**TAURON Polska Energia S.A.**

**Condensed Interim 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**

*(in PLN '000)*

## CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

| | Note | 3-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2016 *(unaudited)* | 3-month period ended 30 September 2015 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|---|---|---|
| Sales revenue | 11 | 1 820 739 | 5 810 862 | 2 092 358 | 6 735 918 |
| Cost of sales | 12 | (1 792 511) | (5 700 452) | (2 052 266) | (6 602 935) |
| **Gross profit** | | **28 228** | **110 410** | **40 092** | **132 983** |
| Selling and distribution expenses | 12 | (4 231) | (16 833) | (4 345) | (13 951) |
| Administrative expenses | 12 | (31 809) | (76 000) | (31 866) | (87 566) |
| Other operating income and expenses | | (23) | (6 387) | 1 027 | 4 728 |
| **Operating profit (loss)** | | **(7 835)** | **11 190** | **4 908** | **36 194** |
| Dividend income | 13 | - | 1 485 152 | - | 1 510 624 |
| Interest income on bonds and loans | 13 | 130 975 | 371 315 | 116 527 | 327 819 |
| Interest expense on debt | 13 | (84 900) | (269 633) | (88 808) | (266 556) |
| Revaluation of shares | 13 | - | (997 051) | - | - |
| Other finance income and costs | 13 | (87 319) | (97 814) | 45 764 | 10 084 |
| **Profit (loss) before tax** | | **(49 079)** | **503 159** | **78 391** | **1 618 165** |
| Income tax expense | 14 | (1 869) | (4 196) | (6 912) | (9 528) |
| **Net profit (loss)** | | **(50 948)** | **498 963** | **71 479** | **1 608 637** |
| Measurement of hedging instruments | | 35 092 | 83 938 | 13 426 | 62 054 |
| Income tax expense | 14 | (6 667) | (15 948) | (2 551) | (11 790) |
| **Other comprehensive income subject to reclassification to profit or loss** | | **28 425** | **67 990** | **10 875** | **50 264** |
| Actuarial gains/(losses) | | 17 | 44 | 7 | 18 |
| Income tax expense | 14 | (4) | (9) | (1) | (3) |
| **Other comprehensive income not subject to reclassification to profit or loss** | | **13** | **35** | **6** | **15** |
| **Other comprehensive income, net of tax** | | **28 438** | **68 025** | **10 881** | **50 279** |
| **Total comprehensive income** | | **(22 510)** | **566 988** | **82 360** | **1 658 916** |
| **Earnings per share (in PLN):** | | | | | |
| - basic and diluted, for net profit | | (0.03) | 0.28 | 0.04 | 0.92 |

*(in PLN '000)*

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

| | Note | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **16** | 1 650 | 3 436 |
| Investment property | **17** | 26 223 | 28 935 |
| Intangible assets | **18** | 2 467 | 3 299 |
| Shares | **19** | 15 185 244 | 15 933 194 |
| Bonds | **20** | 8 945 360 | 7 451 601 |
| Loans granted | **21** | 1 465 716 | 1 417 165 |
| Derivative instruments | **22** | 20 610 | 16 |
| Other financial assets | **33** | 31 413 | 5 263 |
| Other non-financial assets | | 7 888 | 23 461 |
| Deferred tax assets | **14.2** | 3 899 | - |
| | | **25 690 470** | **24 866 370** |
| **Current assets** | | | |
| Inventories | **24** | 108 035 | 249 492 |
| Receivables from clients | **25** | 393 664 | 579 446 |
| Receivables arising from taxes and charges | **26** | 25 588 | 43 763 |
| Bonds | **20** | 174 841 | 215 040 |
| Loans granted | **21** | 13 168 | 144 150 |
| Derivative instruments | **22** | 59 989 | 5 668 |
| Other financial assets | **33** | 296 274 | 130 148 |
| Other non-financial assets | | 33 548 | 71 824 |
| Cash and cash equivalents | **27** | 116 308 | 168 255 |
| | | **1 221 415** | **1 607 786** |
| **TOTAL ASSETS** | | **26 911 885** | **26 474 156** |

*(in PLN '000)*

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION – CONTINUED

| | Note | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Issued capital | **28.1** | 8 762 747 | 8 762 747 |
| Reserve capital | **28.5** | 7 823 339 | 11 277 247 |
| Revaluation reserve from valuation of hedging instruments | **28.4** | (5 424) | (73 414) |
| Retained earnings / (Accumulated losses) | **28.5** | 578 823 | (3 374 083) |
| | | **17 159 485** | **16 592 497** |
| **Non-current liabilities** | | | |
| Debt | **29** | 7 389 398 | 4 876 546 |
| Other financial liabilities | | 5 239 | 5 739 |
| Derivative instruments | **22** | 47 | 15 156 |
| Deferred income tax liabilities | | - | 385 |
| Provisions for employee benefits | | 8 375 | 7 843 |
| Other provisions | **30** | 156 594 | 163 449 |
| | | **7 559 653** | **5 069 118** |
| **Current liabilities** | | | |
| Debt | **29** | 1 664 306 | 4 057 048 |
| Liabilities to suppliers | | 303 160 | 493 936 |
| Liabilities arising from taxes and charges | **31** | 30 908 | 101 670 |
| Derivative instruments | **22** | 105 449 | 96 942 |
| Provisions for employee benefits | | 767 | 722 |
| Other provisions | **30** | 39 401 | 19 443 |
| Accruals, deferred income and government grants | | 13 208 | 19 496 |
| Other financial liabilities | | 35 548 | 23 284 |
| | | **2 192 747** | **4 812 541** |
| **Total liabilities** | | **9 752 400** | **9 881 659** |
| **TOTAL EQUITY AND LIABILITIES** | | **26 911 885** | **26 474 156** |

*(in PLN '000)*

## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

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

| | | Issued capital | Reserve capital | Revaluation reserve from valuation of hedging instruments | Retained earnings/ (Accumulated losses) | Total equity |
|---|---|---|---|---|---|---|
| **As at 1 January 2016** | | **8 762 747** | **11 277 247** | **(73 414)** | **(3 374 083)** | **16 592 497** |
| Coverage of prior years loss | **28.3** | - | (3 453 908) | - | 3 453 908 | **-** |
| Transactions with shareholders | | **-** | **(3 453 908)** | **-** | **3 453 908** | **-** |
| Net profit | | - | - | - | 498 963 | **498 963** |
| Other comprehensive income | | - | - | 67 990 | 35 | **68 025** |
| Total comprehensive income | | **-** | **-** | **67 990** | **498 998** | **566 988** |
| **As at 30 September 2016 *(unaudited)*** | | **8 762 747** | **7 823 339** | **(5 424)** | **578 823** | **17 159 485** |

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

| | | Issued capital | Reserve capital | Revaluation reserve from valuation of hedging instruments | Retained earnings/ (Accumulated losses) | Total equity |
|---|---|---|---|---|---|---|
| **As at 1 January 2015** | | **8 762 747** | **10 393 686** | **(143 019)** | **1 226 153** | **20 239 567** |
| Dividends | **15** | - | - | - | (262 882) | **(262 882)** |
| Approporiation of prior years profits | | - | 883 561 | - | (883 561) | **-** |
| Transactions with shareholders | | **-** | **883 561** | **-** | **(1 146 443)** | **(262 882)** |
| Net profit | | - | - | - | 1 608 637 | **1 608 637** |
| Other comprehensive income | | - | - | 50 264 | 15 | **50 279** |
| Total comprehensive income | | **-** | **-** | **50 264** | **1 608 652** | **1 658 916** |
| **As at 30 September 2015 *(unaudited)*** | | **8 762 747** | **11 277 247** | **(92 755)** | **1 688 362** | **21 635 601** |

*(in PLN '000)*

## CONDENSED INTERIM STATEMENT OF CASH FLOWS

| | Note | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit before taxation** | | 503 159 | 1 618 165 |
| Depreciation and amortization | | 6 129 | 5 921 |
| Interest and dividends, net | | (1 584 044) | (1 579 297) |
| Impairment losses on shares | | 997 051 | - |
| Other adjustments of profit before tax | | 83 365 | (7 812) |
| Change in working capital | **32.1** | 102 356 | 172 251 |
| Income tax paid | | (17 984) | (3 416) |
| **Net cash from operating activities** | | **90 032** | **205 812** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | | (1 239) | (2 089) |
| Purchase of bonds | **32.2** | (1 870 000) | (3 925 000) |
| Purchase of shares | **32.2** | (434 103) | (51 377) |
| Loans granted | **32.2** | (10 775) | (8 150) |
| Purchase of investment fund units | | (25 000) | - |
| **Total payments** | | **(2 341 117)** | **(3 986 616)** |
| Sale of property, plant and equipment and intangible assets | | 1 | 1 |
| Redemption of bonds | **32.2** | 340 000 | 2 217 266 |
| Repayment of loans granted | **32.2** | 142 024 | 14 500 |
| Dividends received | | 1 485 152 | 1 510 624 |
| Interest received | **32.2** | 395 344 | 196 147 |
| Other proceeds | | 5 985 | - |
| **Total proceeds** | | **2 368 506** | **3 938 538** |
| **Net cash from (used in) investing activities** | | **27 389** | **(48 078)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Payment of finance lease liabilities | | (2 385) | (2 223) |
| Repayment of loans and borrowings | **32.3** | (61 364) | (61 364) |
| Dividends paid | | - | (262 882) |
| Redemption of debt securities | **32.3** | (2 550 000) | (150 000) |
| Interest paid | **32.3** | (182 934) | (170 824) |
| Commission paid | | (10 706) | (9 754) |
| **Total payments** | | **(2 807 389)** | **(657 047)** |
| Issue of debt securities | **32.3** | 2 860 000 | - |
| Proceeds from loans and borrowings | | - | 322 358 |
| **Total proceeds** | | **2 860 000** | **322 358** |
| **Net cash from (used in) financing activities** | | **52 611** | **(334 689)** |
| **Net increase / (decrease) in cash and cash equivalents** | | **170 032** | **(176 955)** |
| Net foreign exchange difference | | 2 340 | 541 |
| **Cash and cash equivalents at the beginning of the period** | **27** | **(679 175)** | **68 935** |
| **Cash and cash equivalents at the end of the period, *of which:*** | **27** | **(509 143)** | **(108 020)** |
| restricted cash | **27** | 100 854 | 69 524 |

## INTRODUCTION

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

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

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

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

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

The scope of the core business of TAURON Polska Energia S.A. includes:

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

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

The Company's condensed interim 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 financial statements for the 9-month period ended 30 September 2016 were approved for publication on 8 November 2016.

The Company also prepared condensed interim consolidated financial statements for the 9-month period ended 30 September 2016, which were approved by the Management Board for publication on 8 November 2016.

These condensed interim financial statements are part of the consolidated report, which also includes the condensed interim consolidated financial statements for the 9-month period ended 30 September 2016.

### 2. Shares in related parties

As at 30 September 2016, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

*(in PLN '000)*

| Item | Company name | Registered office | Core business | Share of TAURON in the entity's capital and governing body |
|---|---|---|---|---|
| 1 | TAURON Wydobycie S.A. | Jaworzno | Hard coal mining | 100.00% |
| 2 | Nowe Brzeszcze Grupa TAURON Sp. z o.o.[1] | Brzeszcze | Hard coal mining, natural gas extraction and stone quarrying | 100.00% |
| 3 | TAURON Wytwarzanie S.A. | Jaworzno | Generation, transmission and distribution of electricity and heat | 100.00% |
| 4 | TAURON Ekoenergia Sp. z o.o. | Jelenia Góra | Generation of electricity | 100.00% |
| 5 | Marselwind Sp. z o.o. | Katowice | Production, transmission and sale of electricity | 100.00% |
| 6 | TAURON Ciepło Sp. z o.o. | Katowice | Production and distribution of heat | 100.00% |
| 7 | TAURON Dystrybucja S.A. | Kraków | Distribution of electricity | 99.72% |
| 8 | TAURON Dystrybucja Serwis S.A.[2] | Wrocław | Services | 99.72% |
| 9 | TAURON Dystrybucja Pomiary Sp. z o.o.[2] | Tarnów | Services | 99.72% |
| 10 | TAURON Sprzedaż Sp. z o.o. | Kraków | Sale of electricity | 100.00% |
| 11 | TAURON Sprzedaż GZE Sp. z o.o. | Gliwice | Sale of electricity | 100.00% |
| 12 | TAURON Czech Energy s.r.o. | Ostrawa, Czech Republic | Sale of electricity | 100.00% |
| 13 | TAURON Obsługa Klienta Sp. z o.o. | Wrocław | Services | 100.00% |
| 14 | Kopalnia Wapienia Czatkowice Sp. z o.o. | Krzeszowice | Limestone quarrying and stone quarrying | 100.00% |
| 15 | Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation | Warszawa | Sale of electricity | 100.00% |
| 16 | TAURON Sweden Energy AB (publ) | Sztokholm, Sweden | Services | 100.00% |
| 17 | Biomasa Grupa TAURON Sp. z o.o. | Stalowa Wola | Sourcing of and trading in biomass | 100.00% |

*[1] On 1 January 2016, Nowe Brzeszcze Grupa TAURON Sp. z o.o. acquired an organized part of an enterprise (Zakład Górniczy Brzeszcze). The company has been consolidated as of the aforesaid date. 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. On 15 September 2016, the Company sold its shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o. to a subsidiary, TAURON Wydobycie S.A., which has been described in more detail in Note 19 to these condensed interim financial statements.*

*[2] 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 | Core business | Share of TAURON in the entity's capital and governing body |
|---|---|---|---|---|
| 1 | Elektrociepłownia Stalowa Wola S.A.[1] | Stalowa Wola | Generation of electricity | 50.00% |
| 2 | Elektrownia Blachownia Nowa Sp. z o.o.[1] | Kędzierzyn Koźle | Generation of electricity | 50.00% |
| 3 | TAMEH HOLDING Sp. z o.o.[2] | Dąbrowa Górnicza | Head office and holding operations | 50.00% |
| 4 | TAMEH POLSKA Sp. z o.o.[2] | Dąbrowa Górnicza | Generation, transmission, distribution and sale of electricity and heat | 50.00% |
| 5 | TAMEH Czech s.r.o.[2] | Ostrawa, Czech Republic | Production, trade and services | 50.00% |

*[1] TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o. through a subsidiary, TAURON Wytwarzanie S.A.*

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

## STATEMENT OF COMPLIANCE WITH IFRS

### 3. Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard 34 *Interim Financial Reporting* ("IAS 34"), as endorsed by the European Union ("EU").

The condensed interim financial statements do not contain all information and disclosures required for annual financial statements and they should be read jointly with the Company's financial statements prepared in accordance with IFRS for the year ended 31 December 2015.

### 4. Going concern

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

### 5. Functional and presentation currency

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

*(in PLN '000)*

## ACCOUNTING POLICIES

### 6. Changes in 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 these condensed interim 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 financial statements, there were no significant changes in estimates or estimation methods applied, which would affect the current or future periods, other than those presented below or mentioned further in these condensed interim financial statements.

Items of the financial statements exposed to the risk of material adjustment of the carrying amounts of assets and liabilities are presented below. Detailed information regarding assumptions adopted has been presented in notes to these condensed interim 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 | |
| Shares | 15 185 244 | 15 933 194 | • As at 30 June 2016 the Company recognized impairment losses on shares in TAURON Ekoenergia Sp. z o.o. and TAURON Wytwarzanie S.A. of PLN 1 440 303 thousand and derecognized an impairment loss on shares in TAURON Ciepło Sp. z o.o. in the amount of PLN 443 252 thousand. As at 30 September 2016 the amount of impairment losses did not change.<br>Note 19 |
| Provision for onerous contracts | 195 988 | 182 877 | • Provision valuation and description.<br>Note 30 |
| Deferred tax assets | 76 984 | 62 691 | • Unrecognised deferred tax assets;<br>• Realisation of deferred tax assets.<br>Note 14.2 |
| Derivative instruments: | | | • Fair value measurement. |
| Assets | 80 599 | 5 684 | Note 22 |
| Liabilities | 105 496 | 112 098 | |
| Intragroup bonds | 9 120 201 | 7 666 641 | • Classification as non-current or current assets.<br>Note 20 |
| Loan granted to a subsidiary | 1 237 833 | 1 195 362 | • Classification as non-current assets.<br>Note 21 |
| Loan received from a subsidiary | 28 494 | 28 198 | • Classification as non-current liabilities.<br>Note 29.3 |

### 7. New standards and interpretations which have been published but have not entered into force yet

The Company 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 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:

*(in PLN '000)*

| Standard Details | Estimated impact | Effective date specified in the Standard, not endorsed by the EU* |
|---|---|---|
| IFRS 9 *Financial Instruments*<br><br>The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements. | Preliminary analysis of IFRS 9's impact on the accounting policies applied indicates one change important for the Company, 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 by the Company 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 financial statements is subject to further analyses due to the large scope of amendments. | 1 January 2018 |
| IFRS 15 *Revenue from Contracts with Customers***<br><br>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. | Based on preliminary analysis of IFRS 15's impact on the accounting policies applied, 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 happens rarely in the Company. The new guidelines of IFRS 15 are not expected to result in the need to change the systems, but before the standard enters into force the Company intends to carry out an analysis of contracts with customers including contract 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. | 1 January 2018** |
| IFRS 16 *Leases*<br><br>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 at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Leases are classified by lessors 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 of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis, or if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. | Preliminary analysis of IFRS 16's impact on the accounting policies applied indicates certain changes important for the Company, i.e. the need to recognize in the financial statements assets and liabilities for all leases currently classified as operating leases 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 Company 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 Company had not carried out any analyses which would enable determining the impact of the planned changes on the financial statements. The analysis will be conducted in future. | 1 January 2019 |

**Annual periods beginning on or after the date provided*

***After the end of the reporting period the EU endorsed IFRS 15 which has been descibed in Note 40 to these interim condensed financial statements.*

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

*(in PLN '000)*

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

** 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. Significant accounting policies

The accounting principles (policy) adopted for the preparation of these condensed interim financial statements are consistent with those used for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2015, except for the application of the following amendments to standards:

| Standard | Effective in the EU as of *(annual periods beginning on or after the date provided)* |
|---|---|
| Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* | 1 February 2015 |
| Annual Improvements to IFRS (Cycle 2010-2012) | 1 February 2015 |
| Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations* . | 1 January 2016 |
| Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative* | 1 January 2016 |
| Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization* | 1 January 2016 |
| Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants* | 1 January 2016 |
| Revised IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements* | 1 January 2016 |
| Annual Improvements to IFRS (Cycle 2012-2014) | 1 January 2016 |
| Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures Investment Entities: Applying the Consolidation Exception* | 1 January 2016 |

The introduction of the abovementioned amendments to standards has not exerted a significant effect on the accounting principles (policy) adopted by the Company.

## EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

### 9. Seasonality of operations

The Company's operations related to electricity sales are not seasonal in nature, hence the Company's performance in this area shows no significant fluctuations during the year.

As the Company carries out holding operations, it reports significant dividend income recognized under finance income as at the dates of the resolutions on dividend payment, unless such resolutions set other record dates. During the 9-month period ended 30 September 2016, the Company recognized dividend income of PLN 1 485 152 thousand vs. PLN 1 510 624 thousand in the comparative period.

### 10. Information on operating segments

The Company carries out its business in two operating segments, that is "Sales" and "Holding activity". "Holding activity" segment assets include:

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

"Holding activity" segment liabilities include:

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

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

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

Unallocated expenses include the Company's general and administrative expense, as it is incurred for the Group as a whole and is not directly attributable to a specific operating segment.

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

*(in PLN '000)*

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

| | Sales | Holding activity | Unallocated items | Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales outside the Group | 1 395 664 | - | - | **1 395 664** |
| Sales within the Group | 4 415 198 | - | - | **4 415 198** |
| **Segment revenue** | **5 810 862** | **-** | **-** | **5 810 862** |
| **Profit/(loss) of the segment** | **87 190** | **-** | **-** | **87 190** |
| Unallocated expenses | - | - | (76 000) | **(76 000)** |
| **EBIT** | **87 190** | **-** | **(76 000)** | **11 190** |
| Net finance income/(costs) | - | 501 341 | (9 372) | **491 969** |
| **Profit/(loss) before income tax** | **87 190** | **501 341** | **(85 372)** | **503 159** |
| Income tax expense | - | - | (4 196) | **(4 196)** |
| **Net profit/(loss) for the period** | **87 190** | **501 341** | **(89 568)** | **498 963** |
| **Assets and liabilities** | | | | |
| Segment assets | 816 999 | 25 996 395 | - | **26 813 394** |
| Unallocated assets | - | - | 98 491 | **98 491** |
| **Total assets** | **816 999** | **25 996 395** | **98 491** | **26 911 885** |
| Segment liabilities | 529 278 | 8 977 649 | **-** | **9 506 927** |
| Unallocated liabilities | - | - | 245 473 | **245 473** |
| **Total liabilities** | **529 278** | **8 977 649** | **245 473** | **9 752 400** |
| **EBIT** | **87 190** | **-** | **(76 000)** | **11 190** |
| **Depreciation/amortization** | **(6 129)** | **-** | **-** | **(6 129)** |
| **Impairment** | **148** | **-** | **-** | **148** |
| **EBITDA** | **93 171** | **-** | **(76 000)** | **17 171** |
| **Other segment information** | | | | |
| Capital expenditure * | 799 | - | - | **799** |

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

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

| | Sales | Holding activity | Unallocated items | Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales outside the Group | 1 650 845 | - | - | **1 650 845** |
| Sales within the Group | 5 085 073 | - | - | **5 085 073** |
| **Segment revenue** | **6 735 918** | **-** | **-** | **6 735 918** |
| **Profit/(loss) of the segment** | **123 760** | **-** | **-** | **123 760** |
| Unallocated expenses | - | - | (87 566) | **(87 566)** |
| **EBIT** | **123 760** | **-** | **(87 566)** | **36 194** |
| Net finance income (costs) | - | 1 572 184 | 9 787 | **1 581 971** |
| **Profit/(loss) before income tax** | **123 760** | **1 572 184** | **(77 779)** | **1 618 165** |
| Income tax expense | - | - | (9 528) | **(9 528)** |
| **Net profit/(loss) for the period** | **123 760** | **1 572 184** | **(87 307)** | **1 608 637** |
| **Assets and liabilities** | | | | |
| Segment assets | 1 188 954 | 25 282 574 | - | **26 471 528** |
| Unallocated assets | - | - | 2 628 | **2 628** |
| **Total assets** | **1 188 954** | **25 282 574** | **2 628** | **26 474 156** |
| Segment liabilities | 727 714 | 9 009 672 | **-** | **9 737 386** |
| Unallocated liabilities | - | - | 144 273 | **144 273** |
| **Total liabilities** | **727 714** | **9 009 672** | **144 273** | **9 881 659** |
| **EBIT** | **123 760** | **-** | **(87 566)** | **36 194** |
| **Depreciation/amortization** | **(5 921)** | **-** | **-** | **(5 921)** |
| **Impairment** | **(46)** | **-** | **-** | **(46)** |
| **EBITDA** | **129 727** | **-** | **(87 566)** | **42 161** |
| **Other segment information** | | | | |
| Capital expenditure * | 2 912 | - | - | **2 912** |

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

In the 9-month period ended 30 September 2016, revenue from sales to two major clients, being members of the TAURON Capital Group, represented 61% and 10% of the Company's total revenue in the "Sales" segment, amounting to PLN 3 532 752 thousand and PLN 599 936 thousand, respectively.

*(in PLN '000)*

In the 9-month period ended 30 September 2015, revenue from sales to two major clients, being members of the TAURON Capital Group, represented 55% and 11% of the Company's total revenue in the "Sales" segment, amounting to PLN 3 736 720 thousand and PLN 745 506 thousand, respectively.

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

| | Sales | Holding activity | Unallocated items | Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales outside the Group | 434 242 | - | - | **434 242** |
| Sales within the Group | 1 386 497 | - | - | **1 386 497** |
| **Segment revenue** | **1 820 739** | **-** | **-** | **1 820 739** |
| **Profit/(loss) of the segment** | **23 974** | **-** | **-** | **23 974** |
| Unallocated expenses | - | **-** | (31 809) | **(31 809)** |
| **EBIT** | **23 974** | **-** | **(31 809)** | **(7 835)** |
| Net finance income (costs) | - | (23 403) | (17 841) | **(41 244)** |
| **Profit/(loss) before income tax** | **23 974** | **(23 403)** | **(49 650)** | **(49 079)** |
| Income tax expense | - | - | (1 869) | **(1 869)** |
| **Net profit/(loss) for the period** | **23 974** | **(23 403)** | **(51 519)** | **(50 948)** |
| **EBIT** | **23 974** | **-** | **(31 809)** | **(7 835)** |
| **Depreciation/amortization** | **(1 679)** | **-** | **-** | **(1 679)** |
| **Impairment** | **(53)** | **-** | **-** | **(53)** |
| **EBITDA** | **25 706** | **-** | **(31 809)** | **(6 103)** |
| **Other segment information** | | | | |
| Capital expenditure * | 266 | - | - | **266** |

** Investment expenditure includes outlays on property, plant and equipment as well as non-current intangible assets, except for energy certificates acquired by the Company.*

**For the 3-month period ended 30 September 2015 (*unaudited*)**

| | Sales | Holding activity | Unallocated items | Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales outside the Group | 564 365 | - | - | **564 365** |
| Sales within the Group | 1 527 993 | - | - | **1 527 993** |
| **Segment revenue** | **2 092 358** | **-** | **-** | **2 092 358** |
| **Profit/(loss) of the segment** | **36 774** | **-** | **-** | **36 774** |
| Unallocated expenses | - | **-** | (31 866) | **(31 866)** |
| **EBIT** | **36 774** | **-** | **(31 866)** | **4 908** |
| Net finance income (costs) | - | 67 059 | 6 424 | **73 483** |
| **Profit/(loss) before income tax** | **36 774** | **67 059** | **(25 442)** | **78 391** |
| Income tax expense | - | - | (6 912) | **(6 912)** |
| **Net profit/(loss) for the period** | **36 774** | **67 059** | **(32 354)** | **71 479** |
| **EBIT** | **36 774** | **-** | **(31 866)** | **4 908** |
| **Depreciation/amortization** | **(2 019)** | **-** | **-** | **(2 019)** |
| **Impairment** | **446** | **-** | **-** | **446** |
| **EBITDA** | **38 347** | **-** | **(31 866)** | **6 481** |
| **Other segment information** | | | | |
| Capital expenditure * | 515 | - | - | **515** |

** Investment expenditure includes outlays on property, plant and equipment as well as non-current intangible assets, except for energy certificates acquired by the Company.*

*(in PLN '000)*

## 11. Sales revenue

| | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| **Revenue from sales of goods for resale and materials, *of which*:** | **5 764 636** | **6 685 896** |
| Electricity | 5 283 774 | 6 319 226 |
| Gas | 170 375 | 55 626 |
| Property rights arising from energy certificates | 26 072 | 154 858 |
| Emission allowances | 281 456 | 153 862 |
| Other | 2 959 | 2 324 |
| **Rendering of services, *of which*:** | **46 226** | **50 022** |
| Trading income | 37 757 | 43 319 |
| Other | 8 469 | 6 703 |
| **Total sales revenue** | **5 810 862** | **6 735 918** |

The Company acts as an agent in transactions involving coal purchases for the Group companies (in the comparative period, also with respect to biomass purchases). The Company purchases raw materials from third parties and from the TAURON Group companies, which are subsequently sold to the related companies. It recognizes revenue from agency services (supply management).

In the 9-month period ended 30 September 2016, raw materials purchased and subsequently resold in the abovementioned transactions amounted to PLN 957 564 thousand. Revenue from agency services amounted to PLN 21 594 thousand.

## 12. Expenses by type

| | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| **Costs by type** | | |
| Depreciation of property, plant and equipment and amortization of intangible assets | (6 129) | (5 921) |
| Materials and energy | (867) | (880) |
| Consultancy services | (6 221) | (7 949) |
| IT services | (9 746) | (9 600) |
| Other external services | (11 789) | (12 367) |
| Taxes and charges | (2 388) | (1 457) |
| Employee benefits expense | (56 129) | (57 540) |
| Impairment loss on inventories | (3 328) | (745) |
| Allowance for receivables from clients | 1 547 | (1 505) |
| Advertising expenses | (18 661) | (24 274) |
| Other | (1 543) | (1 698) |
| **Total costs by type** | **(115 254)** | **(123 936)** |
| Selling and distribution expenses | 16 833 | 13 951 |
| Administrative expenses | 76 000 | 87 566 |
| Cost of goods for resale and materials sold | (5 678 031) | (6 580 516) |
| **Cost of sales** | **(5 700 452)** | **(6 602 935)** |

*(in PLN '000)*

## 13. Finance income and costs

| | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| **Income and costs from financial instruments, *of which:*** | **500 351** | **1 582 384** |
| Dividend income | 1 485 152 | 1 510 624 |
| Interest income on bonds and loans | 371 315 | 327 819 |
| Other interest income | 5 628 | 16 334 |
| Interest expense | (269 633) | (266 556) |
| Commissions due to external financing | (10 859) | (7 476) |
| Surplus of impairment losses recognised on shares | (997 051) | - |
| Loss on disposal of investment in a subsidiary | (88 311) | - |
| Measurement of derivative instruments | 13 764 | 5 459 |
| Gain/loss on derivative instruments realized | (958) | (7 047) |
| Exchange gains/losses | (8 967) | 3 337 |
| Other | 271 | (110) |
| **Other finance income and costs** | **(8 382)** | **(413)** |
| Interest on discount (other provisions) | (10 935) | - |
| Other | 2 553 | (413) |
| **Total finance income and costs, *including recognized in the statement of comprehensive income:*** | **491 969** | **1 581 971** |
| Dividend income | 1 485 152 | 1 510 624 |
| Interest income on bonds and loans | 371 315 | 327 819 |
| Interest expense on debt | (269 633) | (266 556) |
| Revaluation of shares | (997 051) | - |
| Other finance income and costs | (97 814) | 10 084 |

As at 30 June 2016, the Company tested the shares in its subsidiaries for impairment, which has been described in more detail in Note 19 to these condense interim financial statements. Consequently, it recognized an impairment loss on the shares in TAURON Wytwarzanie S.A. (PLN 600 068 thousand) and in TAURON Ekoenergia Sp. z o.o. (PLN 840 235 thousand) in addition to reversing the total impairment loss recognized as at the end of 2015 with respect to the shares in TAURON Ciepło Sp. z o.o. (PLN 443 252 thousand). The impairment loss did not change as at 30 September 2016.

In September 2016, the Company sold its shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o. to a subsidiary, TAURON Wydobycie S.A., which has been described in more detail in Note 19 to these condensed interim financial statements. As a result, it recognized a loss on disposal of investment of PLN 88 311 thousand.

During the 9-month period ended 30 September 2016, exchange losses exceeded exchange gains by PLN 8 967 thousand, which was mainly a result of the occurrence of exchange losses accrued on the loan obtained from TAURON Sweden Energy AB (publ). In the comparative period, exchange gains exceeded exchange losses.

## 14. Income tax

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

| | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| **Current income tax** | **(24 437)** | **8 392** |
| Current income tax expense | (24 437) | (3 666) |
| Adjustments of current income tax from prior years | - | 12 058 |
| **Deferred tax** | **20 241** | **(17 920)** |
| **Income tax expense in profit or loss** | **(4 196)** | **(9 528)** |
| **Income tax expense in other comprehensive income** | **(15 957)** | **(11 793)** |

*(in PLN '000)*

### 14.2. Deferred income tax

| | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|
| - due interest on bonds and loans | 56 303 | 61 547 |
| - difference between tax base and carrying amount of other financial assets | 15 561 | 944 |
| - other | 1 221 | 585 |
| **Deferred tax liabilities** | **73 085** | **63 076** |
| - provision for employee benefits | 1 737 | 1 627 |
| - other provisions and accruals | 29 335 | 28 336 |
| - difference between tax base and carrying amount of fixed and intangible assets | 1 169 | 1 189 |
| - difference between tax base and carrying amount of financial liabilities | 35 327 | 11 908 |
| - valuation of hedging instruments | 7 394 | 18 139 |
| - other | 2 022 | 1 492 |
| **Deferred tax assets, *of which*:** | **76 984** | **62 691** |
| Deferred tax assets recognized in profit or loss | 75 555 | 45 305 |
| Deferred tax assets recognized in other comprehensive income | 1 429 | 17 386 |
| **Deferred tax assets/(liabilities), net** | **3 899** | **(385)** |

Deferred tax asset related to deductible differences concerning investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences. According to the Company, deductible temporary differences related to recognition of impairment losses on shares in subsidiaries: TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o. will not be reversed in foreseeable future, as the investments are not intended for sale. Consequently, no related deferred tax asset has been recognized.

As taxable profit is forecast for 2016 for the Tax Capital Group ("TCG") of which the Company is a member, and taxable profit is forecast for the subsequent years, the deferred tax asset related to all deductible differences, except those described above, has been recognized in these financial statements in the full amount.

## 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.

*(in PLN '000)*

## 16. Property, plant and equipment

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

| | Plant and machinery | Motor vehicles | Other | Assets under construction | Property, plant and equipment, total |
|---|---|---|---|---|---|
| **COST** | | | | | |
| **Opening balance** | **6 761** | **6 857** | **10 798** | **-** | **24 416** |
| Direct purchase | - | - | - | 799 | **799** |
| Allocation of assets under construction | - | - | 770 | (770) | **-** |
| Sale, disposal | (21) | - | - | - | **(21)** |
| **Closing balance** | **6 740** | **6 857** | **11 568** | **29** | **25 194** |
| **ACCUMULATED DEPRECIATION** | | | | | |
| **Opening balance** | **(6 438)** | **(4 771)** | **(9 771)** | **-** | **(20 980)** |
| Depreciation for the period | (264) | (721) | (1 600) | - | **(2 585)** |
| Sale, disposal | 21 | - | - | - | **21** |
| **Closing balance** | **(6 681)** | **(5 492)** | **(11 371)** | **-** | **(23 544)** |
| **NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD** | **323** | **2 086** | **1 027** | **-** | **3 436** |
| **NET CARRYING AMOUNT AT THE END OF THE PERIOD** | **59** | **1 365** | **197** | **29** | **1 650** |

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

| | Plant and machinery | Motor vehicles | Other | Assets under construction | Property, plant and equipment, total |
|---|---|---|---|---|---|
| **COST** | | | | | |
| **Opening balance** | **6 819** | **5 876** | **10 677** | **92** | **23 464** |
| Direct purchase | - | - | - | 1 362 | **1 362** |
| Allocation of assets under construction | - | 1 338 | 111 | (1 449) | **-** |
| Sale, disposal/Liquidation | (7) | - | - | - | **(7)** |
| **Closing balance** | **6 812** | **7 214** | **10 788** | **5** | **24 819** |
| **ACCUMULATED DEPRECIATION** | | | | | |
| **Opening balance** | **(6 129)** | **(4 369)** | **(7 703)** | **-** | **(18 201)** |
| Depreciation for the period | (276) | (518) | (1 578) | - | **(2 372)** |
| Sale, disposal/Liquidation | 7 | - | - | - | **7** |
| **Closing balance** | **(6 398)** | **(4 887)** | **(9 281)** | **-** | **(20 566)** |
| **NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD** | **690** | **1 507** | **2 974** | **92** | **5 263** |
| **NET CARRYING AMOUNT AT THE END OF THE PERIOD** | **414** | **2 327** | **1 507** | **5** | **4 253** |

## 17. Investment property

| | 9-month period ended 30 September 2016 (*unaudited*) | 9-month period ended 30 September 2015 (*unaudited*) |
|---|---|---|
| **COST** | | |
| **Opening balance** | **36 169** | **36 169** |
| **Closing balance** | **36 169** | **36 169** |
| **ACCUMULATED DEPRECIATION** | | |
| **Opening balance** | **(7 234)** | **(3 617)** |
| Depreciation for the period | (2 712) | (2 712) |
| **Closing balance** | **(9 946)** | **(6 329)** |
| **NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD** | **28 935** | **32 552** |
| **NET CARRYING AMOUNT AT THE END OF THE PERIOD** | **26 223** | **29 840** |

The investment property is composed of buildings located in Katowice Szopienice at ul. Lwowska 23, used under a finance lease agreement with PKO Bankowy Leasing Sp. z o.o. The monthly lease payment is ca. PLN 315 thousand, while the monthly depreciation charge is PLN 301 thousand.

The Company is a party to a lease agreement with a subsidiary (the lessee) valid until 30 April 2018, whereby buildings and structures the rights to which result from the aforesaid lease agreement have been subleased. In the 9-month period ended 30 September 2016, the rental income related to the investment property amounted to PLN 4 230 thousand.

*(in PLN '000)*

## 18. Non-current intangible assets

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

| | Software and licenses | Energy certificates | Other intangible assets | Intangible assets not commissioned for use | Intangible assets, total |
|---|---|---|---|---|---|
| **COST** | | | | | |
| **Opening balance** | **3 539** | **-** | **4 185** | **-** | **7 724** |
| Liquidation | (1 280) | - | (60) | - | **(1 340)** |
| **Closing balance** | **2 259** | **-** | **4 125** | **-** | **6 384** |
| **ACCUMULATED AMORTIZATION** | | | | | |
| **Opening balance** | **(2 985)** | **-** | **(1 440)** | **-** | **(4 425)** |
| Amortization for the period | (256) | - | (576) | - | **(832)** |
| Liquidation | 1 280 | - | 60 | - | **1 340** |
| **Closing balance** | **(1 961)** | **-** | **(1 956)** | **-** | **(3 917)** |
| **NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD** | **554** | **-** | **2 745** | **-** | **3 299** |
| **NET CARRYING AMOUNT AT THE END OF THE PERIOD** | **298** | **-** | **2 169** | **-** | **2 467** |

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

| | Software and licenses | Energy certificates | Other intangible assets | Intangible assets not commissioned for use | Intangible assets, total |
|---|---|---|---|---|---|
| **COST** | | | | | |
| **Opening balance** | **3 560** | **5 401** | **2 676** | **-** | **11 637** |
| Direct purchase | - | - | - | 1 550 | **1 550** |
| Allocation of intangible assets not made available for use | - | - | 1 550 | (1 550) | **-** |
| Liquidation | (21) | - | (47) | - | **(68)** |
| Reclassification | - | (5 401) | - | - | **(5 401)** |
| **Closing balance** | **3 539** | **-** | **4 179** | **-** | **7 718** |
| **ACCUMULATED AMORTIZATION** | | | | | |
| **Opening balance** | **(2 646)** | **-** | **(713)** | **-** | **(3 359)** |
| Amortization for the period | (274) | - | (563) | - | **(837)** |
| Liquidation | 21 | - | 47 | - | **68** |
| **Closing balance** | **(2 899)** | **-** | **(1 229)** | **-** | **(4 128)** |
| **NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD** | **914** | **5 401** | **1 963** | **-** | **8 278** |
| **NET CARRYING AMOUNT AT THE END OF THE PERIOD** | **640** | **-** | **2 950** | **-** | **3 590** |

*(in PLN '000)*

## 19. Shares

**Changes in shares from 1 January 2016 to 30 September 2016 (*unaudited*)**

| No. | Company | Opening balance | Increases/ (Decreases) | Closing balance |
|---|---|---|---|---|
| 1 | TAURON Wydobycie S.A. | 494 755 | 250 000 | **744 755** |
| 2 | Nowe Brzeszcze Grupa TAURON Sp. z o.o. | 2 102 | (2 102) | **-** |
| 3 | TAURON Wytwarzanie S.A. | 2 748 832 | (600 068) | **2 148 764** |
| 4 | TAURON Wytwarzanie GZE Sp. z o.o. in liquidation | 4 935 | - | **4 935** |
| 5 | TAURON Ciepło Sp. z o.o. | 884 791 | 443 252 | **1 328 043** |
| 6 | TAURON Ekoenergia Sp. z o.o. | 939 765 | (840 235) | **99 530** |
| 7 | Marselwind Sp. z o.o. | 107 | - | **107** |
| 8 | TAURON Dystrybucja S.A. | 9 511 628 | - | **9 511 628** |
| 9 | TAURON Sprzedaż Sp. z o.o. | 613 505 | - | **613 505** |
| 10 | TAURON Sprzedaż GZE Sp. z o.o. | 129 823 | - | **129 823** |
| 11 | TAURON Czech Energy s.r.o. | 4 223 | - | **4 223** |
| 12 | Kopalnia Wapienia Czatkowice Sp. z o.o. | 41 178 | - | **41 178** |
| 13 | Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation | 49 056 | - | **49 056** |
| 14 | TAURON Sweden Energy AB (publ) | 28 382 | - | **28 382** |
| 15 | Biomasa Grupa TAURON Sp. z o.o. | 1 269 | - | **1 269** |
| 16 | TAURON Obsługa Klienta Sp. z o.o. | 39 831 | - | **39 831** |
| 17 | TAMEH HOLDING Sp. z o.o. | 415 852 | - | **415 852** |
| 18 | PGE EJ 1 Sp. z o.o. | 23 046 | - | **23 046** |
| 19 | Other | 114 | 1 203 | **1 317** |
| | **Total** | **15 933 194** | **(747 950)** | **15 185 244** |

Changes in long-term investments in the 9-month period ended 30 September 2016 resulted from the following transactions:

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

  During the 9-month period ended 30 September 2016, the capital of Nowe Brzeszcze Grupa TAURON Sp. z o.o. was increased several times by the total amount of PLN 182 900 thousand and the new shares were acquired by the Company:

  - on 29 January 2016 by the amount of PLN 29 000 thousand;
  - on 6 May 2016 by the amount of PLN 150 000 thousand;
  - on 25 August 2016 by the amount of PLN 3 900 thousand.

- Sales of shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o.

  On 9 September 2016, TAURON Polska Energia S.A. and its subsidiary, TAURON Wydobycie S.A., entered into a share purchase agreement whereby the Company sold 550 780 shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o. with the carrying amount of PLN 185 002 thousand, representing 100% of the issued capital of the entity, for the total amount of PLN 96 691 thousand, to TAURON Wydobycie S.A. As a result, the Company recognized a loss on disposal of investment in a subsidiary of PLN 88 311 thousand. TAURON Polska Energia S.A. retained control of Nowe Brzeszcze Grupa TAURON Sp. z o.o., exercised indirectly through 100% of shares in TAURON Wydobycie S.A. being held by the Company.

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

  On 29 April 2016, the Extraordinary General Shareholders' Meeting of TAURON Wydobycie S.A. adopted a resolution to increase the issued capital of the entity by PLN 2 500 thousand by way of issuing 250 000 shares with the nominal value of PLN 10 each, which were acquired by the Company at PLN 1 000 per share, for the total amount of PLN 250 000 thousand. The capital increase was registered on 28 June 2016.

  On 28 September 2016, the Extraordinary General Shareholders' Meeting of TAURON Wydobycie S.A. adopted a resolution to increase the issued capital of the entity by PLN 970 thousand by way of issuing 97 000 shares with the nominal value of PLN 10 each, which were acquired by the Company at PLN 1 000 per share, for the total amount of PLN 97 000 thousand. The capital increase of the company was registered after the end of the reporting period, on 27 October 2016.

**Impairment of assets**

Considering external factors affecting the Company's market cap being lower than its carrying amount for a long time and the overall unfavorable conditions on the energy market, a drop in the prices of renewable energy certificates and the adoption of new regulations governing renewable energy sources, 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 shares and intra-group loans and bonds recognized in non-current assets, which were performed as at 30 June 2016, were up-to-date.

As at 30 June 2016, the Company carried out an impairment test focusing on shares and intra-group loans and bonds. Shares and intra-group loans and bonds accounted for about 93% of the balance sheet total.

The test was conducted based on the present value of projected cash flows from operations of the key entities, by reference to detailed projections for 2016 - 2025 and the estimated residual value. The projections used for the power generating units covered the entire 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 level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.09% to 9.63% in nominal terms before tax. WACC is calculated 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 business assumptions affecting the estimated value in use of the tested entities are:

- the adopted price path for power coal, other coal sizes and gaseous fuels. it is assumed that the price of 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 $CO_2$ emission allowances. A rise of ca. 1% 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 $CO_2$ 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;

*(in PLN '000)*

- the adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- sales volumes taking into account GDP growth and increased market competition;
- tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- maintaining or growing the production capacity of the existing non-current assets as a result of replacement and development investments.

Fixed assets were also tested for impairment as at 30 June 2016. To this end, the Company applied the relevant assumptions used for impairment testing of shares.

Sensitivity analyses conducted by the Company reveal that the projected prices of electricity and coal and the adopted discount rates are the key factors exerting an effect on the estimated cash flows of the key entities.

The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 30 June 2016 indicated impairment of the carrying amount of shares in subsidiaries of PLN 1 440 303 thousand and reversal of an impairment loss of PLN 443 252 thousand. The impairment loss was charged to finance costs of the Company and it was related to the following entities:

| Company | WACC* assumed in tests as at | | Recoverable amount of shares, intra-group loans and bonds as at 30 June 2016 | Impairment loss recognized in the period of 9 months ended 30 September 2016 |
|---|---|---|---|---|
| | 30 June 2016 *(unaudited)* | 31 December 2015 | | |
| TAURON Wytwarzanie S.A. | 7.49% | 7.69% | 4 876 955 | (600 068) |
| TAURON Ciepło Sp. z o.o. | 7.39% | 7.68% | 3 926 500 | 443 252 |
| TAURON Ekoenergia Sp. z o.o. | 7.09% | 8.09% | 1 325 393 | (840 235) |

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

The impairment loss was recognized for the following reasons:

- a drop in the prices of certificates for energy produced from renewable sources;
- introduction of new RES regulations;
- continued negative electricity price trend and the anticipated higher supply of energy produced from sources competitive to the national coal energy sector.

The reversal of the impairment loss was attributable to efficiency measures introduced by TAURON Ciepło Sp. z o.o., which involved reallocation of heat production.

Changes in impairment losses during the 9-month period ended 30 September 2016 have been presented in the table below.

| Company | Impairment as at 1 January 2016 | Impairment loss recognized in the period of 9 months ended 30 September 2016 | Impairment as at 30 September 2016 |
|---|---|---|---|
| TAURON Wytwarzanie S.A. | (4 487 895) | (600 068) | (5 087 963) |
| TAURON Ciepło Sp. z o.o. | (443 252) | 443 252 | - |
| TAURON Ekoenergia Sp. z o.o. | - | (840 235) | (840 235) |

*(in PLN '000)*

**Changes in shares from 1 January 2015 to 30 September 2015 (*unaudited*)**

| No. | Company | Opening balance | Increases/ (Decreases) | Closing balance |
|---|---|---|---|---|
| 1 | TAURON Wydobycie S.A. | 494 755 | - | **494 755** |
| 2 | Nowe Brzeszcze Grupa TAURON Sp. z o.o. | - | 102 | **102** |
| 3 | TAURON Wytwarzanie S.A. | 7 236 727 | - | **7 236 727** |
| 4 | TAURON Wytwarzanie GZE Sp. z o.o. in liquidation | 4 935 | - | **4 935** |
| 5 | TAURON Ciepło Sp. z o.o. | 1 328 043 | - | **1 328 043** |
| 6 | TAURON Ekoenergia Sp. z o.o. | 939 765 | - | **939 765** |
| 7 | Marselwind Sp. z o.o. | 107 | - | **107** |
| 8 | TAURON Dystrybucja S.A. | 9 511 628 | - | **9 511 628** |
| 9 | TAURON Sprzedaż Sp. z o.o. | 613 505 | - | **613 505** |
| 10 | TAURON Sprzedaż GZE Sp. z o.o. | 129 823 | - | **129 823** |
| 11 | TAURON Czech Energy s.r.o. | 4 223 | - | **4 223** |
| 12 | Kopalnia Wapienia Czatkowice Sp. z o.o. | 41 178 | - | **41 178** |
| 13 | Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation | 49 056 | - | **49 056** |
| 14 | TAURON Sweden Energy AB (publ) | 232 | 28 150 | **28 382** |
| 15 | Biomasa Grupa TAURON Sp. z o.o. | - | 1 269 | **1 269** |
| 16 | TAURON Obsługa Klienta Sp. z o.o. | 39 831 | - | **39 831** |
| 17 | TAMEH HOLDING Sp. z o.o. | 415 852 | - | **415 852** |
| 18 | PGE EJ 1 Sp z o.o. | - | 16 046 | **16 046** |
| 19 | Other | 139 | (25) | **114** |
| | **Total** | **20 809 799** | **45 542** | **20 855 341** |

## 20. Bonds

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

The table below presents the balances of acquired bonds and interest accrued as at the end of the reporting period, i.e. 30 September 2016, and as at 31 December 2015, broken down by individual companies issuing the bonds.

| Company | As at 30 September 2016 *(unaudited)* | | As at 31 December 2015 | |
|---|---|---|---|---|
| | par value of purchased bonds | accrued interest | par value of purchased bonds | accrued interest |
| TAURON Wytwarzanie S.A. | 2 848 770 | 41 276 | 2 498 770 | 13 260 |
| TAURON Dystrybucja S.A. | 3 800 000 | 43 730 | 2 600 000 | 174 565 |
| TAURON Ekoenergia Sp. z o.o. | - | - | 60 000 | 705 |
| TAURON Ciepło Sp. z o.o. | 1 673 260 | 39 395 | 1 603 260 | 18 675 |
| TAURON Wydobycie S.A. | 570 000 | 7 837 | 600 000 | 4 787 |
| TAURON Obsługa Klienta Sp. z o.o. | 85 000 | 10 933 | 85 000 | 7 619 |
| **Total bonds** | **8 977 030** | **143 171** | **7 447 030** | **219 611** |
| Non-current | 8 942 030 | 3 330 | 7 447 030 | 4 571 |
| Current | 35 000 | 139 841 | - | 215 040 |

Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements provide for the possibility to roll over the bonds. As at 30 September 2016, the par value of bonds maturing within one year, which were classified as long-term bonds, was PLN 380 000 thousand.

*(in PLN '000)*

## 21. Loans granted

| | As at 30 September 2016 *(unaudited)* | | As at 31 December 2015 | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| Loan granted to TAURON Ekoenergia Sp. z o.o. | 1 120 000 | 117 833 | 1 120 000 | 75 362 |
| Loans granted to EC Stalowa Wola S.A. | 205 725 | 35 326 | 194 950 | 28 959 |
| Other loans | - | - | 142 024 | 20 |
| **Total loans** | **1 325 725** | **153 159** | **1 456 974** | **104 341** |
| Non-current | 1 312 850 | 152 866 | 1 312 850 | 104 315 |
| Current | 12 875 | 293 | 144 124 | 26 |

On 27 February 2015, the Company entered into an agreement with its subsidiary, TAURON Ekoenergia Sp. z o.o., whereby TAURON Polska Energia S.A. granted a one-year loan of PLN 1 120 000 thousand to TAURON Ekoenergia Sp. z o.o. The purpose of the loan was to repurchase and redeem the same amount of intra-group bonds issued by the borrower in prior years to finance construction of windfarms. On 25 February 2016, an annex to the loan agreement was entered into, extending the term of the loan to 27 February 2017. The loan is classified as a non-current asset as the Company expects that it will not be repaid within 12 months of the end of the reporting period.

Loans granted to Elektrociepłownia Stalowa Wola S.A.:

| | 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 | - | - | 31.12.2016 | |
| | 22 April 2016 | 1 200 | 600 | 10 | - | - | | |
| | 27 May 2016 | 3 100 | 3 100 | 33 | - | - | | |
| | 31 August 2016 | 3 800 | 1 075 | 4 | - | - | | |
| **Total loans** | | | **205 725** | **35 326** | **194 950** | **28 959** | | |
| Non-current | | | 192 850 | 35 033 | 192 850 | 28 953 | | |
| Current | | | 12 875 | 293 | 2 100 | 6 | | |

A decrease in the balance of other loans in the 9-month period ended 30 September 2016 was driven by the Company's resale of 4 100 thousand emission allowances (EUA) to a subsidiary, TAURON Wytwarzanie S.A., in March 2016, at the price of PLN 35.05 per EUA, i.e. the total price of PLN 143 705 thousand. The aforesaid emission allowances were purchased by the Company from TAURON Wytwarzanie S.A. under agreements entered into in December 2015, whereby the Company assumed the obligation to resell the same quantity of EUA in March 2016 at an agreed price. Due to its nature, the transaction was recognized as a loan (buy-sell-back transaction), because according to the Company it did not entail a transfer of risks and rewards, including the risk of fair value change, onto the Company. Interest earned on the aforesaid loan transaction totaled PLN 1 681 thousand. Proceeds from resale of EUA under the transaction in question have been presented in the statement of cash flows as *Loans repaid* in investing activities.

*(in PLN '000)*

## 22. 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) | - | **3 055** | **(14 423)** |
| IRS | (21 018) | (6 696) | **11 201** | **(38 915)** | (4 833) | (90 634) | **-** | **(95 467)** |
| Commodity future/forward/swap | 2 665 | - | **69 246** | **(66 581)** | 17 | - | **2 225** | **(2 208)** |
| Currency forward | 152 | - | **152** | **-** | 404 | - | **404** | **-** |
| **Total derivative instruments** | | | **80 599** | **(105 496)** | | | **5 684** | **(112 098)** |
| Current | | | 59 989 | (105 449) | | | 5 668 | (96 942) |
| Non-current | | | 20 610 | (47) | | | 16 | (15 156) |

The fair value of individual derivative financial 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 is as follows:

| | As at 30 September 2016 *(unaudited)* | | As at 31 December 2015 | |
|---|---|---|---|---|
| | 1 level | 2 level | 1 level | 2 level |
| ***Assets*** | | | | |
| Derivative instruments - commodity | 69 246 | - | 2 225 | - |
| Derivative instruments - currency | - | 152 | - | 404 |
| Derivative instruments - CCIRS | - | - | - | 3 055 |
| Derivative instruments - IRS | - | 11 201 | - | - |
| ***Liabilities*** | | | | |
| Derivative instruments - commodity | 66 581 | - | 2 208 | - |
| Derivative 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 29.1 to these condensed interim 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.

*(in PLN '000)*

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 transactions hedging the interest rate swap (IRS) 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.

## 23. Current intangible assets

Under current intangible assets, the Company discloses energy certificates.

| | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| **Opening balance** | **-** | **20 215** |
| Direct purchase | 13 | 1 671 |
| Cancellation | (13) | (21 885) |
| Reclassification | - | (1) |
| **Closing balance** | **-** | **-** |

## 24. Inventories

| | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|
| **Historical cost** | | |
| Energy certificates | 250 | 1 720 |
| Greenhouse gas emission allowances | 107 765 | 248 342 |
| Materials | 498 | 56 |
| **Total** | **108 513** | **250 118** |
| **Write-downs to net realizable value** | | |
| Energy certificates | (202) | (198) |
| Greenhouse gas emission allowances | (276) | (428) |
| **Total** | **(478)** | **(626)** |
| **Net realizable value** | | |
| Energy certificates | 48 | 1 522 |
| Greenhouse gas emission allowances | 107 489 | 247 914 |
| Materials | 498 | 56 |
| **Total** | **108 035** | **249 492** |

A decrease in the balance of emission allowances during the 9-month period ended 30 September 2016 resulted mainly from the sale of the emission allowances held as at 31 December 2015 to a subsidiary, TAURON Wytwarzanie S.A., in the amount of PLN 139 670 thousand.

*(in PLN '000)*

## 25. Receivables from buyers

| | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|
| **Value of items before allowance/write-down** | | |
| Receivables from clients | 393 668 | 579 605 |
| Receivables claimed at court | 883 | 2 423 |
| **Total** | **394 551** | **582 028** |
| **Allowance/write-down** | | |
| Receivables from clients | (4) | (159) |
| Receivables claimed at court | (883) | (2 423) |
| **Total** | **(887)** | **(2 582)** |
| **Value of item net of allowance (carrying amount)** | | |
| Receivables from clients | 393 664 | 579 446 |
| Receivables claimed at court | - | - |
| **Total** | **393 664** | **579 446** |

Receivables from buyers bear no interest and they usually have a 30-day payment term. Sales transactions are only entered into with clients subject to a verification procedure. As a result, the management believes that there is no additional credit risk over the level of the allowances recognized for bad debts related to the Company's trade receivables.

As at 30 September 2016 and 31 December 2015, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 175 377 thousand and PLN 257 446 thousand, respectively.

Related-party transactions as well as related-party receivables and liabilities have been presented in Note 37 to these condensed interim financial statements.

## 26. Receivables due to taxes and charges

| | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|
| VAT receivables | 23 838 | 42 013 |
| Excise duty receivables | 1 750 | 1 750 |
| **Total** | **25 588** | **43 763** |

## 27. Cash and cash equivalents

| | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|
| Cash at bank and in hand | 116 299 | 168 024 |
| Short-term deposits (up to 3 months) | 9 | 231 |
| **Total cash and cash equivalents presented in the statement of financial position, *including*:** | **116 308** | **168 255** |
| restricted cash | 100 854 | 70 927 |
| Cash pool | (515 947) | (839 642) |
| Overdraft | (109 582) | (10 206) |
| Foreign exchange | 78 | 2 418 |
| **Total cash and cash equivalents presented in the statement of cash flows** | **(509 143)** | **(679 175)** |

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

The balance of restricted cash consists mainly of:

- cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A), amounting to PLN 47 550 thousand; and

*(in PLN '000)*

- cash held in special purpose accounts for transactions carried out on the European Energy Exchange, ICE Futures Europe and Powernext S.A., amounting to PLN 52 543 thousand.

Information on cash pool balances has been presented in Note 29.4 to these condensed interim financial statements.

## 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 |
| | | **1 752 549 394** | | **8 762 747** | |

As at 30 September 2016, the value of the issued capital, the number of shares and the nominal value of shares did not change as compared to 31 December 2015.

### 28.2. Major shareholders

**Shareholding structure as at 30 September 2016 (*unaudited, to the best of the Company's knowledge*)**

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

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

### 28.3. 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.

### 28.4. Revaluation reserve from valuation of hedging instruments

| | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| **Opening balance** | **(73 414)** | **(143 019)** |
| 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) |
| **Closing balance** | **(5 424)** | **(92 755)** |

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, as presented in detail in Note 22 to these condensed interim financial statements.

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

*(in PLN '000)*

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.

### 28.5. Dividend limitation

**Reserve capital – dividend limitation**

| | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|
| **amounts subject to distribution, *including*:** | **4 032 169** | **4 032 169** |
| amounts from distribution of prior years profits | 4 032 169 | 4 032 169 |
| **non-distributable amounts, *including*:** | **3 791 170** | **7 245 078** |
| decrease in the value of issued capital | 3 556 290 | 7 010 198 |
| settlement of mergers with subsidiaries | 234 880 | 234 880 |
| **Total reserve capital** | **7 823 339** | **11 277 247** |

**Retained earnings – dividend limitation**

| | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|
| **distributable amounts or losses to be covered, *including*:** | **13** | **(3 453 895)** |
| profit for the year ended 31 December 2015 | - | (3 453 908) |
| adjustment of prior years profit | 13 | 13 |
| **non-distributable amounts, *including*:** | **578 810** | **79 812** |
| profit for the 9-month period ended 30 September 2016 | 498 963 | **-** |
| actuarial gains and losses on provisions for post-employment benefits | (671) | (706) |
| settlement of mergers with subsidiaries | 80 518 | 80 518 |
| **Total retained earnings (accumulated losses)** | **578 823** | **(3 374 083)** |

*(in PLN '000)*

## 29. Debt

| | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|
| **Long-term portion of debt** | | |
| Issued bonds | 5 511 596 | 2 957 095 |
| Loans received from the European Investment Bank | 1 107 338 | 1 183 320 |
| Loans from the subsidiary | 746 062 | 709 170 |
| Finance lease | 24 402 | 26 961 |
| **Total** | **7 389 398** | **4 876 546** |
| **Short-term portion of debt** | | |
| Issued bonds | 805 023 | 3 011 922 |
| Cash pool loans received, including accrued interest | 568 690 | 860 585 |
| Loans from the European Investment Bank | 155 119 | 140 871 |
| Loans from the subsidiary | 22 511 | 30 256 |
| Overdraft | 109 582 | 10 206 |
| Finance lease | 3 381 | 3 208 |
| **Total** | **1 664 306** | **4 057 048** |

### 29.1. Bonds issued

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

| Tranche/Bank | Maturity date | Currency | As at balance sheet date *(unaudited)* | | of which maturing within (after the balance sheet date) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Accrued interest | Principal at amortized cost | up to 3 months | 3-12 months | 1 - 2 years | 2 - 5 years | over 5 years |
| C | 12 December 2016 | PLN | 6 045 | 749 934 | 749 934 | - | - | - | - |
| BGK* | 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 |
| | 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 November 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 | - |
| **Total bonds** | | | **55 089** | **6 261 530** | **749 934** | **-** | **-** | **4 363 084** | **1 148 512** |

**Bank Gospodarstwa Krajowego*

*(in PLN '000)*

### Bonds as at 31 December 2015

| Tranche/Bank | Maturity date | Currency | As at balance sheet date | | of which maturing within (after the balance sheet date) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Accrued interest | Principal at amortized cost | up to 3 months | 3-12 months | 1 - 2 years | 2 - 5 years | over 5 years |
| C | 12 December 2016 | PLN | 4 389 | 2 998 938 | 2 249 203 | 749 735 | - | - | - |
| BGK* | 20 December 2019 | PLN | 106 | 99 836 | - | - | - | 99 836 | - |
| | 20 December 2020 | PLN | 106 | 99 823 | - | - | - | 99 823 | - |
| | 20 December 2021 | PLN | 106 | 99 815 | - | - | - | - | 99 815 |
| | 20 December 2022 | PLN | 106 | 99 808 | - | - | - | - | 99 808 |
| | 20 December 2023 | PLN | 106 | 99 802 | - | - | - | - | 99 802 |
| | 20 December 2024 | PLN | 106 | 99 800 | - | - | - | - | 99 800 |
| | 20 December 2025 | PLN | 106 | 99 796 | - | - | - | - | 99 796 |
| | 20 December 2026 | PLN | 106 | 99 792 | - | - | - | - | 99 792 |
| | 20 December 2027 | PLN | 106 | 99 790 | - | - | - | - | 99 790 |
| | 20 December 2028 | PLN | 97 | 99 790 | - | - | - | - | 99 790 |
| | 20 December 2020 | PLN | 12 | 70 000 | - | - | - | 70 000 | - |
| | 20 December 2021 | PLN | 12 | 70 000 | - | - | - | - | 70 000 |
| | 20 December 2022 | PLN | 12 | 70 000 | - | - | - | - | 70 000 |
| TPEA1119 | 4 November 2019 | PLN | 7 508 | 1 749 043 | - | - | - | 1 749 043 | - |
| **Total bonds** | | | **12 984** | **5 956 033** | **2 249 203** | **749 735** | **-** | **2 018 702** | **938 393** |

**Bank Gospodarstwa Krajowego*

Bonds were issued 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.

Changes in the balance of bonds excluding interest increasing the carrying amount accrued in the 9-month period ended 30 September 2016 and in the comparable period have been presented below.

| | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| **Opening balance** | **5 956 033** | **6 094 022** |
| Issue* | 2 852 461 | - |
| Redemption | (2 550 000) | (150 000) |
| Measurement change | 3 036 | 1 523 |
| **Closing balance** | **6 261 530** | **5 945 545** |

**Costs of issue have been included.*

The change 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 the Company performed an early repurchase of the PLN 300 000 thousand tranche issued in March 2016 under the agreement of 24 November 2015 referred to above.

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, as discussed in more detail in Note 22 to these condensed interim 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.

### 29.2. Loans from the European Investment Bank

As at 30 September 2016, the balance of loans obtained from the European Investment Bank was PLN 1 262 457 thousand, including interest accrued of PLN 7 630 thousand. As at 31 December 2015, the related liability was PLN 1 324 191 thousand.

In the 9-month period ended 30 September 2016, the Company repaid PLN 61 364 thousand of the principal amount and PLN 39 087 thousand of interest.

### 29.3. Loans from a subsidiary

As at 30 September 2016 the carrying amount of the loans granted by the subsidiary TAURON Sweden Energy AB (publ) was PLN 768 573 thousand (EUR 178 240 thousand), including PLN 22 511 thousand (EUR 5 221 thousand) of interest accrued as at the end of the reporting period. As at 31 December 2015, the carrying amount of a loan from the subsidiary was PLN 739 426 thousand (EUR 173 513 thousand).

The Company's liabilities due to loans from a subsidiary result from two loan agreements:

- PLN 740 079 thousand (EUR 171 632 thousand) of a long-term loan granted under an agreement entered into in December 2014 between TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ). The interest rate on the loan is fixed and interest is paid annually, in December, until the final loan repayment date. The loan will be fully repaid on 29 November 2029.
- PLN 28 494 thousand (EUR 6 608 thousand) of a loan granted under the agreement dated 27 July 2015, whereby TAURON Sweden Energy AB (publ) granted a loan of EUR 6 600 thousand to the Company on 30 July 2015. The initial maturity date of the loan and interest had been 30 July 2016. Pursuant to an annex concluded to the loan agreement of 27 July 2015 its repayment was extended by one year. Interest was repaid on 1 August 2016. Since the repayment period shall exceed one year after the end of the reporting period, as at 30 September 2016 the loan has been classified to long-term liabilities.

### 29.4. Cash pool service

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

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

*(in PLN '000)*

| | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|
| Receivables from cash pool loans granted | 52 087 | 20 846 |
| Interest receivable on loans granted under cash pool agreement | 656 | 97 |
| **Total Receivable** | **52 743** | **20 943** |
| | | |
| Loans received under cash pool agreement | 567 890 | 859 575 |
| Interest payable on loans received under cash pool agreement | 800 | 1 010 |
| **Total Liabilities** | **568 690** | **860 585** |

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

Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand. As at 30 September 2016, the related liability was PLN 47 371 thousand.

### 29.5. Overdraft facilities

As at 30 September 2016, the balance of overdraft facilities was PLN 109 582 thousand and included:

- an agreement for an overdraft in PLN, concluded with PKO Bank Polski S.A. (a cash pool agreement) of PLN 47 371 thousand;
- an agreement for an overdraft in EUR with Bank Gospodarstwa Krajowego, concluded by the Company to finance transactions in emission allowances, power and gas, of EUR 14 061 thousand (PLN 60 632 thousand);
- an agreement for an overdraft in USD with mBank S.A., concluded by the Company for the purpose of financing margin deposits and commodity transactions, of USD 409 thousand (PLN 1 579 thousand).

As at 31 December 2015, the balance of overdraft facilities was PLN 10 206 thousand.

## 30. Other provisions

**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 amount).

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 manufacturing costs and the financing costs. The provision was estimated taking account of the difference between the planned market prices of electricity and the costs resulting from the "cost plus" formula;
- a provision of PLN 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. Pursuant to the said clause, Elektrociepłownia

*(in PLN '000)*

Stalowa Wola S.A. shall pay 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 40 to these condensed interim 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).

**Provision for the obligation to surrender energy certificates**

In order to meet its obligation to surrender energy certificates, the Company recognized a dedicated provision in the amount of PLN 7 thousand as at the end of the reporting period.

## 31. Liabilities due to taxes and charges

| | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|
| Corporate Income Tax | 26 714 | 82 935 |
| Personal Income Tax | 1 849 | 1 580 |
| VAT | - | 14 539 |
| Social security | 2 317 | 2 594 |
| Other | 28 | 22 |
| **Total** | **30 908** | **101 670** |

A decrease in liabilities arising from taxes and charges results mostly from a decrease in CIT liabilities in the Tax Capital Group. As at 30 September 2016 an amount payable of PLN 26 994 thousand arising from income tax occurred in the Group, as described in details below. As at 31 December 2015, income tax liability for 2015 occurred in the Tax Capital Group in the amount of PLN 82 944 thousand.

**Income tax liabilities**

A Tax Capital Group agreement for the years 2015-2017 was concluded on 22 September 2014. Pursuant to the previous agreement, TCG was registered for the period of three fiscal years from 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 an income tax liability occurred in the Tax Capital Group in the amount of PLN 26 994 thousand, including the surplus of tax payable by the Tax Capital Group for the 9-month period ended 30 September 2016 over the tax prepaid by the Group. In the statement of financial position the liability of the Tax Capital Group was offset with the receivable of the Tax Capital Group concerning interest due to the TCG in the amount of PLN 280 thousand.

*(in PLN '000)*

At the same time, due to the Company's settlements, as the Representative Company, with the Tax Capital Group companies, it has reported liabilities to these subsidiaries arising from tax overpayment of PLN 22 395 thousand, which have been presented in the statement of financial position as Other financial liabilities, as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 50 307 thousand, which have been presented in the statement of financial position as Other financial assets.

## 32. Significant items of the statement of cash flows

### 32.1. Cash flows from operating activities

**Changes in working capital**

| | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| Change in receivables | 100 350 | 242 406 |
| Change in inventories | 141 457 | 53 422 |
| Change in payables excluding loans and borrowings | (209 061) | (105 835) |
| Change in other non-current and current assets | 62 172 | 18 177 |
| Change in deferred income, government grants and accruals | (6 287) | (2 413) |
| Change in provisions | 13 725 | (33 506) |
| **Change in working capital** | **102 356** | **172 251** |

### 32.2. Cash flows from investing activities

**Purchase of bonds**

Payments to purchase bonds, in the amount of PLN 1 870 000 thousand, are related to purchases of intra-group bonds issued by the following subsidiaries:

- TAURON Dystrybucja S.A., totaling PLN 1 200 000 thousand;
- TAURON Wydobycie S.A., totaling PLN 250 000 thousand;
- TAURON Wytwarzanie S.A., amounting to PLN 350 000 thousand;
- TAURON Ciepło Sp. z o.o., totaling PLN 70 000 thousand.

**Acquisition of shares**

Payments to acquire shares of PLN 434 103 thousand concern mainly acquisition of shares in a subsidiary, Nowe Brzeszcze Grupa TAURON Sp. z o.o., amounting to PLN 182 900 thousand, as well as acquiring shares in TAURON Wydobycie S.A. in the amount of PLN 250 000 thousand, which has been discussed in more detail in Note 19 to these condensed interim financial statements.

**Loans granted**

Payments to grant loans result from the loans disbursed to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 10 775 thousand.

**Repurchase of bonds**

Inflows related to redemption of bonds, in the amount of PLN 340 000 thousand, are related to redemption of intra-group bonds by the following subsidiaries:

- TAURON Wydobycie S.A., totaling PLN 280 000 thousand;
- TAURON Ekoenergia Sp. z o.o., amounting to PLN 60 000 thousand.

*(in PLN '000)*

**Repayment of loans granted**

Proceeds from resale of 4 100 thousand emission allowances to TAURON Wytwarzanie S.A., a subsidiary, in the amount of PLN 142 024 thousand, purchased in December 2015 under the buy-sell-back transaction, as discussed in more detail in Note 21 to these interim condensed financial statements, have been presented as repayment of loans granted in the statement of cash flows.

**Interest received**

| | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| Interest received in relation to debt securities | 393 663 | 190 913 |
| Interest received in relation to loans granted | 1 681 | 60 |
| Interest received in relation to deposits (more than 3 months) | - | 5 174 |
| **Total** | **395 344** | **196 147** |

### 32.3. Cash flows from financing activities

**Loans and borrowings repaid**

Expenditures due to repayment of loans and borrowings resulted from repayment of instalments of a loan granted by the European Investment Bank of PLN 61 364 thousand in the 9-month period ended 30 September 2016.

**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 the PLN 300 000 thousand tranche issued in March 2016.

**Interest paid**

| | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| Interest paid in relation to debt securities | 142 750 | 133 975 |
| Interest paid in relation to loans and borrowings | 39 734 | 36 306 |
| Interest paid in relation to the finance lease | 450 | 543 |
| **Total** | **182 934** | **170 824** |

**Issue of debt securities**

Proceeds from the issue of debt securities in the 9-month period ended 30 September 2016 are related to:

- the 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 29.1 to these condensed interim financial statements;
- the issue of bond tranches under the agreement with Bank Gospodarstwa Krajowego in the total amount of PLN 210 000 thousand.

## 33. Details of other significant changes in the reporting period

**Other financial assets**

An increase in the balance of other financial assets results mostly from the acquisition of investment fund units by the Company. In the 9-month period ended 30 September 2016, the Company acquired funds' units for the total amount of PLN 25 000 thousand. As at 30 September 2016 the carrying amount of these units measured at fair value was PLN 25 194 thousand. The Company has decided to classify these instruments as non-current assets since it has planned to maintain the investment for a period longer than one year.

An increase in other short-term financial assets is related mostly to a growth in non-refundable additional deposits arising from settlement of forward transactions concluded by the Company at the commodity exchange. As at 30 September 2016, they amounted to PLN 78 531 thousand.

*(in PLN '000)*

## OTHER INFORMATION

### 34. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees granted to related parties.

As at 30 September 2016, the structure of the Company's contingent liabilities was as follows:

| Type of contingent liability | Company in respect of which contingent liability has been granted | Beneficiary | As at 30 September 2016 *(unaudited)* | | As at 31 December 2015 | |
|---|---|---|---|---|---|---|
| | | | EUR | PLN | EUR | PLN |
| corporate guarantee | TAURON Sweden Energy AB (publ) | holders of bonds issued by TAURON Sweden Energy AB (publ) | 168 000 | 724 416 | 168 000 | 715 932 |
| blank promissory note | TAURON Wytwarzanie S.A. | Regional Fund for Environmental Protection and Water Management in Katowice | | 40 000 | | 40 000 |
| | TAURON Ciepło Sp. z o.o. | | | 30 000 | | 30 000 |
| | TAURON Ciepło Sp. z o.o. | | | - | | 1 180 |
| collateral of a bank guarantee | TAURON Sprzedaż Sp. z o.o. | Powszechna Kasa Oszczędności Bank Polski S.A. | | - | | 593 |
| | Kopalnia Wapienia Czatkowice Sp. z o.o. | | | 1 858 | | 912 |
| | TAURON Wydobycie S.A. | | | 76 | | 76 |
| | TAURON Dystrybucja S.A. | | | 97 | | 97 |
| | TAURON Dystrybucja Serwis S.A. | | | 96 | | 507 |
| collateral of a bank guarantee | Kopalnia Wapienia Czatkowice Sp. z o.o. | CaixaBank S.A. | | 147 | | - |
| | TAURON Dystrybucja Serwis S.A. | | | 116 | | - |
| collateral of a loan | Kopalnia Wapienia Czatkowice Sp. z o.o. | Regional Fund for Environmental Protection and Water Management in Kraków | | 2 075 | | 1 145 |
| collateral of a contract | TAURON Wytwarzanie S.A. | Polskie Sieci Elektroenergetyczne S.A. | | 5 000 | | 5 000 |
| collateral of a contract | TAURON Sprzedaż Sp. z o.o. | Polska Spółka Gazownictwa Sp. z o.o. | | 15 000 | | - |
| collateral of a lease agreement | Nowe Brzeszcze Grupa TAURON Sp. z o.o. | Millennium Leasing Sp. z o.o. | | 2 900 | | - |
| collateral of a contract | TAURON Czech Energy s.r.o. | CEZ a.s. | 1 500 | 6 468 | - | - |
| collateral of a contract | TAURON Czech Energy s.r.o. | SPP CZ a.s. | - | - | 300 | 1 278 |
| registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o. | TAMEH Czech s.r.o.<br>TAMEH POLSKA Sp. z o.o. | RAIFFEISEN BANK INTERNATIONAL AG | | 415 852 | | 415 852 |

Changes in the 9-month period ended 30 September 2016:

- under the framework agreement for bank guarantees concluded with PKO Bank Polski S.A., the bank issues guarantees for subsidiaries at the Company's request. As at 30 September 2016 the balance of bank guarantees granted reached PLN 2 127 thousand (versus PLN 2 185 thousand as at 31 December 2015);
- Under the new framework bank guarantee agreement concluded in July 2016 with CaixaBank (Spółka Akcyjna) Branch in Poland ("CaixaBank S.A.") the bank has been issuing guarantees for subsidiaries per Company's order. As at 30 September 2016 the balance of bank guarantees granted reached PLN 263 thousand. The agreement has been concluded for three years ending 12 July 2019;
- the collateral of a contract granted to a subsidiary, TAURON Czech Energy s.r.o., to the benefit of SPP CZ a.s., totaling EUR 300 thousand expired on 31 January 2016.
- On 1 May 2016 collateral in the form of a blank bill of exchange issued by the Company to secure a loan originated to TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice expired;
- new collateral provided in the 9-month period ended 30 September 2016 by TAURON Polska Energia S.A. regards contracts concluded by its subsidiaries:
  - TAURON Sprzedaż Sp. z o.o. - to Polska Spółka Gazownictwa Sp. z o.o. up to PLN 15 000 thousand expiring on 31 March 2017;
  - Nowe Brzeszcze Grupa TAURON Sp. z o.o. - collateral of a lease concluded with Millennium Leasing Sp. z o.o. up to PLN 2 900 thousand expiring on 30 October 2017;
  - TAURON Czech Energy s.r.o. - collateral in favor of CEZ a.s. up to EUR 1 500 thousand expiring on 31 December 2016;
  - Kopalnia Wapienia Czatkowice Sp. z o.o. - collateral of a loan granted by Regional Fund for Environmental Protection and Water Management in Kraków up to PLN 930 thousand expiring on 15 June 2021.

**Claims filed by Huta Łaziska S.A.**

Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of ERO. At present, the case is pending at District Court in Warsaw.

Based on a decision of 12 October 2001, the President of the Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had not paid its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006 the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgement of the Court of Appeals in Warsaw, which was dismissed by the judgement of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the above decision issued by the President of ERO on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages.

Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office (jointly and severally) Huta has claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of ERO dated 12 October 2001.

In this case, the courts of the first and second instance passed judgements favorable 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 ordered the court expert to prepare a supplementary opinion. On 5 September 2016 the Company received the supplementary opinion of the court expert and filed charges against the opinion on 12 and 19 September 2016. Also, the State Treasury and Huta filed charges against the opinion. Another hearing with the participation of the court expert has been planned for 30 November 2016.

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.

**Tax inspection proceedings**

The Company is a party to inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director" of the "TIO"). The inspection regards 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.

It is expected by the Company that the inspection proceedings may be closed in the coming months but no precise closing date can be determined. As at the date of preparing these interim condensed financial statements the Director of the TIO did not present any opinion on the evidence collected, at this stage no possible consequences of his final decision can be indicated yet.

**Claims filed by ENEA S.A.**

The claim filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A. to the District Court in Katowice regards the payment of PLN 17 086 thousand with statutory interest calculated from 31 March 2015 until the payment date for unjust enrichment of the Company arising from settlement of balances on the Balancing Market performed with

Polskie Sieci Elektroenergetyczne S.A. in the period from January to December 2012. The claim was delivered to the Company on 11 January 2016. As stated by ENEA, the improper settlement was caused by inconsistency in measurement data collected by ENEA Operator Sp. z o.o. (as the Distribution System Operator, DSO) and made available to the Balancing Market participants (PSE S.A., ENEA S.A. and the Company) for the settlement purposes. The error resulted in PSE S.A. assigning to ENEA S.A. (as the official seller in the distribution area of ENEA Operator Sp. z o.o.) the amount of consumed power that should have been assigned to the Company (as the entity in charge of trade balances of power sellers operating in the distribution area of ENEA Operator Sp. z o.o.).

The dispute concerns the fact that pursuant to the Power Transmission Grid Traffic and Operation Instruction (IRiESP) binding all participants of the Balancing Market, settlements regarding trade balances for a given period may be adjusted within two months, four months and 15 months after the settlement period. According to IRiESP, after 15 months the settlements become final. ENEA Operator Sp. z o.o. informed TAURON Polska Energia S.A. about the necessity to adjust measurement data and the entire settlement after the permitted adjustment period. Therefore, settlements between PSE S.A. and ENEA S.A. and between PSE S.A. and the Company have not been adjusted.

TAURON Polska Energia S.A. responded to the claim with a series of charges. The court obliged ENEA to respond to the claim, which took place on 5 April 2016. On 20 June 2016 TAURON Polska Energia S.A. motioned to call ENEA Operator Sp. z o.o. to participate in the proceedings. Further, the court allowed testimony of witnesses as evidence. On 4 July 2016 TAURON Polska Energia S.A. filed a process document with the court. The last hearing, during which two witnesses were heard, took place on 14 September 2016. Another hearing has been planned for 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%.

*(in PLN '000)*

## 35. Collateral against liabilities

| Agreement/transaction | Collateral | Collateral amount |
|---|---|---|
| Bond Issue Scheme dated 16 December 2010 with subsequent annexes | declaration of submission to enforcement | • up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards Tranche A and Tranche B (repaid);<br>• up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E (not disbursed) |
| 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.<br>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 |
| collateral of transactions made by the Company | bank guarantee under the framework agreement with PKO Bank Polski S.A. for bank guarantees extended at the request of the Company to secure transactions with unrelated entities | • up to EUR 1 000 thousand (PLN 4 312 thousand) – a guarantee for Joint Allocation Office S.A., valid until 30 December 2016<br>• a performance bond up to PLN 3 864 thousand (Operator Gazociągów Przesyłowych GAZ – SYSTEM S.A.) valid until 30 November 2016<br>• a guarantee up to PLN 9 000 thousand for Polskie Sieci Elektroenergetyczne S.A. valid until 12 October 2016 |
| collateral of transactions made by subsidiaries | bank guarantees under the framework agreement with PKO Bank Polski S.A.for bank guarantees extended at the request of the Company to secure transactions and liabilities of subsidiaries | for the total amount of PLN 2 127 thousand (Note 34 to these condensed interim financial statements) |
| Framework bank guarantee agreement concluded with CaixaBank S.A.<br>The Company and TAURON Group companies can use the limit for guarantees to secure transactions. As at 30 September 2016 the maximum guarantee limit amount was determined at PLN 100 000 thousand. | authorization to debit the bank account maintained by CaixaBank S.A. | up to PLN 100 000 thousand |
| | declaration of submission to enforcement | up to PLN 120 000 thousand valid until 11 July 2021 |
| collateral of transactions made by subsidiaries | bank guarantees under the framework agreement concluded with CaixaBank S.A. for bank guarantees extended at the request of the Company to secure transactions and liabilities of subsidiaries | for the total amount of PLN 263 thousand (Note 34 to these condensed interim financial statements) |
| Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A. | authorization to debit the bank account maintained by BZ WBK S.A. | up to PLN 150 000 thousand |
| Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.<br>The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies. | bank guarantee extended at the request of the Company to secure stock exchange transactions made by members of IRGiT (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 |

*(in PLN '000)*

| Agreement/transaction | Collateral | Collateral amount |
|---|---|---|
| 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 |
| securing transactions entered into on European exchanges | Deposits related to transactions entered into on European exchanges to secure transactions concluded thereon, mainly future contracts concerning emission allowances. The Company transfers margin deposits for such transactions to separate bank accounts. | as at 30 September 2016, the total amount was PLN 52 543 thousand |
| collateral for the Company's transactions entered into on Polish Power Exchange | Alienation agreement between 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 CO2 emission allowances in the Register of Allowances, held by TAURON Wytwarzanie S.A. in the amount of 8 000 000 EUA. Under the alienation agreement, TAURON Wytwarzanie S.A. guaranteed the repayment of the Company's liabilities to IRGiT. The collateral was valid in the first quarter of 2016 and the agreement expired on 31 March 2016. |
| finance lease agreement concerning an investment property | The agreement covers an investment property. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account. | As at 30 September 2016 the carrying amount of the leased asset was PLN 26 223 thousand. |

## 36. Capital commitments

In relation to investment made in PGE EJ 1 Sp. z o.o., the Company plans to provide funds to increase the issued capital of PGE EJ 1 Sp. z o.o. in the total amount of PLN 11 000 thousand in 2016 in accordance with the financing plan adopted for this company. Following current verification of financial needs of the company, its corporate bodies have decided not to increase the issued capital. Therefore, on 30 September 2016 the funds to increase the issued capital were not transferred.

## 37. Related-party disclosures

### 37.1. Transactions with related parties and State Treasury companies

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

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

*(in PLN '000)*

### Revenue and expense

| | 9-month period ended 30 September 2016 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| **Revenue from subsidiaries, *of which*:** | **7 311 466** | **8 274 026** |
| Revenue from operating activities | 5 386 540 | 6 435 612 |
| Dividend income | 1 458 951 | 1 510 624 |
| Revenue from sale of shares | 96 691 | - |
| Other operating income | 3 951 | 5 426 |
| Other finance income | 365 333 | 322 364 |
| **Revenue from jointly-controlled entities** | **90 296** | **46 855** |
| **Revenue from State Treasury companies** | **138 302** | **646 474** |
| **Costs from subsidiaries, *of which*:** | **(2 029 290)** | **(3 019 214)** |
| Costs of operating activities | (2 001 573) | (2 990 741) |
| Finance costs | (27 717) | (28 473) |
| **Costs incurred with relation to transactions with jointly-controlled entities** | **(10 328)** | **(2 182)** |
| **Costs from State Treasury companies** | **(412 943)** | **(779 771)** |

### Receivables and liabilities

| | As at 30 September 2016 *(unaudited)* | As at 31 December 2015 |
|---|---|---|
| **Loans granted to subsidiaries and receivables from subsidiaries, *of which*:** | **10 921 663** | **9 584 859** |
| Receivables from clients | 363 787 | 462 421 |
| Loans granted under cash pool agreement plus interest accrued | 52 700 | 20 941 |
| Other loans granted | 1 237 833 | 1 337 406 |
| Receivables resulting from sale of shares | 96 691 | - |
| Receivables from the TCG | 50 307 | 97 148 |
| Bonds | 9 120 201 | 7 666 641 |
| Other financial receivables | 144 | 302 |
| **Loans granted to jointly-controlled entities and receivables from jointly-controlled entities** | **247 645** | **224 046** |
| **Receivables from State Treasury companies** | **38 053** | **133 784** |
| **Liabilities to subsidiaries, *of which*:** | **1 576 925** | **1 919 518** |
| Liabilities to suppliers | 232 021 | 337 087 |
| Loans received under cash pool agreement plus interest accrued | 548 663 | 831 205 |
| Other loans received | 768 573 | 739 426 |
| Liabilities arising from the TCG | 22 372 | 6 440 |
| Other financial liabilities | 5 239 | 5 239 |
| Other non-financial liabilities | 57 | 121 |
| **Liabilities to jointly-controlled entities** | **1 820** | **729** |
| **Liabilities to State Treasury companies** | **32 145** | **62 372** |

Revenue from subsidiaries includes revenue from sales of coal (in the comparative period also biomass) to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o., which is presented in the statement of comprehensive income less cost in the amount of the surplus constituting the revenue due to agency services, presented in detail in Note 11.

In the 9-month period ended 30 September 2016, PSE S.A. Energa-Obrót S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. incorporated on 1 May 2016 were the major business partners of TAURON Polska Energia S.A. among State Treasury companies in terms of sales revenue. The revenue from the aforementioned entities represented 85% of the total revenue generated in transactions with State Treasury companies.

*(in PLN '000)*

The highest costs have been incurred on transactions with Katowicki Holding Węglowy 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. Expense incurred on these transactions represented 93% of the total expenses incurred in transactions with State Treasury companies.

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 as described in details in note 30 of these condensed interim financial statements.

In the 9-month period ended 30 September 2016 the Company sold its shares for the total amount of PLN 96 691 thousand in Nowe Brzeszcze Grupa TAURON Sp. z o.o. to TAURON Wydobycie S.A., a subsidiary. Detailed information on the transaction is provided in Note 19 to these condensed interim financial statements. The Company recognized a loss on disposal of the investment in the subsidiary of PLN 88 311 thousand arising from the sale of the shares. In the statement of comprehensive income, the loss has been presented under other finance costs.

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

### 37.2. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Company paid or due 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 *(unaudited)* | 9-month period ended 30 September 2015 *(unaudited)* |
|---|---|---|
| **Management Board** | **9 276** | **7 767** |
| Short-term employee benefits (salaries and surcharges) | 4 318 | 6 005 |
| Termination benefits | 4 632 | 1 050 |
| Other | 326 | 712 |
| **Supervisory Board** | **898** | **850** |
| Short-term employee benefits (salaries and surcharges) | 898 | 850 |
| **Other members of key management personnel** | **10 711** | **11 279** |
| Short-term employee benefits (salaries and surcharges) | 8 215 | 9 990 |
| Temination benefits | 1 696 | 456 |
| Post-service benefits | 180 | - |
| Other | 620 | 833 |
| **Total** | **20 885** | **19 896** |

As regards benefits paid in relation to termination of employment contracts, as 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, while the amount of PLN 450 thousand is the use of a provision recognized in the 9-month period ended 30 September 2016.

As regards post-service benefits paid to key executives, as presented in the table above, the amount of PLN 180 thousand was accounted for as the use of a provision recognized as at 31 December 2015.

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

*(in PLN '000)*

## 38. Financial instruments

| Categories and classes of financial assets | Note | As at 30 September 2016 *(unaudited)* | | As at 31 December 2015 | |
|---|---|---|---|---|---|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| **1 Financial assets at fair value through profit or loss** | | **94 592** | **94 592** | **5 684** | **5 684** |
| Derivative instruments | 22 | 69 398 | 69 398 | 5 684 | 5 684 |
| Investment fund units | 33 | 25 194 | 25 194 | - | - |
| **2 Financial assets available for sale** | | **29 298** | **-** | **30 302** | **-** |
| Long-term shares | 19 | 29 298 | - | 30 302 | - |
| **3 Loans and receivables** | | **11 295 242** | **11 341 055** | **9 942 813** | **10 049 948** |
| Receivables from clients | 25 | 393 664 | 393 664 | 579 446 | 579 446 |
| Bonds | 20 | 9 120 201 | 9 160 974 | 7 666 641 | 7 772 086 |
| Loans granted under cash pool agreement | 29.4 | 52 743 | 52 743 | 20 943 | 20 943 |
| Other loans granted | 21 | 1 478 884 | 1 483 924 | 1 561 315 | 1 563 005 |
| Other financial receivables | | 249 750 | 249 750 | 114 468 | 114 468 |
| **4 Financial assets excluded from the scope of IAS 39** | | **15 155 946** | **-** | **15 902 892** | **-** |
| Shares in subsidiaries | 19 | 14 740 094 | - | 15 487 040 | - |
| Shares in jointly-controlled entities | 19 | 415 852 | - | 415 852 | - |
| **5 Hedging derivative instruments** | 22 | **11 201** | **11 201** | **-** | **-** |
| **6 Cash and cash equivalents** | 27 | **116 308** | **116 308** | **168 255** | **168 255** |
| **Total financial assets, *of which in the statement of financial position:*** | | **26 702 587** | | **26 049 946** | |
| **Non-current assets** | | **25 648 343** | | **24 807 239** | |
| Shares | | 15 185 244 | | 15 933 194 | |
| Bonds | | 8 945 360 | | 7 451 601 | |
| Loans granted | | 1 465 716 | | 1 417 165 | |
| Derivative instruments | | 20 610 | | 16 | |
| Other financial assets | | 31 413 | | 5 263 | |
| **Current assets** | | **1 054 244** | | **1 242 707** | |
| Receivables from clients | | 393 664 | | 579 446 | |
| Bonds | | 174 841 | | 215 040 | |
| Loans granted | | 13 168 | | 144 150 | |
| Derivative instruments | | 59 989 | | 5 668 | |
| Other financial assets | | 296 274 | | 130 148 | |
| Cash and cash equivalents | | 116 308 | | 168 255 | |

| 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 |
| **1 Financial liabilities at fair value through profit or loss** | | **66 581** | **66 581** | **16 631** | **16 631** |
| Derivative instruments | 22 | 66 581 | 66 581 | 16 631 | 16 631 |
| **2 Financial liabilities measured at amortized cost** | | **9 369 868** | **9 431 129** | **9 426 384** | **9 445 560** |
| Arm's length loans, *of which:* | | 2 599 720 | 2 660 981 | 2 924 202 | 2 943 378 |
| Liability under the cash pool loan | 29.4 | 568 690 | 568 690 | 860 585 | 860 585 |
| Loans from the European Investment Bank | 29.2 | 1 262 457 | 1 267 274 | 1 324 191 | 1 346 344 |
| Loans from the subsidiary | 29.3 | 768 573 | 825 017 | 739 426 | 736 449 |
| Overdraft | 29.5 | 109 582 | 109 582 | 10 206 | 10 206 |
| Bonds issued | 29.1 | 6 316 619 | 6 316 619 | 5 969 017 | 5 969 017 |
| Liabilities to suppliers | | 303 160 | 303 160 | 493 936 | 493 936 |
| Other financial liabilities | | 40 220 | 40 220 | 28 017 | 28 017 |
| Liabilities due to purchases of fixed and intangible assets | | 567 | 567 | 1 006 | 1 006 |
| **3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39** | | **27 783** | **27 783** | **30 169** | **30 169** |
| Liabilities under finance leases | 29 | 27 783 | 27 783 | 30 169 | 30 169 |
| **4 Hedging derivative instruments** | 22 | **38 915** | **38 915** | **95 467** | **95 467** |
| **Total financial liabilities, *of which in the statement of financial position:*** | | **9 503 147** | | **9 568 651** | |
| **Non-current liabilities** | | **7 394 684** | | **4 897 441** | |
| Debt | | 7 389 398 | | 4 876 546 | |
| Other financial liabilities | | 5 239 | | 5 739 | |
| Derivative instruments | | 47 | | 15 156 | |
| **Current liabilities** | | **2 108 463** | | **4 671 210** | |
| Debt | | 1 664 306 | | 4 057 048 | |
| Liabilities to suppliers | | 303 160 | | 493 936 | |
| Derivative instruments | | 105 449 | | 96 942 | |
| Other financial liabilities | | 35 548 | | 23 284 | |

Derivative financial instruments measured at fair value as at the end of the reporting period and classified as assets and liabilities measured at fair value through profit or loss, or designated as hedging derivatives (subject to hedge accounting), have been measured in line with the method described in Note 22 to these condensed interim financial statements. Fair value hierarchy disclosures are also provided in Note 22. Measurement of investment fund participation 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 included bonds purchased by the Company, a loan granted to a subsidiary, loans obtained from the European Investment Bank and a loan from a subsidiary as at 30 September 2016 and 31 December 2015, were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to a given bond or loan, i.e. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy.
- The fair value of other financial instruments held by the Company (except for financial assets available for sale excluded from the scope of IAS 39, as described 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, due to the following reasons:

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

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

  Consequently, the fair value of the instruments in question has been disclosed in the tables above at the carrying amount.
- The Company did not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Company 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, in accordance with the Company's accounting policy, shares in subsidiaries and jointly-controlled entities (joint ventures) – financial assets excluded from the scope of IAS 39 – are also measured at cost less impairment losses.

  As at 30 June 2016 the Company tested shares in subsidiaries for impairment as described in details in Note 19 of these condensed interim consolidated financial statements. As a result, it has recognized an impairment loss on shares in TAURON Wytwarzanie S.A. (PLN 600 068 thousand) and in TAURON Ekoenergia Sp. z o.o. (PLN 840 235 thousand) and derecognized in whole an impairment loss on shares in TAURON Ciepło Sp. z o.o. (PLN 443 252 thousand) that had been recognized at the end of 2015. The impairment loss amount did not change as at 30 September 2016.

  In the 9-month period ended 30 September 2016 the Company sold 100% of shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o. in the carrying amount of PLN 185 002 thousand to TAURON Wydobycie S.A. for the total amount of PLN 96 691 thousand. The transaction has been described in Note 19 to these interim condensed financial statements.

## 39. Finance and financial risk management

### 39.1. Financial risk management

The TAURON Group has implemented the policy for management of specific risks in the area of finance, which defines the strategy for management of the currency and interest rate risk. The policy has also introduced hedge accounting in the Group, which lays down the principles and defines the types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS. The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk and not to the fair value risk due to its limited significance for the Group.

**Hedge accounting**

As at 30 September 2016, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance and subject to hedge accounting. The Company hedges a portion of the interest rate risk inherent in cash flows related to issued bonds, which has been discussed in more detail in Note 22 to these condensed interim financial statements.

### 39.2. Finance and capital management

Finance and capital are managed at the level of the TAURON Polska Energia S.A. Capital Group. During the period covered by these condensed interim financial statements, there were no significant changes in finance and capital management objectives, principles or procedures.

## 40. 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 quarantees 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.

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 9-month period ended 30 September 2016 in accordance with International Accounting Standard 34 have been presented on 51 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 …………………………………..