 *(unaudited)*	Collateral
Leaseback agreement concerning real estate, plant and machinery	TAURON Ciepło Sp. z o.o.	5 562	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.	28 031	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 framework agreement for bank guarantees entered into with PKO Bank Polski S.A., at the request of the Company the bank issued bank guarantees securing liabilities of TAURON Polska Energia S.A. subsidiaries totaling PLN 2 079 thousand and securing the Company's transactions:

  - a guarantee of up to EUR 1 000 thousand (PLN 4 268 thousand), given for the benefit of Joint Allocation Office S.A., valid until 30 December 2016;

  - a performance bond of up to PLN 3 864 thousand (Operator Gazociągów Przesyłowych GAZ – SYSTEM S.A.), valid until 30 November 2016.
- Under the bank guarantee agreement made with Bank Zachodni WBK S.A., the bank issued a guarantees to secure stock exchange transactions resulting from the membership in the Commodity Clearing House:

  - up to PLN 30 000 thousand, valid until 15 June 2016;

  - up to PLN 20 000 thousand, valid until 29 April 2016.
- collateral for transactions on the Polish Power Exchange:

  - Alienation agreement entered into by TAURON Polska Energia S.A. and Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGIT"). As part of the collateral, the Company deposited 5 183 500 EUA in its account in the National Register of Allowances. The term of the agreement was extended until 15 June 2016;

  - Alienation agreement between TAURON Wytwarzanie S.A., a subsidiary, and IRGiT. The agreement provided for a freeze on the emission allowances in the Register of Allowances, held by TAURON Wytwarzanie S.A.:

    - 8 000 000 EUA – for the liabilities taken on by TAURON Polska Energia S.A. to IRGiT;
    - 5 040 086 EUA – originally; in December 2015, 5 000 000 EUA were returned to TAURON Wytwarzanie S.A., as a result of which the number of emission allowances pledged as collateral for transactions entered into on TGE S.A. by TAURON Wytwarzanie S.A was reduced to 40 086 EUA. In February 2016, the additional 900 000 EUA were frozen under an annex to the agreement. Consequently, in February and March 2016, the margin deposit for the transactions entered into by TAURON Wytwarzanie S.A. on TGE was 940 086 EUA.

  The agreement between TAURON Wytwarzanie S.A. and IRGIT expired on 31 March 2016. In April 2016, 8 940 086 EUA were returned to the account of TAURON Wytwarzanie S.A.

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

44. Capital commitments

As at 31 March 2016 and 31 December 2015, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 5 464 999 thousand and PLN 5 597 990 thousand, respectively, with the key items presented below:

(PLN '000)

Operating segment	Agreement/investment project	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Generation	Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	3 597 612	3 773 520
	Commissioning of a part of external coal handling system and an ash removal system for a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	144 325	144 325
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	98 970	98 970
Distribution	Implementation of Smart City Wrocław, an intelligent measurement system	61 303	91 126
Mining	Construction of a shaft inlet and developing infrastructure in Janina shaft	32 695	37 986

45. Related-party disclosures

45.1. 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. and the TAMEH HOLDING Sp. z o.o. capital group, which has been discussed in more detail in Note 21 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 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Revenue	6 622	42 522
Costs	(15 488)	(12 016)

A drop in revenue year-on-year results from transactions with a joint venture – the TAMEH HOLDING Sp. z o.o. capital group. In the 3-month period ended 31 March 2016 and 31 March 2015, transactions with the joint venture amounted to PLN 3 682 thousand and PLN 40 162 thousand, respectively (in the comparative period the main revenue item was sales of coal).

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 22 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 41 to these condensed interim consolidated financial statements.

In relation to agreements entered into with a joint venture, Elektrociepłownia Stalowa Wola S.A., in the financial year ended 31 December 2015, the Company recognized provisions for onerous contracts totaling PLN 182 877 thousand. In the 3-month period ended 31 March 2016, the aforesaid provisions were revalued following the unwinding of the discount as at the end of the reporting period by PLN 2 929 thousand in total, which has been discussed in more detail in Note 34 to these condensed interim consolidated financial statements.

45.2. 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 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Revenue	617 415	680 525
Costs	(615 104)	(726 108)

(PLN '000)

Receivables and liabilities

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Receivables	333 188	367 207
Payables	233 772	270 429

As at 31 March 2016, receivables presented in the table above included advance payments of PLN 88 435 thousand, mainly advance payments for deliveries of coal of PLN 84 781 thousand and advance payments for purchases of fixed assets of PLN 3 649 thousand. As at 31 December 2015, receivables comprised advance payments totaling PLN 128 650 thousand, including advance payments for deliveries of coal of PLN 124 996 thousand and advance payments for purchases of fixed assets of PLN 3 649 thousand.

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.

In the 3-month period ended 31 March 2015, KGHM Polska Miedź S.A., PSE S.A., PKP Energetyka 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 80% 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 85% of the value of purchases from State Treasury companies during the 3-month period ended 31 March 2015.

The Capital Group enters into material transactions in the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As such entities are 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.

45.3. Executive compensation

The amount of compensation and other benefits paid or payable granted to the Management Board, Supervisory Boards and other key executives of the Parent and the subsidiaries in the 3-month period ended 31 March 2016 and in the comparative period has been presented in the table below.

	3-month period ended 31 March 2016 *(unaudited)*		3-month period ended 31 March 2015 *(unaudited)*	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	**3 417**	**5 741**	**1 979**	**4 619**
Short-term employee benefits (salaries and surcharges)	1 216	4 446	1 224	4 259
Post-service benefits for a Member of the Management Board	2 077	549	-	-
Post-employment benefits	-	-	-	86
Employment termination benefits	-	492	450	-
Other	124	254	305	274
Supervisory Board	**305**	**137**	**308**	**233**
Short-term employee benefits (salaries and surcharges)	305	137	308	221
Other	-	-	-	12
Other key management personnel	**4 229**	**10 304**	**4 969**	**10 640**
Short-term employee benefits (salaries and surcharges)	3 372	9 989	4 523	10 455
Jubilee bonuses	-	123	-	126
Employment termination benefits	609	134	114	-
Other	248	58	332	59
Total	**7 951**	**16 182**	**7 256**	**15 492**

As regards post-service benefits to Members of the Management Board, as presented in the table above, the amount of PLN 1 550 thousand was accounted for as the use of a provision recognized as at 31 December 2015 by the Parent and the amount of PLN 423 thousand as the use of provisions recognized as at 31 December 2015 by the subsidiaries.

(PLN '000)

Additionally, in the 3-month period ended 31 March 2016, the Group companies recognized provisions for post-service benefits payable to Members of the Management Board, in the amount of PLN 2 526 thousand. The aforesaid benefits are not payable yet. The costs incurred for purposes of recognition of the provisions have not been presented in the table above.

46. Financial instruments

Categories and classes of financial assets	Note	As at 31 March 2016 *(unaudited)*		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss, held for trading		**63 713**		**5 684**	
Derivative instruments	**32**	63 713	63 713	5 684	5 684
2 Financial assets available for sale		**138 738**		**140 783**	
Shares (non-current)		130 280		132 383	
Shares (current)		4 105		4 105	
Investment fund units		2 463	2 463	2 405	2 405
Bonds, T-bills and other debt securities		1 890	1 890	1 890	1 890
3 Loans and receivables		**2 245 474**		**2 150 918**	
Receivables from clients	**26**	1 811 370	1 811 370	1 830 033	1 830 033
Deposits		41 521	41 521	39 724	39 724
Loans granted		232 015	232 015	223 911	223 911
Other financial receivables		160 568	160 568	57 250	57 250
4 Financial assets excluded from the scope of IAS 39		**441 190**		**418 127**	
Investments in joint ventures	**21**	441 190		418 127	
5 Derivative hedging instruments	**32**	**410**	**410**	**-**	**-**
6 Cash and cash equivalents	**28**	**360 118**	**360 118**	**364 912**	**364 912**
Total financial assets, *of which in the statement of financial position:*		**3 249 643**		**3 080 424**	
Non-current assets		**902 863**		**851 145**	
Investments in joint ventures		441 190		418 127	
Loans granted to joint ventures		223 832		221 803	
Other financial assets		237 841		211 215	
Current assets		**2 346 780**		**2 229 279**	
Receivables from clients		1 811 370		1 830 033	
Other financial assets		175 292		34 334	
Cash and cash equivalents		360 118		364 912	

(PLN '000)

Categories and classes of financial liabilities	Note	As at 31 March 2016 *(unaudited)* Carrying amount	As at 31 March 2016 *(unaudited)* Fair value	As at 31 December 2015 Carrying amount	As at 31 December 2015 Fair value
1 Financial liabilities at fair value through profit or loss, held for trading		**60 561**		**16 642**	
Derivative instruments	**32**	60 561	60 561	16 642	16 642
2 Financial liabilities measured at amortized cost		**10 051 806**		**9 980 020**	
Preferential loans	**31.1**	46 260	46 260	47 999	47 999
Arm's length loans	**31.1**	1 341 499	1 359 275	1 353 571	1 375 724
Bank overdrafts	**31.1**	102 445	102 445	10 206	10 206
Bonds issued	**31.2**	7 321 981	7 368 836	6 680 433	6 683 707
Liabilities to suppliers		692 721	692 721	790 706	790 706
Other financial liabilities		105 188	105 188	157 240	157 240
Capital commitments		327 639	327 639	767 759	767 759
Salaries and wages		102 886	102 886	155 957	155 957
Insurance contracts		11 187	11 187	16 149	16 149
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**44 827**		**46 438**	
Obligations under finance leases		44 827	44 827	46 438	46 438
4 Derivative hedging instruments	**32**	**93 915**	**93 915**	**95 467**	**95 467**
Total financial liabilities, *of which in the statement of financial position:*		**10 251 109**		**10 138 567**	
Non-current liabilities		**7 799 814**		**5 025 832**	
Debt		7 751 518		4 924 127	
Other financial liabilities		48 296		101 705	
Current liabilities		**2 451 295**		**5 112 735**	
Debt		1 105 494		3 214 520	
Liabilities to suppliers		692 721		790 706	
Capital commitments		327 252		766 843	
Derivative instruments		154 470		96 953	
Other financial liabilities		171 358		243 713	

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 32 to these condensed interim consolidated financial statements. Fair value hierarchy disclosures are also provided in Note 32.

Financial instruments classified to other categories of financial instruments:

- fixed-rate financial instruments, which, as at 31 March 2016, included loans obtained from the European Investment Bank and bonds issued by a subsidiary, were measured by the Group 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 shares classified as financial assets available for sale and excluded from the scope of IAS 39, as discussed below) as at 31 March 2016 and 31 December 2015 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.

47. Principles and objectives of financial risk management

The objectives and principles of financial risk management have not changed as compared to 31 December 2015.

As at 31 March 2016, the Parent was a party to hedging transactions covered by the policy for specific risk management in the area of finance, which had been entered into with a view to hedging interest cash flows relating to 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 32 to these condensed interim consolidated financial statements.

48. 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.

49. Events after the end of the reporting period

Registration of the capital increase of Nowe Brzeszcze Grupa TAURON Sp. z o.o.

On 6 May 2016 the issued capital increase of Nowe Brzeszcze Grupa TAURON Sp. z o.o. from PLN 5 000 thousand to PLN 55 000 thousand was registered in the National Court Register (resolution of the Extraordinary General Shareholders' Meeting of 22 March 2016).

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 3-month period ended 31 March 2016 in accordance with International Accounting Standard 34 have been presented on 58 consecutive pages.

Katowice, 9 May 2016

Remigiusz Nowakowski – President of the Management Board …………………………………..

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

Oliwia Tokarczyk – Accounting and Tax Executive Director …………………………………..