

**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 9-month period ended 30 September 2016**

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**The TAURON Polska Energia S.A. Capital Group**  
*Condensed Interim Consolidated Financial Statements for the 9-month period ended 30 September 2016*  
*in accordance with IFRS-EU*  
*(PLN '000)*

**CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Note	3-month period ended 30 September 2016 <i>(unaudited)</i>	9-month period ended 30 September 2016 <i>(unaudited)</i>	3-month period ended 30 September 2015 <i>(unaudited restated figures)</i>	9-month period ended 30 September 2015 <i>(unaudited restated figures)</i>
Sales revenue	11	4 180 888	13 123 745	4 377 627	13 634 241
Cost of sales	12	(3 537 039)	(11 823 168)	(3 635 702)	(11 247 977)
<b>Profit on sale</b>		<b>643 849</b>	<b>1 300 577</b>	<b>741 925</b>	<b>2 386 264</b>
Selling and distribution expenses	12	(112 429)	(332 826)	(122 113)	(359 945)
Administrative expenses	12	(154 810)	(472 789)	(153 669)	(466 493)
Other operating income and expenses	40	12 686	27 979	21 815	(27 566)
<b>Operating profit</b>		<b>389 296</b>	<b>522 941</b>	<b>487 958</b>	<b>1 532 260</b>
Share in profit/(loss) of joint ventures	20	18 477	78 338	(4 560)	310
Interest expense on debt	13	(62 647)	(200 606)	(75 059)	(219 275)
Other finance income and costs	13	(8 257)	(31 129)	46 537	384
<b>Profit before tax</b>		<b>336 869</b>	<b>369 544</b>	<b>454 876</b>	<b>1 313 679</b>
Income tax expense	14	(65 454)	(93 412)	(96 108)	(234 524)
<b>Net profit</b>		<b>271 415</b>	<b>276 132</b>	<b>358 768</b>	<b>1 079 155</b>
Measurement of hedging instruments		35 092	83 938	13 426	62 054
Foreign exchange differences from translation of foreign entities		(7 379)	2 543	259	287
Income tax	14	(6 667)	(15 948)	(2 551)	(11 790)
<b>Other comprehensive income subject to reclassification to profit or loss</b>		<b>21 046</b>	<b>70 533</b>	<b>11 134</b>	<b>50 551</b>
Actuarial gains/(losses)		1 164	(265)	606	1 729
Income tax	14	(220)	50	(111)	(327)
Share in other comprehensive income of joint ventures		34	75	-	-
<b>Other comprehensive income not subject to reclassification to profit or loss</b>		<b>978</b>	<b>(140)</b>	<b>495</b>	<b>1 402</b>
<b>Other comprehensive income, net of tax</b>		<b>22 024</b>	<b>70 393</b>	<b>11 629</b>	<b>51 953</b>
<b>Total comprehensive income</b>		<b>293 439</b>	<b>346 525</b>	<b>370 397</b>	<b>1 131 108</b>
<b>Net profit:</b>					
Attributable to equity holders of the Parent		270 848	274 283	358 117	1 076 641
Attributable to non-controlling interests		567	1 849	651	2 514
<b>Total comprehensive income:</b>					
Attributable to equity holders of the Parent		292 872	344 676	369 735	1 128 581
Attributable to non-controlling interests		567	1 849	662	2 527
<b>Basic and diluted earnings per share in PLN:</b>		<b>0.15</b>	<b>0.16</b>	<b>0.20</b>	<b>0.61</b>

**CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<b>16</b>	25 637 117	24 882 817
Goodwill	<b>17</b>	40 156	92 059
Energy certificates and emission allowances for surrender	<b>18.1</b>	119 502	510 840
Other intangible assets	<b>19</b>	1 212 099	1 182 765
Investments in joint ventures	<b>20</b>	474 615	418 127
Loans granted to joint ventures	<b>21</b>	227 883	221 803
Other financial assets	<b>22</b>	243 550	211 215
Other non-financial assets	<b>23.1</b>	465 787	550 375
Deferred tax assets	<b>14.2</b>	65 758	54 184
		<b>28 486 467</b>	<b>28 124 185</b>
<b>Current assets</b>			
Energy certificates and emission allowances for surrender	<b>18.2</b>	714 412	805 388
Inventories	<b>24</b>	425 213	433 279
Receivables from clients	<b>25</b>	1 625 916	1 830 033
Receivables arising from taxes and charges	<b>26</b>	61 690	228 345
Other financial assets	<b>22</b>	193 216	34 334
Other non-financial assets	<b>23.2</b>	134 842	233 059
Cash and cash equivalents	<b>27</b>	261 017	364 912
Non-current assets classified as held for sale		10 913	17 898
		<b>3 427 219</b>	<b>3 947 248</b>
<b>TOTAL ASSETS</b>		<b>31 913 686</b>	<b>32 071 433</b>

**CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued**

	Note	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the Parent</b>			
Issued capital	28.1	8 762 747	8 762 747
Reserve capital	28.2	7 823 339	11 277 247
Revaluation reserve from valuation of hedging instruments	28.3	(5 424)	(73 414)
Foreign exchange differences from translation of foreign entities		1 752	(791)
Retained earnings/(Accumulated losses)	28.4	(233 429)	(3 947 461)
		<b>16 348 985</b>	<b>16 018 328</b>
<b>Non-controlling interests</b>		<b>28 534</b>	<b>29 829</b>
<b>Total equity</b>		<b>16 377 519</b>	<b>16 048 157</b>
<b>Non-current liabilities</b>			
Debt	30	7 397 598	4 924 127
Provisions for employee benefits	32	1 779 311	1 735 206
Provisions for disassembly of fixed assets, land restoration and other provisions	33	442 299	377 372
Accruals, deferred income and government grants	36	628 699	650 364
Deferred tax liabilities	14.2	692 020	795 176
Other financial liabilities	40	49 388	101 705
		<b>10 989 315</b>	<b>8 583 950</b>
<b>Current liabilities</b>			
Debt	30	1 133 015	3 214 520
Derivative instruments	31	105 449	96 953
Liabilities to suppliers		615 200	790 706
Capital commitments		484 991	766 843
Provisions for employee benefits	32	133 730	172 505
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	34	790 641	1 018 134
Other provisions	35	201 121	178 044
Accruals, deferred income and government grants	36	333 967	254 337
Liabilities arising from taxes and charges	37	301 060	429 649
Other financial liabilities		159 372	243 713
Other non-financial liabilities	38	288 306	273 922
		<b>4 546 852</b>	<b>7 439 326</b>
<b>Total liabilities</b>		<b>15 536 167</b>	<b>16 023 276</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>31 913 686</b>	<b>32 071 433</b>

**The TAURON Polska Energia S.A. Capital Group**  
*Condensed Interim Consolidated Financial Statements for the 9-month period ended 30 September 2016*  
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*(PLN '000)*

**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2016 (*unaudited*)**

	Note	Equity attributable to the equity holders of the Parent					Total	Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)			
<b>As at 1 January 2016</b>		<b>8 762 747</b>	<b>11 277 247</b>	<b>(73 414)</b>	<b>(791)</b>	<b>(3 947 461)</b>	<b>16 018 328</b>	<b>29 829</b>	<b>16 048 157</b>
Dividends		-	-	-	-	-	-	(3 038)	(3 038)
Accounting for acquisition of ZCP Brzeszcze	29	-	-	-	-	(14 041)	(14 041)	-	(14 041)
Other transactions with non-controlling shareholders		-	-	-	-	22	22	(106)	(84)
Coverage of prior years loss	28.2	-	(3 453 908)	-	-	3 453 908	-	-	-
Transactions with shareholders		-	<b>(3 453 908)</b>	-	-	<b>3 439 889</b>	<b>(14 019)</b>	<b>(3 144)</b>	<b>(17 163)</b>
Net profit (loss)		-	-	-	-	274 283	274 283	1 849	276 132
Other comprehensive income		-	-	67 990	2 543	(140)	70 393	-	70 393
Total comprehensive income		-	-	<b>67 990</b>	<b>2 543</b>	<b>274 143</b>	<b>344 676</b>	<b>1 849</b>	<b>346 525</b>
<b>As at 30 September 2016</b> <b>(<i>unaudited</i>)</b>		<b>8 762 747</b>	<b>7 823 339</b>	<b>(5 424)</b>	<b>1 752</b>	<b>(233 429)</b>	<b>16 348 985</b>	<b>28 534</b>	<b>16 377 519</b>

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

	Note	Equity attributable to the equity holders of the Parent					Total	Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)			
<b>As at 1 January 2015</b>		<b>8 762 747</b>	<b>10 393 686</b>	<b>(143 019)</b>	<b>(1 386)</b>	<b>(1 045 580)</b>	<b>17 966 448</b>	<b>30 116</b>	<b>17 996 564</b>
Dividends	15	-	-	-	-	(262 882)	(262 882)	(2 787)	(265 669)
Other transactions with non-controlling shareholders		-	-	-	-	59	59	(649)	(590)
Distribution of prior year profits		-	883 561	-	-	(883 561)	-	-	-
Transactions with shareholders		-	<b>883 561</b>	-	-	<b>(1 146 384)</b>	<b>(262 823)</b>	<b>(3 436)</b>	<b>(266 259)</b>
Net profit (loss)		-	-	-	-	1 076 641	1 076 641	2 514	1 079 155
Other comprehensive income		-	-	50 264	287	1 389	51 940	13	51 953
Total comprehensive income		-	-	<b>50 264</b>	<b>287</b>	<b>1 078 030</b>	<b>1 128 581</b>	<b>2 527</b>	<b>1 131 108</b>
<b>As at 30 September 2015</b> <b>(<i>unaudited restated figures</i>)</b>		<b>8 762 747</b>	<b>11 277 247</b>	<b>(92 755)</b>	<b>(1 099)</b>	<b>(1 113 934)</b>	<b>18 832 206</b>	<b>29 207</b>	<b>18 861 413</b>

**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	9-month period ended 30 September 2016 <i>(unaudited)</i>	9-month period ended 30 September 2015 <i>(unaudited)</i>
<b>Cash flows from operating activities</b>			
<b>Profit before taxation</b>		<b>369 544</b>	<b>1 313 679</b>
Share in (profit)/loss of joint ventures		(78 338)	(310)
Depreciation and amortization		1 245 251	1 314 797
Impairment losses on property, plant and equipment and intangible assets	39.1	689 824	211
Interest and commissions		187 072	203 575
Other adjustments of profit before tax		(5 969)	(11 864)
Change in working capital	39.1	275 648	33 601
Income tax paid	39.1	(277 678)	(70 597)
<b>Net cash from operating activities</b>		<b>2 405 354</b>	<b>2 783 092</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets	39.2	(2 629 223)	(2 825 828)
Public aid refund	39.2	(131 077)	-
Purchase of financial assets	39.2	(30 672)	(29 000)
Loans granted	39.2	(10 775)	(8 150)
<b>Total payments</b>		<b>(2 801 747)</b>	<b>(2 862 978)</b>
Proceeds from sale of property, plant and equipment and intangible assets		23 836	22 511
Repayment of loans granted		-	14 500
Redemption of debt securities		-	21 732
Dividends received	39.2	31 020	4 684
Other proceeds		16 088	8 205
<b>Total proceeds</b>		<b>70 944</b>	<b>71 632</b>
<b>Net cash used in investing activities</b>		<b>(2 730 803)</b>	<b>(2 791 346)</b>
<b>Cash flows from financing activities</b>			
Redemption of debt securities	39.3	(2 550 000)	(150 000)
Repayment of loans and borrowings	39.3	(66 959)	(67 126)
Dividends paid to equity holders of the Parent		-	(262 882)
Interest paid	39.3	(114 419)	(126 101)
Other payments		(24 225)	(23 307)
<b>Total payments</b>		<b>(2 755 603)</b>	<b>(629 416)</b>
Issue of debt securities	39.3	2 860 000	-
Proceeds from contracted loans/borrowings		916	295 000
Subsidies received		23 878	14 963
<b>Total proceeds</b>		<b>2 884 794</b>	<b>309 963</b>
<b>Net cash from (used in) financing activities</b>		<b>129 191</b>	<b>(319 453)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(196 258)</b>	<b>(327 707)</b>
Net foreign exchange difference		2 379	574
<b>Cash and cash equivalents at the beginning of the period</b>	27	<b>327 715</b>	<b>1 408 071</b>
<b>Cash and cash equivalents at the end of the period, of which:</b>	27	<b>131 457</b>	<b>1 080 364</b>
restricted cash	27	186 188	192 798



## INTRODUCTION

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

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

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

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

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

The Group's condensed interim consolidated financial statements cover the 9-month period ended 30 September 2016 and present comparative data for the 9-month period ended 30 September 2015 as well as figures as at 31 December 2015. The data for the 9-month period ended 30 September 2016 and the comparative data for the 9-month period ended 30 September 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 9-month period ended 30 September 2016 were approved for publication on 8 November 2016.

## 2. Composition of the TAURON Capital Group and joint ventures

As at 30 September 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. <sup>1</sup>	Brzeszcze	Mining	100.00%
3	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%
5	Marselwind Sp. z o.o.	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. <sup>2</sup>	Wrocław	Distribution	99.72%
9	TAURON Dystrybucja Pomiary Sp. z o.o. <sup>2</sup>	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.	Krzyszowice	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%

<sup>1</sup> On 1 January 2016, Nowe Brzeszcze Grupa TAURON Sp. z o.o. acquired an organized part of an enterprise (Zakład Górnictwa Brzeszcze). The company has been consolidated as of the aforesaid date. As at 30 September 2016, the interest in Nowe Brzeszcze Grupa TAURON Sp. z o.o. was held by TAURON Polska Energia S.A. indirectly through a subsidiary, TAURON Wydobycie S.A.

<sup>2</sup> 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 30 September 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. <sup>1</sup>	Stalowa Wola	Generation	50.00%
2	Elektrownia Blachownia Nowa Sp. z o.o. <sup>1</sup>	Kędzierzyn Koźle	Generation	50.00%
3	TAMEH HOLDING Sp. z o.o. <sup>2</sup>	Dąbrowa Górnicza	Generation	50.00%
4	TAMEH POLSKA Sp. z o.o. <sup>2</sup>	Dąbrowa Górnicza	Generation	50.00%
5	TAMEH Czech s.r.o. <sup>2</sup>	Ostrawa, Czech Republic	Generation	50.00%

<sup>1</sup> 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.

<sup>2</sup> 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.

## 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 applies		Details regarding assumptions made and calculation of significant estimates
	As at 30 September 2016 (unaudited)	As at 31 December 2015	
Property, plant and equipment	25 637 117	24 882 817	<ul style="list-style-type: none"> <li>As at 30 June 2016, having performed impairment tests, the Group recognized an impairment loss on property, plant and equipment of PLN 1 361 037 thousand and derecognized an impairment loss of PLN 703 162 thousand. (As at 31 December 2015, the Group had recognized an impairment loss on property, plant and equipment of PLN 3 410 726 thousand).</li> </ul>
Goodwill	40 156	92 059	<ul style="list-style-type: none"> <li>note 16</li> <li>As at 30 June 2016, having performed impairment tests, the Group recognized an impairment loss on goodwill of PLN 51 903 thousand. As at 30 September 2016 the impairment loss did not change (vs. an impairment loss on goodwill of PLN 154 998 thousand recognized as at 31 December 2015).</li> </ul>
Provisions for employee benefits	1 913 041	1 907 711	<ul style="list-style-type: none"> <li>note 17</li> <li>Description of actuarial assumptions made and valuation method.</li> </ul>
Provision for gas emission obligations	215 307	153 083	<ul style="list-style-type: none"> <li>Provision calculation</li> </ul>
Provision for obligation to submit energy certificates	575 334	865 051	<ul style="list-style-type: none"> <li>Provision calculation</li> </ul>
Provision for mine decommissioning costs	181 472	111 675	<ul style="list-style-type: none"> <li>Provision calculation</li> </ul>
Provision for restoration of land and dismantling and removal of fixed assets	103 314	101 244	<ul style="list-style-type: none"> <li>Provision calculation</li> </ul>
Provision for onerous contracts	195 988	182 877	<ul style="list-style-type: none"> <li>Provision calculation</li> </ul>
Deferred tax assets	1 030 234	936 795	<ul style="list-style-type: none"> <li>Realisation of deferred tax assets.</li> </ul>
Derivative instruments:			
Assets	80 599	5 684	<ul style="list-style-type: none"> <li>Fair value measurement</li> </ul>
Liabilities	105 496	112 109	<ul style="list-style-type: none"> <li>note 31</li> </ul>
Receivables from clients	1 625 916	1 830 033	<ul style="list-style-type: none"> <li>Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 257 922 thousand.</li> <li>note 25</li> </ul>

### 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") as at 30 September 2016 were not endorsed by the European Union yet and were not yet effective.

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

Standard details	Estimated impact	Effective date specified in the Standard, not endorsed by the EU*
<p>IFRS 9 <u>Financial Instruments</u></p> <p>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.</p>	<p>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.</p>	<p>1 January 2018</p>
<p>IFRS 15 <u>Revenue from Contracts with Customers**</u></p> <p>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.</p>	<p>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.</p>	<p>1 January 2018**</p>
<p>IFRS 16 <u>Leases</u></p> <p>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.</p>	<p>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.</p>	<p>1 January 2019</p>

\*Annual periods beginning on or after the date

\*\*After the end of the reporting period the EU endorsed IFRS 15 which has been described in Note 49 to these interim condensed consolidated financial statements.

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 <i>Regulatory Deferral Accounts</i>	1 January 2016*
<i>Revised IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture with subsequent amendments</i>	the effective date has been postponed until completion of research on the equity method
<i>Revised IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses</i>	1 January 2017
<i>Revised IAS 7 Statement of Cash Flows – Disclosure Initiative</i> . 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
<i>Revised IFRS 2 Share-based Payments: Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
<i>Revised IFRS 4 Insurance Contracts – application of IFRS 9 Financial Instruments along with IFRS 4 Insurance Contracts</i>	1 January 2018 or at the date of first-time adoption of IFRS 9

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

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

## 8. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these condensed interim consolidated financial statements are consistent with those 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)
<i>Revised IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions</i>	1 February 2015
<i>Annual Improvements to IFRS (Cycle 2010-2012)</i>	1 February 2015
<i>Revised IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations</i> .	1 January 2016
<i>Revised IAS 1 Presentation of Financial Statements – Disclosure Initiative</i>	1 January 2016
<i>Revised IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization</i>	1 January 2016
<i>Revised IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants</i>	1 January 2016
<i>Revised IAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements</i>	1 January 2016
<i>Annual Improvements to IFRS (Cycle 2012-2014)</i>	1 January 2016
<i>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</i>	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 9-month period ended 30 September 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.

### **Changes in comparative data**

In the 9-month period ended 30 September 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. The new presentation takes account of the fact that 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 9-month period ended 30 September 2015 and as at 30 September 2015, as presented in these condensed interim consolidated financial statements, have been restated as appropriate:

- other net comprehensive income for the 9-month period ended 30 September 2015 was reduced by PLN 5 288 thousand vs. the approved data (a decrease from PLN 6 690 thousand to PLN 1 402 thousand);
- the balance of the provision for employee benefits as at 30 September 2015 increased by the total of PLN 6 529 thousand and the deferred tax asset by PLN 1 241 thousand.

## **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 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 30 September 2016 and for the comparative period was based on the following operating segments:



Operating segments	Core business	Subsidiaries/ Entities recognized with the equity method
<b>Mining</b>		
	<i>Hard coal mining</i>	TAURON Wydobycie S.A. Nowe Brzeszcze Grupa TAURON Sp. z o.o.
<b>Generation</b>		
	<i>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.</i>	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.*
	<i>Generation of electricity using renewable sources.</i>	TAURON Ekoenergia Sp. z o.o. Marselwind Sp. z o.o.
	<i>Generation, distribution and sales of heat.</i>	TAURON Ciepło Sp. z o.o.  Elektrociepłownia Stalowa Wola S.A.*
<b>Distribution</b>		
	<i>Distribution of electricity</i>	TAURON Dystrybucja S.A. TAURON Dystrybucja Serwis S.A. TAURON Dystrybucja Pomiaru Sp. z o.o.
<b>Sales</b>		
	<i>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.</i>	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.

**The TAURON Polska Energia S.A. Capital Group**  
*Condensed Interim Consolidated Financial Statements for the 9-month period ended 30 September 2016*  
*in accordance with IFRS-EU*  
*(PLN '000)*

**For the 9-month period ended 30 September 2016 or as at 30 September 2016 (unaudited)**

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
<b>Revenue</b>							
Sales to external customers	302 919	1 821 945	2 301 601	8 635 066	62 214	-	13 123 745
Inter-segment sales	584 605	1 421 746	2 374 497	1 651 917	554 682	(6 587 447)	-
<b>Segment revenue</b>	<b>887 524</b>	<b>3 243 691</b>	<b>4 676 098</b>	<b>10 286 983</b>	<b>616 896</b>	<b>(6 587 447)</b>	<b>13 123 745</b>
<b>Profit/(loss) of the segment</b>	<b>(228 703)</b>	<b>(569 841)</b>	<b>946 514</b>	<b>388 811</b>	<b>48 146</b>	<b>6 882</b>	<b>591 809</b>
Unallocated expenses	-	-	-	-	-	(68 868)	(68 868)
<b>EBIT</b>	<b>(228 703)</b>	<b>(569 841)</b>	<b>946 514</b>	<b>388 811</b>	<b>48 146</b>	<b>(61 986)</b>	<b>522 941</b>
Share in profit/(loss) of joint ventures	-	78 338	-	-	-	-	78 338
Net finance income (costs)	-	-	-	-	-	(231 735)	(231 735)
<b>Profit/(loss) before income tax</b>	<b>(228 703)</b>	<b>(491 503)</b>	<b>946 514</b>	<b>388 811</b>	<b>48 146</b>	<b>(293 721)</b>	<b>369 544</b>
Income tax expense	-	-	-	-	-	(93 412)	(93 412)
<b>Net profit/(loss) for the period</b>	<b>(228 703)</b>	<b>(491 503)</b>	<b>946 514</b>	<b>388 811</b>	<b>48 146</b>	<b>(387 133)</b>	<b>276 132</b>
<b>Assets and liabilities</b>							
Segment assets	1 949 034	9 954 907	16 307 098	2 204 864	433 699	-	30 849 602
Investments in joint ventures	-	474 615	-	-	-	-	474 615
Unallocated assets	-	-	-	-	-	589 469	589 469
<b>Total assets</b>	<b>1 949 034</b>	<b>10 429 522</b>	<b>16 307 098</b>	<b>2 204 864</b>	<b>433 699</b>	<b>589 469</b>	<b>31 913 686</b>
Segment liabilities	695 128	1 630 280	2 218 441	1 267 873	258 716	-	6 070 438
Unallocated liabilities	-	-	-	-	-	9 465 729	9 465 729
<b>Total liabilities</b>	<b>695 128</b>	<b>1 630 280</b>	<b>2 218 441</b>	<b>1 267 873</b>	<b>258 716</b>	<b>9 465 729</b>	<b>15 536 167</b>
<b>EBIT</b>	<b>(228 703)</b>	<b>(569 841)</b>	<b>946 514</b>	<b>388 811</b>	<b>48 146</b>	<b>(61 986)</b>	<b>522 941</b>
<b>Depreciation/amortization</b>	<b>(91 998)</b>	<b>(316 695)</b>	<b>(774 382)</b>	<b>(8 308)</b>	<b>(53 868)</b>	<b>-</b>	<b>(1 245 251)</b>
<b>Impairment</b>	<b>(47)</b>	<b>(700 255)</b>	<b>11 236</b>	<b>-</b>	<b>(254)</b>	<b>-</b>	<b>(689 320)</b>
<b>EBITDA</b>	<b>(136 658)</b>	<b>447 109</b>	<b>1 709 660</b>	<b>397 119</b>	<b>102 268</b>	<b>(61 986)</b>	<b>2 457 512</b>
<b>Other segment information</b>							
Capital expenditure *	132 344	1 110 294	1 171 378	1 164	34 637	-	2 449 817

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

**For the 9-month period ended 30 September 2015 (unaudited) or as at 31 December 2015**

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
<b>Revenue</b>							
Sales to external customers	330 309	1 587 107	2 217 408	9 434 552	64 865	-	13 634 241
Inter-segment sales	544 505	2 324 352	2 575 467	2 378 601	637 929	(8 460 854)	-
<b>Segment revenue</b>	<b>874 814</b>	<b>3 911 459</b>	<b>4 792 875</b>	<b>11 813 153</b>	<b>702 794</b>	<b>(8 460 854)</b>	<b>13 634 241</b>
<b>Profit/(loss) of the segment</b>	<b>(107 579)</b>	<b>130 489</b>	<b>1 106 723</b>	<b>443 797</b>	<b>47 972</b>	<b>(8 926)</b>	<b>1 612 476</b>
Unallocated expenses	-	-	-	-	-	(80 216)	(80 216)
<b>EBIT</b>	<b>(107 579)</b>	<b>130 489</b>	<b>1 106 723</b>	<b>443 797</b>	<b>47 972</b>	<b>(89 142)</b>	<b>1 532 260</b>
Share in profit/(loss) of joint ventures	-	310	-	-	-	-	310
Net finance income (costs)	-	-	-	-	-	(218 891)	(218 891)
<b>Profit/(loss) before income tax</b>	<b>(107 579)</b>	<b>130 799</b>	<b>1 106 723</b>	<b>443 797</b>	<b>47 972</b>	<b>(308 033)</b>	<b>1 313 679</b>
Income tax expense	-	-	-	-	-	(234 524)	(234 524)
<b>Net profit/(loss) for the period</b>	<b>(107 579)</b>	<b>130 799</b>	<b>1 106 723</b>	<b>443 797</b>	<b>47 972</b>	<b>(542 557)</b>	<b>1 079 155</b>
<b>Assets and liabilities</b>							
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
<b>Total assets</b>	<b>1 657 407</b>	<b>10 788 413</b>	<b>15 974 893</b>	<b>2 706 907</b>	<b>478 618</b>	<b>465 195</b>	<b>32 071 433</b>
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
<b>Total liabilities</b>	<b>537 234</b>	<b>1 735 686</b>	<b>2 505 890</b>	<b>1 652 586</b>	<b>303 352</b>	<b>9 288 528</b>	<b>16 023 276</b>
<b>EBIT</b>	<b>(107 579)</b>	<b>130 489</b>	<b>1 106 723</b>	<b>443 797</b>	<b>47 972</b>	<b>(89 142)</b>	<b>1 532 260</b>
<b>Depreciation/amortization</b>	<b>(84 355)</b>	<b>(439 119)</b>	<b>(733 045)</b>	<b>(8 138)</b>	<b>(50 071)</b>	<b>-</b>	<b>(1 314 728)</b>
<b>Impairment</b>	<b>8</b>	<b>5 569</b>	<b>475</b>	<b>-</b>	<b>(140)</b>	<b>-</b>	<b>5 912</b>
<b>EBITDA</b>	<b>(23 232)</b>	<b>564 039</b>	<b>1 839 293</b>	<b>451 935</b>	<b>98 183</b>	<b>(89 142)</b>	<b>2 841 076</b>
<b>Other segment information</b>							
Capital expenditure *	177 546	1 408 650	1 133 551	3 197	55 928	-	2 778 872

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

**The TAURON Polska Energia S.A. Capital Group**  
*Condensed Interim Consolidated Financial Statements for the 9-month period ended 30 September 2016*  
*in accordance with IFRS-EU*  
*(PLN '000)*

**For the 3-month period ended 30 September 2016 (unaudited)**

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
<b>Revenue</b>							
Sales to external customers	130 957	457 966	766 072	2 803 069	22 824	-	4 180 888
Inter-segment sales	244 435	443 091	765 520	496 728	165 229	(2 115 003)	-
<b>Segment revenue</b>	<b>375 392</b>	<b>901 057</b>	<b>1 531 592</b>	<b>3 299 797</b>	<b>188 053</b>	<b>(2 115 003)</b>	<b>4 180 888</b>
<b>Profit/(loss) of the segment</b>	<b>1 833</b>	<b>(11 530)</b>	<b>302 990</b>	<b>114 921</b>	<b>18 324</b>	<b>(8 018)</b>	<b>418 520</b>
Unallocated expenses	-	-	-	-	-	(29 224)	(29 224)
<b>EBIT</b>	<b>1 833</b>	<b>(11 530)</b>	<b>302 990</b>	<b>114 921</b>	<b>18 324</b>	<b>(37 242)</b>	<b>389 296</b>
Share in profit/(loss) of joint ventures	-	18 477	-	-	-	-	18 477
Net finance income (costs)	-	-	-	-	-	(70 904)	(70 904)
<b>Profit/(loss) before income tax</b>	<b>1 833</b>	<b>6 947</b>	<b>302 990</b>	<b>114 921</b>	<b>18 324</b>	<b>(108 146)</b>	<b>336 869</b>
Income tax expense	-	-	-	-	-	(65 454)	(65 454)
<b>Net profit/(loss) for the period</b>	<b>1 833</b>	<b>6 947</b>	<b>302 990</b>	<b>114 921</b>	<b>18 324</b>	<b>(173 600)</b>	<b>271 415</b>
<b>EBIT</b>	<b>1 833</b>	<b>(11 530)</b>	<b>302 990</b>	<b>114 921</b>	<b>18 324</b>	<b>(37 242)</b>	<b>389 296</b>
<b>Depreciation/amortization</b>	<b>(30 713)</b>	<b>(110 712)</b>	<b>(262 277)</b>	<b>(2 394)</b>	<b>(17 783)</b>	-	<b>(423 879)</b>
<b>Impairment</b>	<b>(44)</b>	<b>6 034</b>	<b>3 204</b>	-	<b>(125)</b>	-	<b>9 069</b>
<b>EBITDA</b>	<b>32 590</b>	<b>93 148</b>	<b>562 063</b>	<b>117 315</b>	<b>36 232</b>	<b>(37 242)</b>	<b>804 106</b>
<b>Other segment information</b>							
Capital expenditure *	41 690	510 474	427 039	407	18 077	-	997 687

\* 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 30 September 2015 (unaudited)**

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
<b>Revenue</b>							
Sales to external customers	137 752	425 809	743 738	3 048 481	21 847	-	4 377 627
Inter-segment sales	195 111	738 562	820 780	670 692	177 801	(2 602 946)	-
<b>Segment revenue</b>	<b>332 863</b>	<b>1 164 371</b>	<b>1 564 518</b>	<b>3 719 173</b>	<b>199 648</b>	<b>(2 602 946)</b>	<b>4 377 627</b>
<b>Profit/(loss) of the segment</b>	<b>106 686</b>	<b>(51 447)</b>	<b>348 307</b>	<b>114 042</b>	<b>20 076</b>	<b>(20 289)</b>	<b>517 375</b>
Unallocated expenses	-	-	-	-	-	(29 417)	(29 417)
<b>EBIT</b>	<b>106 686</b>	<b>(51 447)</b>	<b>348 307</b>	<b>114 042</b>	<b>20 076</b>	<b>(49 706)</b>	<b>487 958</b>
Share in profit/(loss) of joint ventures	-	(4 560)	-	-	-	-	(4 560)
Net finance income (costs)	-	-	-	-	-	(28 522)	(28 522)
<b>Profit/(loss) before income tax</b>	<b>106 686</b>	<b>(56 007)</b>	<b>348 307</b>	<b>114 042</b>	<b>20 076</b>	<b>(78 228)</b>	<b>454 876</b>
Income tax expense	-	-	-	-	-	(96 108)	(96 108)
<b>Net profit/(loss) for the period</b>	<b>106 686</b>	<b>(56 007)</b>	<b>348 307</b>	<b>114 042</b>	<b>20 076</b>	<b>(174 336)</b>	<b>358 768</b>
<b>EBIT</b>	<b>106 686</b>	<b>(51 447)</b>	<b>348 307</b>	<b>114 042</b>	<b>20 076</b>	<b>(49 706)</b>	<b>487 958</b>
<b>Depreciation/amortization</b>	<b>(27 993)</b>	<b>(148 144)</b>	<b>(248 182)</b>	<b>(2 740)</b>	<b>(17 111)</b>	-	<b>(444 170)</b>
<b>Impairment</b>	<b>9</b>	<b>(940)</b>	<b>(144)</b>	-	<b>(1)</b>	-	<b>(1 076)</b>
<b>EBITDA</b>	<b>134 670</b>	<b>97 637</b>	<b>596 633</b>	<b>116 782</b>	<b>37 188</b>	<b>(49 706)</b>	<b>933 204</b>
<b>Other segment information</b>							
Capital expenditure *	31 301	523 081	437 305	666	15 792	-	1 008 145

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

## 11. Sales revenue

	9-month period ended 30 September 2016	9-month period ended 30 September 2015
	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Sale of goods for resale, finished goods and materials without elimination of excise</b>	<b>8 631 426</b>	<b>9 051 514</b>
Excise	(291 216)	(317 619)
<b>Sale of goods for resale, finished goods and materials, of which:</b>	<b>8 340 210</b>	<b>8 733 895</b>
Electricity	7 081 836	7 579 164
Heat energy	428 769	417 081
Energy certificates and greenhouse gas emission allowances	241 027	286 810
Coal	291 209	314 296
Gas	167 516	55 918
Other goods for resale, finished goods and materials	129 853	80 626
<b>Rendering of services, of which:</b>	<b>4 738 177</b>	<b>4 858 363</b>
Distribution and trade services	4 504 073	4 603 302
Connection fees	67 591	94 357
Maintenance of road lighting	86 589	86 239
Other services	79 924	74 465
<b>Other revenue</b>	<b>45 358</b>	<b>41 983</b>
<b>Total sales revenue</b>	<b>13 123 745</b>	<b>13 634 241</b>

## 12. Expenses by type

	9-month period ended 30 September 2016	9-month period ended 30 September 2015
	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Costs by type</b>		
Depreciation of property, plant and equipment and amortization of intangible assets	(1 245 251)	(1 314 728)
Impairment of property, plant and equipment and intangible assets	(689 824)	(1 257)
Materials and energy	(1 192 365)	(1 346 798)
Maintenance and repair services	(277 881)	(263 745)
Distribution services	(1 346 682)	(1 287 546)
Other external services	(483 842)	(482 422)
Taxes and charges	(722 096)	(548 847)
Employee benefits expense	(1 905 063)	(1 794 262)
Allowance for doubtful debts	(13 487)	(27 594)
Other	(74 703)	(87 153)
<b>Total costs by type</b>	<b>(7 951 194)</b>	<b>(7 154 352)</b>
Change in inventories, prepayments, accruals and deferred income	(20 435)	(260 283)
Cost of goods produced for internal purposes	360 613	491 035
Selling and distribution expenses	332 826	359 945
Administrative expenses	472 789	466 493
Cost of goods for resale and materials sold	(5 017 767)	(5 150 815)
<b>Cost of sales</b>	<b>(11 823 168)</b>	<b>(11 247 977)</b>

The costs of impairment losses on property, plant and equipment as well as intangible assets in the 9-month period ended 30 September 2016 result mainly from the recognition of impairment losses on property, plant and equipment of PLN 1 361 037 thousand based on impairment tests performed as at 30 June 2016, derecognition of impairment losses on property, plant and equipment of PLN 703 162 thousand, which has been described in more detail in Note 16 to these condensed interim consolidated financial statements as well as recognition of impairment losses on goodwill in the Generation segment, totaling PLN 51 903 thousand, which has been described in more detail in Note 17 to these condensed interim consolidated financial statements.

An increase in the costs of taxes and charges in the 9-month period ended 30 September 2016 vs. the comparative period results mainly from an increase in the costs of provision recognized for the obligatory surrender of emission allowances. In the 9-month period ended 30 September 2016, the Group recognized a provision of PLN 237 181

thousand (surplus of recognized over derecognized provision amount) vs. PLN 75 729 thousand in the comparative period.

### 13. Finance income and costs

	9-month period ended 30 September 2016 <i>(unaudited)</i>	9-month period ended 30 September 2015 <i>(unaudited)</i>
<b>Income and costs from financial instruments, of which:</b>	<b>(176 645)</b>	<b>(178 069)</b>
Dividend income	7 020	4 684
Interest income	23 789	41 025
Interest costs	(200 606)	(219 275)
Commission relating to borrowings and debt securities	(10 825)	(7 476)
Measurement of derivative instruments	13 764	5 459
Gain/loss on derivative instruments realized	(958)	(7 047)
Foreign exchange gains/losses	(8 992)	4 197
Other	163	364
<b>Other finance income and costs, of which:</b>	<b>(55 090)</b>	<b>(40 822)</b>
Interest on employee benefits	(37 501)	(33 731)
Other	(17 589)	(7 091)
<b>Total finance income and costs, including recognized in the statement of comprehensive income:</b>	<b>(231 735)</b>	<b>(218 891)</b>
Interest expense on debt	(200 606)	(219 275)
Other finance income and costs	(31 129)	384

### 14. Income tax

#### 14.1. Tax expense in the statement of comprehensive income

	9-month period ended 30 September 2016 <i>(unaudited)</i>	9-month period ended 30 September 2015 <i>(unaudited restated figures)</i>
<b>Current income tax</b>	<b>(220 902)</b>	<b>(120 425)</b>
Current income tax expense	(215 603)	(147 566)
Adjustments to current income tax from previous years	(5 299)	27 141
<b>Deferred tax</b>	<b>127 490</b>	<b>(114 099)</b>
<b>Income tax expense in profit/(loss)</b>	<b>(93 412)</b>	<b>(234 524)</b>
<b>Income tax expense relating to other comprehensive income</b>	<b>(15 898)</b>	<b>(12 117)</b>

## 14.2. Deferred income tax

	As at 30 September 2016 (unaudited)	As at 31 December 2015
- difference between tax base and carrying amount of fixed and intangible assets	1 529 678	1 490 408
- difference between tax base and carrying amount of financial assets	46 363	29 609
- different timing of recognition of sales revenue for tax purposes	31 428	69 064
- difference between tax base and carrying amount of energy certificates	18 157	48 817
- other	30 870	39 889
<b>Deferred tax liabilities</b>	<b>1 656 496</b>	<b>1 677 787</b>
- provisions	669 701	685 405
- difference between tax base and carrying amount of fixed and intangible assets	141 066	6 359
- power infrastructure received free of charge and received connection fees	53 154	57 071
- difference between tax base and carrying amount of financial assets and financial liabilities	62 371	49 471
- valuation of hedging instruments	7 394	18 139
- different timing of recognition of cost of sales for tax purposes	58 124	58 333
- tax losses	19 266	12 758
- difference between tax base and carrying amount of emission allowances	5 169	26 985
- other	13 989	22 274
<b>Deferred tax assets</b>	<b>1 030 234</b>	<b>936 795</b>
<b>After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:</b>		
Deferred tax asset	65 758	54 184
Deferred tax liability	(692 020)	(795 176)

As at 30 September 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.

## 15. 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. On 17 March 2016, the Supervisory Board of the Company approved the recommendation presented by the Management Board.

On 8 June 2016, the Ordinary General Shareholders' Meeting did not adopt a resolution to use a portion of the Company's reserve capital representing amounts transferred from prior year profit for purposes of dividend payment to the Company's shareholders.

On 23 April 2015, the Ordinary General Shareholders' Meeting adopted a resolution to pay dividend 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. The dividend was paid in August 2015.

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**16. Property, plant and equipment**

**For the 9-month period ended 30 September 2016 (unaudited)**

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
<b>COST</b>						
<b>Opening balance</b>	<b>119 536</b>	<b>19 928 399</b>	<b>16 910 428</b>	<b>804 020</b>	<b>2 599 980</b>	<b>40 362 363</b>
Direct purchase	-	-	62	44	2 251 178	2 251 284
Borrowing costs	-	-	-	-	69 218	69 218
Transfer of assets under construction	777	1 117 411	966 562	41 753	(2 126 503)	-
Sale, disposal	(214)	(2 823)	(10 698)	(14 761)	(48)	(28 544)
Liquidation	-	(38 220)	(72 116)	(9 056)	-	(119 392)
Received free of charge	-	9 399	409	-	-	9 808
Transfers to/from assets held for sale	(43)	(294)	60	4	(13)	(286)
Overhaul expenses	-	-	-	-	25 695	25 695
Items generated internally	-	-	-	-	30 928	30 928
Acquisition of ZCP Brzeszcze	1 544	165 401	22 429	1 637	14 405	205 416
Other movements	(120)	8 048	(5 352)	(427)	(1 005)	1 144
Foreign exchange differences from translation of foreign entities	-	-	2	4	-	6
<b>Closing balance</b>	<b>121 480</b>	<b>21 187 321</b>	<b>17 811 786</b>	<b>823 218</b>	<b>2 863 835</b>	<b>42 807 640</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Opening balance</b>	<b>(466)</b>	<b>(6 692 656)</b>	<b>(8 304 965)</b>	<b>(467 731)</b>	<b>(13 728)</b>	<b>(15 479 546)</b>
Depreciation for the period	-	(602 933)	(527 841)	(58 456)	-	(1 189 230)
Increase of impairment	-	(452 604)	(895 337)	(1 564)	(17 361)	(1 366 866)
Decrease of impairment	47	168 127	560 495	586	67	729 322
Sale, disposal	-	985	9 102	14 040	-	24 127
Liquidation	-	33 142	69 676	8 768	-	111 586
Transfers to/from assets held for sale	16	(42)	(13)	(4)	-	(43)
Other movements	-	(759)	782	107	-	130
Foreign exchange differences from translation of foreign entities	-	-	(2)	(1)	-	(3)
<b>Closing balance</b>	<b>(403)</b>	<b>(7 546 740)</b>	<b>(9 088 103)</b>	<b>(504 255)</b>	<b>(31 022)</b>	<b>(17 170 523)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>119 070</b>	<b>13 235 743</b>	<b>8 605 463</b>	<b>336 289</b>	<b>2 586 252</b>	<b>24 882 817</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>121 077</b>	<b>13 640 581</b>	<b>8 723 683</b>	<b>318 963</b>	<b>2 832 813</b>	<b>25 637 117</b>
<i>of which operating segments:</i>						
<b>Mining</b>	<b>2 743</b>	<b>745 374</b>	<b>605 626</b>	<b>14 801</b>	<b>233 217</b>	<b>1 601 761</b>
<b>Generation</b>	<b>41 466</b>	<b>2 528 799</b>	<b>3 961 999</b>	<b>38 982</b>	<b>1 811 861</b>	<b>8 383 107</b>
<b>Distribution</b>	<b>60 039</b>	<b>10 268 647</b>	<b>4 028 008</b>	<b>247 552</b>	<b>783 265</b>	<b>15 387 511</b>
<b>Other segments and other operations</b>	<b>16 829</b>	<b>97 761</b>	<b>128 050</b>	<b>17 628</b>	<b>4 470</b>	<b>264 738</b>

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 29 to these condensed interim consolidated financial statements.

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	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
<b>COST</b>						
<b>Opening balance</b>	<b>117 142</b>	<b>18 195 456</b>	<b>14 819 091</b>	<b>808 607</b>	<b>1 364 263</b>	<b>35 304 559</b>
Direct purchase	-	-	376	401	2 575 781	2 576 558
Borrowing costs	-	-	-	-	46 649	46 649
Transfer of assets under construction	1 897	737 843	718 730	48 058	(1 506 528)	-
Sale, disposal	(262)	(2 336)	(4 976)	(11 477)	(170)	(19 221)
Liquidation	-	(35 613)	(37 434)	(5 911)	-	(78 958)
Received free of charge	-	13 060	363	3	-	13 426
Spare parts allocated to fixed assets	-	567	10 213	-	(9 600)	1 180
Overhaul expenses	-	-	8 298	-	62 316	70 614
Items generated internally	-	-	-	-	30 526	30 526
Transfers to/from assets held for sale	(7)	(4 411)	(933)	(8 513)	(57 991)	(71 855)
Other movements	(26)	1 317	(2 571)	(1 976)	(94)	(3 350)
Foreign exchange differences from translation of foreign entities	-	-	4	6	-	10
<b>Closing balance</b>	<b>118 744</b>	<b>18 905 883</b>	<b>15 511 161</b>	<b>829 198</b>	<b>2 505 152</b>	<b>37 870 138</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Opening balance</b>	<b>(458)</b>	<b>(5 049 663)</b>	<b>(4 957 467)</b>	<b>(440 706)</b>	<b>(5 323)</b>	<b>(10 453 617)</b>
Depreciation for the period	-	(606 293)	(594 385)	(64 572)	-	(1 265 250)
Increase of impairment	(21)	(795)	(131)	(280)	(1 904)	(3 131)
Decrease of impairment	51	2 324	22	654	-	3 051
Sale, disposal	-	564	3 862	10 642	-	15 068
Liquidation	-	30 068	34 083	5 595	-	69 746
Transfers to/from assets held for sale	-	615	3	4 592	-	5 210
Other movements	-	(265)	(821)	(340)	-	(1 426)
Foreign exchange differences from translation of foreign entities	-	-	(3)	(3)	-	(6)
<b>Closing balance</b>	<b>(428)</b>	<b>(5 623 445)</b>	<b>(5 514 837)</b>	<b>(484 418)</b>	<b>(7 227)</b>	<b>(11 630 355)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>116 684</b>	<b>13 145 793</b>	<b>9 861 624</b>	<b>367 901</b>	<b>1 358 940</b>	<b>24 850 942</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>118 316</b>	<b>13 282 438</b>	<b>9 996 324</b>	<b>344 780</b>	<b>2 497 925</b>	<b>26 239 783</b>
<i>of which operating segments:</i>						
<b>Mining</b>	<b>1 181</b>	<b>582 597</b>	<b>584 597</b>	<b>14 776</b>	<b>178 822</b>	<b>1 361 973</b>
<b>Generation</b>	<b>42 476</b>	<b>2 839 887</b>	<b>5 601 659</b>	<b>37 638</b>	<b>1 560 647</b>	<b>10 082 307</b>
<b>Distribution</b>	<b>59 153</b>	<b>9 756 679</b>	<b>3 679 287</b>	<b>273 090</b>	<b>749 990</b>	<b>14 518 199</b>
<b>Other segments and other operations</b>	<b>15 506</b>	<b>103 275</b>	<b>130 781</b>	<b>19 276</b>	<b>8 466</b>	<b>277 304</b>

In the 9-month period ended 30 September 2016, the Group acquired property, plant and equipment of PLN 2 320 502 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	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
Distribution	1 122 065	1 104 397
Generation	1 052 336	1 306 668
Mining	131 865	176 691

### Impairment tests

As at 30 September 2016, an analysis of the effect of fundamental factors on changes in the market conditions was performed. The analysis revealed that there were no material reasons to change the long-term assessment of market developments in the third quarter of the year as compared to the information available as at 30 June 2016. Therefore, it was assumed that the most recent results of impairment tests focusing on property, plant and equipment, which were performed as at 30 June 2016, were up-to-date.

As at 30 June 2016, impairment tests were performed for property, plant and equipment based on the following indications:

- the market value of the Company's net assets remaining below their carrying amount for a long period;
- a drop in the prices of certificates for energy produced from renewable sources;
- introduction of new regulations governing Renewable Energy Sources;



- continued negative electricity price trend and the anticipated higher supply of energy produced from sources competitive to the national coal energy sector.

The tests required estimating the value in use of cash generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

The impairment test for property, plant and equipment and intangible assets (non-current 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). Additional tests were carried out for individual generation units.

Key assumptions made to estimate the value in use of property, plant and equipment:

- the adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will drop by ca. 6% in real terms by 2025 and after 2025 insignificant changes in 2025 year prices (fixed) are anticipated;
- 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 CO<sub>2</sub> emission allowances. A drop of ca. 7% is assumed by 2020 with a more dynamic growth rate by 2025 (13% vs. 2020), an increase of 18% between 2025 and 2040 and 2040 year prices thereafter (fixed);
- estimated changes in the Polish market model aimed to introduce the capacity market or other incentive mechanisms for production capacity have been taken into account;
- emission limits for generating electricity specified in the regulation of the Council of Ministers, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- the adopted CO<sub>2</sub> emission allowance price path for the years 2016-2025. It is assumed that the market price will increase by ca. 50% by 2025, followed by a rise of ca. 20% between 2025 and 2040, with 2040 year price level thereafter (fixed);
- green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A drop of ca. 7% is assumed for renewable energy prices by 2020, followed by a rise by 2025 (11% vs. 2020), an increase of 22% between 2025 and 2040 and 2040 year prices thereafter (fixed);
- limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources (the “RES Act”), which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity of more than 5 MW do not qualify for support;
- support for CHP in line with the regulations which are currently in force. It is assumed that property rights exist for red, yellow and purple energy and that they will have to be surrendered by 2018. No support for CHP has been assumed thereafter;
- regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- the adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- sales volumes taking into account GDP growth and increased market competition;
- tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;

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- maintenance of the production capacity of the existing non-current assets as a result of replacement investments;
- the level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 6.34% to 9.63% in nominal terms before tax.

The impairment test for assets carried out as at 30 June 2016 indicated that an additional impairment loss of PLN 1 361 037 thousand should be recognized for a portion of assets in the Generation segment. The recoverable amount of that asset group is equal to its value in use. The impairment loss was charged to cost of sales. The impairment test revealed that an impairment loss of PLN 703 162 thousand should be derecognized in that segment. The loss and its derecognition is related to the following cash generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		30 June 2016 (unaudited)	31 December 2015			
Elektrownia Jaworzno II				147 072	269 823	-
Elektrownia Jaworzno III				1 057 073	-	433 638
Elektrownia Łaziska	TAURON	7.49%	7.69%	288 295	-	13 289
Elektrownia Siersza	Wytwarzanie S.A.			(66 383)	232 253	-
Elektrownia Stalowa Wola				48 522	-	46 802
Capital projects in progress				-	16 691	-
ZW Bielsko Biała EC 1	TAURON			726 607	-	209 433
ZW Bielsko Biała EC 2	Ciepło Sp. z o.o.	7.17%	7.61%	(1 348)	3 587	-
ZW Tychy				280 112	382 719	-
Hydropower plants		8.25%	8.39%	551 112	42 310	-
FW Lipniki	TAURON	6.34%	8.90%	61 810	24 799	-
FW Wicko	Ekoenergia Sp. z o.o.	6.48%	8.17%	136 515	101 386	-
FW Marszewo		6.49%	8.14%	418 561	287 469	-
<b>Total</b>					<b>1 361 037</b>	<b>703 162</b>

The sensitivity analyses for each CGU revealed that taking account of the capacity market, changes in the prices of electricity and hard coal as well as changes 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. The impact of changes in the prices of greenhouse gas emission allowances and property rights for energy produced from renewable sources on measurement is less considerable. Presented below are estimated changes in the impairment loss on the Generation segment assets taking account of the effect of its reversal as at 30 June 2016 as a result of changes to key assumptions. If the capacity market mechanism is not taken into account in the assumptions for estimating the value in use of items of property, plant and equipment, the additional net impairment loss that would be recognized in the Group's profit or loss would be ca. PLN 2 500 million.

Parameter	Change	Net impact on impairment loss (i.e. reduced by derecognized amounts, in PLN million)	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%		123
	-1%	164	
Change of coal prices in the forecast period	+1%	53	
	-1%		53
Change of WACC (net)	+0.1 p.p.	32	
	-0.1 p.p.		32
Change of CO2 emission allowances prices in the forecast period	+1%	25	
	-1%		25
Change in prices of property rights arising from renewable energy sources	+1%		5
	-1%	5	
No recognition of Capacity Market		2 500	-

**17. Goodwill**

Goodwill in segment	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	581	52 484
<b>Total</b>	<b>40 156</b>	<b>92 059</b>

**Impairment tests**

As at 30 September 2016, an analysis of the effect of fundamental factors on changes in the market conditions was performed. The analysis revealed that there were no material reasons to change the long-term assessment of market developments in the third quarter of the year as compared to the information available as at 30 June 2016. Therefore, it was assumed that the most recent results of impairment tests focusing on intangible assets, including goodwill, which were performed as at 30 June 2016, were up-to-date.

As at 30 June 2016, an impairment test was performed for the carrying amount of goodwill by reference to the 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 projected cash flows from operations. 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. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

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

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 (3.27%) 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 key assumptions affecting the estimated value in use and the discount rates applied to individual segments are as follows:

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Goodwill in the segment (company)	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		30 June 2016 (unaudited)	31 December 2015
Mining	<ul style="list-style-type: none"> <li>The adopted price path of power coal and other coal sizes. The actual decrease in the price of power coal assumed by 2025 approximates 6%, with slight fluctuations of 2025 prices thereafter (fixed);</li> <li>The adopted retail price path of electricity based on the wholesale price of black energy including excise costs, cost of energy certificates surrender and a relevant markup;</li> <li>Maintaining generation capacity of the existing non-current assets as a result of replacement investments.</li> </ul>	9.57%-9.63%	9.05%
Distribution	<ul style="list-style-type: none"> <li>Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets;</li> <li>Maintaining generation capacity of the existing non-current assets as a result of replacement investments.</li> </ul>	7.50%	7.50%
Generation (TAURON Ekoenergia Sp. z o.o.)	<ul style="list-style-type: none"> <li>Green energy production volumes depending on the production capacity, along with the price path for energy certificates. A drop of approx. 7% in prices of electricity from renewable sources has been assumed by 2020; a growth has been assumed by 2025 (11% in relation to 2020); a rise of ca. 22% is assumed for the years 2025-2040, with 2040 prices thereafter (fixed);</li> <li>For green energy, limited support periods have been included, in accordance with the provisions of the Act on renewable energy sources determining new mechanisms of supporting generation of electricity from renewable sources. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity exceeding 5 MW have been excluded from the support;</li> <li>Maintaining generation capacity of the existing non-current assets as a result of replacement investments.</li> </ul>	8.25% (for hydropower plants) 6.34% - 8.92% (for windfarms)	8.39% (for hydropower plants) 8.14% - 8.90% (for windfarms)

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

The impairment test performed as at 30 June 2016 revealed impairment of the carrying amount of goodwill in the Generation segment (TAURON Ekoenergia Sp. z o.o.). As a result, the Group recognized an impairment loss of PLN 51 903 thousand. The impairment loss was charged to cost of sales.

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized
		30 June 2016 (unaudited)	31 December 2015		
Generation	TAURON Ekoenergia Sp. z o.o.	8.25% (for hydropower plants) 6.34%-8.92% (for windfarms)	8.39% (for hydropower plants) 8.14% - 8.90% (for windfarms)	1 225 935	51 903

The impairment loss was recognized as a result of a drop in the prices of green certificates as well as introduction of new RES regulations.

The sensitivity analyses for each CGU revealed that changes in the weighted average cost of capital and in electricity prices are the key factors having the most significant effect on the value in use of the tested assets.

**18. Energy certificates and gas emission allowances**

**18.1. Non-current energy certificates and gas emission allowances**

**For the 9-month period ended 30 September 2016 (unaudited)**

	Energy certificates	Greenhouse gas emission allowances	Total
<b>Opening balance</b>	<b>232 973</b>	<b>277 867</b>	<b>510 840</b>
Direct purchase	87 364	-	87 364
Reclassification	(232 973)	(245 729)	(478 702)
<b>Closing balance</b>	<b>87 364</b>	<b>32 138</b>	<b>119 502</b>

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

	Energy certificates	Greenhouse gas emission allowances	Total
<b>Opening balance</b>	<b>207 397</b>	<b>265 103</b>	<b>472 500</b>
Direct purchase	11 854	-	11 854
Reclassification	(197 594)	(127 739)	(325 333)
<b>Closing balance</b>	<b>21 657</b>	<b>137 364</b>	<b>159 021</b>

**18.2. Current energy certificates and gas emission allowances**

**For the 9-month period ended 30 September 2016 (unaudited)**

	Energy certificates	Greenhouse gas emission allowances	Total
<b>Opening balance</b>	<b>652 305</b>	<b>153 083</b>	<b>805 388</b>
Direct purchase	235 579	-	235 579
Generated internally	82 427	-	82 427
Cancellation	(707 361)	(174 957)	(882 318)
Reclassification	227 607	245 729	473 336
<b>Closing balance</b>	<b>490 557</b>	<b>223 855</b>	<b>714 412</b>

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

	Energy certificates	Greenhouse gas emission allowances	Total
<b>Opening balance</b>	<b>724 918</b>	<b>8 130</b>	<b>733 048</b>
Direct purchase	295 158	3 100	298 258
Generated internally	166 231	-	166 231
Cancellation	(776 631)	(5 941)	(782 572)
Reclassification	194 363	128 304	322 667
<b>Closing balance</b>	<b>604 039</b>	<b>133 593</b>	<b>737 632</b>

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**19. Other intangible assets**

**For the 9-month period ended 30 September 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
<b>COST</b>						
<b>Opening balance</b>	<b>5 690</b>	<b>786 504</b>	<b>550 892</b>	<b>188 004</b>	<b>51 885</b>	<b>1 582 975</b>
Direct purchase	-	-	38	-	72 654	72 692
Transfer of intangible assets not made available for use	-	125	20 085	17 279	(37 489)	-
Sale, disposal	-	(2 030)	-	-	(55)	(2 085)
Liquidation	(256)	(37)	(1 968)	(69)	-	(2 330)
Acquisition of ZCP Brzeszcze	-	10 266	95	147	-	10 508
Other movements	-	1 374	86	1 002	1 064	3 526
Foreign exchange differences from translation of foreign entities	-	-	13	-	-	13
<b>Closing balance</b>	<b>5 434</b>	<b>796 202</b>	<b>569 241</b>	<b>206 363</b>	<b>88 059</b>	<b>1 665 299</b>
<b>ACCUMULATED AMORTIZATION</b>						
<b>Opening balance</b>	<b>(4 893)</b>	<b>(13 064)</b>	<b>(332 862)</b>	<b>(49 391)</b>	-	<b>(400 210)</b>
Amortization for the period	(119)	-	(44 297)	(11 605)	-	(56 021)
Increase of impairment	(72)	(25)	(1 538)	(102)	(7)	(1 744)
Decrease of impairment	51	811	1 626	4	-	2 492
Liquidation	256	-	1 968	65	-	2 289
Other movements	-	-	-	2	-	2
Foreign exchange differences from translation of foreign entities	-	-	(8)	-	-	(8)
<b>Closing balance</b>	<b>(4 777)</b>	<b>(12 278)</b>	<b>(375 111)</b>	<b>(61 027)</b>	<b>(7)</b>	<b>(453 200)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>797</b>	<b>773 440</b>	<b>218 030</b>	<b>138 613</b>	<b>51 885</b>	<b>1 182 765</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>657</b>	<b>783 924</b>	<b>194 130</b>	<b>145 336</b>	<b>88 052</b>	<b>1 212 099</b>

**For the 9-month period ended 30 September 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
<b>COST</b>						
<b>Opening balance</b>	<b>4 670</b>	<b>789 670</b>	<b>475 291</b>	<b>153 770</b>	<b>53 436</b>	<b>1 476 837</b>
Direct purchase	-	-	81	-	54 444	54 525
Transfer of intangible assets not made available for use	-	882	21 178	21 861	(43 921)	-
Sale, disposal	-	(925)	(8 071)	-	-	(8 996)
Liquidation	(147)	(1)	(1 408)	(52)	-	(1 608)
Other movements	-	(1 440)	128	213	1 489	390
Foreign exchange differences from translation of foreign entities	-	-	19	-	(1)	18
<b>Closing balance</b>	<b>4 523</b>	<b>788 186</b>	<b>487 218</b>	<b>175 792</b>	<b>65 447</b>	<b>1 521 166</b>
<b>ACCUMULATED AMORTIZATION</b>						
<b>Opening balance</b>	<b>(3 822)</b>	<b>(15 297)</b>	<b>(289 949)</b>	<b>(35 635)</b>	-	<b>(344 703)</b>
Amortization for the period	(357)	-	(39 013)	(10 108)	-	(49 478)
Increase of impairment	-	(287)	-	-	-	(287)
Decrease of impairment	-	155	-	-	-	155
Sale, disposal	-	-	8 071	-	-	8 071
Liquidation	147	-	1 408	51	-	1 606
Other movements	-	(3)	(70)	(5)	-	(78)
Foreign exchange differences from translation of foreign entities	-	-	(14)	-	-	(14)
<b>Closing balance</b>	<b>(4 032)</b>	<b>(15 432)</b>	<b>(319 567)</b>	<b>(45 697)</b>	-	<b>(384 728)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>848</b>	<b>774 373</b>	<b>185 342</b>	<b>118 135</b>	<b>53 436</b>	<b>1 132 134</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD</b>	<b>491</b>	<b>772 754</b>	<b>167 651</b>	<b>130 095</b>	<b>65 447</b>	<b>1 136 438</b>

**20. Shares in joint ventures**

Investments in joint ventures measured using the equity method as at 30 September 2016 or for the 9-month period ended 30 September 2016 have been presented below:

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	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.	TAMEH HOLDING Sp. z o.o. *	As at 30 September 2016 or for the 9-month period ended 30 September 2016 <i>(unaudited)</i>
Non-current assets	1 098 223	-	1 370 532	<b>2 468 755</b>
Current assets	16 461	37 016	404 175	<b>457 652</b>
Non-current liabilities (-)	(965 445)	-	(524 675)	<b>(1 490 120)</b>
Current liabilities (-)	(148 332)	(86)	(255 770)	<b>(404 188)</b>
<b>Total net assets</b>	<b>907</b>	<b>36 930</b>	<b>994 262</b>	<b>1 032 099</b>
Share in net assets	454	18 465	497 131	<b>516 050</b>
<b>Investment in joint ventures</b>	<b>-</b>	<b>18 465</b>	<b>456 150</b>	<b>474 615</b>
Share in revenue of joint ventures	6 658	348	427 124	<b>434 130</b>
<b>Share in profit/(loss) of joint ventures</b>	<b>-</b>	<b>4</b>	<b>78 334</b>	<b>78 338</b>
<b>Share in other comprehensive income of joint ventures</b>	<b>-</b>	<b>-</b>	<b>75</b>	<b>75</b>

\* 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 9-month period ended 30 September 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 9-month period ended 30 September 2015 <i>(unaudited)</i>
Non-current assets	1 085 917	-	1 295 743	<b>2 381 660</b>
Current assets	12 387	37 008	341 716	<b>391 111</b>
Non-current liabilities (-)	(965 514)	-	(378 507)	<b>(1 344 021)</b>
Current liabilities (-)	(125 610)	(85)	(377 432)	<b>(503 127)</b>
<b>Total net assets</b>	<b>7 180</b>	<b>36 923</b>	<b>881 520</b>	<b>925 623</b>
Share in net assets	3 590	18 461	440 760	<b>462 811</b>
<b>Investment in joint ventures</b>	<b>-</b>	<b>18 461</b>	<b>399 666</b>	<b>418 127</b>
Share in revenue of joint ventures	14	371	403 874	<b>404 259</b>
<b>Share in profit/(loss) of joint ventures</b>	<b>(1 789)</b>	<b>23</b>	<b>2 076</b>	<b>310</b>

\* 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 thermal capacity 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 241 051 thousand, which has been discussed in more detail in Note 21, as well as provisions for onerous commercial contracts in the amount of PLN 195 988 thousand, which have been discussed in Note 33.

### **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.

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.

On 28 July 2016, TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. signed an agreement pursuant to which they have unanimously decided to discontinue the construction of the gas and steam unit in Elektrownia Blachownia Nowa Sp. z o.o. and terminate the shareholders agreement concluded by KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A., which denotes expiration of all contractual obligations and discontinuation of all works specified in the agreement. The parties will cooperate with each another and with the Company with a view to performing the agreement. KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. have unanimously decided to commence the winding up of the company, which will follow its articles of association and common law provisions. As Elektrownia Blachownia Nowa Sp. z o.o. holds current assets which may be subject to distribution among the partners in the joint venture to a considerable extent, the Group does not recognize any additional impairment losses on its interest in the company.

#### **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. will carry out investment and operational projects related to the industrial power sector. The agreement was concluded for a term of 15 years, which may be further extended. Following the transactions concluded in 2014, each capital group holds 50% of shares in TAMEH HOLDING Sp. z o.o.

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

On 29 June 2016, the General Shareholders' Meeting of TAMEH HOLDING Sp. z o.o. decided to allocate PLN 48 000 thousand to pay dividends to the shareholders. The Group's interest in the joint venture TAMEH HOLDING Sp. z o.o. was reduced by the value of the dividend payable to the Group in the amount of PLN 24 000 thousand.

## **21. Loans granted to joint ventures**

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 30 September 2016 and 31 December 2015:

	Agreement date	Contractual loan amount	As at 30 September 2016 (unaudited)		As at 31 December 2015		Maturity date	Purpose
			Principal	Interest	Principal	Interest		
Subordinated loan	20 June 2012	177 000	177 000	34 503	177 000	28 922	31.12.2032	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14 December 2015	15 850	15 850	530	15 850	31	31.12.2027	Repayment of the first principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
Other loans	25 November 2015	2 600	2 600	89	2 100	6	30.11.2016	Financing of current operations
	22 January 2016	5 500	5 500	157	-	-		
	22 April 2016	1 200	600	10	-	-		
	27 May 2016	3 100	3 100	33	-	-	31.12.2016	
	31 August 2016	3 800	1 075	4	-	-		
<b>Total loans</b>			<b>205 725</b>	<b>35 326</b>	<b>194 950</b>	<b>28 959</b>		
Non-current			192 850	35 033	192 850	28 953		
Current			12 875	293	2 100	6		

In the 9-month period ended 30 September 2016, the interest income due to loans granted amounted to PLN 6 367 thousand.



## 22. Other financial assets

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Shares	134 516	136 488
Deposits	38 804	39 724
Derivative instruments	80 599	5 684
Investment fund units	27 582	2 405
Bid bonds, deposits and collateral transferred	54 340	54 106
Non-refundable additional deposits	78 531	410
Other	22 394	6 732
<b>Total</b>	<b>436 766</b>	<b>245 549</b>
Non-current	243 550	211 215
Current	193 216	34 334

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

- SCE Jaworzno III Sp. z o.o., in the amount of PLN 36 283 thousand;
- Przedsiębiorstwo Energetyki Ciepłej Tychy Sp. z o.o., in the amount of PLN 32 049 thousand;
- PGE EJ 1 Sp. z o.o., in the amount of PLN 23 046 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 15 063 thousand.

Non-refundable additional deposits of PLN 78 531 thousand arise from stock exchange settlement of forward transactions concluded by the Company.

## 23. Other non-financial assets

### 23.1. Other non-current non-financial assets

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Prepayments for assets under construction and intangible assets	307 466	358 673
Costs of preparing production in hard coal mines	143 610	159 159
Other prepayments	14 711	32 543
<b>Total</b>	<b>465 787</b>	<b>550 375</b>

As at 30 September 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 304 586 thousand.

### 23.2. Other current non-financial assets

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
<b>Costs settled over time, including:</b>	<b>73 567</b>	<b>104 251</b>
Costs of preparing production in hard coal mines	43 372	33 411
Property and tort insurance	2 406	15 888
IT, telecom and postal services	9 742	26 367
Other prepayments	18 047	28 585
<b>Other current non-financial assets, including:</b>	<b>61 275</b>	<b>128 808</b>
Advance payments for deliveries	32 377	120 342
Surplus of Social Benefit Fund assets over its liabilities	2 776	3 984
Transfers made to the Social Benefit Fund	15 275	-
Other current assets	10 847	4 482
<b>Total</b>	<b>134 842</b>	<b>233 059</b>

## 24. Inventories

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
<b>Historical cost</b>		
Raw materials	210 377	273 523
Semi-finished goods and work-in-progress	216 093	155 586
Finished goods	4 379	5 510
Goods for resale	695	4 053
Energy certificates	784	1 319
Emission allowances	2 517	3 424
<b>Total</b>	<b>434 845</b>	<b>443 415</b>
<b>Write-downs to net realisable value</b>		
Raw materials	(9 539)	(10 097)
Finished goods	(13)	(4)
Goods for resale	(34)	(35)
Energy certificates	(46)	-
<b>Total</b>	<b>(9 632)</b>	<b>(10 136)</b>
<b>Net realisable value</b>		
Raw materials	200 838	263 426
Semi-finished goods and work-in-progress	216 093	155 586
Finished goods	4 366	5 506
Goods for resale	661	4 018
Energy certificates	738	1 319
Emission allowances	2 517	3 424
<b>Total</b>	<b>425 213</b>	<b>433 279</b>

Coal with the carrying amount of PLN 315 428 thousand represents the key item of the Group's inventories.

## 25. Receivables from buyers

Current receivables from buyers as at 30 September 2016 and 31 December 2015 have been presented in the table below.

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
<b>Value of items before allowance/write-down</b>		
Receivables from clients	1 269 633	1 581 863
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	406 566	298 805
Receivables claimed at court	207 639	227 739
<b>Total</b>	<b>1 883 838</b>	<b>2 108 407</b>
<b>Allowance/write-down</b>		
Receivables from clients	(74 749)	(74 828)
Receivables claimed at court	(183 173)	(203 546)
<b>Total</b>	<b>(257 922)</b>	<b>(278 374)</b>
<b>Value of item net of allowance (carrying amount)</b>		
Receivables from clients	1 194 884	1 507 035
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	406 566	298 805
Receivables claimed at court	24 466	24 193
<b>Total</b>	<b>1 625 916</b>	<b>1 830 033</b>

**26. Receivables due to taxes and charges**

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Corporate Income Tax receivables	1 114	909
VAT receivables	47 449	205 713
Excise duty receivables	10 882	20 314
Other	2 245	1 409
<b>Total</b>	<b>61 690</b>	<b>228 345</b>

**27. Cash and cash equivalents**

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Cash at bank and in hand	247 881	353 428
Short-term deposits (up to 3 months)	12 972	10 722
Other	164	762
<b>Total cash and cash equivalents presented in the statement of financial position, of which:</b>	<b>261 017</b>	<b>364 912</b>
restricted cash	186 188	206 254
Bank overdraft	(109 582)	(10 206)
Cash pool	(19 985)	(29 377)
Foreign exchange	7	2 386
<b>Total cash and cash equivalents presented in the statement of cash flows</b>	<b>131 457</b>	<b>327 715</b>

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

As at 30 September 2016, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 76 147 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 56 159 thousand.

**28. Equity**

**28.1. Issued capital**

**Issued capital as at 30 September 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
<b>Total</b>		<b>1 752 549 394</b>		<b>8 762 747</b>	

As at 30 September 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 30 September 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%
<b>Total</b>	<b>1 752 549 394</b>	<b>8 762 747</b>	<b>100.00%</b>	<b>100.00%</b>

To the best of the Company's knowledge, the shareholding structure as at 30 September 2016 did not change as compared to 31 December 2015.

**28.2. Reserve capital**

On 8 June 2016, the Ordinary General Shareholders' Meeting adopted a resolution to offset the net loss for the 2015 financial year, totaling PLN 3 453 908 thousand, against the reserve capital.

**28.3. Revaluation reserve from valuation of hedging instruments**

	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
<b>Opening balance</b>	<b>(73 414)</b>	<b>(143 019)</b>
Remeasurement of hedging instruments	67 753	38 325
Remeasurement of hedging instruments charged to profit or loss	16 185	23 729
Deferred income tax	(15 948)	(11 790)
<b>Closing balance</b>	<b>(5 424)</b>	<b>(92 755)</b>

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 31 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 30 September 2016, the Company recognized PLN (5 424) 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 27 714 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period was charged with PLN 62 667 thousand, where PLN 46 482 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN 16 185 thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. In the statement of comprehensive income, the expense related to a change in measurement of instruments concerning interest accrued on bonds increased finance costs arising from such interest.

**28.4. Retained earnings and dividend limitation**

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

- net profit for the period attributable to the shareholders of the Parent of PLN 274 283 thousand;
- actuarial losses on provisions for post-employment benefits, recognized in other comprehensive income, of PLN 140 thousand;
- absorption of loss of PLN 3 453 908 thousand incurred by the Company in 2015 with the reserve capital;
- accounting for the acquisition of an organized part of ZCP Brzeszcze: a loss of PLN 14 041 thousand;
- other transactions with non-controlling interest that increase retained earnings by PLN 22 thousand.

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

## 29. Acquisition under joint control

### 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 production 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 9-month period ended 30 September 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 investing 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
<b>Non-current assets</b>		<b>Equity</b>	<b>(14 041)</b>
Property, plant and equipment and intangible assets	215 924	<b>Provisions and liabilities</b>	
Deferred tax assets	3 127	Provision for mine decommissioning	65 992
	<b>219 051</b>	Provisions for employee benefits	26 462
<b>Current assets</b>		Accruals (provision for unused annual leave)	4 203
Inventories	1 349	Obligations under leases	3 132
Other financial assets	25	Liabilities arising from public aid refund	130 218
	<b>1 374</b>	Other financial liabilities	4 459
			<b>234 466</b>
<b>Total assets</b>	<b>220 425</b>	<b>Total equity and liabilities</b>	<b>220 425</b>

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:
  - 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.

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

### 30. Debt

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Loans and borrowings	1 435 656	1 411 776
Bonds issued	7 055 782	6 680 433
Finance lease	39 175	46 438
<b>Total</b>	<b>8 530 613</b>	<b>8 138 647</b>
Current	1 133 015	3 214 520
Non-current	7 397 598	4 924 127

#### 30.1. Loans and borrowings

##### Loans and borrowings taken out as at 30 September 2016 *(unaudited)*

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within <i>(after the balance sheet date)</i> :					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	110 963	110 963	69 000	5 933	7 531	7 346	14 621	6 532
	fixed	1 254 827	1 254 827	71 418	76 072	162 227	162 227	324 455	458 428
<b>Total PLN</b>		<b>1 365 790</b>	<b>1 365 790</b>	<b>140 418</b>	<b>82 005</b>	<b>169 758</b>	<b>169 573</b>	<b>339 076</b>	<b>464 960</b>
EUR	floating	14 061	60 633	60 633	-	-	-	-	-
<b>Total EUR</b>		<b>14 061</b>	<b>60 633</b>	<b>60 633</b>	-	-	-	-	-
USD	floating	410	1 579	1 579	-	-	-	-	-
<b>Total USD</b>		<b>410</b>	<b>1 579</b>	<b>1 579</b>	-	-	-	-	-
<b>Total</b>			<b>1 428 002</b>	<b>202 630</b>	<b>82 005</b>	<b>169 758</b>	<b>169 573</b>	<b>339 076</b>	<b>464 960</b>
Interest increasing carrying amount			7 654						
<b>Total loans and borrowings</b>			<b>1 435 656</b>						

##### 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 <i>(after the balance sheet date)</i> :					
		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
<b>Total PLN</b>		<b>1 393 412</b>	<b>1 393 412</b>	<b>50 437</b>	<b>119 161</b>	<b>154 811</b>	<b>169 522</b>	<b>338 745</b>	<b>560 736</b>
EUR	floating	2 025	8 630	8 630	-	-	-	-	-
<b>Total EUR</b>		<b>2 025</b>	<b>8 630</b>	<b>8 630</b>	-	-	-	-	-
USD	floating	404	1 576	1 576	-	-	-	-	-
<b>Total USD</b>		<b>404</b>	<b>1 576</b>	<b>1 576</b>	-	-	-	-	-
<b>Total</b>			<b>1 403 618</b>	<b>60 643</b>	<b>119 161</b>	<b>154 811</b>	<b>169 522</b>	<b>338 745</b>	<b>560 736</b>
Interest increasing carrying amount			8 158						
<b>Total loans and borrowings</b>			<b>1 411 776</b>						

Changes in the balance of loans and borrowings, excluding interest increasing their carrying amounts, in the 9-month period ended 30 September 2016 and in the comparative period have been presented below.

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	9-month period ended 30 September 2016	9-month period ended 30 September 2015
	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Opening balance</b>	<b>1 403 618</b>	<b>1 225 612</b>
<b>Movement in bank overdrafts and cash pool loans</b>	<b>89 984</b>	<b>21 887</b>
<b>Movement in loans (excluding bank overdrafts and cash pool loans):</b>	<b>(65 600)</b>	<b>228 102</b>
Repaid	(66 959)	(67 126)
Taken	916	294 705
Change in valuation	443	523
<b>Closing balance</b>	<b>1 428 002</b>	<b>1 475 601</b>

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 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	126 716	126 218
		Construction and start-up of a co-generation unit at EC Bielsko Biąła	Fixed	15.12.2021	181 021	180 303
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	331 975	348 325
			Fixed – agreed until 15 March 2018	15.09.2024	145 624	165 467
			Fixed – agreed until 15 March 2018	15.09.2024	182 019	206 746
Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	295 102	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	25 000	28 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	17 254	19 216
Other loans and borrowings					130 945	40 369
<b>Total</b>					<b>1 435 656</b>	<b>1 411 776</b>

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**30.2. Bonds issued**

**Bonds issued as at 30 September 2016 (unaudited)**

Issuer	Tranche/ Bank	Redemption date	Currency	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	6 045	749 934	749 934	-	-	-	-
		20 December 2019	PLN	906	99 863	-	-	-	99 863	-
		20 December 2020	PLN	906	99 848	-	-	-	99 848	-
		20 December 2021	PLN	906	99 836	-	-	-	-	99 836
		20 December 2022	PLN	906	99 827	-	-	-	-	99 827
		20 December 2023	PLN	906	99 819	-	-	-	-	99 819
		20 December 2024	PLN	906	99 815	-	-	-	-	99 815
		20 December 2025	PLN	906	99 810	-	-	-	-	99 810
	BGK*	20 December 2026	PLN	906	99 804	-	-	-	-	99 804
		20 December 2027	PLN	906	99 801	-	-	-	-	99 801
		20 December 2028	PLN	906	99 800	-	-	-	-	99 800
		20 December 2020	PLN	624	70 000	-	-	-	70 000	-
		20 December 2021	PLN	624	70 000	-	-	-	-	70 000
		20 December 2022	PLN	624	70 000	-	-	-	-	70 000
		20 December 2023	PLN	624	70 000	-	-	-	-	70 000
		20 December 2024	PLN	624	70 000	-	-	-	-	70 000
		20 December 2025	PLN	624	70 000	-	-	-	-	70 000
	Bond Issue Scheme of 24.11.2015	29 December 2020	PLN	17 036	2 244 495	-	-	-	2 244 495	-
		25 March 2020	PLN	48	99 754	-	-	-	99 754	-
	TPEA1119	4 November 2019	PLN	19 156	1 749 124	-	-	-	1 749 124	-
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	20 977	718 186	-	-	-	-	718 186
<b>Total debentures</b>				<b>76 066</b>	<b>6 979 716</b>	<b>749 934</b>	<b>-</b>	<b>-</b>	<b>4 363 084</b>	<b>1 866 698</b>

\* Bank Gospodarstwa Krajowego

**Bonds issued as at 31 December 2015**

Issuer	Tranche/ Bank	Redemption date	Currency	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	-	-	-	
		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	
	BGK*	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
	<b>Total debentures</b>				<b>14 905</b>	<b>6 665 528</b>	<b>2 249 203</b>	<b>749 735</b>	<b>-</b>	<b>2 018 702</b>	<b>1 647 888</b>

\* 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 the repayment currency. As at 30 September 2016, the carrying amount of the bonds with interest in the bond currency was EUR 171 420 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.



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Changes in the balance of bonds, excluding interest increasing their carrying amounts, in the 9-month period ended 30 September 2016 and in the comparative period have been presented below.

	9-month period ended 30 September 2016	9-month period ended 30 September 2015
	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Opening balance</b>	<b>6 665 528</b>	<b>6 803 298</b>
Issue*	2 852 461	-
Redemption	(2 550 000)	(150 000)
Change in valuation	11 727	(2 154)
<b>Closing balance</b>	<b>6 979 716</b>	<b>6 651 144</b>

\*Costs of issue have been included.

Changes in the balance of bonds in the 9-month period ended 30 September 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.
- On 30 September 2016, a tranche of PLN 300 000 thousand issued in March 2016 under the aforesaid agreement of 24 November 2015 was repurchased early by the Company.

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 31 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 30 September 2016, none of these covenants were breached and the contractual provisions were complied with.

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**31. Derivative instruments**

	As at 30 September 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)	-	<b>3 055</b>	<b>(14 423)</b>
IRS	(21 018)	(6 696)	<b>11 201</b>	<b>(38 915)</b>	(4 833)	(90 634)	-	<b>(95 467)</b>
Commodity forwards/futures/swap	2 665	-	<b>69 246</b>	<b>(66 581)</b>	17	-	<b>2 225</b>	<b>(2 208)</b>
Currency forwards	152	-	<b>152</b>	-	393	-	<b>404</b>	<b>(11)</b>
<b>Total derivative instruments, including:</b>			<b>80 599</b>	<b>(105 496)</b>			<b>5 684</b>	<b>(112 109)</b>
Current			59 989	(105 449)			5 668	(96 953)
Non-current			20 610	(47)			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:

	As at 30 September 2016 (unaudited)		As at 31 December 2015	
	Level 1	Level 2	Level 1	Level 2
	<b>Assets</b>			
Commodity-related derivatives	69 246	-	2 225	-
Derivate instruments - CCIRS	-	-	-	3 055
Derivative instruments - IRS	-	11 201	-	-
Derivative instruments - currency	-	152	-	404
<b>Liabilities</b>				
Commodity-related derivatives	66 581	-	2 208	-
Currency derivatives	-	-	-	11
Derivate instruments - CCIRS	-	-	-	14 423
Derivative instruments - IRS	-	38 915	-	95 467

**Hedging derivative instruments (subject to hedge accounting) – IRS**

Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, 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 30.2 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. On 5 July 2016, a portion of the IRS transactions concluded in March 2012 was settled earlier. The amount paid by the Company on that basis was PLN 7 697 thousand.

During the 9-month period ended 30 September 2016, based on a decision of the Financial and Credit Risk Management Unit, the Company hedged a portion of its interest rate risk for cash flows relating to the exposure to WIBOR 6M, designated under the dynamic risk management strategy, i.e. interest on debt securities with the nominal value of PLN 2 100 000 thousand, through the entry into interest rate swap (IRS) transactions for a term of 4 to 5 years. The aforementioned transactions are subject to hedge accounting with the exception of the first interest period. This is due to the fact that the floating interest rate in the first interest period was determined in advance, hence the Company could not apply hedge accounting principles to cash flows resulting from the first interest period.

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

In the first quarter of 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 30 September 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 and financing operations.

#### **32. Provisions for employee benefits**

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Provision for post-employment benefits and jubilee bonuses	1 872 568	1 850 375
Provision for employment termination benefits	40 473	57 336
<b>Total</b>	<b>1 913 041</b>	<b>1 907 711</b>
Current	133 730	172 505
Non-current	1 779 311	1 735 206

#### **32.1. Provisions for post-employment benefits and jubilee bonuses**

**For the 9-month period ended 30 September 2016 (unaudited)**

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
<b>Opening balance</b>	<b>341 124</b>	<b>722 734</b>	<b>131 110</b>	<b>2 242</b>	<b>653 165</b>	<b>1 850 375</b>
Current service costs	10 331	12 141	1 416	-	27 112	51 000
Actuarial gains and losses	269	-	(4)	-	(18)	247
Benefits paid	(17 891)	(11 137)	(2 748)	(2 242)	(58 999)	(93 017)
Interest expense	6 956	14 873	2 678	-	12 994	37 501
Acquisition of ZCP Brzeszcze	9 436	-	-	-	17 026	26 462
<b>Closing balance</b>	<b>350 225</b>	<b>738 611</b>	<b>132 452</b>	<b>-</b>	<b>651 280</b>	<b>1 872 568</b>
Current	22 813	23 894	4 329	-	55 180	106 216
Non-current	327 412	714 717	128 123	-	596 100	1 766 352

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
<b>Opening balance</b>	<b>357 017</b>	<b>769 975</b>	<b>170 242</b>	<b>67 661</b>	<b>679 510</b>	<b>2 044 405</b>
Current service costs	10 733	6 095	2 414	983	31 661	<b>51 886</b>
Actuarial gains and losses	1 690	(2 928)	(713)	222	2 982	<b>1 253</b>
Benefits paid	(19 076)	(11 348)	(3 031)	(1 321)	(47 236)	<b>(82 012)</b>
Past service costs	(2 232)	(2 321)	(35 561)	(68 432)	(5 431)	<b>(113 977)</b>
Interest expense	5 936	12 855	2 731	887	11 322	<b>33 731</b>
<b>Closing balance (unaudited restated figures)</b>	<b>354 068</b>	<b>772 328</b>	<b>136 082</b>	<b>-</b>	<b>672 808</b>	<b>1 935 286</b>
Current	25 608	24 817	4 065	-	49 300	<b>103 790</b>
Non-current	328 460	747 511	132 017	-	623 508	<b>1 831 496</b>

**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 30 September 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

### 32.2. Provisions for employment termination benefits

For the 9-month period ended 30 September 2016 (*unaudited*)

	Voluntary redundancy schemes in operating segments		Other	Total
	Generation	Distribution		
<b>Opening balance</b>	<b>23 460</b>	<b>25 432</b>	<b>8 444</b>	<b>57 336</b>
Recognition	5 165	-	-	5 165
Reversal	-	-	(2 468)	(2 468)
Utilization	(8 180)	(9 299)	(2 081)	(19 560)
<b>Closing balance</b>	<b>20 445</b>	<b>16 133</b>	<b>3 895</b>	<b>40 473</b>
Current	7 486	16 133	3 895	27 514
Non-current	12 959	-	-	12 959

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

	Voluntary redundancy schemes in operating segments			Other	Total
	Mining	Generation	Distribution		
<b>Opening balance</b>	-	<b>38 867</b>	<b>22 236</b>	<b>1 769</b>	<b>62 872</b>
Recognition	4 750	5 148	19 478	-	29 376
Reversal	-	(545)	-	-	(545)
Utilization	-	(22 760)	(10 431)	(1 769)	(34 960)
<b>Closing balance</b>	<b>4 750</b>	<b>20 710</b>	<b>31 283</b>	-	<b>56 743</b>
Current	4 750	10 267	31 283	-	46 300
Non-current	-	10 443	-	-	10 443

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

For the 9-month period ended 30 September 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
<b>Opening balance</b>	<b>111 675</b>	<b>101 244</b>	<b>182 877</b>	<b>395 796</b>
Interest cost (discounting)	3 679	2 070	10 935	16 684
Recognition/(reversal), net	126	-	2 176	2 302
Acquisition of ZCP Brzeszcze	65 992	-	-	65 992
<b>Closing balance</b>	<b>181 472</b>	<b>103 314</b>	<b>195 988</b>	<b>480 774</b>
Current	-	905	39 394	40 299
Non-current	181 472	102 409	156 594	440 475
Other provisions, long-term portion				1 824
<b>Total</b>				<b>442 299</b>

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

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
<b>Opening balance</b>	<b>120 704</b>	<b>42 774</b>	<b>163 478</b>
Interest cost (discounting)	2 247	731	<b>2 978</b>
Recognition/(reversal), net	173	-	<b>173</b>
<b>Closing balance</b>	<b>123 124</b>	<b>43 505</b>	<b>166 629</b>
Current	-	897	<b>897</b>
Non-current	123 124	42 608	<b>165 732</b>
Other provisions, long-term portion			<b>2 040</b>
<b>Total</b>			<b>167 772</b>

**33.1. 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 9-month period ended 30 September 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 29 to these condensed interim consolidated financial statements.

**33.2. 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 42 700 thousand as at 30 September 2016 (versus PLN 41 855 thousand as at 31 December 2015);
- provision for windfarm dismantling costs, which totaled PLN 60 614 thousand as at 30 September 2016 (versus PLN 59 389 thousand as at 31 December 2015).

**33.3. 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, on 29 January 2016, Elektrociepłownia Stalowa Wola S.A. terminated the contract with the general contractor and officially took over the construction site on 22 February 2016. The inventory of works performed by the general contractor was completed. Acceptance of the post-inventory documentation is in progress. Asset maintenance works are performed on an ongoing basis to prevent degradation.

In view of the foregoing, in 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 9-month period ended 30 September 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 10 935 thousand in total, and recognized additional provisions of PLN 2 176 thousand net.

As at the end of the reporting period, the balance of provisions for onerous contracts amounted to PLN 195 988 thousand and included:

- a provision of PLN 131 449 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 production 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 54 007 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 33 114 thousand;
- a provision for costs of PLN 10 532 thousand (PLN 6 280 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.

After the end of the reporting period, on 27 October 2016, a conditional agreement was made among the Company, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. to set out the key boundary conditions for project restructuring along with a conditional annex to the electricity sales contract. Furthermore, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. executed a conditional annex to the gaseous fuel supply contract, which has been discussed in more detail in Note 49 to these condensed interim consolidated financial statements. The aforesaid agreements and annexes will enter into force once the conditions precedent have been satisfied, i.e. the binding financing agreements have been amended or the amounts due to the last institution which currently provides funding to Elektrociepłownia Stalowa Wola S.A. have been paid. The agreements and annexes reflect the will of the Company and PGNiG S.A. to continue the construction of the gas and steam unit. According to the Management Board of the Company, they enable completion of the investment in 2019 (preliminary estimate).

#### **34. Provisions for liabilities due to gas emission and energy certificates**

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

##### **For the 9-month period ended 30 September 2016 (unaudited)**

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
<b>Opening balance</b>	<b>153 083</b>	<b>865 051</b>	<b>1 018 134</b>
Recognition	237 244	561 378	<b>798 622</b>
Reversal	(63)	(3 877)	<b>(3 940)</b>
Utilisation	(174 957)	(847 218)	<b>(1 022 175)</b>
<b>Closing balance</b>	<b>215 307</b>	<b>575 334</b>	<b>790 641</b>

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

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
<b>Opening balance</b>	<b>8 130</b>	<b>914 926</b>	<b>923 056</b>
Recognition	78 019	641 261	<b>719 280</b>
Reversal	(2 290)	(2 112)	<b>(4 402)</b>
Utilisation	(5 840)	(905 683)	<b>(911 523)</b>
<b>Closing balance</b>	<b>78 019</b>	<b>648 392</b>	<b>726 411</b>

#### **34.1. Provision for the obligation to surrender energy certificates**

As at 30 September 2016, the Group recognized a short-term provision for the obligation to surrender energy certificates of PLN 575 334 thousand, out of which: the amount of PLN 413 634 thousand was covered by certificates held as at the end of the reporting period, the amount of PLN 97 960 thousand was planned to be paid in the form of a substitution fee and the amount of PLN 63 740 thousand through the purchase of property rights.

In the 9-month period ended 30 September 2016, the Group fulfilled the obligation to surrender certificates for electricity generated from renewable sources, in cogeneration and energy efficiency certificates for 2015. Therefore, a provision of PLN 847 218 thousand was used.

### 34.2. 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 recognized in the amount of allowances acquired or contracted for that purpose and at market prices at the end of the reporting period for the unsecured allowance deficit (if any).

As at 30 September 2016, the provision for gas emission liabilities amounted to PLN 215 307 thousand and concerned the obligation to surrender emission allowances for the 9-month period ended 30 September 2016. As at 30 September 2016, the provision was recognized both for installations owned by TAURON Wytwarzanie S.A. and by TAURON Ciepło Sp. z o.o.– in both these companies, the emission level in the 9-month period ended 30 September 2016 exceeded the number of free-of-charge allowances.

In the 9-month period ended 30 September 2016, the Group fulfilled the obligation to surrender emission allowances for 2015. A change in the balance of the provision in the 9-month period ended 30 September 2016 in the portion pertaining to 2015 arises from:

- revaluation of the provision: TAURON Wytwarzanie S.A. recognized an additional provision of PLN 21 937 thousand and TAURON Ciepło Sp. z o.o. derecognized a provision of PLN 63 thousand;
- use of the provision due to the fulfilment of the obligation for 2015 and surrender of emission allowances in the amount of PLN 174 957 thousand.

### 35. Other provisions

#### For the 9-month period ended 30 September 2016 (unaudited)

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
<b>Opening balance</b>	<b>91 909</b>	<b>67 711</b>	<b>159 620</b>
Recognition/(reversal), net	1 632	6 726	8 358
Utilisation	(500)	(4 827)	(5 327)
Other changes	(25)	20	(5)
<b>Closing balance</b>	<b>93 016</b>	<b>69 630</b>	<b>162 646</b>
Current	93 016	67 806	160 822
Non-current	-	1 824	1 824
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			40 299
<b>Total current other provisions</b>			<b>201 121</b>

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

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
<b>Opening balance</b>	<b>93 818</b>	<b>66 341</b>	<b>160 159</b>
Recognition/(reversal), net	831	558	1 389
Utilisation	(1 671)	(5 555)	(7 226)
Foreign exchange differences from translation of foreign entities	-	(7)	(7)
<b>Closing balance</b>	<b>92 978</b>	<b>61 337</b>	<b>154 315</b>
Current	92 978	59 297	152 275
Non-current	-	2 040	2 040
Current portion of provision for the costs of disassembly of fixed assets and land restoration			897
<b>Total current other provisions</b>			<b>153 172</b>



**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 30 September 2016, the relevant provision amounted to PLN 93 016 thousand and was related to the following segments:

- Generation: PLN 51 357 thousand;
- Distribution: PLN 41 659 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.

**36. Accruals, deferred income and government grants**

**36.1. Deferred income and government grants**

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
<b>Deferred income, of which:</b>	<b>300 899</b>	<b>325 861</b>
Donations, subsidies received for the purchase or fixed assets received free-of-charge	74 756	83 308
Connection fees	223 678	240 485
Other	2 465	2 068
<b>Government grants, of which:</b>	<b>387 827</b>	<b>382 660</b>
Subsidies obtained from EU funds	284 718	286 222
Forgiven loans from environmental funds	22 656	11 801
Measurement of preferential loans	38 068	39 401
Other	42 385	45 236
<b>Total</b>	<b>688 726</b>	<b>708 521</b>
Non-current	628 699	650 364
Current	60 027	58 157

Other settlements of government grants include mainly government grants to greenfield investments in hard coal mines received by TAURON Wydobywanie S.A. – as at 30 September 2016, they amounted to PLN 17 678 thousand.

**36.2. Short-term accruals**

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Unused holidays	34 316	37 468
Bonuses	208 594	140 946
Environmental protection charges	18 988	4 449
Other	12 042	13 317
<b>Total</b>	<b>273 940</b>	<b>196 180</b>

**37. Liabilities due to taxes and charges**

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Corporate Income Tax	28 788	85 357
Personal Income Tax	35 119	46 841
Excise	36 755	42 467
VAT	71 963	46 787
Social security	111 344	156 635
Environmental charges	10 796	46 889
Other	6 295	4 673
<b>Total</b>	<b>301 060</b>	<b>429 649</b>

**Income tax receivables and liabilities**

A Tax Capital Group ("TCG") agreement for the years 2015-2017 was concluded on 22 September 2014. Pursuant to the previous agreement, TCG was registered for the period of three fiscal years from 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 30 September 2016, the Group had the following corporate income tax receivables and liabilities:

- income tax receivables of PLN 1 114 thousand not included in the settlements of the Tax Capital Group;
- income tax liabilities of PLN 28 788 thousand, where PLN 26 994 thousand constitutes a liability of the Tax Capital Group.

In the 9-month period ended 30 September 2016, income tax expense of the Tax Capital Group amounted to PLN 212 049 thousand. At the same time, the Tax Capital Group paid advances for tax in the amount of PLN 185 055 thousand.

**38. Other current non-financial liabilities**

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
<b>Payments from customers relating to future periods, of which:</b>	<b>286 605</b>	<b>273 168</b>
Prepayments for connection fees	22 667	25 366
Amounts overpaid by customers	253 905	240 700
Other	10 033	7 102
<b>Other current non-financial liabilities</b>	<b>1 701</b>	<b>754</b>
<b>Total</b>	<b>288 306</b>	<b>273 922</b>

**39. Significant items of the consolidated statement of cash flows**

**39.1. Cash flows from operating activities**

***Impairment losses on property, plant and equipment and intangible assets***

Impairment losses of PLN 689 824 thousand, which adjust the Group's profit before tax, have been discussed in more detail in Note 12 to these condensed interim consolidated financial statements.

### **Changes in working capital**

	9-month period ended 30 September 2016	9-month period ended 30 September 2015
	<i>(unaudited)</i>	<i>(unaudited)</i>
Change in receivables	117 608	159 026
Change in inventories	6 259	164 063
Change in payables excluding loans and borrowings	(414 986)	(394 364)
Change in other non-current and current assets	774 407	392 680
Change in deferred income, government grants and accruals	19 724	24 629
Change in provisions	(227 364)	(312 433)
<b>Total</b>	<b>275 648</b>	<b>33 601</b>

### **Income tax paid**

Income tax paid in the amount of PLN 277 678 thousand results mainly from the Tax Capital Group's payment of advance income tax for 2016 totaling PLN 185 055 thousand in the 9-month period ended 30 September 2016 and advance income tax for the fourth quarter of 2015 totaling PLN 88 784 thousand.

## **39.2. Cash flows from investing activities**

### **Purchase of property, plant and equipment and intangible assets**

	9-month period ended 30 September 2016	9-month period ended 30 September 2015
	<i>(unaudited)</i>	<i>(unaudited)</i>
Purchase of property, plant and equipment	(2 320 502)	(2 623 207)
Purchase of intangible assets	(72 692)	(54 525)
Change in the balance of VAT-adjusted capital commitments	(230 601)	(71 836)
Change in the balance of advance payments	51 207	24 088
Costs of overhaul and internal manufacturing	(56 623)	(101 140)
Other	(12)	792
<b>Total</b>	<b>(2 629 223)</b>	<b>(2 825 828)</b>

### **Public aid refund**

Payments to refund public aid of PLN 131 077 thousand 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 29 to these condensed interim consolidated financial statements.

### **Acquisition of financial assets**

Payments to acquire financial assets in the 9-month period ended 30 September 2016 in the amount of PLN 30 672 thousand include mainly the Parent's purchase of participation units of PLN 25 000 thousand.

### **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 10 775 thousand under agreements entered into in November 2015 and in the 9-month period ended 30 September 2016, which has been discussed in more detail in Note 21 to these condensed interim consolidated financial statements.

### **Dividends received**

Proceeds from dividends received in the amount of PLN 31 020 thousand concern mainly the dividends received by the Company from a jointly-controlled entity, TAMEH HOLDING Sp. z o.o., in the amount of PLN 24 000 thousand.

## **39.3. 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 9-month period ended 30 September 2016 and the early repurchase (on 30 September 2016) of a Tranche of PLN 300 000 thousand issued in March 2016.

### **Loans and borrowings repaid**

Payments to repay loans and borrowings, as presented in the consolidated statement of cash flows in the amount of PLN 66 959 thousand, arise mainly from the Parent's repayment of loan instalments to the European Investment Bank, totaling PLN 61 364 thousand, during the 9-month period ended 30 September 2016.

### **Interest paid**

	9-month period ended 30 September 2016	9-month period ended 30 September 2015
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest paid in relation to debt securities	(142 750)	(133 975)
Interest paid in relation to loans and borrowings	(41 068)	(38 209)
Interest paid in relation to the finance lease	(723)	(972)
<b>Total</b>	<b>(184 541)</b>	<b>(173 156)</b>
financing cash outflows	(114 419)	(126 101)
investing cash outflows	(70 122)	(47 055)

### **Issue of debt securities**

Proceeds from the issue of debt securities in the 9-month period ended 30 September 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 30.2 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.

#### **40. Details of other significant changes in the reporting period**

##### **Other operating revenue and expense**

In the 9-month period ended 30 September 2016, other operating revenue exceeded other operating expense by PLN 27 979 thousand.

In the comparative period, i.e. in the 9-month period ended 30 September 2015, other operating expense exceeded other operating revenue, which was mainly due to the recognition of costs of settlement of an identified shortage of commercial coal and semi-finished product inventories of PLN 39 084 thousand by TAURON Wydobycie S.A., the accounting for prepaid expenses relating to the costs of drilling drifts and reinforcing working faces of PLN 78 610 thousand as well as recognition of revenue from reversal of actuarial provisions for coal allowances and the Company's Social Benefits Fund for the existing pensioners of PLN 45 557 thousand.

##### **Other non-current financial liabilities**

A drop in other non-current financial liabilities of PLN 52 317 thousand results mainly from a decrease in long-term guarantees and collateral received by TAURON Wytwarzanie S.A. in the amount of PLN 35 537 thousand.

## OTHER INFORMATION

### 41. Contingent liabilities

Item	Description
<b>Use of real estate without contract</b>	<p>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.</p>
Amount	<p>As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 93 016 thousand (Note 35).</p>
<b>Claims filed by Huta Łaziska S.A.</b>	<p>Following the Company's business combination with Górnśląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of Energy Regulatory Office (ERO). At present, the case is pending at District Court in Warsaw.</p> <p>Based on a decision of 12 October 2001, the President of the Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had failed to pay its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006 the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgement of the Court of Appeals in Warsaw, which was dismissed by the judgement of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the above decision issued by the President of ERO on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages.</p> <p>Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office Huta has claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of ERO dated 12 October 2001.</p> <p>In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the judgement of the Regional Court and remanded the case for re-examination by the latter. The first hearing before the first instance court was held on 27 November 2012. In May 2015, a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by the parties as evidence. After the issue of the decision, the Company tried to change the proceeding concept adopted by the Court stating that taking evidence from a court expert opinion is unacceptable. Finally, the Court commissioned an additional opinion to be prepared by the court expert. On 5 September 2016, the additional opinion by the court expert was delivered to the Company. The Company filed charges against the said opinion on 12 and 19 September 2016. Charges were also brought by the State Treasury and Huta. Another hearing with the participation of the court expert will be held on 30 November 2016.</p> <p>Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.</p>
Amount	<p>Claim regarding payment of damages of PLN 182 060 thousand.</p>
<b>Litigation related to termination of long-term contracts</b>	<p>On 18 March 2015 Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. in liquidation terminated long-term agreements regarding purchase of power and property rights from windfarms. Court proceedings were instigated against the Company to consider the termination notices invalid and to secure non-monetary claims arising from the above agreements.</p> <p>In the 9-month period ended 30 September 2016 the claims against the company were extended by lost revenue for the period from the date of termination until the date of claim extension totaling PLN 40 000 thousand.</p> <p>Since the court proceedings regarding the above issues are pending, the final amount of possible financial effects on the Company and the Group cannot be reliably estimated. In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both in terms of the termination notes being declared invalid and of securing both non-monetary claims and the claimed lost revenue does not exceed 50%. Therefore, no provision for the related costs has been recognized.</p>

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Item	Description
<b>Claim filed by ENEA S.A.</b>	<p>The claim filed by ENEA S.A. ("ENEA") to the District Court in Katowice regards the payment of PLN 17 086 thousand with statutory interest calculated from 31 March 2015 until the payment date for unjust enrichment of the Company arising from settlement of balances on the Balancing Market performed with Polskie Sieci Elektroenergetyczne S.A. in the period from January to December 2012. The claim was delivered to the Company on 11 January 2016. As stated by ENEA, the improper settlement was caused by inconsistency in measurement data collected by ENEA Operator Sp. z o.o. (as the Distribution System Operator, DSO) and made available to the Balancing Market participants (PSE S.A., ENEA S.A. and the Company) for the settlement purposes.</p> <p>The error resulted in PSE S.A. assigning to ENEA S.A. (as the official seller in the distribution area of ENEA Operator Sp. z o.o.) the amount of consumed power that should have been assigned to the Company (as the entity in charge of trade balances of power sellers operating in the distribution area of ENEA Operator Sp. z o.o.).</p> <p>The dispute concerns the fact that pursuant to the Power Transmission Grid Traffic and Operation Instruction (IRiESP) binding all participants of the Balancing Market, settlements regarding trade balances for a given period may be adjusted within 2 months, 4 months and 15 months after the settlement period. According to IRiESP, after 15 months the settlements become final. ENEA Operator Sp. z o.o. informed TAURON Polska Energia S.A. about the necessity to adjust measurement data and the entire settlement after the permitted adjustment period. Therefore, settlements between PSE S.A. and ENEA S.A. and between PSE S.A. and the Company have not been adjusted.</p> <p>TAURON Polska Energia S.A. responded to the claim with a series of charges. The Court obliged ENEA to reply to the response, which was done on 5 April 2016. On 20 June 2016, TAURON Polska Energia S.A. filed a petition for inviting ENEA Operator Sp. z o.o. to take part in the litigation. The Court also admitted evidence from the witnesses' testimonies. On 4 July 2016 TAURON Polska Energia S.A. filed a process document with the court. The latest hearing was held on 14 September 2016 and two witnesses were heard. Another hearing is to be held on 14 November 2016. The case is pending. No provision has been recognized as the company believes that the risk of losing the case is below 50%.</p>
Amount	The claim regards the payment of PLN 17 086 thousand.
<b>Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o</b>	<p>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.</p> <p>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.</p> <p>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.</p> <p>On 15 September 2016, Annex 1 was executed to the aforesaid agreement, whereby the maximum amount of the collateral was changed to PLN 1 370 000 thousand.</p>
Amount	As at 30 September 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 456 150 thousand.

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Item	Description
	<p>President of UOKiK instigated the following procedures against the Sales segment companies:</p> <p>- Proceedings instigated on 17 September 2013 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 and therefore constitutes a breach of the Act on competition and consumer protection of 16 February 2007 (Journal of Laws of 2007 No. 50, item 331 as amended; "Act on competition and consumer protection"). The company committed to discontinue practices violating the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. On 22 December 2014 the company received a decision of UOKiK closing the evidentiary proceedings. On 14 December 2015 the President of UOKiK requested the company to demonstrate whether the practices have been discontinued. The company responded to the request in February 2016 informing that the practices have been discontinued and motioned for a decision not to charge a fine.</p>
<b>Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)</b>	<p>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 the office that the obligation had been fulfilled and filed the required reports.</p> <p>On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydroelectric power stations constitute a breach of the Act on competition and consumer protection. The actions in question include enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement. By a decision of 15 October 2015 the President of UOKiK instigated anti-trust proceedings. On 1 February 2016 UOKiK accepted the company's decision regarding presentation of a specific commitment. On 24 August 2016, the President of UOKiK issued a decision obliging the company to fulfil the obligation to take steps to prevent the alleged violations through the employment of specific measures within two months of the said decision becoming final. On 29 September 2016, the company filed an appeal against the decision with the Court of Competition and Consumer Protection.</p> <p>The companies do not recognize provisions for fines related to the above proceedings, since their management boards believe the risk of losing the cases and paying the fines is low.</p>
<b>Explanatory proceedings instigated by the President of UOKiK</b>	<p>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.</p>
<b>Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)</b>	<p>In a notice of 5 April 2016, the President of the Energy Regulatory Office informed TAURON Dystrybucja S.A. of the instigation of administrative proceedings to impose a fine for a failure to maintain facilities, installations and equipment in a proper technical condition and for non-compliance with the terms of the electricity distribution license.</p> <p>In a letter dated 8 July 2016 the President of ERO notified TAURON Dystrybucja S.A. that administrative proceedings had been instigated with regard to a fine to be imposed for a breach of law, which involved misinforming the President of ERO in response to his request for information regarding determination of clients who had failed to meet the requirement to adjust to power supply and consumption restriction introduced in the period from 10 to 31 August 2015. The President of ERO requested the Company to present relevant explanations and information.</p> <p>The company does not recognize a provision for potential fines related to the aforesaid proceedings, as the Management Board is of the opinion that the risk of an unfavorable ruling and imposition of a fine is low.</p>

#### 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 30 September 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
<b>Excise duty</b>	<p>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.</p> <p>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.</p>
Amount	The overpaid amounts claimed by the Group approximate PLN 908 500 thousand.
<b>Income tax – an increase in tax-deductible costs by the amount of component repair cost</b>	<p>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 30 September 2016 the case was awaiting the final decision of the Supreme Administrative Court.</p>
Amount	The refunded overpayment of PLN 22 250 thousand
<b>Real estate tax</b>	<p>There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities and on equipment used in underground excavations. Since the tax is imposed on the local self-government level, there is no unified approach and in several cases, the tax base calculation has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation and transmission facilities, as well as on underground excavations, may change in future.</p>
Amount	As at the end of the reporting period, provisions were recognized for costs of disputes regarding real estate tax and for the related business risk (totaling PLN 19 362 thousand).
<b>Tax inspection proceedings</b>	<p>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 December 2016. The inspection proceedings are expected to be closed in the upcoming months but no precise closing date can be determined. As at the date of preparing these condensed interim 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.</p>

#### 43. Collateral against liabilities

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

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



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

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Real estate	78 236	82 250
Plant and machinery	275	614
Cash	52 543	22 067
<b>Total</b>	<b>131 054</b>	<b>104 931</b>

### 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 30 September 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	<ul style="list-style-type: none"> <li>• up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards Tranche A and Tranche B (repaid)</li> <li>• up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E (not disbursed)</li> </ul>
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
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 30 September 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
Framework bank guarantee agreement with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland ("CaixaBank S.A.") The guarantee limit for purposes of securing transactions may be used by the Company and the TAURON Group companies. As at 30 September 2016, the maximum amount of the agreed guarantee limit was PLN 100 000 thousand.	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Gield Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
overdraft 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 107 800 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to PLN 215 600 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 11 567 thousand (USD 3 000 thousand) valid until 31 March 2019

### **Other forms of collateral against liabilities of the Group**

As at 30 September 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 30 September 2016 (unaudited)
Agreements concerning loans granted to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000
Performance bonds to include co-funding of engagements carried out	TAURON Dystrybucja S.A.	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.	66 844

- Collateral under finance lease agreements

Finance lease agreement	Lessee	Carrying amount of the leased asset as at 30 September 2016 (unaudited)	Collateral
Leaseback agreement concerning real estate, plant and machinery	TAURON Ciepło Sp. z o.o.	4 929	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.	26 223	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 2 127 thousand and securing the Company's transactions:
  - a guarantee of up to EUR 1 000 thousand (PLN 4 312 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;
  - a guarantee of up to PLN 9 000 thousand for Polskie Sieci Elektroenergetyczne S.A., valid until 12 October 2016.
- Under the bank guarantee agreement made with Bank Zachodni WBK S.A., the bank issued guarantees to secure stock exchange transactions resulting from the membership in the Commodity Clearing House. As at 30 September 2016, the guarantees issued by the bank totaled PLN 150 000 thousand and were valid until October 2016.
- Under the bank guarantee agreement made with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland ("CaixaBank S.A."), at the request of the Company the bank issued bank guarantees to secure liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 263 thousand.
- 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. On that date, the agreement expired and the EUA were returned to the Company's account;
  - Alienation agreement between TAURON Wytwarzanie S.A., a subsidiary, and IRGiT. The agreement provided for a freeze on the emission allowances in the National 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 30 September 2016 and 31 December 2015, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 4 854 220 thousand and PLN 5 597 990 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
<b>Generation</b>	Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	3 025 494	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	229 919	144 325
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	10 650	98 970
<b>Distribution</b>	Redevelopment of the double track overhead line Przybków-Kąty Wrocławskie-Klecina	73 140	73 140
	Implementation of Smart City Wrocław, an intelligent measurement system	36 533	91 126
	Construction of Grid Management Centre in Kraków and in Wrocław	37 964	55 176
<b>Mining</b>	Construction of the 800 m drift at Janina Mining Plant	24 745	37 986
	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	18 931	22 105

#### 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 20 to these condensed interim consolidated financial statements.

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

	9-month period ended 30 September 2016 <i>(unaudited)</i>	9-month period ended 30 September 2015 <i>(unaudited)</i>
Revenue	71 921	52 850
Costs	(32 975)	(25 118)

The key income item arises from transactions with the TAMEH HOLDING Sp. z o.o. Capital Group, a joint venture. In the 9-month period ended 30 September 2016 and 30 September 2015, transactions with the joint venture amounted to PLN 63 966 thousand and PLN 45 640 thousand, respectively.

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

The Company has also pledged collateral for the benefit of joint ventures, in the form of a pledge on the shares in TAMEH HOLDING Sp. z o.o., which has been discussed in more detail in Note 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. During the 9-month period ended 30 September 2016, the Company remeasured provisions related to the unwinding of discount as at the end of the reporting period by the total amount of PLN 10 935 thousand and recognized additional provisions of PLN 2 176 thousand net, as described in more detail in Note 33 of 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 expenses**

	9-month period ended 30 September 2016 <i>(unaudited)</i>	9-month period ended 30 September 2015 <i>(unaudited)</i>
Revenue	1 765 939	2 024 366
Costs	(1 883 924)	(2 189 590)

##### **Receivables and liabilities**

	As at 30 September 2016 <i>(unaudited)</i>	As at 31 December 2015
Receivables	231 503	367 207
Payables	249 155	270 429

As at 30 September 2016, receivables presented in the table above comprised advance payments of PLN 32 055 thousand, including advance payments for deliveries of coal of PLN 28 406 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 9-month period ended 30 September 2016, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. incorporated on 1 May 2016 were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. Total sales to these contracting parties accounted for 86% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. Purchases from these contracting parties accounted for 86% of the value of purchases from State Treasury companies during the 9-month period ended 30 September 2016.

In the 9-month period ended 30 September 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 81% 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 81% of the value of purchases from State Treasury companies during the 9-month period ended 30 September 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 and/or due to the Management Board, Supervisory Boards and other key executives of the Parent and the subsidiaries in the 9-month period ended 30 September 2016 and in the comparative period has been presented in the table below.

	9-month period ended 30 September 2016 <i>(unaudited)</i>		9-month period ended 30 September 2015 <i>(unaudited)</i>	
	Parent	Subsidiaries	Parent	Subsidiaries
<b>Board of Directors</b>	<b>9 276</b>	<b>17 133</b>	<b>7 767</b>	<b>17 618</b>
Short-term employee benefits (salaries and surcharges)	4 318	12 851	6 005	15 607
Post-employment benefits	-	158	-	1 018
Employment termination benefits	4 632	3 741	1 050	657
Other	326	383	712	336
<b>Supervisory Board</b>	<b>898</b>	<b>425</b>	<b>850</b>	<b>742</b>
Short-term employee benefits (salaries and surcharges)	898	411	850	694
Other	-	14	-	48
<b>Other key management personnel</b>	<b>10 711</b>	<b>29 962</b>	<b>11 279</b>	<b>30 368</b>
Short-term employee benefits (salaries and surcharges)	8 215	28 984	9 990	28 891
Jubilee bonuses	-	309	-	787
Post-employment benefits	-	16	-	424
Employment termination benefits	1 876	492	456	92
Other	620	161	833	174
<b>Total</b>	<b>20 885</b>	<b>47 520</b>	<b>19 896</b>	<b>48 728</b>

As regards employment termination benefits presented in the table above, the amount of PLN 3 655 thousand was accounted for as the use of a provision recognized as at 31 December 2015 by the Parent and the amount of PLN 913 thousand as the use of provisions recognized as at 31 December 2015 by the subsidiaries.

Additionally, in the 9-month period ended 30 September 2016, the Group companies recognized provisions for post-service benefits payable to Members of the Management Board, in the amount of PLN 2 245 thousand. The aforesaid benefits have not become due yet. The table does not present the aforesaid costs of recognition of provisions which have not been paid.

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**46. Financial instruments**

Categories and classes of financial assets	Note	As at 30 September 2016 ( <i>unaudited</i> )		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>1 Assets at fair value through profit or loss, held for trading</b>		<b>94 592</b>		<b>5 684</b>	
Derivative instruments	31	69 398	69 398	5 684	5 684
Investment fund units		25 194	25 194	-	-
<b>2 Financial assets available for sale</b>		<b>136 904</b>		<b>140 783</b>	
Shares (non-current)	22	130 412		132 383	
Shares (current)	22	4 104		4 105	
Investment fund units		2 388	2 388	2 405	2 405
Bonds, T-bills and other debt securities		-	-	1 890	1 890
<b>3 Loans and receivables</b>		<b>2 047 868</b>		<b>2 150 918</b>	
Receivables from clients	25	1 625 916	1 625 916	1 830 033	1 830 033
Deposits		38 804	38 804	39 724	39 724
Loans granted		241 094	241 094	223 911	223 911
Other financial receivables		142 054	142 054	57 250	57 250
<b>4 Financial assets excluded from the scope of IAS 39</b>		<b>474 615</b>		<b>418 127</b>	
Investments in joint ventures	20	474 615		418 127	
<b>5 Derivative hedging instruments</b>	31	<b>11 201</b>	<b>11 201</b>	-	-
<b>6 Cash and cash equivalents</b>	27	<b>261 017</b>	<b>261 017</b>	<b>364 912</b>	<b>364 912</b>
<b>Total financial assets, of which in the statement of financial position:</b>		<b>3 026 197</b>		<b>3 080 424</b>	
<b>Non-current assets</b>		<b>946 048</b>		<b>851 145</b>	
Investments in joint ventures		474 615		418 127	
Loans granted to joint ventures		227 883		221 803	
Other financial assets		243 550		211 215	
<b>Current assets</b>		<b>2 080 149</b>		<b>2 229 279</b>	
Receivables from clients		1 625 916		1 830 033	
Other financial assets		193 216		34 334	
Cash and cash equivalents		261 017		364 912	

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Categories and classes of financial liabilities	Note	As at 30 September 2016 (unaudited)		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>1 Financial liabilities at fair value through profit or loss, held for trading</b>		<b>66 581</b>		<b>16 642</b>	
Derivative instruments	31	66 581	66 581	16 642	16 642
<b>2 Financial liabilities measured at amortized cost</b>		<b>9 800 342</b>		<b>9 980 020</b>	
Preferential loans	30.1	43 589	43 589	47 999	47 999
Arm's length loans	30.1	1 282 485	1 287 302	1 353 571	1 375 724
Bank overdrafts	30.1	109 582	109 582	10 206	10 206
Bonds issued	30.2	7 055 782	7 120 373	6 680 433	6 683 707
Liabilities to suppliers		615 200	615 200	790 706	790 706
Other financial liabilities		108 813	108 813	157 240	157 240
Capital commitments		485 319	485 319	767 759	767 759
Salaries and wages		97 994	97 994	155 957	155 957
Insurance contracts		1 578	1 578	16 149	16 149
<b>3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39</b>		<b>39 175</b>		<b>46 438</b>	
Obligations under finance leases		39 175	39 175	46 438	46 438
<b>4 Derivative hedging instruments</b>	<b>31</b>	<b>38 915</b>	<b>38 915</b>	<b>95 467</b>	<b>95 467</b>
<b>Total financial liabilities, of which in the statement of financial position:</b>		<b>9 945 013</b>		<b>10 138 567</b>	
<b>Non-current liabilities</b>		<b>7 446 986</b>		<b>5 025 832</b>	
Debt		7 397 598		4 924 127	
Other financial liabilities		49 388		101 705	
<b>Current liabilities</b>		<b>2 498 027</b>		<b>5 112 735</b>	
Debt		1 133 015		3 214 520	
Liabilities to suppliers		615 200		790 706	
Capital commitments		484 991		766 843	
Derivative instruments		105 449		96 953	
Other financial liabilities		159 372		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 31 to these condensed interim consolidated financial statements. Disclosures regarding the fair value hierarchy have also been presented in Note 31. Measurement of investment fund units has been classified to Level 1 in the fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- fixed-rate financial instruments, which, as at 30 September 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. by applying market interest rates. The measurement resulted in Level 2 classification in the 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 30 September 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 30 September 2016, the Parent was a party to hedging transactions covered by the policy for specific risk management in the area of finance, entered into with a view to hedging interest cash flows from issued bonds. The Parent applies hedge accounting to the aforementioned transactions. The accounting treatment of the aforementioned hedging transactions has been discussed in more detail in Note 31 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**

##### **Incorporation of ElectroMobility Poland S.A. in formation**

On 19 October 2016, TAURON Polska Energia S.A., PGE Polska Grupa Energetyczna S.A., ENEA S.A. and ENERGA S.A. incorporated a company under the name of ElectroMobility Poland S.A. with its registered office in Warsaw, in which TAURON Polska Energia S.A. holds 2 500 shares with the nominal value of PLN 1 000 each and the total nominal value of PLN 2 500 thousand, accounting for 25% of the issued capital of the new company.

##### **Entry into agreements setting out the terms of continuation of the gas and steam unit construction project in Elektrociepłownia Stalowa Wola S.A.**

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

The main objective of the conditional agreement is to set out the terms for settlement of liquidated damages that may be imposed by PGNiG S.A. under the existing gaseous fuel supply contract, in addition to the financial restructuring of the project. It also defines the changes in the basic commercial transactions entered into by Elektrociepłownia Stalowa Wola S.A., i.e. in respect of purchases of gaseous fuel and sales of electricity produced, which will be introduced under annexes to the gaseous fuel supply and electricity sales contracts.

In particular, the conditional changes to the gaseous fuel supply and electricity sales contracts include the application of market price formulas for the contracts in question. Furthermore, due to delays in the investment, the annex to the gaseous fuel supply contract provides for changes in the amount, time limits and methodologies of imposition of liquidated damages.

The aforesaid agreement and annexes will enter into force at the same time, once the conditions precedent have been satisfied, i.e. the binding financing agreements have been amended or the amounts due have been paid to the last institution which currently provides funding to Elektrociepłownia Stalowa Wola S.A., i.e. the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.

Additionally, the Company, Elektrociepłownia Stalowa Wola S.A., PGNiG S.A., the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. entered into a standstill agreement with a view to ensuring that the institutions which currently provide funding to Elektrociepłownia Stalowa Wola S.A. will refrain from accelerating the loans granted to the company and satisfying their claims through the use of the related collateral. The standstill agreement will be in force until 31 March 2017. It is anticipated that new instruments for the financial restructuring of the project will be negotiated and executed by that date. The standstill agreement will enter into force in particular on condition that the financing institutions have been provided with bank guarantees of up to ca. PLN 629 000 thousand by 30 October 2016, 50% of which should be bank guarantees provided by the Company to the financing institutions. The guarantees in question were provided by the Company along with other necessary documents. Notwithstanding the above, Elektrociepłownia Stalowa Wola S.A. is entitled to notify the financing institutions of early loan repayment at its own discretion by 20 March 2017.

The agreement reflects the will of the Company and PGNiG S.A. to continue the construction of the gas and steam unit. According to the Management Board of the Company, the aforesaid documents enable completion of the investment in 2019 (preliminary estimate).



**EU endorsement of IFRS 15 Revenue from Contracts with Customers**

IFRS 15 Revenue from Contracts with Customers was endorsed by the European Union, including the amendment to IFRS 15 "Effective date of IFRS 15". It was published on 29 October 2016. In the European Union, the standard enters into force for annual periods beginning on or after 1 January 2018.

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These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 9-month period ended 30 September 2016 in accordance with International Accounting Standard 34 have been presented on 66 consecutive pages.

Katowice, 8 November 2016

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

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

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