The TAURON Polska Energia S.A. Capital Group

Condensed Interim Consolidated Financial Statements
prepared in accordance with the International Financial Reporting Standards,
as endorsed by the European Union
for the 6-month period ended 30 June 2017

(PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited restated figures)*
Sales revenue	**11**	8 755 366	8 841 026
Cost of sales, *of which:*	**12**	(7 014 116)	(8 177 337)
Impairment of non-financial non-current assets	***12***	*(33 127)*	*(699 070)*
Profit on sale		**1 741 250**	**663 689**
Selling and distribution expenses	**12**	(225 527)	(217 589)
Administrative expenses	**12**	(304 563)	(317 979)
Other operating income and expenses		26 034	15 293
Operating profit		**1 237 194**	**143 414**
Share in profit/(loss) of joint ventures	**20**	58 330	59 861
Interest expense on debt	**13**	(98 977)	(137 959)
Other finance income and costs	**13**	44 045	(32 641)
Profit before tax		**1 240 592**	**32 675**
Income tax expense	**14.1**	(235 115)	(27 958)
Net profit		**1 005 477**	**4 717**
Measurement of hedging instruments	**28.2**	(9 075)	48 846
Foreign exchange differences from translation of foreign entities		(12 675)	9 922
Income tax	**14.1**	1 724	(9 281)
Other comprehensive income subject to reclassification to profit or loss		**(20 026)**	**49 487**
Actuarial gains/(losses)	**30.1**	5 630	(1 429)
Income tax	**14.1**	(1 070)	270
Share in other comprehensive income of joint ventures	**20**	(7)	41
Other comprehensive income not subject to reclassification to profit or loss		**4 553**	**(1 118)**
Other comprehensive income, net of tax		**(15 473)**	**48 369**
Total comprehensive income		**990 004**	**53 086**
Net profit:			
Attributable to equity holders of the Parent		1 004 167	3 435
Attributable to non-controlling interests		1 310	1 282
Total comprehensive income:			
Attributable to equity holders of the Parent		988 688	51 804
Attributable to non-controlling interests		1 316	1 282
Basic and diluted earnings per share (in PLN):		0.57	0.00

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	**16**	26 988 492	26 355 189
Goodwill	**17**	40 156	40 156
Energy certificates and emission allowances for surrender	**18.1**	24 295	126 260
Other intangible assets	**19**	1 220 949	1 224 427
Investments in joint ventures	**20**	475 097	461 348
Loans granted to joint ventures	**21**	236 485	240 951
Other financial assets	**22**	220 444	227 140
Other non-financial assets	**23.1**	365 153	422 400
Deferred tax assets	**14.2**	45 442	50 382
		29 616 513	**29 148 253**
Current assets			
Energy certificates and emission allowances for surrender	**18.2**	462 079	980 348
Inventories	**24**	356 911	486 120
Receivables from clients	**25**	1 742 649	1 894 065
Receivables arising from taxes and charges	**26**	195 142	263 854
Loans granted to joint ventures	**21**	314 508	15 116
Other financial assets	**22**	160 822	79 637
Other non-financial assets	**23.2**	147 523	185 008
Cash and cash equivalents	**27**	210 379	384 881
Non-current assets classified as held for sale		19 368	19 612
		3 609 381	**4 308 641**
TOTAL ASSETS		**33 225 894**	**33 456 894**

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**28.1**	8 762 747	8 762 747
Reserve capital		7 657 086	7 823 339
Revaluation reserve from valuation of hedging instruments	**28.2**	22 309	29 660
Foreign exchange differences from translation of foreign entities		(3 475)	9 200
Retained earnings/(Accumulated losses)	**28.3**	1 199 287	24 320
		17 637 954	**16 649 266**
Non-controlling interests		**30 804**	**30 052**
Total equity		**17 668 758**	**16 679 318**
Non-current liabilities			
Debt	**29**	8 809 471	8 759 789
Provisions for employee benefits	**30**	1 371 183	1 373 385
Provisions for disassembly of fixed assets, land restoration and other provisions	**31**	296 703	449 310
Accruals, deferred income and government grants	**34**	531 524	554 293
Deferred tax liabilities	**14.2**	844 105	759 568
Other financial liabilities	**38**	76 909	72 374
		11 929 895	**11 968 719**
Current liabilities			
Debt	**29**	428 241	219 740
Liabilities to suppliers	**35**	727 048	829 729
Capital commitments	**36**	317 430	1 033 804
Provisions for employee benefits	**30**	127 480	158 228
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	**32**	484 149	964 821
Other provisions	**33**	313 564	366 456
Accruals, deferred income and government grants	**34**	346 019	267 662
Liabilities arising from taxes and charges	**37**	374 916	410 943
Other financial liabilities	**38**	193 270	256 295
Other non-financial liabilities	**39**	315 124	301 179
		3 627 241	**4 808 857**
Total liabilities		**15 557 136**	**16 777 576**
TOTAL EQUITY AND LIABILITIES		**33 225 894**	**33 456 894**

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2017 (*unaudited*)

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2017		**8 762 747**	**7 823 339**	**29 660**	**9 200**	**24 320**	**16 649 266**	**30 052**	**16 679 318**
Dividends		**-**	**-**	**-**	**-**	**-**	**-**	(564)	**(564)**
Coverage of prior years loss	**15**	**-**	(166 253)	**-**	**-**	166 253	**-**	**-**	**-**
Transactions with shareholders		**-**	**(166 253)**	**-**	**-**	**166 253**	**-**	**(564)**	**(564)**
Net profit		-	-	-	-	1 004 167	**1 004 167**	1 310	**1 005 477**
Other comprehensive income		-	-	(7 351)	(12 675)	4 547	**(15 479)**	6	**(15 473)**
Total comprehensive income		**-**	**-**	**(7 351)**	**(12 675)**	**1 008 714**	**988 688**	**1 316**	**990 004**
As at 30 June 2017 *(unaudited)*		**8 762 747**	**7 657 086**	**22 309**	**(3 475)**	**1 199 287**	**17 637 954**	**30 804**	**17 668 758**

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016 (*unaudited*)

	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2016	**8 762 747**	**11 277 247**	**(73 414)**	**(791)**	**(3 947 461)**	**16 018 328**	**29 829**	**16 048 157**
Dividends	-	-	-	-	-	**-**	(3 043)	**(3 043)**
Accounting for acquisition of ZCP Brzeszcze	-	-	-	-	(14 041)	**(14 041)**	-	**(14 041)**
Other transactions with non-controlling shareholders	-	-	-	-	16	**16**	(52)	**(36)**
Coverage of prior years loss	-	(3 453 908)	-	-	3 453 908	**-**	-	**-**
Transactions with shareholders	**-**	**(3 453 908)**	**-**	**-**	**3 439 883**	**(14 025)**	**(3 095)**	**(17 120)**
Net profit	-	-	-	-	3 435	**3 435**	1 282	**4 717**
Other comprehensive income	-	-	39 565	9 922	(1 118)	**48 369**	-	**48 369**
Total comprehensive income	**-**	**-**	**39 565**	**9 922**	**2 317**	**51 804**	**1 282**	**53 086**
As at 30 June 2016 *(unaudited)*	**8 762 747**	**7 823 339**	**(33 849)**	**9 131**	**(505 261)**	**16 056 107**	**28 016**	**16 084 123**

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Cash flows from operating activities			
Profit (loss) before taxation		**1 240 592**	**32 675**
Share in (profit)/loss of joint ventures		(58 330)	(59 861)
Depreciation and amortization		826 678	821 372
Impairment losses on property, plant and equipment and intangible assets		33 127	699 070
Exchange differences		(73 035)	28 369
Interest and commissions		99 376	126 386
Other adjustments of profit before tax		9 427	(18 239)
Change in working capital	**40.1**	(68 725)	6 786
Income tax paid	**40.1**	(101 345)	(219 387)
Net cash from operating activities		**1 907 765**	**1 417 171**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**40.2**	(2 020 232)	(1 769 630)
Public aid refund		-	(131 077)
Purchase of financial assets		(5 157)	(29 534)
Loans granted	**40.2**	(295 992)	(7 600)
Total payments		**(2 321 381)**	**(1 937 841)**
Proceeds from sale of property, plant and equipment and intangible assets		15 711	15 403
Other proceeds		7 673	18 066
Total proceeds		**23 384**	**33 469**
Net cash used in investing activities		**(2 297 997)**	**(1 904 372)**
Cash flows from financing activities			
Redemption of debt securities	**40.3**	(300 000)	(2 250 000)
Repayment of loans and borrowings	**40.3**	(44 904)	(44 724)
Interest paid	**40.3**	(65 260)	(117 339)
Other payments		(16 528)	(17 495)
Total payments		**(426 692)**	**(2 429 558)**
Issue of debt securities	**40.3**	600 000	2 860 000
Proceeds from contracted loans/borrowings		-	916
Subsidies received		558	22 101
Total proceeds		**600 558**	**2 883 017**
Net cash from financing activities		**173 866**	**453 459**
Net increase / (decrease) in cash and cash equivalents		**(216 366)**	**(33 742)**
Net foreign exchange difference		89	879
Cash and cash equivalents at the beginning of the period	**27**	**354 733**	**327 715**
Cash and cash equivalents at the end of the period, *of which*:	**27**	**138 367**	**293 973**
restricted cash	**27**	135 136	179 404

Notes to the condensed interim consolidated financial statements form their integral part

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

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

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

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

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

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

The Group's condensed interim consolidated financial statements cover the 6-month period ended 30 June 2017 and present comparative data for the 6-month period ended 30 June 2016 as well as figures as at 31 December 2016. The data for the 6-month period ended 30 June 2017 and the comparative data for the 6-month period ended 30 June 2016, as contained herein, have been reviewed by a certified auditor. The comparative data as at 31 December 2016 were audited by a certified auditor.

These condensed interim consolidated financial statements for the 6-month period ended 30 June 2017 were approved for publication on 16 August 2017.

2. Composition of the TAURON Capital Group and joint ventures

As at 30 June 2017, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

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

[1] On 3 April 2017 TAURON Wytwarzanie S.A. was divided and an organised part of the enterprise was separated to form Nowe Jaworzno Grupa TAURON Sp.z o.o.

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

[3] On 8 March 2017, the Extraordinary General Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation adopted a resolution to revoke the liquidation of the company.

As at 30 June 2017, TAURON Polska Energia S.A. held direct and indirect interest in the following jointly-controlled entities:

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

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

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

3. Statement of compliance

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

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

4. Going concern

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

5. Functional and presentation currency

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

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

6. Material values based on professional judgment and estimates

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

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

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Item	Value of item to which the estimate figure applies		Details regarding assumptions made and calculation of significant estimates
	As at 30 June 2017 *(unaudited)*	As at 31 December 2016	
Property, plant and equipment	26 988 492	26 355 189	• The results of the impairment tests of the assets performed as at 30 June 2017 showed that some of the assets of the Generation segment should be subject to an additional write-off of PLN 388 358 thousand. The test also showed the possibility of reversing the write-down in this segment for the amount of PLN 356 695 thousand. note 16
Goodwill	40 156	40 156	• Impairment tests performed as at 30 June 2017 did not indicate any impairment of the carrying amount of goodwill in the segments. note 17
Provisions for employee benefits	1 498 663	1 531 613	• Description of actuarial assumptions made and valuation method. note 30
Provision for gas emission obligations	146 392	209 736	• Provision calculation note 32
Provision for obligation to submit energy certificates	337 757	755 085	• Provision calculation note 32
Provision for mine decommissioning costs	149 516	146 885	• Provision calculation note 31
Provision for restoration of land and dismantling and removal of fixed assets	117 328	115 302	• Provision calculation note 31
Provision for onerous contracts and for costs	-	198 844	• In the 6-months period ended 30 June 2017, the Company reversed the entire provision relating to the electricity contract, contractual provisions of the "take or pay" clause and provision for the costs of operation of the Elektrociepłownia Stalowa Wola S.A. note 31
Other provisions	313 564	366 456	• Provision calculation. Description of key provision items. Note 33
Deferred tax assets	894 616	957 118	• Realisation of deferred tax assets. note 14.2
Derivative instruments: Assets Liabilities	 37 864 4 064	 56 417 560	• Fair value measurement note 41.2
Receivables from clients	1 742 649	1 894 065	• Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 210 709 thousand. note 25

7. New standards and interpretations

The Group did not choose an early application of any standards, amendments to standards or interpretations which were published but are not yet mandatorily effective.

- **Standards issued by the International Accounting Standards Board ("IASB") which have been endorsed by the European Union but are not yet effective**

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

IFRS 9 *Financial Instruments*

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

Major changes introduced by IFRS 9 *Financial Instruments*:

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

  The existing four categories of financial assets, as defined in IAS 39 *Financial Instruments*: *Recognition and Measurement*, will be replaced by two categories, namely amortized cost and fair value;

- introduction of a new impairment testing model based on expected credit losses;
- a modified hedge accounting model.

Impact on the consolidated financial statements

A change in the principles of classification and measurement of financial assets will drive a change in the classification of financial assets in the consolidated financial statements of the Group but preliminary analysis has shown that no considerable impact is expected on the measurement, profit/loss or equity of the Group. An analysis of the financial assets held by the Group as at 30 June 2017 has shown that, provided that the Group maintains similar financial assets when IFRS 9 *Financial Instruments* becomes effective, the new classification should not materially change the measurement and hence the Group's profit/loss or equity. The instruments which have thus far been classified as loans and receivables meet the conditions to be classified as assets measured at amortized cost. Hence, the change will not result in any changes in the measurement. The Group does not have any assets held to maturity. Other categories of financial assets measured at fair value in line with IFRS 9 *Financial Instruments* are assets measured at fair value.

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

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

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

As at 30 June 2017, the Group held instruments hedging fluctuations in cash flows related to issued bonds due to interest rate risk. These interest rate swaps are subject to hedge accounting. It is not expected that the entry into force of IFRS 9 *Financial Instruments* will have a material impact on the Group's consolidated financial statements as regards the applied hedge accounting principles.

IFRS 15 *Revenue from Contracts with Customers*

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

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

Impact on the consolidated financial statements

The Group is conducting a five-step analysis of its contracts with customers, which is necessary for proper measurement of its revenue in accordance with IFRS 15 *Revenue from Contracts with Customers* – from identification of contracts (or contract groups), through selection of liability items and determination of prices, their allocation to individual liability items to revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements. Due to a large number of changes, the impact of IFRS 15 *Revenue from Contracts with Customers* on the consolidated financial statements is being analyzed further. It is likely that the new IFRS 15 *Revenue from Contracts with Customers* guidance will necessitate changes to systems.

A preliminary analysis of the impact of IFRS 15 *Revenue from Contracts with Customers* on the accounting policies applied thus far has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which may be especially important in the Sales segment. This concerns mainly electricity and gas sales contracts whereby customers are offered additional services or equipment for the electricity and gas sales price. The scope of such services will include electrician or technician support to customers in the event of an electric power or gas failure. Another issue subject to analysis is the consideration of bundle sales of Group products on the conditions that are more favorable for customers than in case of concluding agreements for each product separately. In accordance with the new standard, the Group is required to recognize each identifiable obligation to provide a supply separately, thus to allocate the transaction price to such obligations. The Group is analyzing its contractual obligations so as to identify single items and allocate transaction prices accordingly. In addition, the Group performs an analysis, in the light of the provisions of IFRS 15 *Revenue from Contracts with Customers*, of the basis for deferring bonuses granted to customers under the conducted customer programmes as well as costs of soliciting customers.

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

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

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

IFRS 16 *Leases*

Effective date given in the standard, not endorsed by the EU: annual periods beginning on or after 1 January 2019.

Under IFRS 16 *Leases*, the lessee recognizes the right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use the incremental borrowing rate. Lessors continue to classify leases as operating or finance leases, with the approach to lessor accounting substantially unchanged from IAS 17 *Leases*. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. A lessor recognizes finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Impact on the consolidated financial statements

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

(PLN '000)

Clarifications to IFRS 15 *Revenue from Contracts with Customers*

Effective date given in the standard, not endorsed by the EU: annual periods beginning on or after 1 January 2018.

The amendment provides additional clarifications as to some requirements in addition to introducing a new exemption for entities applying IFRS 15 *Revenue from Contracts with Customers* for the first time.

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

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
IFRS 17 Insurance contracts	1 January 2021
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
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
Annual Improvements to IFRS (2014-2016):	
IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2017
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2018
IAS 28 *Investments in Associates and Joint Ventures*	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Revised IAS 40 *Investment Property – Transfers of Investment Property*	1 January 2018
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019

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

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

8. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these condensed interim consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2016.

No new or amended standards or interpretations applicable to annual periods beginning after 1 January 2016 were issued after 1 January 2016. The standards and interpretations that have been issued but are not yet effective since they have not been endorsed by the EU or that have been endorsed by the EU but have not been early applied by the Capital Group are presented in the annual financial statements for the year 2016. In the first half of 2017, only IFRS 17 *Insurance Contracts* was issued.

Presentation change

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

(PLN '000)

The effect of the presentation change on the condensed interim consolidated statement of comprehensive income for the 6-month period ended 30 June 2016 is presented in the table below. The change has not had any effect on the Group's profit/loss.

	6-month period ended 30 June 2016 *(unaudited approved figures)*	Change in presentation of gains/losses on trading in emission allowances and on commodity derivative instruments	6-month period ended 30 June 2016 *(unaudited restated figures)*
Sales revenue	8 942 857	(101 831)	8 841 026
Cost of sales	(8 286 129)	108 792	(8 177 337)
Profit on sale	**656 728**	**6 961**	**663 689**
Selling and distribution expenses	(220 397)	2 808	(217 589)
Operating profit	**133 645**	**9 769**	**143 414**
Other finance income and costs	(22 872)	(9 769)	(32 641)
Net profit	**4 717**	**-**	**4 717**

9. Seasonality of operations

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

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

OPERATING SEGMENTS

10. Information on operating segments

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

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

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

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

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

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

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

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

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

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

The Group's reporting format for the period from 1 January 2017 to 30 June 2017 and for the comparative period was based on the following operating segments:

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

** Entities recognized with the equity method*

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

(PLN '000)

For the 6-month period ended 30 June 2017 or as at 30 June 2017 (*unaudited*)

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	358 882	958 506	1 622 655	5 773 133	42 190	-	**8 755 366**
Inter-segment sales	422 802	1 323 665	1 745 339	903 863	350 398	(4 746 067)	**-**
Segment revenue	**781 684**	**2 282 171**	**3 367 994**	**6 676 996**	**392 588**	**(4 746 067)**	**8 755 366**
Profit/(loss) of the segment	**(65 816)**	**80 442**	**677 320**	**540 417**	**37 947**	**16 986**	**1 287 296**
Unallocated expenses	-	-	-	-	-	(50 102)	**(50 102)**
EBIT	**(65 816)**	**80 442**	**677 320**	**540 417**	**37 947**	**(33 116)**	**1 237 194**
Share in profit/(loss) of joint ventures	-	58 330	-	-	-	-	**58 330**
Net finance income (costs)	-	**-**	-	-	-	(54 932)	**(54 932)**
Profit/(loss) before income tax	**(65 816)**	**138 772**	**677 320**	**540 417**	**37 947**	**(88 048)**	**1 240 592**
Income tax expense	-	-	-	-	**-**	(235 115)	**(235 115)**
Net profit/(loss) for the period	**(65 816)**	**138 772**	**677 320**	**540 417**	**37 947**	**(323 163)**	**1 005 477**
Assets and liabilities							
Segment assets	2 020 059	10 519 386	16 825 901	2 033 300	445 341	-	**31 843 987**
Investments in joint ventures	-	475 097	-	-	-	-	**475 097**
Unallocated assets	-	-	-	-	-	906 810	**906 810**
Total assets	**2 020 059**	**10 994 483**	**16 825 901**	**2 033 300**	**445 341**	**906 810**	**33 225 894**
Segment liabilities	675 686	1 503 156	1 955 311	947 354	241 160	-	**5 322 667**
Unallocated liabilities	-	-	-	-	-	10 234 469	**10 234 469**
Total liabilities	**675 686**	**1 503 156**	**1 955 311**	**947 354**	**241 160**	**10 234 469**	**15 557 136**
EBIT	**(65 816)**	**80 442**	**677 320**	**540 417**	**37 947**	**(33 116)**	**1 237 194**
Depreciation/amortization	**(61 102)**	**(194 540)**	**(527 906)**	**(4 467)**	**(38 663)**	**-**	**(826 678)**
Impairment	**2**	**(31 489)**	**1 916**	**(512)**	**(25)**	**-**	**(30 108)**
EBITDA	**(4 716)**	**306 471**	**1 203 310**	**545 396**	**76 635**	**(33 116)**	**2 093 980**
Other segment information							
Capital expenditure *	55 872	813 917	604 630	582	20 241	-	**1 495 242**

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

For the 6-month period ended 30 June 2016 *(unaudited, restated figures)* or as at 31 December 2016

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	171 962	1 363 979	1 535 529	5 730 166	39 390	-	**8 841 026**
Inter-segment sales	340 170	978 655	1 608 977	1 155 189	389 453	(4 472 444)	**-**
Segment revenue	**512 132**	**2 342 634**	**3 144 506**	**6 885 355**	**428 843**	**(4 472 444)**	**8 841 026**
Profit/(loss) of the segment	**(230 536)**	**(558 311)**	**643 524**	**283 659**	**29 822**	**14 900**	**183 058**
Unallocated expenses	-	-	-	-	-	(39 644)	**(39 644)**
EBIT	**(230 536)**	**(558 311)**	**643 524**	**283 659**	**29 822**	**(24 744)**	**143 414**
Share in profit/(loss) of joint ventures	-	59 861	-	-	-	-	**59 861**
Net finance income (costs)	-	-	-	-	-	(170 600)	**(170 600)**
Profit/(loss) before income tax	**(230 536)**	**(498 450)**	**643 524**	**283 659**	**29 822**	**(195 344)**	**32 675**
Income tax expense	-	-	-	-	-	(27 958)	**(27 958)**
Net profit/(loss) for the period	**(230 536)**	**(498 450)**	**643 524**	**283 659**	**29 822**	**(223 302)**	**4 717**
Assets and liabilities							
Segment assets	2 069 263	10 412 940	16 761 938	2 659 458	468 202	-	**32 371 801**
Investments in joint ventures	-	461 348	-	-	-	-	**461 348**
Unallocated assets	-	-	-	-	-	623 745	**623 745**
Total assets	**2 069 263**	**10 874 288**	**16 761 938**	**2 659 458**	**468 202**	**623 745**	**33 456 894**
Segment liabilities	829 974	1 936 334	2 162 907	1 660 156	288 365	-	**6 877 736**
Unallocated liabilities	-	-	-	-	-	9 899 840	**9 899 840**
Total liabilities	**829 974**	**1 936 334**	**2 162 907**	**1 660 156**	**288 365**	**9 899 840**	**16 777 576**
EBIT	**(230 536)**	**(558 311)**	**643 524**	**283 659**	**29 822**	**(24 744)**	**143 414**
Depreciation/amortization	**(61 285)**	**(205 983)**	**(512 105)**	**(5 914)**	**(36 085)**	**-**	**(821 372)**
Impairment	**(3)**	**(706 289)**	**8 032**	**-**	**(129)**	**-**	**(698 389)**
EBITDA	**(169 248)**	**353 961**	**1 147 597**	**289 573**	**66 036**	**(24 744)**	**1 663 175**
Other segment information							
Capital expenditure *	90 654	599 820	744 339	757	16 560	-	**1 452 130**

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

(PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited restated figures)*
Sale of goods for resale, finished goods and materials without elimination of excise	**5 500 989**	**5 810 450**
Excise	(207 931)	(196 638)
Sale of goods for resale, finished goods and materials, *of which*:	**5 293 058**	**5 613 812**
Electricity	4 373 096	4 786 686
Heat energy	372 480	350 102
Energy certificates	26 267	91 341
Coal	333 825	171 367
Gas	103 948	120 922
Other goods for resale, finished goods and materials	83 442	93 394
Rendering of services, *of which:*	**3 431 806**	**3 197 417**
Distribution and trade services	3 253 095	3 044 416
Connection fees	59 691	45 531
Maintenance of road lighting	54 109	56 763
Other services	64 911	50 707
Other revenue	**30 502**	**29 797**
Total sales revenue	**8 755 366**	**8 841 026**

12. Expenses by type

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited restated figures)*
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(826 678)	(821 372)
Impairment of property, plant and equipment and intangible assets	(33 127)	(699 070)
Materials and energy	(624 689)	(735 496)
Maitenance and repair services	(144 140)	(139 276)
Distribution services	(970 882)	(891 266)
Other external services	(437 968)	(371 712)
Cost of obligation to remit the emission allowances	(146 308)	(146 073)
Other taxes and charges	(365 623)	(331 062)
Employee benefits expense	(1 309 143)	(1 288 710)
Allowance for doubtful debts	(14 300)	(5 831)
Other	(35 135)	(43 844)
Total costs by type	**(4 907 993)**	**(5 473 712)**
Change in inventories, prepayments, accruals and deferred income	(133 775)	(14 760)
Cost of goods produced for internal purposes	196 089	239 370
Selling and distribution expenses	225 527	217 589
Administrative expenses	304 563	317 979
Cost of goods for resale and materials sold	(2 698 527)	(3 463 803)
Cost of sales	**(7 014 116)**	**(8 177 337)**

(PLN '000)

13. Finance income and costs

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited restated figures)*
Income and costs from financial instruments, *of which*:	**(24 957)**	**(133 679)**
Dividend income	6 935	6 592
Interest income	10 183	16 491
Interest costs	(98 977)	(137 959)
Commission relating to borrowings and debt securities	(8 820)	(8 850)
Gain/loss on derivative instruments	(6 899)	18 289
Foreign exchange gains/losses	71 468	(27 556)
Other	1 153	(686)
Other finance income and costs, *of which:*	**(29 975)**	**(36 921)**
Interest on employee benefits	(20 398)	(25 002)
Interest on discount of other provisions	(8 278)	(11 085)
Other	(1 299)	(834)
Total finance income and costs, ***including recognized in the statement of comprehensive income:***	**(54 932)**	**(170 600)**
Interest expense on debt	(98 977)	(137 959)
Other finance income and costs	44 045	(32 641)

An increase in other finance income and costs in the 6-month period ended 30 June 2017 was mainly driven by a surplus of exchange gains over exchange losses of PLN 71 468 thousand. Exchange gains were mainly related to the Parent's debt in the euro, i.e. loans obtained from a subsidiary and subordinated bonds issued in December 2016. The related surplus of exchange gains over exchange losses was PLN 72 025 thousand.

14. Income tax

14.1. Tax expense in the statement of comprehensive income

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Current income tax	**(144 981)**	**(107 890)**
Current income tax expense	(140 731)	(102 082)
Adjustments to current income tax from previous years	(4 250)	(5 808)
Deferred tax	**(90 134)**	**79 932**
Income tax expense in profit/(loss)	**(235 115)**	**(27 958)**
Income tax expense relating to other comprehensive income	**654**	**(9 011)**

(PLN '000)

14.2. Deferred income tax

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
difference between tax base and carrying amount of fixed and intangible assets	1 529 265	1 511 102
difference between tax base and carrying amount of financial assets	39 982	45 981
different timing of recognition of sales revenue for tax purposes	76 536	49 299
difference between tax base and carrying amount of energy certificates	10 105	15 766
other	37 391	44 156
Deferred tax liabilities	**1 693 279**	**1 666 304**
provisions	532 558	638 914
difference between tax base and carrying amount of fixed and intangible assets	178 937	143 403
power infrastructure received free of charge and received connection fees	49 239	51 811
difference between tax base and carrying amount of financial assets and financial liabilities	61 537	50 387
different timing of recognition of cost of sales for tax purposes	45 444	39 940
tax losses	12 758	12 758
other	14 143	19 905
Deferred tax assets	**894 616**	**957 118**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**45 442**	**50 382**
Deferred tax liability	**(844 105)**	**(759 568)**

As at 30 June 2017 and 31 December 2016, the deferred tax asset was set off against deferred tax liabilities of companies from the Tax Capital Group ("TCG") due to the fact that the said companies had filed a combined tax return under the new Tax Capital Group agreement for the years 2015-2017, concluded on 22 September 2014.

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

15. Dividends paid and proposed

On 13 March 2017, the Management Board of TAURON Polska Energia S.A. adopted a resolution to file a motion with the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. to offset the Company's net loss for the 2016 financial year of PLN 166 253 thousand against the reserve capital. The Management Board of the Company decided not to put forward a recommendation to the Ordinary General Shareholders' Meeting, concerning the adoption of a decision to use the Company's reserve capital for purposes of payment of dividend for 2016 to the Company's shareholders. On 29 May 2017 the Ordinary General Meeting of the Company's Shareholders adopted a resolution in accordance with the Management Board's recommendation.

On 10 March 2016, the Management Board adopted a resolution to put forward a recommendation to the Ordinary General Shareholders' Meeting, concerning the use of the Company's reserve capital representing amounts transferred from prior year profit for purposes of dividend payment to the Company's shareholders in the amount of PLN 175 255 thousand, which equals to PLN 0.10 per share. On 17 March 2016, the Supervisory Board of the Company approved the recommendation presented by the Management Board. On 8 June 2016, the Ordinary General Shareholders' Meeting did not adopt a resolution to use a portion of the Company's reserve capital representing amounts transferred from prior year profit for purposes of dividend payment to the Company's shareholders.

(PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

16. Property, plant and equipment

For the 6-month period ended 30 June 2017 (*unaudited*)

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**121 980**	**21 603 044**	**18 164 046**	**850 102**	**3 261 173**	**44 000 345**
Direct purchase	-	-	-	-	1 342 535	**1 342 535**
Borrowing costs	-	-	-	-	48 257	**48 257**
Transfer of assets under construction	299	372 397	260 523	12 997	(646 216)	**-**
Sale	(117)	(3 309)	(17 948)	(9 956)	(3)	**(31 333)**
Liquidation	(2)	(11 944)	(47 617)	(3 232)	-	**(62 795)**
Received free of charge	-	3 152	8	-	-	**3 160**
Transfers to/from assets held for sale	(30)	(14 909)	(2 394)	(15)	(11)	**(17 359)**
Overhaul expenses	-	-	-	-	45 758	**45 758**
Items generated internally	-	-	-	-	19 494	**19 494**
Other movements	(111)	(344)	973	135	(1 154)	**(501)**
Foreign exchange differences from translation of foreign entities	-	-	(17)	(22)	(1)	**(40)**
Closing balance	**122 019**	**21 948 087**	**18 357 574**	**850 009**	**4 069 832**	**45 347 521**
ACCUMULATED DEPRECIATION						
Opening balance	**(433)**	**(7 825 966)**	**(9 268 038)**	**(517 062)**	**(33 657)**	**(17 645 156)**
Depreciation for the period	-	(394 030)	(355 805)	(37 268)	-	**(787 103)**
Increase of impairment	-	(105 151)	(309 878)	(402)	(210)	**(415 641)**
Decrease of impairment	30	134 353	254 043	534	22	**388 982**
Sale	-	2 111	17 110	9 428	-	**28 649**
Liquidation	-	9 792	46 611	3 173	-	**59 576**
Transfers to/from assets held for sale	-	9 507	2 101	15	-	**11 623**
Other movements	-	98	90	(164)	-	**24**
Foreign exchange differences from translation of foreign entities	-	-	10	7	-	**17**
Closing balance	**(403)**	**(8 169 286)**	**(9 613 756)**	**(541 739)**	**(33 845)**	**(18 359 029)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**121 547**	**13 777 078**	**8 896 008**	**333 040**	**3 227 516**	**26 355 189**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**121 616**	**13 778 801**	**8 743 818**	**308 270**	**4 035 987**	**26 988 492**
of which operating segments:						
Mining	**2 774**	**738 405**	**664 263**	**16 115**	**271 152**	**1 692 709**
Generation	**41 257**	**2 385 557**	**3 785 612**	**35 522**	**3 001 720**	**9 249 668**
Distribution	**60 724**	**10 562 118**	**4 170 993**	**240 102**	**759 781**	**15 793 718**
Other segments and other operations	**16 861**	**92 721**	**122 950**	**16 531**	**3 334**	**252 397**

(PLN '000)

For the 6-month period ended 30 June 2016 (*unaudited*)

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**119 536**	**19 928 399**	**16 910 428**	**804 020**	**2 599 980**	**40 362 363**
Direct purchase	-	-	7	44	1 339 547	**1 339 598**
Borrowing costs	-	-	-	-	49 313	**49 313**
Transfer of assets under construction	539	874 600	834 210	23 392	(1 732 741)	**-**
Sale	(117)	(1 426)	(7 031)	(13 032)	(10)	**(21 616)**
Liquidation	-	(29 240)	(60 619)	(3 874)	-	**(93 733)**
Received free of charge	-	3 888	191	-	-	**4 079**
Transfers to/from assets held for sale	(43)	(292)	60	4	-	**(271)**
Overhaul expenses	-	-	-	-	3 723	**3 723**
Items generated internally	-	-	-	-	20 878	**20 878**
Acquisition of ZCP Brzeszcze	1 544	165 401	22 429	1 637	14 405	**205 416**
Other movements	(22)	7 962	(6 216)	(420)	(1 077)	**227**
Foreign exchange differences from translation of foreign entities	-	-	11	15	-	**26**
Closing balance	**121 437**	**20 949 292**	**17 693 470**	**811 786**	**2 294 018**	**41 870 003**
ACCUMULATED DEPRECIATION						
Opening balance	**(466)**	**(6 692 656)**	**(8 304 965)**	**(467 731)**	**(13 728)**	**(15 479 546)**
Depreciation for the period	-	(399 948)	(344 770)	(39 274)	-	**(783 992)**
Increase of impairment	-	(454 701)	(898 571)	(1 556)	(17 685)	**(1 372 513)**
Decrease of impairment	47	166 686	557 457	522	29	**724 741**
Sale	-	558	6 059	12 355	-	**18 972**
Liquidation	-	25 936	58 696	3 822	-	**88 454**
Transfers to/from assets held for sale	16	(44)	(13)	(4)	-	**(45)**
Other movements	-	(763)	778	97	-	**112**
Foreign exchange differences from translation of foreign entities	-	-	(6)	(7)	-	**(13)**
Closing balance	**(403)**	**(7 354 932)**	**(8 925 335)**	**(491 776)**	**(31 384)**	**(16 803 830)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**119 070**	**13 235 743**	**8 605 463**	**336 289**	**2 586 252**	**24 882 817**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**121 034**	**13 594 360**	**8 768 135**	**320 010**	**2 262 634**	**25 066 173**
of which operating segments:						
Mining	**2 732**	**739 680**	**615 162**	**14 522**	**218 600**	**1 590 696**
Generation	**41 541**	**2 534 530**	**4 008 715**	**39 570**	**1 351 852**	**7 976 208**
Distribution	**59 934**	**10 220 913**	**4 012 340**	**247 409**	**688 237**	**15 228 833**
Other segments and other operations	**16 827**	**99 237**	**131 918**	**18 509**	**3 945**	**270 436**

In the 6-month period ended 30 June 2017, the Group acquired property, plant and equipment of PLN 1 390 792 thousand, including capitalized costs of external financing. The major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Distribution	580 093	716 082
Generation	755 382	574 159
Mining	48 763	90 376

Impairment tests

In the 6-month period ended 30 June 2017 the Group recognized impairment write-downs and the reversal of previously recognized impairment write-downs of property, plant and equipment resulting from the impairment tests performed as at 30 June 2017.

As at 30 June 2017, impairment tests were performed for property, plant and equipment based on the following indications:

- the market value of the Company's net assets remaining below their carrying amount for a long period;
- changes in the prices of commodities on global markets and a change in the situation on the domestic power coal market following mining sector consolidation;
- decrease in the prices of RES certificates, amendment of the RES law and implementation of the auction system;
- proceeding of functional solutions for the capacity market as described in the Capacity Market Bill;
- the continued unfavorable market conditions in the coal power industry;

- emergence of the proposed solutions in the so-called winter package which are unfavourable for the conventional power sector;
- an increase in the risk-free rate.

The tests conducted as at 30 June 2017 required estimating the value in use of cash-generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

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

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

Key assumptions made for purposes of tests performed as at 30 June 2017:

- The adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will increase in real terms by approx. 11% by 2027, then it will decrease by 3% in the period 2027-2040, and after 2040 the prices will remain at the same level as in that year (fixed prices);
- The adopted electricity wholesale price path for the years 2018-2027, with a perspective to 2040, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring greenhouse gas emission allowances. An increase of approx. 5% is assumed by 2020, with a price increase of 9% in relation to 2020 by 2027. An increase of 10% is assumed in the years 2027-2040, and after 2040 the prices are assumed to remain at the same level as in that year (fixed prices);
- The proceeded changes in the Polish market model aiming to introduce the so-called capacity market mechanism have been taken into account;
- The emission limits for generating electricity specified in the regulation of the Council of Ministers, adjusted for the capital expenditure incurred, and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted for the level of operations i.e. generation of heat;
- The adopted price path of greenhouse gas emission allowances for 2018-2027 with a perspective to 2040. An increase in the market price of approx. 134% has been assumed by 2027, an increase of approx. 15% for the period 2027-2040, and after 2040 the prices have been assumed to remain at the same level as in that year (fixed prices);
- green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates
- limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity of more than 5 MW do not qualify for support;
- support for CHP in line with the regulations which are currently in force. It is assumed that property rights exist for red, yellow and purple energy and that they will have to be surrendered by 2018. No support for CHP has been assumed thereafter;
- regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- the adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- sales volumes taking into account GDP growth and increased market competition;
- tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;

(PLN '000)

- maintaining the production capacity of the existing non-current assets as a result of replacement investments;
- the level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 6.96% to 10.20% in nominal terms before tax.

As at 30 June 2017, the impairment test revealed that an additional impairment loss of PLN 388 358 thousand should be recognized on a portion of the Generation segment assets. Following the tests, reverse also an impairment loss in Generation segment in the amount of PLN 356 695 thousand.

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

The impairment loss and its reversal resulting from the tests performed as at 30 June 2017 are related to the following cash-generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		30 June 2017 *(unaudited)*	30 June 2016 *(unaudited)*	As at 30 June 2017 *(unaudited)*	6-month period ended 30 June 2017 *(unaudited)*	
Elektrownia Jaworzno II	TAURON Wytwarzanie S.A.	8.20%	7.49%	157 932	71 447	-
Elektrownia Jaworzno III				842 433	136 307	-
Elektrownia Łaziska				410 478	-	107 124
Elektrownia Łagisza				1 457 081	-	178 213
Elektrownia Siersza				129 928	31 644	-
Elektrownia Stalowa Wola				(40 247)	18	-
Capital projects in progress				-	211	-
ZW Bielsko Biała	TAURON Ciepło Sp. z o.o.	7.42%	7.17%	561 784	-	27 543
ZW Tychy				453 757	37 309	-
Hydropower plants	TAURON Ekoenergia Sp. z o.o.	8.55%	8.25%	633 442	-	40 638
FW Lipniki		7.67%	6.34%	16 161	53 077	-
FW Zagórze		9.08%	8.92%	26 102	6 120	-
FW Wicko		8.52%	6.48%	62 394	-	3 177
FW Marszewo		8.41%	6.49%	213 370	52 074	-
Total CGU					**388 207**	**356 695**
Common assets	TAURON Wytwarzanie S.A.	8.20%	7.49%	(23 031)	151	-
Total impairment losses					**388 358**	**356 695**

The impairment loss was recognized for the following reasons:

- a drop in the prices of certificates for energy produced from renewable sources, amendment of the RES Act and introduction of the auction system;
- increase of the risk-free rate and cost of capital for wind farms.

The impairment reversal was recognized for the following reasons:

- the proceeding of functional solutions for the capacity market as described in the Capacity Market Bill, which involves gaining more knowledge about the future of this market;
- extension of working time of generating units and increasing production volumes as a result of increased replacement and modernization expenditures.

The results of the sensitivity analysis for the individual cash generating units have shown that the taking into account of the power market, and, in the next turn, changes in electricity prices and change in hard coal prices have the most significant impact on the value in use of the assets tested. To a lesser extent their valuation is affected by changes in the prices of the greenhouse gas allowances and and changes in the weighted average cost of capital. Presented below are estimated changes in the impairment write-down of assets of the Generation segment, having also recognized the effect of its reversal as at 30 June 2017 due to changes in key assumptions.

Had the power market mechanism not been included in the assumptions underlying estimation of the value in use of property, plant and equipment, (with no change in other market condition), the net amount of the additional write-down that would have been charged against the Group's profit would be PLN 3 215 million.

Parameter	Change	Net impact on impairment loss (i.e. reduced by derecognized amounts, in PLN million)	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	-	214
	-1%	273	-
Change of coal prices in the forecast period	+1%	111	-
	-1%	-	96
Change of CO2 emission allowances prices in the forecast period	+1%	46	-
	-1%	-	44
Change of WACC (net)	+0.1 p.p.	43	-
	-0.1 p.p.	-	35
Lack of recognition of payments relating to the Capacity Market		3 215	-

The impairment tests performed as at 30 June 2017 also included the value of loans granted to the joint venture – Elektrociepłownia Stalowa Wola S.A., which are described in more detail in Note 21 to these interim condensed consolidated financial statements. The tests were performed on assumptions consistent with the tests for impairment of other assets. The results of the test indicated that there was no need to make an impairment write-down.

17. Goodwill

Goodwill in segment	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	581	581
Total	**40 156**	**40 156**

Impairment tests

The test was performed for the net assets increased by goodwill in each operating segment. The recoverable amount in each company was determined based on the value in use.

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

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

The discount rate used for calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (3.81%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

The key assumptions affecting the estimated value in use and the discount rates applied to individual segments are as follows:

(PLN '000)

Goodwill in the segment	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		30 June 2017 *(unaudited)*	30 June 2016 *(unaudited)*
Mining	• The adopted price path of power coal and other coal sizes. The actual increase in the price of power coal assumed by 2027 11%, in 2027-2040 is assumed a decrease by 3% and after 2040, the price level of that year has been maintained (fixed prices); • The adopted retail price path of electricity based on the wholesale price of black energy including excise costs, cost of energy certificates surrender and a relevant markup; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	10.20%	9.57%-9.63%
Distribution	• Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	7.60%	7.50%

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

The impairment test performed as at 30 June 2017 did not reveal impairment of the carrying amount of goodwill in the segments.

The results of the sensitivity analysis performed for the individual cash generating units have shown that changes in the most important factors such as: electricity prices, hard coal prices, prices of the greenhouse gas emission allowances and the weighted average cost of capital would have to be considerable in order to cause such a change in the value in use of the assets tested that would require recognizing an impairment of goodwill.

18. Energy certificates and gas emission allowances

18.1. Long-term energy certificates and gas emission allowances

For the 6-month period ended 30 June 2017 (*unaudited*)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**110 430**	**15 830**	**126 260**
Direct purchase	14 749	-	**14 749**
Reclassification	(100 884)	(15 830)	**(116 714)**
Closing balance	**24 295**	**-**	**24 295**

For the 6-month period ended 30 June 2016 (*unaudited*)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**232 973**	**277 867**	**510 840**
Direct purchase	62 850	-	**62 850**
Reclassification	(232 973)	(245 729)	**(478 702)**
Closing balance	**62 850**	**32 138**	**94 988**

18.2. Short-term energy certificates and gas emission allowances

For the 6-month period ended 30 June 2017 (*unaudited*)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**556 501**	**423 847**	**980 348**
Direct purchase	204 221	-	**204 221**
Generated internally	25 083	-	**25 083**
Cancellation	(653 561)	(209 652)	**(863 213)**
Reclassification	99 810	15 830	**115 640**
Closing balance	**232 054**	**230 025**	**462 079**

(PLN '000)

For the 6-month period ended 30 June 2016 (*unaudited*)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**652 305**	**153 083**	**805 388**
Direct purchase	189 228	-	**189 228**
Generated internally	66 939	-	**66 939**
Cancellation	(707 361)	(174 957)	**(882 318)**
Reclassification	223 550	245 729	**469 279**
Closing balance	**424 661**	**223 855**	**648 516**

19. Other intangible assets

For the 6-month period ended 30 June 2017 (*unaudited*)

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**5 434**	**786 283**	**610 578**	**211 873**	**93 060**	**1 707 228**
Direct purchase	-	-	11	-	39 187	**39 198**
Transfer of intangible assets not made available for use	-	105	19 777	5 258	(25 140)	**-**
Sale/ Liquidation	-	(841)	(287)	(100)	-	**(1 228)**
Other movements	15	(2 410)	(6 074)	6 268	10	**(2 191)**
Foreign exchange differences from translation of foreign entities	-	-	(53)	-	-	**(53)**
Closing balance	**5 449**	**783 137**	**623 952**	**223 299**	**107 117**	**1 742 954**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 120)**	**(25 617)**	**(387 075)**	**(64 982)**	**(7)**	**(482 801)**
Amortization for the period	(39)	-	(31 069)	(8 467)	-	**(39 575)**
Increase of impairment	(16)	(227)	(329)	(23)	-	**(595)**
Decrease of impairment	73	234	11	32	-	**350**
Sale/ Liquidation	-	-	282	38	-	**320**
Other movements	(15)	227	2 152	(2 114)	-	**250**
Foreign exchange differences from translation of foreign entities	-	-	46	-	-	**46**
Closing balance	**(5 117)**	**(25 383)**	**(415 982)**	**(75 516)**	**(7)**	**(522 005)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**314**	**760 666**	**223 503**	**146 891**	**93 053**	**1 224 427**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**332**	**757 754**	**207 970**	**147 783**	**107 110**	**1 220 949**

For the 6-month period ended 30 June 2016 (*unaudited*)

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**5 690**	**786 504**	**550 892**	**188 004**	**51 885**	**1 582 975**
Direct purchase	-	-	28	-	38 590	**38 618**
Transfer of intangible assets not made available for use	-	57	11 928	14 130	(26 115)	**-**
Sale/ Liquidation	-	(1 195)	(1 877)	(60)	(55)	**(3 187)**
Acquisition of ZCP Brzeszcze	-	10 266	95	147	-	**10 508**
Other movements	-	1 374	84	608	1 041	**3 107**
Foreign exchange differences from translation of foreign entities	-	-	42	-	-	**42**
Closing balance	**5 690**	**797 006**	**561 192**	**202 829**	**65 346**	**1 632 063**
ACCUMULATED AMORTIZATION						
Opening balance	**(4 893)**	**(13 064)**	**(332 862)**	**(49 391)**	**-**	**(400 210)**
Amortization for the period	(78)	-	(29 602)	(7 700)	-	**(37 380)**
Increase of impairment	(72)	(19)	(1 538)	(102)	(7)	**(1 738)**
Decrease of impairment	51	810	1 625	4	-	**2 490**
Liquidation	-	-	1 877	60	-	**1 937**
Foreign exchange differences from translation of foreign entities	-	-	(26)	-	-	**(26)**
Closing balance	**(4 992)**	**(12 273)**	**(360 526)**	**(57 129)**	**(7)**	**(434 927)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**797**	**773 440**	**218 030**	**138 613**	**51 885**	**1 182 765**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**698**	**784 733**	**200 666**	**145 700**	**65 339**	**1 197 136**

(PLN '000)

20. Shares in joint ventures

Investments in joint-ventures measured using the equity method as at 30 June 2017 and for the 6-month period ended 30 June 2017 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 30 June 2017 or for the 6-month period ended 30 June 2017 *(unaudited)*
Non-current assets	1 186 120	1 500 825	**2 686 945**
Current assets, *including:*	4 128	497 938	**502 066**
cash and cash equivalents	*2 931*	*254 726*	***257 657***
Non-current liabilities (-) *including:*	(528 279)	(659 150)	**(1 187 429)**
debt	*(480 231)*	*(557 143)*	***(1 037 374)***
Current liabilities (-) *including:*	(696 370)	(307 408)	**(1 003 778)**
debt	*(629 054)*	*(35 311)*	***(664 365)***
Total net assets	(34 401)	1 032 205	**997 804**
Share in net assets	(17 201)	516 103	**498 902**
Investment in joint ventures	**-**	**475 097**	**475 097**
Share in revenue of joint ventures	5	323 914	**323 919**
Share in profit/(loss) of joint ventures	**-**	**58 230**	**58 230**
Share in other comprehensive income of joint ventures	**-**	**(7)**	**(7)**

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

Investments in joint-ventures measured using the equity method as at 31 December 2016 and for the 6-month period ended 30 June 2016 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o. in liquidation	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2016 or for the 6-month period ended 30 June 2016 *(unaudited)*
Non-current assets	1 126 668	-	1 479 845	**2 606 513**
Current assets, *including:*	5 739	37 056	501 547	**544 342**
cash and cash equivalents	*3 809*	*37 009*	*196 442*	***237 260***
Non-current liabilities (-) *including:*	(1 028 954)	-	(664 603)	**(1 693 557)**
debt	*(980 977)*	-	*(536 585)*	***(1 517 562)***
Current liabilities (-) *including:*	(132 395)	(97)	(349 101)	**(481 593)**
debt	*(65 752)*	-	*(1 647)*	***(67 399)***
Total net assets	(28 942)	36 959	967 688	**975 705**
Share in net assets	(14 471)	18 479	483 844	**487 852**
Investment in joint ventures	**-**	**18 479**	**442 869**	**461 348**
Share in revenue of joint ventures	6 599	229	294 849	**301 677**
Share in profit/(loss) of joint ventures	**-**	**(1)**	**59 862**	**59 861**
Share in other comprehensive income of joint ventures	**-**	**-**	**41**	**41**

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

Elektrociepłownia Stalowa Wola S.A.

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

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

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

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

Additionally, the Company has receivables due to loans granted to Elektrociepłownia Stalowa Wola S.A. at the carrying amount of PLN 550 993 thousand, which has been discussed in more detail in Note 21 to these condensed interim consolidated financial statements.

TAMEH HOLDING Sp. z o.o. and subsidiaries

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

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

On 29 June 2017, the Shareholders' Meeting of TAMEH HOLDING Sp. z o.o. decided to allocate PLN 31 000 thousand for dividends to shareholders. The Group's share in the joint venture TAMEH HOLDING Sp. z o.o. was reduced by the value of the dividend for the Group in the amount of PLN 15 500 thousand.

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

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

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

On 28 July 2016, TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. signed an agreement pursuant to which they unanimously decided to discontinue the construction of the gas and steam unit in Elektrownia Blachownia Nowa Sp. z o.o. and terminate the shareholders agreement concluded by KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A., which denotes expiration of all contractual obligations and discontinuation of all works specified in the agreement. KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. unanimously decided to commence the liquidation of the company, in line with its articles of association and laws of general application. On 11 October 2016, the Extraordinary General Shareholders' Meeting dissolved Elektrownia Blachownia Nowa Sp. z o.o. and placed it into liquidation, in addition to appointing a receiver. As part of the activities taken to liquidate the company, the sale of the company's assets was completed, documentation was archived and the contracts which the Company had been a party to were terminated by the balance sheet date.

After the balance sheet date, on 7 July 2017 cash from the division of the assets of Elektrownia Blachownia Nowa Sp. z o.o. in liquidation, amounting to PLN 18 542 thousand, was received into the bank account of TAURON Wytwarzanie S.A. As a result of the above, the Group reclassified its shares in the company at the balance sheet date and presented them as other current financial assets in the statement of financial position.

21. Loans granted to joint ventures

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 30 June 2017 and 31 December 2016:

(PLN '000)

	Agreement date	Contractual loan amount	As at 30 June 2017 *(unaudited)*		As at 31 December 2016		Maturity date	Purpose
			Principal	Interest	Principal	Interest		
Subordinated loan	20.06.2012	177 000	177 000	31 347	177 000	36 381	31.12.2032	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14.12.2015	15 850	15 850	1 032	15 850	699	31.12.2027	Repayment of the principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
	15.12.2016	15 300	11 000	256	11 000	21		
	30.03.2017	145 991	145 991	1 531	-	-	30.06.2017	Payment of all liabilities under loan agreements entered into by the borrower with the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
		73 518	73 518	771	-	-		
		71 233	71 233	747	-	-		
Other loans	25.11.2015	2 600	2 600	173	2 600	117	30.06.2017	Financing of current operations
	22.01.2016	5 500	5 500	326	5 500	214		
	22.04.2016	1 200	600	29	600	17		
	27.05.2016	3 100	3 100	128	3 100	65		
	31.08.2016	3 800	2 875	88	2 875	28		
	16.02.2017	3 000	3 000	38	-	-		
	28.04.2017	2 250	2 250	10	-	-		
Total loans			**514 517**	**36 476**	**218 525**	**37 542**		
Non-current			203 850	32 635	203 850	37 101		
Current			310 667	3 841	14 675	441		

In the 6-month period ended 30 June 2017, the loans granted by the Company to Elektrociepłownia Stalowa Wola S.A. for purposes of debt repayment totalled PLN 290 742 thousand. The said loans were granted for purposes of the debtor's early payment of liabilities under loan agreements entered into in relation to the construction of a heat and power unit in Stalowa Wola, which has been discussed in more detail in Note 31.3 to these condensed interim financial statements.

On 30 June 2017 the Company entered in two agreements with Elektrociepłownia Stalowa Wola S.A. consolidating the borrower's debt under the loan agreements maturing on 30 June 2017. Under these consolidating agreements, the principal amounts of the receivables and interest accrued as at 30 June 2017 were consolidated in the following way:

- Consolidating agreement of 30 June 2017 for the total amount of PLN 150 000 thousand – covered the whole principal amount of the receivable arising from the loan agreement for the repayment of the debt as at 30 March 2017 amounting to PLN 145 991 thousand and a portion of the principal of PLN 4 009 thousand arising from the loan agreement for the repayment of the debt as at 30 March 2017 amounting to PLN 73 518 thousand.
- Agreement of 30 June 2017 for the total amount of PLN 170 058 thousand covered:
  - the remaining principal of PLN 69 509 thousand under the loan agreement for the repayment of the debt as at 30 March 2017 amounting to PLN 73 518 thousand,
  - the entire principal under the loan agreement for the repayment of the debt as at 30 March 2017 amounting to PLN 71 233 thousand,
  - the entire principal under the other loan agreements concluded for the financing of the borrower's day-to-day operating activities, amounting in total to PLN 19 925 thousand,
  - interest accrued on the loans maturing on 30 June 2017, calculated for the period from the date of entering in the given agreement to 30 June 2017 inclusive, amounting in total to PLN 3 841 thousand,
  - the amount of the additional loan granted under this agreement by the Company to the borrower, amounting to PLN 5 550 thousand. This loan was mainly granted to finance the borrower's day-to-day operations, and the first tranche of PLN 1 000 thousand was paid on 7 July 2017.

The receivables covered by the above-mentioned agreements of 30 June 2017 together with interest accrued since 1 July 2017 will be repaid by 31 October 2017.

(PLN '000)

22. Other financial assets

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Shares	150 286	127 698
Deposits	40 846	38 472
Derivative instruments	37 864	56 417
Investment fund units	28 265	27 761
Loans granted	5 947	50
Bid bonds, deposits and collateral transferred	56 100	41 818
Margin deposits and initial margins	36 290	-
Other	25 668	14 561
Total	**381 266**	**306 777**
Non-current	220 444	227 140
Current	160 822	79 637

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

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

In shares was presented also the value of shares held in the joint venture Elektrownia Blachownia Nowa Sp. z o.o. in liquidation in the amount of PLN 18 578 thousand due to their reclassification to current assets, as described in details in Note 20 to these interim condensed consolidated financial statements.

Deposits constitute the financial assets of the Mine Decommissioning Fund.

23. Other non-financial assets

23.1. Other non-current non-financial assets

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Prepayments for assets under construction and intangible assets *including:*	215 566	274 301
related to project realization: Construction of 910 MW Power Unit in Jaworzono III Power Plant	*212 358*	*271 667*
Costs of preparing production in hard coal mines	129 128	132 862
Other prepayments	20 459	15 237
Total	**365 153**	**422 400**

23.2. Other current non-financial assets

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Costs settled over time, *including:*	**92 767**	**78 457**
Costs of preparing production in hard coal mines	43 374	36 175
Property and tort insurance	10 790	10 922
IT, telecom and postal services	12 913	17 994
Other prepayments	25 690	13 366
Other current non-financial assets, *including:*	**54 756**	**106 551**
Advance payments for deliveries	11 027	103 601
Surplus of Social Benefit Fund assets over its liabilities	-	338
Transfers made to the Social Benefit Fund	27 656	-
Other current assets	16 073	2 612
Total	**147 523**	**185 008**

(PLN '000)

24. Inventories

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Gross value		
Coal, *of which:*	228 660	320 201
Raw materials	*81 052*	*98 759*
Semi-finished goods and work-in-progress	*141 868*	*216 831*
Energy certificates	-	783
Emission allowances	13 137	45 912
Other inventories	121 286	115 591
Total	**363 083**	**482 487**
Measurement to net realisable value / fair value		
Emission allowances	400	13 226
Other inventories	(6 572)	(9 593)
Total	**(6 172)**	**3 633**
Net realisable value / Fair value		
Coal, *of which:*	228 660	320 201
Raw materials	*81 052*	*98 759*
Semi-finished goods and work-in-progress	*141 868*	*216 831*
Energy certificates	-	783
Emission allowances	13 537	59 138
Other inventories	114 714	105 998
Total	**356 911**	**486 120**

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

The Company recognized a gain on measurement of PLN 400 thousand as at 30 June 2017 following an increase in the prices of emission allowances.

25. Receivables from buyers

Current receivables from buyers as at 30 June 2017 and 31 December 2016 have been presented in the table below.

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Value of items before allowance/write-down		
Receivables from clients	1 367 574	1 527 921
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	433 912	425 705
Receivables claimed at court	151 872	146 086
Total	**1 953 358**	**2 099 712**
Allowance/write-down		
Receivables from clients	(83 418)	(84 036)
Receivables claimed at court	(127 291)	(121 611)
Total	**(210 709)**	**(205 647)**
Value of item net of allowance (carrying amount)		
Receivables from clients	1 284 156	1 443 885
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	433 912	425 705
Receivables claimed at court	24 581	24 475
Total	**1 742 649**	**1 894 065**

(PLN '000)

26. Receivables due to taxes and charges

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Corporate Income Tax receivables	38 633	83 468
VAT receivables	140 084	154 181
Excise duty receivables	15 777	24 205
Other	648	2 000
Total	**195 142**	**263 854**

As at 30 June 2017 the Group had the following income tax receivables and liabilities:

- income tax receivables of PLN 38 633 thousand, where PLN 38 022 thousand relates to the Tax Capital Group ("TCG");
- income tax liability of PLN 1 170 thousand, not related to the TCG.

Tax Capital Group

A TCG agreement for the years 2015-2017 was concluded on 22 September 2014. Pursuant to the previous agreement, TCG was registered for the period of three fiscal years from 2012 to 2014.

The major companies constituting the TCG 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 June 2017, the TCG had income tax receivables of PLN 38 022 thousand, constituting:

- a surplus of advance income tax payments made by the TCG in the amount of PLN 300 053 thousand for 2016 and tax overpaid by a subsidiary before joining the TCG in the amount of PLN 301 thousand over the tax charge of the TCG for 2016 in the amount of PLN 221 535 thousand;
- a surplus of tax expenses related to TCG for the 6-month period ended 30 June 2017 in amount of PLN 138 910 thousand over fixed, monthly income tax payments made by the TCG in the amount of PLN 98 113 thousand for the 6-month period ended 30 June 2017.

27. Cash and cash equivalents

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Cash at bank and in hand	195 561	368 274
Short-term deposits (up to 3 months)	14 613	16 450
Other	205	157
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**210 379**	**384 881**
restricted cash	135 136	144 404
Bank overdraft	(65 850)	(15 156)
Cash pool	(7 176)	(16 095)
Foreign exchange	1 014	1 103
Total cash and cash equivalents presented in the statement of cash flows	**138 367**	**354 733**

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

As at 30 June 2017, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 81 950 thousand and cash on the accounts used for the settlement of electricity and emission allowances traded on the Polish Power Exchange (Towarowa Giełda Energii S.A.) of PLN 50 427 thousand.

(PLN '000)

28. Equity

28.1. Issued capital

Issued capital as at 30 June 2017 (*unaudited*)

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

As at 30 June 2017, the value of the issued capital, the number of shares and the nominal value of shares did not change as compared to 31 December 2016.

Shareholding structure as at 30 June 2017 (*unaudited, to the best of the Company's knowledge*)

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

To the best of the Company's knowledge, the shareholding structure as at 30 June 2017 had not changed since 31 December 2016.

28.2. Revaluation reserve from valuation of hedging instruments

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Opening balance	**29 660**	**(73 414)**
Remeasurement of hedging instruments	(9 070)	49 075
Remeasurement of hedging instruments charged to profit or loss	(5)	(229)
Deferred income tax	1 724	(9 281)
Closing balance	**22 309**	**(33 849)**

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

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

As at 30 June 2017, the Company recognized PLN 22 309 thousand in the revaluation reserve from valuation of hedging instruments. It represents receivables arising from valuation of interest rate swaps as at the end of the reporting period, totaling PLN 27 561 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The amount of PLN 755 thousand was recognized in the result for the current period, of which PLN 760 thousand is the amount received under the hedge in respect of completed interest periods, whereas the amount of PLN (5) thousand represents a change in the valuation of hedging instruments relating to interest on bonds accrued at the balance sheet date. In the statement of comprehensive income profit or loss arising from hedging transactions IRS was recognized in finance costs relating to the interest from issued bonds.

(PLN '000)

28.3. Retained earnings and dividend limitation

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

- net profit for the period attributable to the shareholders of the Parent of PLN 1 004 167 thousand;
- actuarial gains on provisions for post-employment benefits, recognized in other comprehensive income, of PLN 4 547 thousand;
- absorption of the Company's net loss for 2016 of PLN 166 253 thousand using the Company's reserve capital (resolution of the Ordinary General Shareholders' Meeting of 29 May 2017).

29. Debt

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Loans and borrowings	1 266 227	1 263 553
Bonds issued	7 944 813	7 681 128
Finance lease	26 672	34 848
Total	**9 237 712**	**8 979 529**
Non-current	8 809 471	8 759 789
Current	428 241	219 740

29.1. Loans and borrowings

Loans and borrowings taken out as at 30 June 2017 (*unaudited*)

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within *(after the balance sheet date):*					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	68 818	68 818	32 676	4 453	7 350	7 341	14 484	2 514
	fixed	1 142 590	1 142 590	35 186	127 052	162 236	162 236	324 474	331 406
Total PLN		**1 211 408**	**1 211 408**	**67 862**	**131 505**	**169 586**	**169 577**	**338 958**	**333 920**
EUR	floating	11 020	46 578	46 578	-	-	-	-	-
Total EUR		**11 020**	**46 578**	**46 578**	**-**	**-**	**-**	**-**	**-**
USD	floating	414	1 533	1 533	-	-	-	-	-
Total USD		**414**	**1 533**	**1 533**	**-**	**-**	**-**	**-**	**-**
Total			**1 259 519**	**115 973**	**131 505**	**169 586**	**169 577**	**338 958**	**333 920**
Interest increasing carrying amount			6 708						
Total loans and borrowings			**1 266 227**						

Loans and borrowings taken out as at 31 December 2016

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

Changes in the balance of loans and borrowings, excluding interest increasing their carrying amount, in the 6-month period ended 30 June 2017 and in the comparative period, have been presented below.

(PLN '000)

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Opening balance	**1 256 467**	**1 403 618**
Movement in bank overdrafts and cash pool loans received	**47 659**	**90 074**
Movement in loans (excluding bank overdrafts and cash pool loans):	**(44 607)**	**(43 141)**
Repaid	(44 904)	(44 724)
Taken	-	916
Change in valuation	297	667
Closing balance	**1 259 519**	**1 450 551**

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

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	105 043	105 039
		Construction and start-up of a co-generation unit at EC Bielsko Biała	Fixed	15.12.2021	150 063	150 056
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	286 838	307 362
			Fixed – agreed until 15 March 2018	15.09.2024	137 887	147 091
			Fixed – agreed until 15 March 2018	15.09.2024	172 284	183 783
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	297 167	297 170
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	22 000	24 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	15 226	16 561
Other loans and borrowings					79 719	32 491
Total					**1 266 227**	**1 263 553**

(PLN '000)

29.2. Bonds issued

Bonds issued as at 30 June 2017 *(unaudited)*

Issuer	Tranche/ Bank	Redemption date	Currrency	Principal at nominal value in currency	As at balance sheet date		of which maturing within *(after the balance sheet date):*			
					Interest accrued	Principal at amortised cost	up to 3 months	3 months - 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	98	99 872	-	-	99 872	-
		20.12.2020	PLN	100 000	98	99 847	-	-	99 847	-
		20.12.2021	PLN	100 000	98	99 830	-	-	99 830	-
		20.12.2022	PLN	100 000	98	99 817	-	-	-	99 817
		20.12.2023	PLN	100 000	98	99 806	-	-	-	99 806
		20.12.2024	PLN	100 000	98	99 799	-	-	-	99 799
		20.12.2025	PLN	100 000	98	99 792	-	-	-	99 792
		20.12.2026	PLN	100 000	98	99 785	-	-	-	99 785
		20.12.2027	PLN	100 000	98	99 780	-	-	-	99 780
		20.12.2028	PLN	100 000	98	99 778	-	-	-	99 778
		20.12.2020	PLN	70 000	68	69 982	-	-	69 982	-
		20.12.2021	PLN	70 000	68	69 981	-	-	69 981	-
		20.12.2022	PLN	70 000	68	69 980	-	-	-	69 980
		20.12.2023	PLN	70 000	68	69 979	-	-	-	69 979
		20.12.2024	PLN	70 000	68	69 979	-	-	-	69 979
		20.12.2025	PLN	70 000	68	69 978	-	-	-	69 978
		20.12.2026	PLN	70 000	68	69 978	-	-	-	69 978
		20.12.2027	PLN	70 000	68	69 978	-	-	-	69 978
		20.12.2028	PLN	70 000	68	69 977	-	-	-	69 977
		20.12.2029	PLN	70 000	68	69 977	-	-	-	69 977
	Bond Issue Scheme of 24.11.2015	29.12.2020	PLN	2 250 000	365	2 245 415	-	-	2 245 415	-
		25.03.2020	PLN	100 000	795	99 805	-	-	99 805	-
		9.12.2020	PLN	300 000	535	299 374	-	-	299 374	-
		30.01.2020	PLN	100 000	1 233	99 800	-	-	99 800	-
		1.03.2020	PLN	100 000	989	99 798	-	-	99 798	-
		31.07.2017	PLN	100 000	8	100 000	100 000	-	-	-
	TPEA1119	4.11.2019	PLN	1 750 000	7 609	1 749 215	-	-	1 749 215	-
	European Investment Bank	16.12.2034	EUR	190 000	19 918	801 882	-	-	-	801 882
TAURON Sweden Energy AB (publ)		3.12.2029	EUR	168 000	14 297	704 220	-	-	-	704 220
Total debentures					**47 409**	**7 897 404**	**100 000**	**-**	**5 032 919**	**2 764 485**

Bonds issued as at 31 December 2016

Issuer	Tranche/ Bank	Redemption date	Currrency	Principal at nominal value in currency	As at balance sheet date		of which maturing within *(after the balance sheet date):*			
					Interest accrued	Principal at amortised cost	up to 3 months	3 months - 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	107	99 805	-	-	99 805	-
		20.12.2020	PLN	100 000	107	99 786	-	-	99 786	-
		20.12.2021	PLN	100 000	107	99 773	-	-	99 773	-
		20.12.2022	PLN	100 000	107	99 763	-	-	-	99 763
		20.12.2023	PLN	100 000	107	99 754	-	-	-	99 754
		20.12.2024	PLN	100 000	107	99 749	-	-	-	99 749
		20.12.2025	PLN	100 000	107	99 744	-	-	-	99 744
		20.12.2026	PLN	100 000	107	99 738	-	-	-	99 738
		20.12.2027	PLN	100 000	107	99 734	-	-	-	99 734
		20.12.2028	PLN	100 000	107	99 733	-	-	-	99 733
		20.12.2020	PLN	70 000	74	69 976	-	-	69 976	-
		20.12.2021	PLN	70 000	74	69 976	-	-	69 976	-
		20.12.2022	PLN	70 000	74	69 976	-	-	-	69 976
		20.12.2023	PLN	70 000	74	69 976	-	-	-	69 976
		20.12.2024	PLN	70 000	74	69 975	-	-	-	69 975
		20.12.2025	PLN	70 000	74	69 975	-	-	-	69 975
		20.12.2026	PLN	70 000	74	69 975	-	-	-	69 975
		20.12.2027	PLN	70 000	74	69 975	-	-	-	69 975
		20.12.2028	PLN	70 000	74	69 975	-	-	-	69 975
		20.12.2029	PLN	70 000	74	69 975	-	-	-	69 975
	Bond Issue Scheme of 24.11.2015	29.12.2020	PLN	2 250 000	549	2 244 801	-	-	2 244 801	-
		25.03.2020	PLN	100 000	790	99 771	-	-	99 771	-
		9.12.2020	PLN	300 000	560	298 761	-	-	298 761	-
	TPEA1119	4.11.2019	PLN	1 750 000	7 578	1 749 155	-	-	1 749 155	-
	European Investment Bank	16.12.2034	EUR	190 000	1 693	839 330	-	-	-	839 330
TAURON Sweden Energy AB (publ)		3.12.2029	EUR	168 000	2 067	736 930	-	-	-	736 930
Total debentures					**15 047**	**7 666 081**	**-**	**-**	**4 831 804**	**2 834 277**

(PLN '000)

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

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

On 20 June 2017, annexes were signed to the agency and deposit agreements as well as to the guarantee agreement of 24 November 2015, under which the scheme was extended:

- for 1 year i.e. until 31 December 2021 ("1st Extension Period"). The amount of the scheme in the 1st Extension Period will be PLN 5 320 000 thousand at the maximum, and the following banks joined the extension: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland, Bank Zachodni WBK S.A., CaixaBank S.A. (Joint Stock Company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and mBank S.A.;
- for 2 years i.e. until 31 December 2022 ("2nd Extension Period"). The amount of the scheme in the 2nd Extension Period will be PLN 2 450 000 thousand at the maximum, and the following banks joined the extension: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A.

Until 31 December 2020 the amount of the scheme will not change and is PLN 6 270 000 thousand at the maximum. The level of the margin of funding under the scheme did not change as a result of the extension.

Bonds issued by TAURON Sweden Energy AB (publ), a subsidiary, are fixed-rate securities with interest payable annually. The euro is the issue currency and repayment currency. As at 30 June 2017, the carrying amount of the bonds with interest in the bond currency was EUR 170 003 thousand (versus EUR 167 043 thousand as at 31 December 2016). The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ) to secure the bonds in question. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand.

Changes in the balance of bonds, excluding interest increasing their carrying amount, in the 6-month period ended 30 June 2017 and in the comparative period, have been presented below.

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Opening balance	**7 666 081**	**6 665 528**
Issue*	599 543	2 852 461
Redemption	(300 000)	(2 250 000)
Change in valuation	(68 220)	29 244
Closing balance	**7 897 404**	**7 297 233**

**Costs of issue have been included.*

In the 6-month period ended 30 June 2017, the Company issued four tranches of bonds with the total par value of PLN 600 000 thousand under the Bond Issue Scheme of 24 November 2015:

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

(PLN '000)

- a tranche of PLN 100 000 thousand with the maturity date on 31 July 2017.

The tranche of PLN 300 000 thousand was redeemed as scheduled i.e. on 30 June 2017.

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, which has been discussed in more detail in Note 41.2 to these condensed interim consolidated financial statements.

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. As at 30 June 2017, none of these covenants had been breached and the contractual provisions were complied with.

After the balance sheet date the Company issued eurobonds with a total nominal value of EUR 500 000 thousand, as discussed in detail in Note 47 of these condensed interim consolidated financial statements.

30. Provisions for employee benefits

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Provision for post-employment benefits and jubilee bonuses	1 463 530	1 480 391
Provision for employment termination benefits	35 133	51 222
Total	**1 498 663**	**1 531 613**
Non-current	1 371 183	1 373 385
Current	127 480	158 228

30.1. Provisions for post-employment benefits and jubilee bonuses

For the 6-month period ended 30 June 2017 (*unaudited*)

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**307 281**	**532 184**	**112 469**	**2 248**	**526 209**	**1 480 391**
Current service costs	7 386	5 800	1 176	-	14 210	**28 572**
Actuarial gains and losses	(5 311)	14	(333)	-	(12 153)	**(17 783)**
Benefits paid	(12 318)	(9 710)	(1 842)	-	(16 474)	**(40 344)**
Past service costs	(1 040)	(355)	(43)	-	(6 266)	**(7 704)**
Interest expense	4 079	7 668	1 619	-	7 032	**20 398**
Closing balance	**300 077**	**535 601**	**113 046**	**2 248**	**512 558**	**1 463 530**
Non-current	271 027	519 553	108 639	-	460 255	**1 359 474**
Current	29 050	16 048	4 407	2 248	52 303	**104 056**

For the 6-month period ended 30 June 2016 (*unaudited*)

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**341 124**	**722 734**	**131 110**	**2 242**	**653 165**	**1 850 375**
Current service costs	6 881	10 279	946	-	18 075	**36 181**
Actuarial gains and losses	1 434	-	(5)	-	(11 614)	**(10 185)**
Benefits paid	(13 180)	(11 116)	(1 833)	(909)	(32 592)	**(59 630)**
Interest expense	4 640	9 915	1 790	-	8 657	**25 002**
Acquisition of ZCP Brzeszcze	9 436	-	-	-	17 026	**26 462**
Closing balance	**350 335**	**731 812**	**132 008**	**1 333**	**652 717**	**1 868 205**
Non-current	327 353	708 005	127 699	-	595 559	**1 758 616**
Current	22 982	23 807	4 309	1 333	57 158	**109 589**

(PLN '000)

Measurement of provisions for employee benefits

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

The provisions for employee benefits were measured as at 30 June 2017 based on actuarial projections. Actuarial assumptions made in preparing the projections for 2017 were the same as those used for measuring provisions as at 31 December 2016. Key actuarial assumptions made as at 31 December 2016 for the purpose of calculation of the liability:

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

30.2. Provisions for employment termination benefits

For the 6-month period ended 30 June 2017 (*unaudited*)

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	**17 599**	**17 062**	**16 561**	**51 222**
Recognition	11 218	-	-	**11 218**
Reversal	-	(4 982)	-	**(4 982)**
Utilization	(4 086)	(8 701)	(9 538)	**(22 325)**
Closing balance	**24 731**	**3 379**	**7 023**	**35 133**
Non-current	11 709	-	-	**11 709**
Current	13 022	3 379	7 023	**23 424**

For the 6-month period ended 30 June 2016 (*unaudited*)

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	**23 460**	**25 432**	**8 444**	**57 336**
Recognition	5 041	-	-	**5 041**
Reversal	-	-	(2 468)	**(2 468)**
Utilization	(5 820)	(6 830)	(1 418)	**(14 068)**
Closing balance	**22 681**	**18 602**	**4 558**	**45 841**
Non-current	8 855	-	-	**8 855**
Current	13 826	18 602	4 558	**36 986**

In the 6-month period ended 30 June 2017, a company from the Generation segment launched further voluntary redundancy schemes. A provision of PLN 10 974 thousand was recognized for the expected costs of the schemes. The Group companies also continued their prior year schemes. The amount recognized includes PLN 244 thousand related to the unwinding of discount.

(PLN '000)

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

For the 6-month period ended 30 June 2017 (*unaudited*)

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity and provision for costs	Provisions, total
Opening balance	**146 885**	**115 302**	**198 844**	**461 031**
Interest cost (discounting)	2 571	1 852	2 330	**6 753**
Recognition/(reversal), net	60	174	(201 174)	**(200 940)**
Closing balance	**149 516**	**117 328**	**-**	**266 844**
Non-current	149 516	100 460	-	**249 976**
Current	-	16 868	-	**16 868**
Other provisions, long-term portion				**46 727**
Total				**296 703**

For the 6-month period ended 30 June 2016 (*unaudited*)

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity and provision for costs	Provisions, total
Opening balance	**111 675**	**101 244**	**182 877**	**395 796**
Interest cost (discounting)	1 545	1 380	8 160	**11 085**
Recognition/(reversal), net	527	-	2 146	**2 673**
Acquisition of ZCP Brzeszcze	65 992	-	-	**65 992**
Closing balance	**179 739**	**102 624**	**193 183**	**475 546**
Non-current	179 739	101 719	159 210	**440 668**
Current	-	905	33 973	**34 878**
Other provisions, long-term portion				**1 893**
Total				**442 561**

31.1. Provision for mine decommissioning costs

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

As at 30 June 2017, the balance of the provision was PLN 149 516 thousand, and the change concerned mainly the unwinding of discount – PLN 2 571 thousand.

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

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

- provision for ash pile reclamation costs, which totaled PLN 40 038 thousand as at 30 June 2017 (versus PLN 39 415 thousand as at 31 December 2016);
- provision for windfarm dismantling costs, which totaled PLN 51 981 thousand as at 30 June 2017 (versus PLN 51 088 thousand as at 31 December 2016);
- provision for costs of liquidation of fixed assets (a chimney in Elektrownia Jaworzno) as well as cooling towers and a unit in Elektrownia Łagisza, which totaled PLN 25 309 thousand as at 30 June 2017 (versus PLN 24 799 thousand as at 31 December 2016).

(PLN '000)

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

Changes in provisions in the 6-month period ended 30 June 2017 have been presented in the table below.

	Provision for electricity contract	Provision for "take or pay" clause in gas contract	Provision for costs	Provision for onerous contracts with a jointly-controlled entity and provision for costs, total
Opening balance	**133 327**	**54 837**	**10 680**	**198 844**
Unwinding of discount	1 626	475	229	**2 330**
Recognision	-	-	2 250	**2 250**
Reversal	(134 953)	(55 312)	(13 159)	**(203 424)**
Closing balance	**-**	**-**	**-**	**-**

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

An inventory of the facility has been completed. Maintenance works are being carried out on an ongoing basis in respect of the installed machinery and equipment to prevent their degradation, and the auxiliary equipment is being prepared for commissioning. A concept of completing the investment project under the EPCM (Engineering, Procurement, Construction Management) formula and contracting contractors has been prepared. The proceeding for the selection of the EPCM is in progress.

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

In the 6-month period ended 30 June 2017, the Company revalued the provisions for onerous contracts with a joint venture due to the unwinding of discount as at the end of the reporting period, which increased the provisions by PLN 2 330 thousand. It also recognized an additional provision for costs of operation of PLN 2 250 thousand and reversed in whole the following provisions:

- a provision resulting from the fact that under a multi-annual electricity sales contract among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company was obliged to purchase half of the volume of electricity generated by Elektrociepłownia Stalowa Wola S.A. at a price determined in the "cost plus" formula, which covers the production costs and the financing costs;
- a provision resulting from the fact that the Company was obliged to cover losses which might be incurred under the take or pay clause of the comprehensive gaseous fuel supply contract entered into by PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. In accordance with the aforesaid clause, Elektrociepłownia Stalowa Wola S.A. was obliged to make a payment to PGNiG S.A. for uncollected gas.
- provision for costs arising from the fact that, due to the delay in the completion of the project, the Company could be required to cover additional costs of the operation of Elektrociepłownia Stalowa Wola S.A.

Reversal of the provision for costs relating to the electricity sales contract and the provision for losses which might be incurred under the take or pay clause was the result of the fulfilling the conditions precedent resulting from agreement signed on 27 October 2016 setting out the key boundary restructuring conditions for the project "Construction of a gas and steam unit in Stalowa Wola". The conditions precedent were considered satisfied after repaying by Elektrociepłownia Stalowa Wola S.A. on 31 March 2017 all its liabilities to the financing institutions, i.e. the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. The funds for repayment of the said bank loans were obtained by Elektrociepłownia Stalowa Wola S.A. under loan agreements entered into with the Company and Polskie Górnictwo Naftowe i Gazownictwo S.A. as the lenders. To this end, the Company granted a loan of PLN 290 742 thousand, which has been discussed in more detail in Note 21 to these condensed interim consolidated financial statements. Once the conditions precedent were considered satisfied, the following documents entered into force:

- an agreement setting out the key boundary Project restructuring conditions among TAURON Polska Energia S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A.;

(PLN '000)

- an annex to the electricity sales contract of 11 March 2011 executed by the Company, Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A.;
- an annex to the gaseous fuel supply contract of 11 March 2011 between Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A.

The aforesaid agreement sets out mainly the terms of settlement of liquidated damages, brings the existing price formulas into line with the market ones as well as governing the issue of financial restructuring of the Project. It reflects the will of the Project sponsors, i.e. TAURON Polska Energia S.A. and Polskie Górnictwo Naftowe i Gazownictwo S.A., to continue the construction of the gas and steam unit, modify the gaseous fuel supply contract and the electricity sales contract and change the existing project finance formula to a corporate finance formula. Notwithstanding the above, the sponsors and Elektrociepłownia Stalowa Wola S.A. have continued their efforts to secure new funding for the gas and steam unit construction project in Stalowa-Wola, whose terms and structure would be more favorable than those under the existing agreements.

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

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

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

For the 6-month period ended 30 June 2017 (*unaudited*)

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**209 736**	**755 085**	**964 821**
Recognition	146 392	354 314	**500 706**
Reversal	(84)	(10 471)	**(10 555)**
Utilisation	(209 652)	(761 171)	**(970 823)**
Closing balance	**146 392**	**337 757**	**484 149**

For the 6-month period ended 30 June 2016 (*unaudited*)

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**153 083**	**865 051**	**1 018 134**
Recognition	146 136	381 402	**527 538**
Reversal	(63)	(3 874)	**(3 937)**
Utilisation	(174 957)	(858 191)	**(1 033 148)**
Closing balance	**124 199**	**384 388**	**508 587**

32.1. Provision for gas emission liabilities

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

(PLN '000)

As at 30 June 2017, the provision for gas emission liabilities amounted to PLN 146 392 thousand and concerned the obligation to surrender emission allowances for the 6-months period ended 30 June 2017. Provisions were recognized for current period emission allowances in the amount of:

- TAURON Ciepło Sp. z o.o.: PLN 18 354 thousand;
- TAURON Wytwarzanie S.A.: PLN 128 038 thousand.

A change in the balance of the provision in the 6-month period ended 30 June 2017 arises from:

- remeasurement of the provision for the obligation for 2016 - reversal of the provision of PLN 84 thousand;
- recognition of the provision for the obligation for the 6-month period ended 30 June 2017 – recognition of the provision of PLN 146 392 thousand;
- use of the provision due to the fulfilment of the remaining obligation for 2016 by TAURON Wytwarzanie S.A. and surrender of emission allowances in the amount of PLN 169 335 thousand. The obligation to surrender emission allowances for 2016 was partially fulfilled by TAURON Wytwarzanie S.A. in December 2016 as well as utilization of the provision due to TAURON Ciepło Sp. z o.o.'s fulfillment of its obligation for the year 2016 of PLN 40 317 thousand.

32.2. Provision for the obligation to surrender energy certificates

As at 30 June 2017, the Group recognized a short-term provision for the obligation to surrender energy certificates for the first half of 2017 in the estimated amount of PLN 337 757 thousand, out of which the obligation in the amount of PLN 145 921 thousand was covered by certificates held as at the end of the reporting period, the amount of PLN 117 845 thousand was planned to be paid in the form of a substitution fee and the obligation in the amount of PLN 73 991 thousand through the purchase of property rights.

In the 6-month period ended 30 June 2017, the Group fulfilled the obligation to surrender certificates of electricity generated using renewable sources, in cogeneration and energy efficiency certificates for 2016. Therefore, a provision of PLN 761 171 thousand was used.

33. Other provisions

For the 6-month period ended 30 June 2017 (*unaudited*)

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**92 143**	**262 592**	**354 735**
Interest cost (discounting)	-	1 525	**1 525**
Recognition/(reversal), net	851	(1 447)	**(596)**
Utilisation	(274)	(11 967)	**(12 241)**
Closing balance	**92 720**	**250 703**	**343 423**
Non-current	-	46 727	**46 727**
Current	92 720	203 976	**296 696**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**16 868**
Total current other provisions			**313 564**

For the 6-month period ended 30 June 2016 (*unaudited*)

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**91 909**	**67 711**	**159 620**
Recognition/(reversal), net	1 685	7 193	**8 878**
Utilisation	(418)	(2 876)	**(3 294)**
Closing balance	**93 176**	**72 028**	**165 204**
Non-current	-	1 893	**1 893**
Current	93 176	70 135	**163 311**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**34 878**
Total current other provisions			**198 189**

(PLN '000)

Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 30 June 2017, the relevant provision amounted to PLN 92 720 thousand and was related to the following segments:

- Generation: PLN 50 786 thousand;
- Distribution: PLN 41 934 thousand.

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

Provisions for counterparty claims, court disputes and other provisions

Material provisions recognized as other provisions have been discussed below:

Item	Operating segment	Description	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Provisions for penalties fixed by the contracts	Generation	Considering the risk that the two projects listed below will not be continued (their continuity is required under the subsidy contracts): • Construction of a biomass boiler in Elektrownia Jaworzno III – Elektrownia II; • Construction of a system of power generation from renewable sources in Stalowa Wola, in 2016 a provision has been recognised for the costs of returning the subsidy totalling PLN 52 297 thousand. The revalued provision as at 30 June 2017 amounted to PLN 53 777 thousand. Considering the risk that Polski Fundusz Rozwoju S.A. may terminate the agreement, as a result of TAURON Wytwarzanie S.A. withdrawal from the construction of a gas and steam unit in Elektrownia Łagisza in Będzin and the risk of accruing liquidated damages, in 2016 a provision totalling PLN 11 250 thousand was recognised. In the 6-month period ended 30 June 2017 as a result of a received invoice the provision was utilised in the amount of PLN 5 625 thousand. The remaining balance of the provision was derecognised.	53 777	63 547
Provision for a fine to the Energy Regulatory Office	Distribution	The provision concerning the risks of the violation of the Energy Law of 10 April 1997 by providing misleading information to the President of the Energy Regulatory Office.	20 436	20 436
Provision for increased transmission easement charges	Distribution	The provision concerns a risk of increased periodic charges for transmission easement related to energy infrastructure located within the Forestry Commission areas overseen by the Regional State Forest Directorate in Wrocław, following a change in the nature of the land from forestry to business.	21 700	21 700
Provision for real estate tax	Mining	Provisions for proceedings related to real estate tax on underground mining excavations.	20 229	23 008
	Generation	Provision related to determination of the tax base on property tax for wind farms.	8 122	-
Provision for VAT	Sales	The provision was recognized in connection with pending inspection proceedings instituted by the Director of the Tax Inspection Office in Warsaw in relation to the value added tax. The period of the inspection proceedings was prolonged by the Director of the Tax Inspection Office a few times and the new deadline has been set at 28 August 2017. As at 30 June 2017 the provision amounts to PLN 66 576 thousand and the increase of the provision by PLN 2 082 thousand relates to interest accrued (charged to finance expenses) for the 6-month period ended 30 June 2017.	66 576	64 494

(PLN '000)

34. Accruals, deferred income and government grants

34.1. Deferred income and government grants

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Deferred income, *of which:*	**275 684**	**293 284**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	67 225	71 849
Connection fees	206 870	218 075
Other	1 589	3 360
Government grants, *of which:*	**307 250**	**317 505**
Subsidies obtained from EU funds	205 977	211 981
Forgiven loans from environmental funds	27 215	28 068
Measurement of preferential loans	37 014	37 777
Other	37 044	39 679
Total	**582 934**	**610 789**
Non-current	531 207	553 874
Current	51 727	56 915

34.2. Accruals

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Unused holidays	69 010	48 640
Bonuses	196 765	140 930
Environmental protection charges	14 794	3 806
Other	14 040	17 790
Total	**294 609**	**211 166**
Non-current	317	419
Current	294 292	210 747

35. Liabilities to suppliers

Current liabilities to suppliers as at 30 June 2017 and 31 December 2016 are presented in the table below:

Liabilities to suppliers in operating segments	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Distribution	298 278	294 573
including to Polskie Sieci Elektroenergetyczne S.A.	*229 886*	*200 732*
Sales	182 876	247 487
Mining	134 076	144 722
Generation	82 652	100 857
Other	29 166	42 090
Total	**727 048**	**829 729**

36. Capital commitments

Short-term capital commitments as at 30 June 2017 and 31 December 2016 are presented in the table below:

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Capital commitments in operating segments	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Generation	171 523	511 403
Distribution	125 500	336 624
Mining	18 268	159 138
Sales and other	2 139	26 639
Total	**317 430**	**1 033 804**

A drop in capital commitments in the Generation segment concerned mainly a decrease related to the construction of unit no. 910 in Jaworzno in the amount of PLN 317 369 thousand, which totaled PLN 141 115 thousand as at 30 June 2017. As at 31 December 2016, capital commitments totaled PLN 458 484 thousand.

A drop in capital commitments in the Mining segment concerned mainly a decrease related to development of a longwall system in Zakład Górniczy Brzeszcze in the amount of PLN 89 080 thousand, which had been paid in whole as at 30 June 2017.

Long-term capital commitments have been presented in the condensed interim consolidated statement of financial position within other financial liabilities. As at 30 June 2017 and 31 December 2016, the related commitments totaled PLN 239 thousand (Distribution) and PLN 299 thousand (Distribution), respectively.

Commitments to incur capital expenditure

As at 30 June 2017 and 31 December 2016, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 923 682 thousand and PLN 4 368 685 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Generation	Constructin new capacity in Jaworzno III Power Plant (910 MW)	2 373 154	2 835 269
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	10 000	10 000
Distribution	Construction of new electrical connections	545 665	622 415
	Modernization and reconstruction of existing networks	366 337	497 926
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	240 286	16 484
	Construction of the 800 m drift at Janina Mining Plant	8 802	19 578
	Investment Program in Brzeszcze Mining Plant	29 311	32 731

37. Liabilities due to taxes and charges

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Corporate Income Tax	1 170	2 371
Personal Income Tax	33 309	51 084
Excise	40 496	41 549
VAT	157 101	98 114
Social security	116 758	170 039
Environmental charges	14 889	40 964
Other	11 193	6 822
Total	**374 916**	**410 943**

Regulations regarding VAT, corporate profits tax and social security contributions are subject to frequent changes. These changes result in there being little point of reference, inconsistent interpretations and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies.

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Tax and other settlements (e.g. customs or foreign currency settlements) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in Poland than in countries that have a more established taxation system.

Accordingly, the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

On 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General Anti-Avoidance Rule (GAAR). GAAR are targeted to prevent origination and use of factitious legal structures made to avoid payment of tax in Poland. GAAR define tax evasion as an activity performed mainly with a view to realising tax gains, which is contrary, under given circumstances, to the subject and objective of the tax law. In accordance with GAAR, an activity does not bring about tax gains, if its modus operandi was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite lack of economic rationale for such involvement, (iii) mutually exclusive or mutually compensating elements, as well as (iv) other activities similar to those referred to earlier may be treated as a hint of factitious activities subject to GAAR. New regulations will require considerably greater judgment in assessing tax effects of individual transactions.

The GAAR clause should be applied to the transactions performed after clause effective date and to the transactions which were performed prior to GAAR clause effective date, but for which after the clause effective date tax gains were realised or continue to be realised. The implementation of the above provisions will enable Polish tax authority challenge such arrangements realised by tax remitters as group restructuring or group reorganization.

38. Other financial liabilities

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Wages, salaries and related charges	124 558	174 212
Bid bonds, deposits and collateral received	82 284	79 415
Insurance contracts	9 154	12 560
Derivative instruments	4 064	560
Other	50 119	61 922
Total	**270 179**	**328 669**
Non-current	76 909	72 374
Current	193 270	256 295

39. Other non-financial liabilities short term

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Payments from customers relating to future periods, *of which:*	**302 348**	**298 606**
Prepayments for connection fees	17 760	21 369
Amounts overpaid by customers	248 162	245 544
Other	36 426	31 693
Other current non-financial liabilities, *of which:*	**12 776**	**2 573**
Surplus of Social Benefit Fund liabilities over its assets	8 904	-
Other non-financial liabilities	3 872	2 573
Total	**315 124**	**301 179**

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EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

40. Significant items of the consolidated statement of cash flows

40.1. Cash flows from operating activities

Changes in working capital

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Change in receivables:	**102 545**	**29 916**
Change in receivables from clients in statement of financial position	151 416	134 990
Change in other financial receivables	(61 679)	(128 131)
Adjustment for the movement in dividend receivables from a joint venture	15 500	24 000
Other adjustments	(2 692)	(943)
Change in inventories:	**127 512**	**27 672**
Change in inventories in statement of financial position	129 209	28 296
Adjustment related to transfer of invetories to/from property, plant and equipment	(1 697)	(1 973)
Other adjustments	-	1 349
Change in payables excluding loans and borrowings:	**(314 807)**	**(310 295)**
Change in liabilities to suppliers in statement of financial position	(102 681)	(96 683)
Change in payroll, social security and other financial liabilities	(61 934)	(99 286)
Change in non-financial liabilities in statement of financial position	13 945	30 345
Change in liabilities due to taxes excluding income tax	(34 826)	(58 336)
Adjustment of VAT change related to capital commitments	(132 234)	(73 469)
Adjustment to the acquisition of ZCP Brzeszcze	-	(11 906)
Other adjustments	2 923	(960)
Change in other non-current and current assets:	**678 349**	**760 141**
Change in other current and non-current non-financial assets in statement of financial position	94 732	63 910
Change in receivables due to taxes excluding income tax	23 877	139 988
Change in non-current and current emission allowances	209 652	174 957
Change in non-current and current energy certificates	410 582	397 767
Change in advance payments for property, plant and equipment and intangible assets	(58 735)	(11 145)
Other adjustments	(1 759)	(5 336)
Change in deferred income, government grants and accruals:	**51 742**	**11 428**
Change in deferred income, government grants and accruals in statement of financial position	55 588	42 007
Adjustmet related to property, plant and equipment and intangible assets received free of charge	(3 288)	(4 700)
Adjustment related to subsidies received	(558)	(21 676)
Adjustment related to acquisition of orgnanized part of the enterprise (ZCP Brzeszcze)	-	(4 203)
Change in provisions:	**(714 066)**	**(512 076)**
Change of short term and long term provisions in statement of financial position	(719 121)	(417 878)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	5 630	(1 429)
Adjustment related to acquisition of orgnanized part of the enterprise (ZCP Brzeszcze)	-	(92 454)
Other adjustments	(575)	(315)
Total	**(68 725)**	**6 786**

Income tax paid

Income tax paid in the amount of PLN 101 345 thousand results mainly from the Tax Capital Group's payment of advance income tax for the 6-month period ended 30 June 2017 totaling PLN 98 113 thousand.

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40.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Purchase of property, plant and equipment	(1 390 792)	(1 388 911)
Purchase of intangible assets	(39 198)	(38 618)
Change in the balance of VAT-adjusted capital commitments	(584 200)	(325 229)
Change in the balance of advance payments	58 735	11 145
Costs of overhaul and internal manufacturing	(65 252)	(27 781)
Other	475	(236)
Total	**(2 020 232)**	**(1 769 630)**

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 295 992 thousand, which has been discussed in more detail in Note 21 to these condensed interim consolidated financial statements.

40.3. Cash flows from financing activities

Redemption of debt securities

Expenditure due to the redemption of debt securities in the 6-month period ended 30 June 2017 relates to the redemption of a tranche of bonds with a nominal value of PLN 300 000 thousand under the Bond Issue Scheme concluded in November 2015.

Loans and borrowings repaid

Payments to repay loans and borrowings, as presented in the consolidated statement of cash flows in the amount of PLN 44 904 thousand, arise mainly from the Parent's repayment of loan installments to the European Investment Bank, totaling PLN 40 909 thousand, during the 6-month period ended 30 June 2017.

Interests paid

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Interest paid in relation to debt securities	(42 782)	(87 298)
Interest paid in relation to loans and borrowings	(22 075)	(29 560)
Interest paid in relation to the finance lease	(403)	(481)
Total	**(65 260)**	**(117 339)**

In consolidated statement of cash flows The Group presents the borrowing costs incurred in the current period for the assets, as expenditure on the acquisition of property, plant and equipment and intangible assets in the cash flows from investing activities. During the 6-months period ended 30 June 2017, the borrowing costs was capitalized in the value of tangible fixed assets and intangible assets amounted to PLN 48 598 thousand.

Issue of debt securities

Proceeds from issue of debt securities in the 6-month period ended 30 June 2017 resulted from the issue of tranches of bonds by the Parent with the total par value of PLN 600 000 thousand under a Bond Issue Scheme of November 2015.

(PLN '000)

OTHER INFORMATION

41. Financial instruments

41.1. Carrying amount and fair value of financial instrument classes and categories

Categories and classes of financial assets	Note	As at 30 June 2017 *(unaudited)*		As at 31 December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss, held for trading		**35 895**		**45 092**	
Derivative instruments	**41.2**	10 303	10 303	19 776	19 776
Investment fund units	**22**	25 592	25 592	25 316	25 316
2 Financial assets available for sale		**152 959**		**130 143**	
Shares (non-current)	**22**	127 604		123 594	
Shares (current)	**22**	22 682		4 104	
Investment fund units	**22**	2 673	2 673	2 445	2 445
3 Loans and receivables		**2 458 493**		**2 245 033**	
Receivables from clients	**25**	1 742 649	1 742 649	1 894 065	1 894 065
Deposits	**22**	40 846	40 846	38 472	38 472
Loans granted		556 940	556 940	256 117	256 117
Other financial receivables		118 058	118 058	56 379	56 379
4 Financial assets excluded from the scope of IAS 39		**475 097**		**461 348**	
Investments in joint ventures	**20**	475 097		461 348	
5 Derivative hedging instruments	**41.2**	**27 561**	**27 561**	**36 641**	**36 641**
6 Cash and cash equivalents	**27**	**210 379**	**210 379**	**384 881**	**384 881**
Total financial assets, *of which in the statement of financial position:*		**3 360 384**		**3 303 138**	
Non-current assets		**932 026**		**929 439**	
Investments in joint ventures		475 097		461 348	
Loans granted to joint ventures		236 485		240 951	
Other financial assets		220 444		227 140	
Current assets		**2 428 358**		**2 373 699**	
Receivables from clients		1 742 649		1 894 065	
Loans granted to joint ventures		314 508		15 116	
Other financial assets		160 822		79 637	
Cash and cash equivalents		210 379		384 881	

Categories and classes of financial liabilities	Note	As at 30 June 2017 *(unaudited)*		As at 31 December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss, held for trading		**4 064**		**560**	
Derivative instruments	**41.2**	4 064	4 064	560	560
2 Financial liabilities measured at amortized cost		**10 521 633**		**11 136 323**	
Preferential loans	**29.1**	37 972	37 972	41 748	41 748
Arm's length loans	**29.1**	1 162 405	1 161 601	1 206 649	1 209 558
Bank overdrafts	**29.1**	65 850	65 850	15 156	15 156
Bonds issued	**29.2**	7 944 813	7 966 173	7 681 128	7 719 015
Liabilities to suppliers	**35**	727 048	727 048	829 729	829 729
Other financial liabilities		147 903	147 903	158 383	158 383
Capital commitments	**36**	317 669	317 669	1 034 103	1 034 103
Salaries and wages		108 819	108 819	156 867	156 867
Insurance contracts	**38**	9 154	9 154	12 560	12 560
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**26 672**		**34 848**	
Obligations under finance leases		26 672	26 672	34 848	34 848
Total financial liabilities, *of which in the statement of financial position:*		**10 552 369**		**11 171 731**	
Non-current liabilities		**8 886 380**		**8 832 163**	
Debt		8 809 471		8 759 789	
Other financial liabilities		76 909		72 374	
Current liabilities		**1 665 989**		**2 339 568**	
Debt		428 241		219 740	
Liabilities to suppliers		727 048		829 729	
Capital commitments		317 430		1 033 804	
Other financial liabilities		193 270		256 295	

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

Financial instruments classified to other categories of financial instruments:

- As at 30 June 2017, fixed-rate financial instruments, which included loans obtained from the European Investment Bank, subordinated bonds and bonds issued by a subsidiary, were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable currently to a given bond or loan, i.e. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy;
- The fair value of other financial instruments (except for shares classified as financial assets available for sale and excluded from the scope of IAS 39 *Financial Instruments*: *Recognition and Measurement*, as described below) as at 30 June 2017 and 31 December 2016 did not significantly differ from their values presented in the financial statements for the respective periods, for the following reasons:

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

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

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

41.2. Derivative instruments

	As at 30 June 2017 *(unaudited)*				As at 31 December 2016			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
IRS	18	27 543	**27 561**	**-**	23	36 618	**36 641**	**-**
Commodity forwards/futures	9 813	-	**10 303**	**(490)**	15 999	-	**16 559**	**(560)**
Currency forwards	(3 574)	-	**-**	**(3 574)**	3 217	-	**3 217**	**-**
Total derivative instruments, *including:*			**37 864**	**(4 064)**			**56 417**	**(560)**
Non-current			26 051	**(21)**			35 814	-
Current			11 813	(4 043)			20 603	(560)

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

Derivative instrument	Methodology of determining fair value hierarchy
IRS	Based on discounted future cash flows accounting for the difference between the forward price (calculated based on zero-coupon interest rate curve) and the transaction price.
Forward currency contracts	Based on discounted future cash flows accounting for the difference between the forward price (calculated based on NBP fixing and the interest rate curve implied by fx swap transactions) and the transaction price.
Commodity forwards, futures	The fair value of forwards for the purchase and sale of emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.

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

	As at 30 June 2017 *(unaudited)*		As at 31 December 2016	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity-related derivatives	10 303	-	16 559	-
Derivative instruments - IRS	-	27 561	-	36 641
Derivative instruments - currency	-	-	-	3 217
Liabilities				
Commodity-related derivatives	490	-	560	-
Currency derivatives	-	3 574	-	-

Hedging derivative instruments (subject to hedge accounting) – IRS

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

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

As at 30 June 2017, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

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

42. Principles and objectives of financial risk management

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

As at 30 June 2017, the Parent was a party to hedging transactions covered by the policy for specific risk management in the area of finance, entered into with a view to hedging interest cash flows from issued bonds. The Parent applies hedge accounting to the aforementioned transactions. The accounting treatment of the aforementioned hedging transactions has been discussed in more detail in Note 41.2 to these condensed interim consolidated financial statements.

43. Finance and capital management

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

(PLN '000)

44. Contingent liabilities

Item	Description
Use of real estate without contract	Entities of the Group do not hold legal titles to all plots of land where distribution networks, heating installation and the related devices are located. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential not submitted claims of owners of land with unregulated legal status, since their detailed records do not exist. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.
Amount	As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 92 720 thousand (Note 33).
Claims filed by Huta Łaziska S.A.	Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of Energy Regulatory Office (ERO). At present, the case is pending at District Court in Warsaw. Based on a decision of 12 October 2001, the President of the Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had failed to pay its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006 the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgement of the Court of Appeals in Warsaw, which was dismissed by the judgement of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the above decision issued by the President of ERO on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages. Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office Huta has claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of ERO dated 12 October 2001. In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the judgement of the Regional Court and remanded the case for re-examination by the latter. The first hearing before the first instance court was held on 27 November 2012. In May 2015, a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by the parties as evidence. After the issue of the decision, the Company tried to change the proceeding concept adopted by the Court stating that taking evidence from a court expert opinion is unacceptable. Finally, the Court commissioned an additional opinion to be prepared by the court expert. On 5 September 2016, the additional opinion by the court expert was delivered to the Company. The Company filed charges against the said opinion on 12 and 19 September 2016. Charges were also brought by the State Treasury and Huta. Another hearing was held on 24 March 2017 but the expert witness appointed by the court did not appear. The hearing was adjourned for an unspecified period. On 20 June 2017 the Court served the Order of 5 June 2017 (issued at a closed session) on admission of evidence in the form of a power industry expert opinion (excluding the previous expert appointed in the case) on the Company's attorneys. Subsequently the Court asked several court experts and the Power Industry Institute about whether they could prepare an expert opinion in the case. In addition, under the order of 19 April 2017 the Court decided to withdraw the exemption from costs previously granted to Huta. Based on a legal analysis of the 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 recognised by the Company for any costs associated with those claims.
Amount	Claim regarding payment of damages of PLN 182 060 thousand.

(PLN '000)

Item	Description
Litigation related to termination of long-term contracts	**Claims relating to termination of long-term contracts against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.** On 18 March 2015, the subsidiary in liquidation terminated long-term contracts concluded in 2009–2010 for the purchase of power and property rights from the wind farms held by companies from in.ventus, Polenergia and Wind Invest groups. The reason for the termination of these contracts by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was a breach of their provisions by the counterparties, involving a refusal to enter, in good faith, into renegotiation of the terms of these contracts. Actions were brought against the subsidiary to declare its termination notices ineffective. In the lawsuit brought by Dobiesław Wind Invest Sp. z o.o., in 2016 the Regional Court in Warsaw issued a judgment dismissing the action to declare the termination notices ineffective. The plaintiff lodged an appeal against this judgment. In 2016 actions were amended by including in them claims for damages due to the termination of the said contracts, with a total amount of approx. PLN 40 000 thousand. As the relevant judicial proceedings are still in the initial phase, we are unable to estimate the final amount of the potential financial consequences for the company and for the Group. Considering the current status of the lawsuits and the accompanying circumstances, the Group believes that the risk of losing the lawsuits for both declaring the termination notices ineffective and securing non-monetary claims as well as claims for damages does not exceed 50%; hence, no provision has been recognized for the related costs. **Claim relating to termination of long-term contracts against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and the Company.** A claim was filed against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A. in November 2014 by Dobiesław Wind Invest Sp. z o.o. to reverse the risk of loss. It was claimed that the Company should revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. The subsidiary's claim was that TAURON Polska Energia S.A. should be obliged to provide security in the amount of PLN 183 391 thousand as a court deposit. On 8 March 2017 the Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. decided to withdraw from the liquidation of that company. As a result, in accordance with the ruling of the Regional Court in Cracow issued at the hearing of 15 March 2017, the Parties to the dispute exchanged letters presenting their positions with regard to the change that had occurred at the company. The plaintiff upheld its claim as defined in the suit. After the end of the reporting period, on 2 August 2017, the Company's attorney in the lawsuit above received an amended statement of claim from Dobiesław Wind Invest Sp. z o.o.. The plaintiff amended its claims in such a way that it withdrew the original action against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and amended the action against the Company from an action to reverse the imminent danger of loss to an action for the payment of damages. Dobiesław Wind Invest Sp. z o.o. claims the amount of approx. PLN 34 700 thousand plus statutory interest from the date of filing the suit to the date of payment. Moreover, the plaintiff claims establishing the Company's liability to Dobiesław Wind Invest Sp. z o.o. for potential future losses estimated by the plaintiff at an amount of approx. PLN 254 000 thousand (resulting from the alleged torts of the Company) and establishing collateral from the Company of approx. PLN 254 000 thousand in case the court refuses to establish the Company's liability for losses that may arise in the future. The factual basis of the claim is, according to the plaintiff, the termination of long-term contracts for the sale of power and property rights by the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. The Company started to analyze the statement of claim and the attached documents and to prepare a reply within the 6-week deadline set by the court. The preliminary assessment of the grounds for the plaintiff's claims indicates that they are completely unfounded. As the court will have to examine extensive evidence and conduct an analysis of a legal issue which has not been resolved before in the case-law, and as the facts of the case have changed considerably, the case is still being heard by the first instance court and the claim sued has been amended again, it is too early to anticipate the outcome of the proceedings, but it is very likely that the decision of the court will be favourable for the defendants. **Claim relating to termination of long-term contracts against TAURON Polska Energia S.A.** After the balance sheet date, on 20 July 2017 the Company received a statement of claim of 29 June 2017 filed by Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for the payment of damages of approx. PLN 39 700 thousand and for establishing a liability for the losses that may arise in the future from torts, including acts of unfair competition, with a value estimated by the plaintiff at the amount of approx. PLN 465 900 thousand. The case is pending before the Regional Court in Katowice. The factual basis of the claim is, according to the plaintiff, the termination of long-term contracts for the purchase of power and property rights arising from the certificates of origin (PPAs) by the Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. subsidiary, and the total amount of the future loss that will be incurred by all of the Wind Invest Group companies is – as stated by the plaintiff company – PLN 1 212 900 thousand. The Company started to analyse the statement of claim and the attached documents and to prepare a reply within the deadline set by the court i.e. 18 September 2017. The preliminary assessment of the grounds for the plaintiff's claims indicates that they are completely unfounded. **Termination of long-term contracts for the purchase of property rights by a subsidiary TAURON Sprzedaż Sp. z o.o.** On 28 February 2017 the subsidiary TAURON Sprzedaż Sp. z o.o. submitted declarations on the termination of long-term contracts for the purchase of property rights arising from certificates of origin of energy from renewable sources. Companies of the in.ventus Group are party to the contracts concluded in 2008. The contracts were terminated due to the fact that the parties did not reach an agreement as a result of renegotiating them as stipulated therein. The total value of contractual liabilities arising from terminated contracts of TAURON Sprzedaż Sp. z o.o. estimated for the period 2017-2023 shall amount to approximately PLN 417 million net. There are no pending court disputes as a result of termination of contracts by TAURON Sprzedaż Sp. z o.o. Based on the analysis of legal situation performed, supported by the analysis of independent law firms , in the opinion of the Group there are no grounds to recognise provisions relating to termination of contracts by TAURON Sprzedaż Sp. z o.o.

(PLN '000)

Item	Description
Claim filed by ENEA S.A.	The claim filed by ENEA S.A. ("ENEA") to the District Court in Katowice regards the payment of PLN 17 086 thousand with statutory interest calculated from 31 March 2015 until the payment date for unjust enrichment of the Company arising from settlement of balances on the Balancing Market performed with Polskie Sieci Elektroenergetyczne S.A. in the period from January to December 2012. The claim was delivered to the Company on 11 January 2016. As stated by ENEA, the improper settlement was caused by inconsistency in measurement data collected by ENEA Operator Sp. z o.o. (as the Distribution System Operator, DSO) and made available to the Balancing Market participants (PSE S.A., ENEA S.A. and the Company) for the settlement purposes. The error resulted in PSE S.A. assigning to ENEA S.A. (as the official seller in the distribution area of ENEA Operator Sp. z o.o.) the amount of consumed power that should have been assigned to the Company (as the entity in charge of trade balances of power sellers operating in the distribution area of ENEA Operator Sp. z o.o.). The dispute concerns the fact that pursuant to the Power Transmission Grid Traffic and Operation Instruction (IRiESP) binding all participants of the Balancing Market, settlements regarding trade balances for a given period may be adjusted within 2 months, 4 months and 15 months after the settlement period. According to IRiESP, after 15 months the settlements become final. ENEA Operator Sp. z o.o. informed TAURON Polska Energia S.A. about the necessity to adjust measurement data and the entire settlement after the permitted adjustment period. Therefore, settlements between PSE S.A. and ENEA S.A. and between PSE S.A. and the Company have not been adjusted. TAURON Polska Energia S.A. responded to the claim with a series of charges. The Court obliged ENEA to reply to the response, which was done on 5 April 2016. On 20 June 2016, TAURON Polska Energia S.A. filed a petition for inviting ENEA Operator Sp. z o.o. to take part in the litigation. The Court also admitted evidence from the witnesses' testimonies. On 4 July 2016 TAURON Polska Energia S.A. filed a process document with the court. Six witnesses were questioned in the course of the proceedings. The last hearing was conducted on 6 March 2017. During that hearing the Court following the motion filed by ENEA S.A. (expressed in its pleading of 8 December 2016) ruled to summon before the Court (in accordance with Article 194.1 of the Code of Civil Procedure) seven sellers for which TARON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The additional defendants include two subsidiaries of TAURON Polska Energia S.A.: TAURON Sprzedaż Sp. z o.o., sued by ENEA S.A. for payment of PLN 4 934 thousand plus statutory interest from the date of serving the summons of additional defendant to the date of payment and TAURON Sprzedaż GZE Sp. z o.o., sued by ENEA S.A. for payment of PLN 3 480 thousand plus statutory interest from the date of serving the summons of additional defendant to the date of payment. The demand for the payment of the aforementioned amounts as well as the amounts claimed from the other five sellers was made by the plaintiff in case of the court dismissing the claim raised against TAURON Polska Energia S.A. In April 2017 both companies: TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. filed their replies to the suit, in which they requested the court to dismiss the claim in whole. The case is still in progress. The hearing was adjourned to the date set by the Court to enable the additional defendants to file their replies to the suit, which have already been filed with the Court by all of them. No provision has been recognised by the Company as it believes that the risk of an unfavourable verdict in the case is below 50%. The subsidiaries of the Company have not recognised any provisions either as they also assess the risk of an unfavourable verdict to be below 50%.
Amount	Claim for the payment of PLN 17 086 thousand by the Company. In case the claim against the Company is dismissed, claim for the payment of the total of PLN 8 414 thousand by the Group companies.
Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o	On 15 May 2015 TAURON Polska Energia S.A. established a financial pledge and registered pledges of 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o., with the unit face value of PLN 100 and the total face value of PLN 329 340 thousand, constituting ca. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company established a first lien registered pledge of shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge of shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges of new shares acquired or taken. Moreover, the Company assigned the rights to dividend and other payments. Agreement on establishing registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as original borrowers, TAMEH HOLDING Sp. z o.o. as the parent and the guarantor, and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. Registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until a release by the pledgee, not later than on 31 December 2028. On 15 September 2016, Annex 1 was executed to the aforesaid agreement, whereby the maximum amount of the collateral was changed to PLN 1 370 000 thousand.
Amount	As at 30 June 2017 the carrying amount of investments in joint venture recognized using the equity method in the TAMEH HOLDING Sp. z o.o. capital group was PLN 475 097 thousand.
Bank guarantees issued at the request of TAURON Polska Energia S.A. to secure the payment of liabilities of a joint venture	Following the entry into agreements setting out the terms of further implementation of the gas and steam unit construction project in Elektrociepłownia Stalowa Wola S.A. on 27 October 2016, and with a view to enforcing the standstill agreement entered into by the Company, Elektrociepłownia Stalowa Wola S.A., PGNiG S.A., the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. aimed to ensure that the financing institutions will refrain from accelerating the loans granted to the company and satisfying their claims through the use of the related collateral, at the request of the Company The Bank of Tokyo-Mitsubishi UFJ, Ltd. issued three bank guarantees for: - the European Investment Bank – in the amount of PLN 156 000 thousand; - the European Bank for Reconstruction and Development – in the amount of PLN 83 494 thousand; - Bank Polska Kasa Opieki S.A. – in the amount of PLN 74 992 thousand. All these bank guarantees were valid to 14 April 2017. A notarized declaration of voluntary submission to enforcement is a security under the Agreement. On 31 March 2017, Elektrociepłownia Stalowa Wola S.A. paid all its liabilities to the financing banks. The guarantees expiered on 14 April 2017.
Amount	The total value of guarantees issued PLN 314 486 thousand.

(PLN '000)

Item	Description
Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	President of UOKiK instigated the following procedures against the Sales segment company: - Proceedings instigated on 17 September 2013 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 and therefore constitutes a breach of the Act on competition and consumer protection of 16 February 2007 (Journal of Laws of 2007 No. 50, item 331 as amended; "Act on competition and consumer protection"). The company committed to discontinue practices violating the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. On 22 December 2014 the company received a decision of UOKiK closing the evidentiary proceedings. On 14 December 2015 the President of UOKiK requested the company to demonstrate whether the practices have been discontinued. The company responded to the request in February 2016 informing that the practices have been discontinued and motioned for a decision not to charge a fine. No such decision had been issued by the date of the financial statements. - On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydroelectric power stations constitute a breach of the Act on competition and consumer protection. The actions in question include enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement. By a decision of 15 October 2015 the President of UOKiK instigated anti-trust proceedings. On 1 February 2016 UOKiK accepted the company's decision regarding presentation of a specific commitment. On 24 August 2016, the President of UOKiK issued a decision obliging the company to fulfil the obligation to take steps to prevent the alleged violations through the employment of specific measures within two months of the said decision becoming final. On 29 September 2016, the company filed an appeal against the decision with the Court of Competition and Consumer Protection. On 2 December 2016, the President of the Office of Competition and Consumer Protection issued a decision amending the statement of reasons supporting the previous decision. The decision became final on 2 February 2017. A report on its implementation was prepared and sent to UOKiK on 31 March 2017. The company does not recognize provisions for fines related to the above proceedings, since its management board believe the risk of losing the cases and paying the fines is low.
Explanatory proceedings instigated by the President of UOKiK	Explanatory proceedings have been instigated against the companies from the Sales segment to preliminarily determine whether their actions have been in breach of the Act on competition and consumer protection. The companies provide requested documents and explanations and respond to statements included in the letters of UOKiK. The companies' Managements believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low; hence no provision has been recognized for these events.
Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)	In a notice of 5 April 2016, the President of the Energy Regulatory Office informed TAURON Dystrybucja S.A. of the instigation of administrative proceedings to impose a fine for a failure to maintain facilities, installations and equipment in a proper technical condition and for non-compliance with the terms of the electricity distribution licence. In a notice of 30 March 2017, the President of the Energy Regulatory Office informed the company that the matter would be looked into on 30 April 2017. In its notices of 8 May 2017 and 1 June 2017 the President of ERO extended proceedings to 31 May 2017 and 30 June 2017 respectively. On 10 July 2017 the company received a decision of the President of ERO to impose a fine in the total amount of PLN 350 thousand. In July the provision in the amount of PLN 351 thousand was recognised by the company. On 24 July 2017 the company filed an appeal with the Court of Competition and Consumer Protection, through the President of ERO. The following proceedings have been instituted against the companies from the Sales segment: - On 7 and 19 April 2017 proceedings were instituted on imposing a cash penalty due to the failure to provide information to the Agency for Cooperation of Energy Regulators on a timely basis, in accordance with Article 8 para. 1 of the Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency; - On 11 May 2017 proceedings were instituted on non-compliance, in 2013, with the requirement to acquire and surrender energy performance certificates to the President of the Energy Regulatory Office for cancellation; - On 30 May 2017 three proceedings were instituted on imposing a cash penalty for a misconduct involving unjustified suspending of the supply of electricity to final customers. The companies do not create provisions for potential penalties related to the above proceedings. In the opinion of the companies' Management Board, the risk of unfavorable outcome of cases and the imposition of penalties is low.
Real estate tax	There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities and on equipment used in underground excavations. Since the tax is imposed on the local self-government level, there is no unified approach and in several cases, the tax base calculation has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation and transmission facilities, as well as on underground excavations, may change in future. Following the changes introduced in 2017 to the definition of construction facilities in the Investment Act, there is no consistent approach to defining structures at present. This entails the risk of potential disputes with local authorities (municipalities) over the determination of the tax base for real estate tax on wind farms.
Amount	The potential disputed tax on wind farms is PLN 16 000 thousand. As at the end of the reporting period, provisions were recognized for costs of disputes regarding real estate tax and for the related business risk (total PLN 40 351 thousand, including tax on wind farms PLN 8 122 thousand).

45. Collateral against liabilities

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

(PLN '000)

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

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

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Real estate	78 532	81 363
Plant and machinery	12 603	14 059
Cash	9	13 740
Total	**91 144**	**109 162**

Other forms of collateral

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 30 June 2017 regard the following contracts concluded by the Parent:

Agreement	Collateral form	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 190 193 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 312 761 thousand (EUR 74 000 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 11 119 thousand (USD 3 000 thousand) valid until 31 March 2019

(PLN '000)

Other forms of collateral against liabilities of the Group

As at 30 June 2017, other material forms of collateral regarding liabilities of the TAURON Group included:

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Capital Group company that has issued a blank promissory note	As at 30 June 2017 *(unaudited)*
Agreements concerning loans granted to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000
Performance bonds to include co-funding of engagements carried out	TAURON Dystrybucja S.A.	186 487
Performance bonds related to co-funding agreements concluded with the National Fund for Environmental Protection and Water Management and the return of funds	TAURON Ciepło Sp. z o.o.	87 251
Agreements for connecting to the industrial network, agreements for power transmission services and agreements for partial loan cancelling concluded with the National Fund for Environmental Protection and Water Management	TAURON Wytwarzanie S.A.	66 844

- Collateral under finance lease agreements

Finance lease agreement	Lessee	Carrying amount of the leased asset as at 30 June 2017 *(unaudited)*	Collateral
Leaseback agreement concerning real estate, plant and machinery	TAURON Ciepło Sp. z o.o.	22 100	Blank promissory note for PLN 92 215 thousand. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate, plant and machinery and authorization to debit bank accounts.
Finance lease agreement concerning real estate in Katowice	TAURON Polska Energia S.A.	23 510	The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

- The Company granted a corporate guarantee to secure bonds issued by TAURON Sweden Energy AB (publ). The guarantee is valid until 3 December 2029 i.e. bond redemption day, and amounts to EUR 168 000 thousand, and bondholders are the beneficiaries of the guarantee.;
- Under the bank guarantee agreement made with Bank Zachodni WBK S.A., the bank issued guarantees to secure stock exchange transactions resulting from the membership in the Commodity Clearing House. As at 30 June 2017, the guarantees issued by the bank totaled PLN 50 000 thousand and were valid until August 2017.
- Under the bank guarantee agreement made with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland ("CaixaBank S.A."), at the request of the Company the bank issued bank guarantees to secure liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 12 854 thousand and to secure the transactions performed by the Company:
  - for GAZ-SYSTEM S.A. - up to PLN 3 664 thousand, valid until 30 November 2017;
  - for Polskie Sieci Elektroenergetyczne S.A. - up to PLN 12 374 thousand, valid until 11 February 2018.

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

46. Related-party disclosures

46.1. Transactions with joint ventures

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

(PLN '000)

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

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Revenue	32 506	37 846
Costs	(21 126)	(24 664)

The key income item arises from transactions with the TAMEH HOLDING Sp. z o.o. Capital Group, a joint venture. In the 6-month periods ended 30 June 2017 and 30 June 2016, transactions with the joint venture amounted to PLN 22 614 thousand and PLN 32 502 thousand, respectively.

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

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

In relation to agreements entered into with the joint venture Elektrociepłownia Stalowa Wola S.A., the Company recognized provisions for onerous contracts and for costs. In the 6-month period ended 30 June 2017, the Company reversed the whole amount of provisions which has been discussed in more detail in Note 31.3 to these condensed interim consolidated financial statements.

46.2. Transactions with State Treasury companies

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

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

Revenue and expense

	6-month period ended 30 June 2017 *(unaudited)*	6-month period ended 30 June 2016 *(unaudited)*
Revenue	874 499	1 268 832
Costs	(1 555 264)	(1 200 438)

Receivables and liabilities

	As at 30 June 2017 *(unaudited)*	As at 31 December 2016
Receivables	234 095	356 595
Payables	329 758	298 786

As at 30 June 2017, receivables presented in the table above comprised advance payments of PLN 17 733 thousand, including advance payments for deliveries of coal of PLN 7 976 thousand and advance payments for purchases of fixed assets of PLN 9 757 thousand. As at 31 December 2016, receivables presented in the table above comprised advance payments of PLN 109 364 thousand, including advance payments for deliveries of coal of PLN 99 607 thousand and advance payments for purchases of fixed assets of PLN 9 757 thousand.

Among the State Treasury companies, in the 6-month period ended 30 June 2017, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Polska Grupa Górnicza Sp. z o.o. and Energa Obrót S.A. were the major customers of the TAURON Polska Energia S.A. Capital Group. Total sales to these contracting parties accounted for 86% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Polska Grupa Górnicza Sp. z o.o. Purchases from these contracting parties accounted for 89% of the value of purchases from State Treasury companies during the 6-month period ended 30 June 2017.

In the 6-month period ended 30 June 2016, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Kompania Węglowa S.A. and company incorporated on 1 May 2016 Polska Grupa Górnicza Sp. z o.o. were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. Total sales to these contracting parties accounted for 87% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. Purchases from these contracting parties accounted for 85% of the value of purchases from State Treasury companies during the 6-month period ended 30 June 2016.

(PLN '000)

Additionally, in the year ended 31 December 2016, the Polish National Foundation was established by 17 founders being key State Treasury companies. The Company is among the founders. As a result of its declaration to make contributions to the initial capital of the Polish National Foundation and the commitment to make annual contributions to be used for purposes of its statutory activities for a period of 10 years, the Company recognized a liability of PLN 32 500 thousand as at 30 June 2017.

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

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

46.3. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Parent and subsidiaries, paid or due in the 6-month period ended 30 June 2017 and in the comparative period, has been presented in the table below.

	6-month period ended 30 June 2017 *(unaudited)*		6-month period ended 30 June 2016 *(unaudited)*	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	**4 382**	**13 507**	**7 064**	**11 507**
Short-term benefits (with surcharges)	2 992	10 792	3 122	8 567
Post-employment benefits	-	-	-	101
Employment termination benefits	1 144	2 341	3 702	2 465
Other	246	374	240	374
Supervisory Board	**379**	**301**	**609**	**295**
Short-term employee benefits (salaries and surcharges)	379	301	609	293
Other	-	-	-	2
Other key management personnel	**7 271**	**21 105**	**7 815**	**20 853**
Short-term employee benefits (salaries and surcharges)	6 093	20 267	5 665	19 496
Jubilee bonuses	-	272	-	741
Employment termination benefits	726	340	1 715	389
Other	452	226	435	227
Total	**12 032**	**34 913**	**15 488**	**32 655**

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

As regards employment termination benefits for Members of the Management Board, presented in the table above, the amount of PLN 650 thousand was accounted for as the use of a provision recognized as at 31 December 2016 by the Parent and the amount of PLN 1 276 thousand as the use of provisions recognized as at 31 December 2016 by the subsidiaries.

Additionally, in the 6-month period ended 30 June 2017, the Group companies recognized provisions for employment termination benefits for Members of the Management Board, in the amount of PLN 2 388 thousand. The aforesaid benefits have not become due yet. The table does not present the aforesaid costs of recognition of provisions which have not been paid.

47. Events after the end of the reporting period

Eurobonds issue

On 5 July 2017 the Company issued eurobonds with a total nominal value of EUR 500 000 thousand and the issue price amounting to 99.438% of the nominal value. These bonds will mature in 10 years. They are fixed interest bonds with interest payable on an annual basis. They were admitted to trading on the regulated market of the London Stock Exchange. The Fitch rating agency awarded them the "BBB" rating.

The funds obtained from the issuance of the eurobonds will be used to refinance the costs of construction and acquisition of wind farms by one of the Group companies, to finance the Group's investments in the distribution segment and for general corporate purposes. The funds will not be used to carry out any new projects relating to generation of electricity from coal.

Receipt of a suit as a result of termination of long-term contracts for purchase of power and property rights (PPAs)

On 20 July 2017 the Company received a suit of 29 June 2017 filed by Gorzyca Wind Invest Sp. z o.o. with its registered office in Warsaw against TAURON Polska Energia S.A. for the payment of compensation of approx. PLN 39 700 thousand and for assessing the liability for the losses that may arise in the future from torts, including acts of unfair competition, with a value estimated by the plaintiff at the amount of approx. PLN 465 900 thousand, as described in Note 44 to these interim condensed consolidated financial statements.

Receipt of an amended statement of claim arising from termination of long-term contracts for the purchase of power and property rights

On 2 August 2017, the Company's attorney in the lawsuit held before the Regional Court in Cracow under the action brought by Dobiesław Wind Invest Sp. z o.o. with its registered office in Warsaw against the Company and its subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (to reverse the imminent danger of loss to Dobiesław Wind Invest Sp. z o.o. by obliging the Company and its subsidiary, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., to cancel the liquidation of the subsidiary, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.) received an amended statement of claim from Dobiesław Wind Invest Sp. z o.o., as described in Note 44 to these interim condensed consolidated financial statements.

Bonds redemption

On 31 July 2017 the bonds issued under the bond issue scheme of 24 November 2015, with a nominal value of PLN 100 000 thousand and the original maturity date of 30 January 2020, were early redeemed.

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 6-month period ended 30 June 2017 in accordance with International Accounting Standard 34 have been presented on 65 consecutive pages.

Katowice, 16 August 2017

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

Jarosław Broda - Vice-President of the Management Board …………………………………..

Kamil Kamiński - Vice-President of the Management Board …………………………………..

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

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