Additional information to
the extended consolidated
report of TAURON Polska Energia Capital Group
for the first quarter of 2017

10 May 2017

Table of Contents

1. Organisation of TAURON Capital Group

1.1 Basic Information on TAURON Capital Group

As at 31 March 2017, key companies of TAURON Polska Energia Capital Group (TAURON Capital Group), besides the parent company, TAURON Polska Energia S.A. (hereinafter referred to as TAURON, TAURON Polska Energia, the Company or the Issuer) comprised 18 subsidiaries subject to consolidation, indicated in item 1.2 hereof. Moreover, as at 31 March 2017 the Company held, directly or indirectly, shares in other 35 companies.

The main companies subject to consolidation included: TAURON Wydobycie S.A. (TAURON Wydobycie) and Nowe Brzeszcze Grupa TAURON sp. z o.o. (NBGT) dealing with hard coal mining, TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) dealing with generation of energy from conventional sources and biomass co-burning, TAURON Ekoenergia sp. z o.o. (TAURON Ekoenergia) dealing with generation of electricity from renewable sources, TAURON Dystrybucja S.A. (TAURON Dystrybucja) providing electricity distribution services, TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż) and TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) dealing with the supply of electricity to retail customers, TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta), dealing with customer service as well as rendering intra-group services in the area of accounting, HR and IT, and TAURON Ciepło sp. z o.o. (TAURON Ciepło) - dealing with generation, distribution and sales of heat. Moreover, TAURON Capital Group comprised 10 other subsidiaries, subject to consolidation, dealing, inter alia, with trading in electricity as well as extraction of limestone and stone for construction purposes.

In TAURON Group the Business Model operates which determines the assumptions of the Group's operation (management) and indicates the distribution of tasks and responsibilities among defined entities:

Corporate Centre – the superior organisational unit responsible for management of the Group's activities and taking the most important decisions affecting the Group, Business Areas, Centres of Common Services and companies belonging to TAURON Capital Group;

Business Areas – seven areas of TAURON Group's core activity, defined in accordance with the links of electricity and heat production value chain, i.e.: Trade, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Sales;

Centres of Common Services – units responsible for provision of specific support services (e.g. accounting, IT, HR and payroll, insurance, customer service) in favour of other entities of the Group.

Five defined process streams around which activities of TAURON Group shall concentrate underpin the construction of the Business Model, i.e.: Strategy, Finance, Asset Management and Development, Client, Corporate Governance and Support. The objective of distinguishing process streams is to pay greater attention to cross-sectional issues, referring to more than one Business Area.

The main regulatory act of TAURON Group is the TAURON Group Code adopted by the Management Board of the Company which regulates its operations, ensuring the implementation of the goals through tailored solutions in the area of management of TAURON Group entities, including, in particular, setting out of the operating objectives of companies, enabling the achievement of assumed effects.

As of the date of adopting the resolutions on their accession to TAURON Group by general meetings/ shareholder meetings, the companies listed below obtained the status of TAURON Group members.

As at 31 March 2017, the following subsidiaries were included in TAURON Group:

Table no. 1 List of subsidiaries included in TAURON Group

No.	Company enterprise	Date of accession to TAURON Group
1.	TAURON Sprzedaż sp. z o.o.	26.10.2010
2.	TAURON Obsługa Klienta sp. z o.o.	26.10.2010
3.	TAURON EKOENERGIA sp. z o.o.	26.10.2010
4.	TAURON Wytwarzanie S.A.	28.10.2010
5.	TAURON Czech Energy s.r.o.	10.11.2010
6.	TAURON Dystrybucja S.A.	06.12.2010
7.	Kopalnia Wapienia "Czatkowice" sp. z o.o.	05.01.2011
8.	TAURON Wydobycie S.A.	13.01.2011
9.	TAURON Sprzedaż GZE sp. z o.o.	24.01.2012
10.	TAURON Ubezpieczenia sp. z o.o.	17.09.2013
11.	TAURON Ciepło sp. z o.o.	16.10.2013
12.	TAURON Dystrybucja Pomiary sp. z o.o.	19.11.2013
13.	TAURON Ekoserwis sp. z o.o.	19.11.2013
14.	Spółka Usług Górniczych sp. z o.o.	04.12.2013
15.	TAURON Dystrybucja Serwis S.A.	17.12.2013
16.	SCE Jaworzno III sp. z o.o.	19.12.2014
17.	Biomasa Grupa TAURON sp. z o.o.	1.07.2015
18.	TAURON Serwis sp. z o.o.	22.12.2016

In addition, as at the day of drawing up this report, permanent committees of TAURON Group operate within TAURON Group, including:

- Investment Committee,
- Risk Committee.

The aforementioned Committees were established in order to enable performing of operations in accordance with principles of operating consistency of TAURON Group, in compliance with law and interests of TAURON Group and its stakeholders.

The underlying task of the Committees is to provide surveillance over the implementation of consistent activities by all participants of TAURON Group, compliant with the TAURON Group Code and satisfying interests of TAURON Group. The specific tasks of the Committees are defined in detail in the by-laws of their activity adopted by the Company Management Board.

1.2 Entities subject to consolidation

As at 31 March 2017, consolidation covered the parent company - TAURON Polska Energia S.A. - and the following subsidiaries:

1. TAURON Wydobycie S.A.
2. TAURON Wytwarzanie S.A.
3. TAURON Ekoenergia sp. z o.o.
4. Marselwind Sp. z o.o.
5. TAURON Ciepło Sp. z o.o.
6. TAURON Dystrybucja S.A.
7. TAURON Dystrybucja Serwis S.A.
8. TAURON Dystrybucja Pomiary sp. z o.o.

9. TAURON Sprzedaż Sp. z o.o.
10. TAURON Sprzedaż GZE Sp. z o.o.
11. TAURON Czech Energy s.r.o.
12. TAURON Obsługa Klienta sp. z o.o.
13. Kopalnia Wapienia Czatkowice Sp. z o.o.
14. Polska Energia Pierwsza Kompania Handlowa sp. z o.o.
15. TAURON Sweden Energy AB (publ)
16. Biomasa Grupa TAURON sp. z o.o.
17. TAURON Serwis Sp. z o.o.
18. KOMFORT-ZET Sp. z o.o.

TAURON Polska Energia S.A. Capital Group also holds investment in joint projects: Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa Sp. z o.o.in liquidation and TAMEH HOLDING Sp. z o.o. Capital Group (consisting of TAMEH HOLDING Sp. z o.o., holding 100% share in equity and the decision-making authority of the following subsidiaries: TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.), which are measured by equity method in the consolidated financial statements.

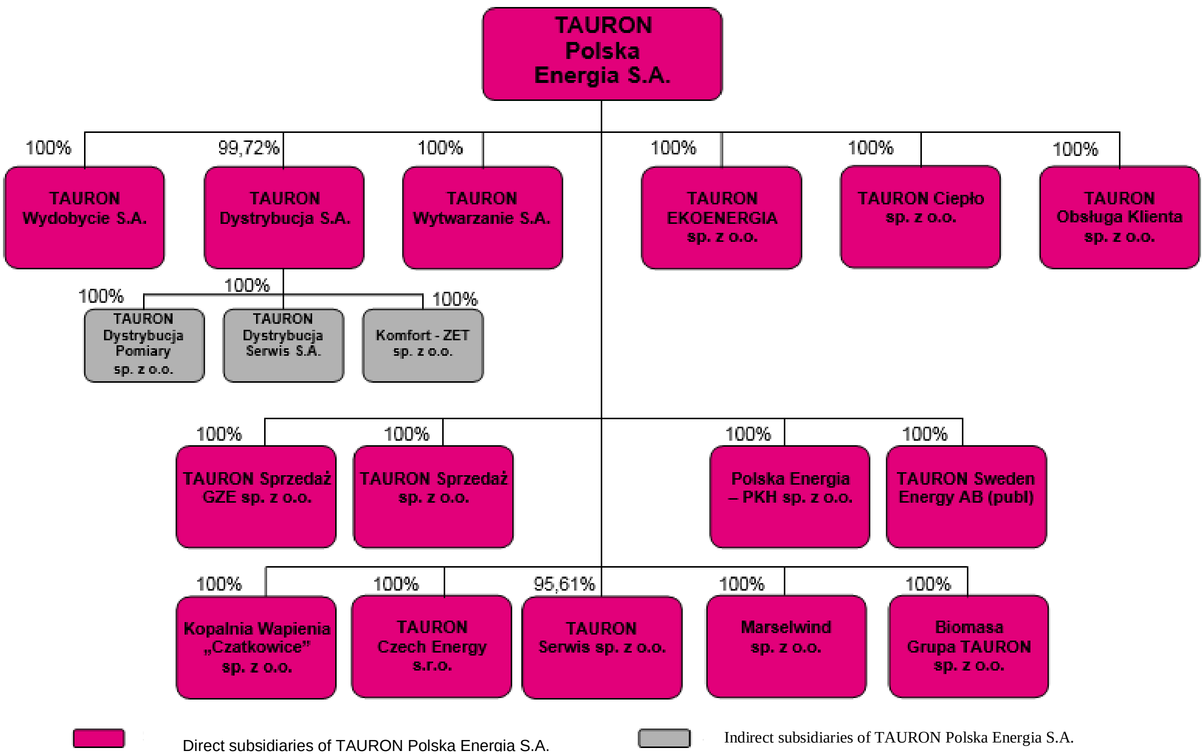
After the balance sheet day, on 3 April 2017, the Nowe Jaworzno Grupa TAURON company was registered in the National Court Register. On 31 January 2017 resolutions of the General Meeting of Shareholders of TAURON Wytwarzanie S.A. (the Divided Company) were adopted, concerning the demerger of the company pursuant to Article 529 § 1(4) of the KSH (Commercial Companies Code) through the separation and assignment of separated component of assets (the investment process of the construction of the new 910 MW unit at Elektrownia Jaworzno III) for the newly established company, Nowe Jaworzno Grupa TAURON sp. z o.o. in organisation.

In connection with the establishment of the Nowe Jaworzno Grupa TAURON sp. z o.o. Company in organisation, in exchange for components of assets of the Divided Company, assigned to the company, TAURON Polska Energia S.A. received 37,000 shares in the share capital of Nowe Jaworzno Grupa TAURON sp. z o.o. in organisation, with the nominal value of PLN 50.00 per share and the total nominal value of PLN 1,850 thousand.

1.3 TAURON Capital Group and significant changes in its structure

The chart below presents companies whose results are consolidated within TAURON Capital Group, as at 31 March 2017.

Figure no. 1. Consolidated companies of TAURON Capital Group



Moreover, TAURON Capital Group has investments in joint projects: Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa sp. z o.o. In liquidation and TAMEH HOLDING sp. z o.o., TAMEH POLSKA sp. z o.o. and TAMEH Czech s.r.o., evaluated by equity method in the consolidated financial statements.

Below, significant changes in the structure of TAURON Capital Group subsidiaries are described, including the effects of changes which occurred in the 1st quarter of 2017 and after the balance sheet day:

Demerger of TAURON Wytwarzanie S.A. company through the transfer of assets to the newly established company, Nowe Jaworzno Grupa TAURON sp. z o.o.

On 31 January 2017 the Extraordinary General Meeting of TAURON Wytwarzanie S.A. adopted the resolution concerning the demerger of TAURON Wytwarzanie S.A. company through separation, pursuant to Article 529 §1(4) of the KSH, i.e. through the transfer of a part of TAURON Wytwarzanie assets in the form of an organised part of the enterprise comprising the investment process of construction of the new 910 MW unit at Elektrownia Jaworzno III, carried out in TAURON Wytwarzanie - Oddział Jaworzno 910 MW in Jaworzno, to the newly established company, Nowe Jaworzno Grupa TAURON sp. z o.o., in exchange for 37,000 shares of the company Nowe Jaworzno Grupa TAURON sp. z o.o., with the nominal value of PLN 50 per share and the total nominal value of PLN 1,850,000, which were taken up by the sole shareholder of the divided company, i.e. TAURON Polska Energia S.A.
Upon adopting of the aforementioned resolution, the Nowe Jaworzno Grupa TAURON sp. z o.o. company in organisation was established.
At the same time, on 31 January 2017 the resolution was adopted by Nowe Jaworzno Grupa TAURON sp. z o.o. in organisation shareholders, concerning the aforementioned division.

The demerger process demonstrates the implementation of the “TAURON Group Strategy of for 2016 - 2025”, pursuant to which the project on the construction of a 910 MW unit at Elektrownia Jaworzno III will be implemented under a new financing formula, assuming the separation of an organised part of the enterprise from TAURON Wytwarzanie S.A. company and sale of a part of shares to external partners.
On 3 April 2017 (an event after the balance sheet day) the Nowe Jaworzno Grupa TAURON G sp. z o.o. company was registered in the National Court Register.

Waiver of the liquidation of the Company Polska Energia Pierwsza Kompania Handlowa sp. z o.o. in liquidation

Pursuant to Article 273 of the KSH, on 8 March 2017 the Extraordinary Meeting of Shareholders of the company Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. in liquidation adopted the resolution on the company business continuation and waiver of its liquidation. The waiver of the company liquidation resulted from the change of the conditions associated with the conducted liquidation proceedings indicating the pertinence of the company business continuation. The change of the conditions is associated with the pending court proceedings where Polska Energia PKH Sp. z o.o. is a party.

Increase of TAURON Wydobycie S.A. company share capital

On 21 March 2017, the Extraordinary General Meeting of the TAURON Wydobycie S.A. company adopted the resolution concerning the increase of the company share capital from the amount of PLN 355,510,780.00 to the amount of PLN 357,110,780.00, i.e. by the amount of PLN 1,600,000.00, through the issuance of 160,000 new registered shares, “K” series, with the nominal value of PLN 10.00 per share, i.e. with the total nominal value of PLN 1,600,000.00. All shares of “K” series were taken up, by way of closed subscription, by the sole shareholder of the company - TAURON Polska Energia S.A.
On 7 April 2017 (an event after the balance sheet day) the increase of the company share capital was registered in the National Court Register.

Increase of share capital of Nowe Brzeszcze Jaworzno TAURON sp. z o.o. company
On 19 April 2017 (an event after the balance sheet day) the Extraordinary Meeting of Shareholders of Nowe Jaworzno Grupa TAURON sp. z o.o. company adopted the resolution on increasing of the share capital from the amount of PLN 1,850,000.00 to the amount of PLN 4,850,000.00, i.e. by the amount of PLN 3,000,000.00 through creating 60,000 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 3,000,000.00. All new shares in the increased share capital of the company, with the nominal value of PLN 50.00 each were taken up by the existing sole shareholder of the company - TAURON Polska Energia S.A. As at the day of drawing up this information, the increase in the company share capital has not been registered in the National Court Register yet.

2. Basic information concerning TAURON Polska Energia

2.1 Composition of the Management Board and Supervisory Board of TAURON Polska Energia

COMPOSITION OF THE MANAGEMENT BOARD

Composition of the Management Board as at 1 January 2017:

1. Filip Grzegorczyk - President of the Management Board
2. Jarosław Broda - Vice-President of the Management Board for Asset Management and Development
3. Kamil Kamiński - Vice-President of the Management Board for Corporate Management
4. Marek Wadowski - Vice-President of the Management Board for Finance,
5. Piotr Zawistowski - Vice-President of the Management Board for Customer and Commercial Affairs

Changes in personal composition of the Management Board in the 1st quarter of 2017 and until the day of publication of this information

On 15 March 2017, the Supervisory Board dismissed all aforementioned Members of the Management Board of the fourth joint term of office and appointed Messrs Filip Grzegorczyk, Jarosław Broda, Kamil Kamiński and Marek Wadowski as Members of the Management Board of the fifth joint term of office. The Company informed of changes in the composition of the Management Board in the current report no. 10/2017 of 15 March 2016.

Composition of the Management Board as at 31 March 2017 and as at the day of publication of this information:

1. Filip Grzegorczyk - President of the Management Board
2. Jarosław Broda - Vice-President of the Management Board for Asset Management and Development
3. Kamil Kamiński - Vice-President of the Management Board for Customer and Corporate Affairs
4. Marek Wadowski - Vice-President of the Management Board for Finance

COMPOSITION OF THE SUPERVISORY BOARD

Composition of the Supervisory Board as at 31 March 2017 and as at the date of submission of this Information

1. Beata Chłodzińska - Chairwoman of the Supervisory Board
2. Anna Mańk - Deputy Chairwoman of the Supervisory Board
3. Jacek Szyke - Secretary of the Supervisory Board
4. Stanisław Bortkiewicz - Member of the Supervisory Board,
5. Leszek Koziorowski - Member of the Supervisory Board
6. Jan Płudowski - Member of the Supervisory Board,
7. Jacek Rawecki - Member of the Supervisory Board
8. Stefan Świątkowski - Member of the Supervisory Board
9. Agnieszka Woźniak - Member of the Supervisory Board.

Changes in personal composition of the Supervisory Board in the 1st quarter of 2017 and until the day of publication of this information

In the 1st quarter of 2017 and until the day of publication of this information, no changes in the composition of the Supervisory Board of the Company took place.

2.2 Structure of share capital

As at 31 March 2017, the share capital of TAURON Polska Energia S.A. amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394 shares with the nominal value of PLN 5.00 per share, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.

2.3 Shareholders holding at least 5 per cent in the total number of votes

In accordance with the Company's best knowledge, as at the date of publication of this interim report, i.e. as at 10 May 2017, the structure of shareholders holding at least 5 per cent of the total number of votes at the General Meeting of the Company, either directly or indirectly, through subsidiaries, was as follows:

Table no. 2. Structure of the shareholding of TAURON Polska Energia

Shareholders	Number of shares held	Percentage interest in the share capital	Number of votes held	Percentage interest in the general number of votes
State Treasury	526,848,384	30.06%	526,848,384	30.06%
KGHM Polska Miedź S.A.	182,110,566	10.39%	182,110,566	10.39%
Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund)	88,742,929	5.06%	88,742,929	5.06%

Since the day of publication of the previous interim report, i.e. 15 March 2017, until the date of publication of this information, no changes in proprietary structure of significant blocks of the Company shares have occurred.

2.4 Specification of the status of shares held by the members of the management and supervisory bodies

Managing persons:

As at the day of publication of his quarterly report, i.e. as at 10 May 2017 Members of TAURON Polska Energia S.A. Management Board did not hold the Company shares or rights to the Company shares. Since the day of submission of the previous interim report, i.e. 15 March 2017, until the date of publication of this report, no changes in the shareholding structure of shares held by members of the Management Board have occurred.

Supervising persons:

As at the day of publication of his quarterly report, i.e. as at 10 May 2017 Members of TAURON Polska Energia S.A. Supervisory Board did not hold the Company shares or rights to the Company shares. Since the day of submission of the previous interim report, i.e. 15 March 2017, until the date of publication of this report, no changes in the shareholding structure of shares held by members of the Supervisory Board have occurred.

2.5 Scope of activities of TAURON Polska Energia

The core subject of activity of TAURON Polska Energia covers:

1) activity of central companies (head offices) and holdings, excluding financial holdings (PKD 70.10 Z),
2) trading in electricity (PKD 35.14 Z),

3) wholesale of fuels and derivative products (trading in coal and biomass) (PKD 46.71 Z),
4) trading in gas fuels (PKD 35.23 Z).

As the parent entity TAURON fulfils the consolidating and governing function in TAURON Capital Group.

Besides managing TAURON Capital Group, the core activity of the Company comprises wholesale trading in electricity, related products, gas, CO_2 emission allowances and production fuel, in order to maximise financial results of activity carried out in this area.
As a result of implementation of the business model and centralisation of functions, TAURON concentrated many competences related to the functioning of TAURON Capital Group companies and it currently carries out operations, among others, in the following areas:

1) wholesale trading in electricity and related products, in particular, in the scope of commercial service provided to companies, securing the needs in the scope of fuels, CO_2 emission allowances and certificates of energy origin,
2) procurement management,
3) financial management,
4) enterprise risk management,
5) management of IT model functioning,
6) coordinating research and development activities executed in TAURON Capital Group,
7) advisory services in the scope of accounting and taxes,
8) legal service,
9) audit.

The above functions are gradually limited in companies of TAURON Capital Group. The centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

The Company has focused on the purchase and sales of electricity for the needs of securing the purchase and sales positions of entities included in TAURON Capital Group and on wholesale electricity trading. Sales of electricity performed by the Company in the first quarter of 2017 was mainly oriented to the following companies: TAURON Sprzedaż and TAURON Sprzedaż GZE.

The competence of the Company also includes management of certificates of origin for the needs of the TAURON Capital Group, representing the confirmation of electric energy generation in renewable sources, in high-performance co-generation, in gas-fired co-generation, in mining methane-fired or biomass burning co-generation, from sources using agricultural biogas.

The Company also acts as a competence centre in the area of management and trading in CO_2 emission allowances for companies of TAURON Capital Group. Due to centralisation of trading in emissions, a synergy effect was obtained, consisting in optimisation of available resources of entities included in TAURON Capital Group. Along the centralisation of this function in TAURON, the Company is responsible for settlements of CO_2emission allowances, securing the emission demand of the subsidiaries, taking into account the allowances allocated and the support in the process of acquiring limits of allowances for the following periods. While implementing the aforementioned goals, the Company is an active participant of trading in CO_2 emission allowances.

In addition, TAURON also acts as the Market Operator and the Entity responsible for trade balancing for companies of TAURON Capital Group and for external customers in the scope of electricity. The function of Market Operator and the Entity responsible for trade balancing is fulfilled on the basis of the transmission Agreement of 21 June 2012 concluded with the Transmission System Operator – PSE. The Company currently holds exclusive generation capacity in the trade and technical scope, it is responsible for optimisation of generation, i.e. selection of generation units for operation as well as relevant distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the generation units, network constraints and other factors, in various horizons. Within the services provided to the Generation Area, the Company participates in preparation of repair plans, plans of available capacity as well as production plans for generation units, in various time horizons, as well as in their settlement with the relevant grid operator.

In accordance with the adopted business model, TAURON plays a governing function in the scope of production fuel procurement management for the needs of the generating entities included in TAURON

Capital Group.

In the 1st quarter of 2017, approx. 71% of coal supplies for electricity and heat production was covered by coal from own mining plants of TAURON Capital Group. The remaining part of the demand was covered from external sources.

The Company develops activity in the scope of trading in gas fuel. Since obtaining of the concession in 2012, TAURON has been an active participant of the gas market. It actively pursues commercial activity on the domestic market, i.e. on TGE and OTC market and develops competence in the scope of the European market.

In addition, in January 2014, the company launched commercial activities for the new product - Gasoil Futures contracts, based on the valuation of diesel oil. The product is available on the ICE Futures Europe platform TAURON has been the member of since 2012. Gasoil contracts may be used by market participants both as a hedging instrument and as a commercial tool. Gasoil products demonstrate high liquidity and prices of contracts refer to prices for all distillates traded in Europe and outside.

In February 2015, trading in consecutive products of crude oil market was commenced - Brent Crude, WTI Crude, the valuation of which is associated with oil prices, and Heating Oil - a product measured based on heating oil quotations. Within the aforementioned products, trade concentrates not only on trading in individual contracts (outright) but also on trading in spreads created both between specific products and calendar spreads, corresponding to terms of settlement of individual contracts.

The Company is present on the most important European wholesale gas markets within the areas of Gaspool, New Connect Germany and Tittle Transfer Facility hubs. Through PRISMA and GSA auction platforms the Company purchases interconnector capacity enabling cross-border trading in gas and physical deliveries of gas for the needs of companies of TAURON Capital Group and consumers. In TAURON Capital Group, distribution of competence in the scope of gas sales applies: TAURON conducts wholesale gas trade on the domestic and European market through access to exchanges and sources of gas acquisition whereas TAURON Sprzedaż conducts complex gas sales to end consumers.

In connection with the implementation of the new strategy of TAURON Group the area associated with the mass market became an important area of the Company operations, namely: the coordination of the Customer Area, The Company expands its competence by sales planning on the retail market, development of the range of products and services as well as tools supporting sales service on this market. Activities associated with the area of research and development make an important element.

3. Operations of TAURON Capital Group

3.1 Areas of activity of TAURON Capital Group

TAURON Polska Energia Capital Group (TAURON Capital Group) is a vertically integrated energy group located in the south of Poland. TAURON Capital Group conducts its operations in all key segments of the energy market (excluding electricity transmission which is the sole responsibility of the Transmission System Operator (TSO)), i.e. in the area of coal mining, generation, distribution as well as trading in electricity and heat.

Figure no 2. TAURON Capital Group

TAURON POLSKA ENERGIA S.A.
the holding company in TAURON Capital Group.
Supervises corporate functions: management, strategic investment, regulations, HR, finance, controlling, internal audit, PR, investor relations, procurement

MINING

32% of steam coal resources in Poland

- 3 hard coal mines
- commercial coal production: 1.5 million Mg, including 72% used within TAURON Capital Group, and 28% sold to external clients
- EBITDA of the Mining segment for the 1^{st} quarter of 2017: PLN (29) million

GENERATION

the third largest producer of electricity in Poland

- 8 conventional power plants and CHP plants with achievable electrical capacity of 4.6 GW_e and thermal capacity of 2.4 GW_t
- 4 wind farms with the total capacity of 201 MW_e
- 34 hydroelectric power plants with the total capacity of 143 MW_e
- 835 km of heat networks
- 4.9 TWh of electricity production, including 0.1 TWh from biomass
- 0.2 TWh of electricity production from wind and hydroelectric sources
- 5.3 PJ of heat production
- EBITDA of the Mining segment for the 1^{st} quarter of 2017: PLN 191 million

DISTRIBUTION

the largest electricity distributor in Poland

- 5.5 million clients
- distribution over the area of 57.1 thousand km^2, i.e. 18.3% of the territory of Poland
- 13.3 TWh of electricity distributed
- EBITDA of the Distribution segment for the 1^{st} quarter of 2017: PLN 607 million

SALES

the second largest electricity vendor in Poland

- 5.3 million clients
- 9.1 TWh of electricity retail sales
- EBITDA of the Sales segment for the 1^{st} quarter of 2017: PLN 380 million

OTHER

- services provided to consumers of electricity and distribution services for companies of TAURON Capital Group
- provision of support services for entities of TAURON Capital Group in the following areas: Accounting, IT and HR
- limestone mining for the needs of power engineering, metallurgical industry, construction and road building
- acquisition, transport and processing of biomass for the needs of professional power sector
- financial activities
- EBITDA of the Other segment for the 1^{st} quarter of 2017: PLN 36 million

For the needs of reporting the results of TAURON Capital Group, activities of TAURON Capital were assigned to the following five Segments hereinafter also referred to as Areas:

Mining Segment, comprising mainly mining, preparation and sales of hard coal in Poland - the activity provided by TAURON Wydobycie S.A. (TAURON Wydobycie). On 1 December 2016, the Nowe Brzeszcze Grupa TAURON sp. z o.o. company was merged with TAURON Wydobycie.

Generation Segment, comprising mainly generation of electricity in conventional sources, including co-generation, as well as generation of electricity from renewable energy sources, including burning and co-burning of biomass, and in hydroelectric power plants and wind farms. The Segment also comprises generation, distribution and sales of heat. Operations in this Segment are carried out by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie), TAURON Ciepło sp. z o.o. (TAURON Ciepło) and TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA). In this Segment TAURON Serwis sp. z o.o. is also included. (TAURON Serwis), dealing mainly with repairs of generation installations.

Distribution Segment, comprising the distribution of electricity with the use of distribution grids located in southern Poland. The activities are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). This Segment also comprises the following companies: TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) and TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary).

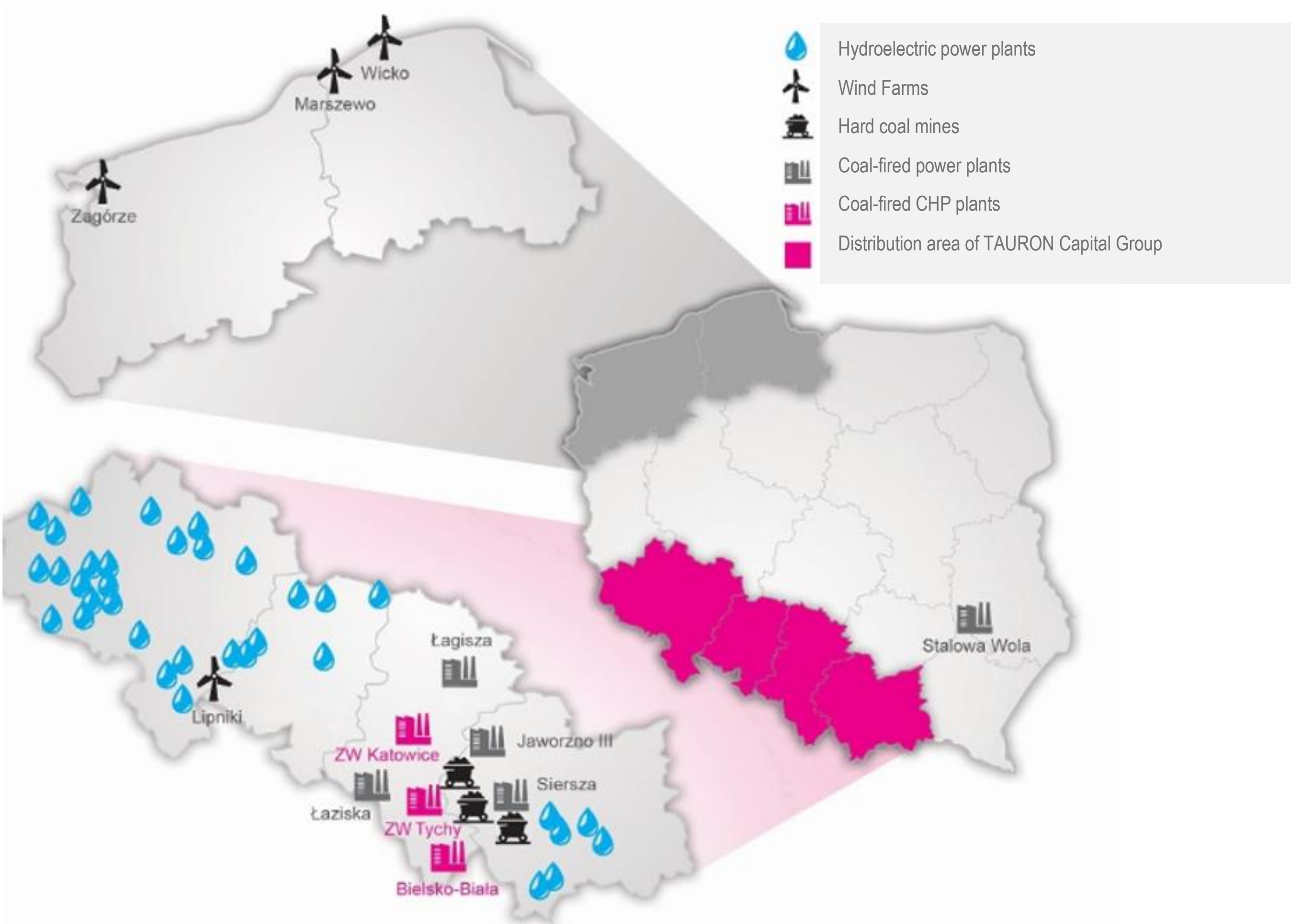
Sales Segment, comprising sales of electricity to end-customers and wholesale of electricity, as well as trade and management of CO_2 emission allowances, property rights arising from certificates of origin and fuels. Operations in this Segment are conducted by the following companies: TAURON Polska Energia S.A. (TAURON or the Company), TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) and TAURON Czech Energy s.r.o. (TAURON Czech Energy).

Other Segment, comprising activity in the scope of customer service for clients of TAURON Capital Group and provision of support services for companies of TAURON Capital Group in the scope of accounting and ICT, provided by TAURON Obsługa Klienta sp. z o.o. company (TAURON Obsługa Klienta), as well as extraction of stone, including limestone, for the needs of energy industry, metallurgy, construction and road building and production of sorbing agents for installations of flue gas desulphurisation using the wet method and for application in fluidized bed boilers - the activity carried out by Kopalnia Wapienia "Czatkowice" sp. z o.o. company (KW Czatkowice). This Segment also comprises the following companies: TAURON Sweden Energy AB (publ) (TAURON Sweden Energy), dealing with financial activities, Biomasa Grupa TAURON sp. z o.o. (Biomasa Grupa TAURON) dealing mainly with acquisition, transport and processing of biomass, KOMFORT-ZET sp. z o.o. (KOMFORT-ZET), dealing mainly with real estate administration as well as technical service of vehicles and Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (PEPKH).

TAURON Capital Group conducts its operations and acquires its revenues mainly from sales and distribution of electricity and heat, generation of electricity and heat, as well as from sales of hard coal.

The figure below shows the location of key assets of TAURON Capital Group as well as the distribution area where TAURON Dystrybucja acts as the Distribution System Operator (DSO).

Figure no 3. Location of key assets of TAURON Capital Group



3.2 Implementation of TAURON Capital Group investment programme

Major strategic investment projects under implementation

The table below presents the activities carried out in TAURON Capital Group until the end of the 1st quarter of 2017, in connection with implementation of the key strategic investment projects.

Table no 3. Implementation status of the major strategic investment projects

No.	Investment	Status of investment implementation
1.	Construction of the CCGT unit with the capacity of 449 MW_e, including the heat generation component with the capacity of 240 MW_t in Stalowa Wola (investment implemented with participation of the strategic partner - Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)). **Contractor:** the contract with Abener Energia S.A. was rescinded Completion of the project is foreseen under the EPCM formula (contract manager). **Scheduled date of investment project completion:** 2019 **Progress level:** 85% **Expenditure incurred**: PLN 967.4 million	In January 2016, the contract with the general contractor, Abener Energia S.A. was rescinded. Maintenance works of installed machines and equipment were continued and talks with suppliers and subcontractors of major installations were carried out. Manufacturer's overhaul of main installations of the unit was performed, i.e. the gas turbine and the steam turbine. The technical stocktaking was completed and the concept of finalising the investment in the contract manager (EPCM) formula and economic operators' contracting was prepared. In the 1st quarter of 2017, the first calls for tender were announced concerning the completion of the investment, i.e. the cooling water pipeline and the provision of services associated with design, engineering works, consulting, management and oversight of works required to finalise the construction of the CCGT unit in the contract manager formula. In March this year, the liabilities towards institutions financing the project (EIB, EBRD and PKO BP) were repaid, accordingly, the following agreements concluded in October 2016 entered into force: • the agreement between TAURON, PGNiG and ECSW concerning determination of boundary conditions for the project restructuring; • annex to the electricity sales Agreement between TAURON, PGNiG and ECSW; • annex to the gas fuel supply Agreement between PGNiG and ECSW. The aforementioned agreements regulate the conditions related to the settlement of liquidated damages, introduce market rules for pricing formulas used so far, regulate financial restructuring issues while maintaining the engagement of financial institutions. Commercial negotiations with potential new financing institutions are continued (commercial banks) in order to obtain a more favourable project financing.

No.	Investment	Status of investment implementation
2.	Construction of a new power unit of 910 MW_e capacity for supercritical parameters on the premises of Elektrownia Jaworzno III (TAURON Wytwarzanie). **Contractor:** RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. consortium **Scheduled date of investment project completion:** 2019 **Progress level:** 33% **Expenditure incurred:** PLN 2,314 million	The implementation of the project focused on the construction works and assembly of steel constructions and the pressure part of the boiler. The assembly of steel constructions of main buildings was continued, including the roof of the engine room, and the heavy-duty installation of water pre-heater coils and air ducts was carried out. Works within the surface reinforced concrete construction of the cooling water pump station were conducted and construction works were continued in the building of the unit control room and the electrical nave. The assembly of the absorber coat for the flue gas desulphurisation installation was ongoing. The erection process of the cooling tower coat was completed. In the scope of auxiliary and accompanying services, works in the area of external ash disposal system and external carburisation system - part 1 and 2, were continued. Works in the scope of the power discharge system, kindling oil and office building were commenced. Contractors for the construction of the compressed air system, water supply system, water treatment station and wastewater treatment plant were selected. Public procurement procedures for the selection of contractors for the construction of the track layout system, water and sewage network, flyovers of pipelines, heat and steam network were continued. Preparations to announce the tender for the selection of the telecom and IT network were in progress. On 1 March 2017, the annex concerning the extension of the project delivery deadline was signed - the new assumed deadline of the unit commissioning is scheduled in November 2019. On 3 April 2017, the Nowe Jaworzno Grupa TAURON sp. z o.o. company was carved out from TAURON Wytwarzanie, which will be responsible for the implementation of the construction of a new power unit with the capacity of 910 MW_e. At present, works providing for the adequate operation of the carved-out company are in progress. Negotiations with the Polish Development Fund (PFR) are ongoing in order to raise additional funding of the investment.
4.	Construction of the “Grzegorz” shaft (TAURON Wydobycie), including the infrastructure (surface and underground) and the accompanying headings. **Contractor:** the consortium of KOPEX PBSz S.A. and FAMUR Pemug (signing of the agreement in progress) **Scheduled date of investment project completion:** 2023 **Progress level:** 20% **Expenditure incurred:** PLN 86.7 million	Detailed documentation for the shaft was performed and accepted. The General Contractor for the task entitled “Construction works performed by the General Contractor of Stage I of Grzegorz shaft construction, including the construction of the surface infrastructure for TAURON Wydobycie S.A.” was re-selected, namely, - KOPEX Przedsiębiorstwo Budowy Szybów S.A. and FAMUR Pemug – activities associated with signing of the agreement are in progress. The construction of the electrical switching station of the “Grzegorz” shaft and 2x20kV MV cable lines supplying the station was completed. The agreement with the general contractor for drilling of mining headings to the “Grzegorz” shaft at a level of 540 m was concluded (the Linter company). After handing over the site of works, drilling of mining excavations to the shaft was commenced.
5.	Construction of the 800 m level at ZG Janina in Libiąż (TAURON Wydobycie). **Contractor:** Consortium of KOPEX S.A. and KOPEX Przedsiębiorstwo Budowy Szybów S.A. (main task - shaft drilling) **Scheduled date of investment project completion:** 2020 **Progress level:** 51% **Expenditure incurred:** PLN 263.4 million	Works associated with deepening of the “Janina VI” shaft were completed, including the construction of a two-way shaft inlet and the shaft reinforcement. The ventilation circuit at a level of 770m was closed. Works related to closing of the ventilation circuit at a level of 800m are in progress. Works associated with launching the public procurement procedure for the “Construction of the target surface and underground infrastructure, including the single-drum shaft-hoisting system for Janina VI shaft” are in progress.

No.	Investment	Status of investment implementation
6.	ZG Brzeszcze Investment Programme **Contractors:** TRANS-JAN, FAMUR and KOPEX Machinery Consortium, FAMUR and KPRGiBSz Consortium, MAS and Carbospec Consortium, Elektrometal Cieszyn **Scheduled date of Programme completion:** 2025 **Progress level:** 21% **Expenditure incurred**: PLN 105.0 million	Works associated with the reconstruction of the mining headings at level 510 and construction of the facility for small coal sales ('nut' and 'peas' assortments) are in progress. The deliveries of a longwall complex for high longwalls at level 510 were completed and the scheduled reinforcement of the wall underground was installed. Moreover, agreements and deliveries for the construction of auxiliary infrastructure are executed, inter alia, in the scope of haulage automation and visualisation and installation of a hydrant network, including an internal fire protection installation for the Coal Mechanical Processing Plant. The task associated with compensation of reactive power in the coal mine was also performed.

Project associated with the construction of the nuclear power plant

In relation to earlier activities arrangements concerning the joint implementation of the nuclear energy project in Poland, on 15 April 2015, TAURON, KGHM Polska Miedź S.A. (KGHM) and ENEA, as Business Partners, and PGE concluded the agreement for the purchase of shares in PGE EJ1 – a special purpose vehicle responsible for the preparation and execution of the investment comprising the construction and operation of the first Polish nuclear power plant with the capacity of approximately 3,000 MW_e (the Project). Business Partners acquired 10% of shares each (30% of shares in total) in PGE EJ 1 company from PGE. TAURON paid the amount of PLN 16,044,000 for the shares purchased. At the same time, one of the obligations arising from the Shareholders' Agreement concluded between Business Partners and PGE on 3 September 2014 was fulfilled.

Pursuant to the Shareholders' Agreement, the parties committed, proportionally to the number of shares they hold, to finance the activities falling to the stage of the project development.

The Shareholders' Agreement provides that further decisions related to the project, including the decision concerning the declaration of continued participation of individual parties (including TAURON) in the consecutive stage of the Project, will be made after the completion of the preliminary stage.

Under the execution of the aforementioned Shareholders' Agreement, on 29 July 2015 the Extraordinary SM of PGE EJ 1 company adopted the resolution on increasing of the share capital from the amount of PLN 205,860,000 to the amount of PLN 275,859,450, i.e. by the amount of PLN 450 through creating 496,450 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 69,999,450. Accordingly, TAURON took up 49,645 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 6,999,945, which were covered by the cash contribution in the amount of PLN 6,999,945.

On 16 October 2015, the increase in the share capital of the PGE EJ 1 sp. z o.o. company was registered in the National Court Register.

On 21 December 2016, the Extraordinary SM of PGE EJ 1 special purpose vehicle adopted the resolution on increasing of the share capital from the amount of PLN 275,859,450 to the amount of PLN 310,858,470, i.e. by the amount of PLN 34,999,020 through creating 248,220 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 34,999,020. Accordingly, TAURON took up 24,822 new shares with the nominal value of PLN 141 per share and with the total nominal value of PLN 3,499,902, which it covered by the cash contribution at a level of PLN 3,499,902.

On 15 February 2017, the increase in the share capital of the PGE EJ 1 sp. z o.o. company was registered in the National Court Register.

Coal gasification project

On 20 April 2017 TAURON Polska Energia signed a letter of intent with the Grupa Azoty S.A. company (Grupa Azoty) defining the general rules related to launching the cooperation focusing on the implementation of the coal gasification project.

The product of the technological system the letter of intent refers to is mainly the synthesis gas with the composition allowing for its direct use in the production of hydrogen, ammonia, methanol and other chemicals. The Parties recognised that the current consumption of natural gas in the industry producing nitrogen fertilisers can be partly replaced by the synthesis gas obtained as a result of coal gasification. This creates new perspectives for the mining industry, increasing the energy security of the country through the development of low-emission technology.

The project is at the prefeed (Preliminary Front End Engineering Design) stage and accompanying analyses, including market analyses are performed. Under the project, Grupa Azoty commissioned works associated with the documentation, in particular, the preliminary selection of licensors and updating the analyses. The estimated value of the Project will range from EUR 400 to 600 million, depending on the selected technological version.

The Issuer declared its participation in the implementation of the Project under the rules to be defined by the Parties in separate agreements, including, with the assumption of selection and performance of the installation ensuring maximising of the use of hard coal originating from mines belonging the Issuer's capital group. If the Issuer is unable to guarantee the relevant quantity or parameters of coal required by the installation, supplementing of supplies with coal originating from other suppliers is permissible.

The letter of intent expresses the readiness of the parties to undertake talks and defines the general framework of the cooperation and, at the current stage, it does not generate financial or management implications for individual Parties. The Parties declared the intention of cooperation and expressed the will to sign further agreements, including agreements associated with the establishment of the joint special purpose vehicle (SPV) implementing the project. The letter of intent shall be effective until 31 December 2017. Each of the Parties shall be entitled to terminate the letter of intent, under a monthly period of notice.

Capital expenditure

In the 1st quarter of 2017, the capital expenditure of TAURON Capital Group amounted to PLN 636 million and it was approx. 2.7% lower as compared to the expenditure incurred in the 1st quarter of 2016, which amounted to approx. PLN 654 million. The decline of total expenditure results mainly from lower expenditure in the Distribution and Mining Area; simultaneously, a growth in expenditure was recorded in the Generation Area.

The table below presents the selected capital expenditure incurred in the 1st quarter of 2017, the highest in terms of value, within TAURON Capital Group Business Areas:

Table no 4. Major capital expenditure incurred in the 1st quarter of 2017 within TAURON Capital Group Business Areas

Specification	Capital expenditure (PLN M)
Distribution	
Modernisation and reconstruction of existing grids	129
Construction of new connections	102
Generation	
Construction of new capacity at Elektrownia Jaworzno III (910 MW)	282
Connection of new facilities	2
Investment associated with the development and maintenance of heating networks	4
Modernisation of hydroelectric power plants	3
Mining	

Specification	Capital expenditure (PLN M)
ZG Brzeszcze investment programme	5
Construction of a 800 m level at ZG Janina	11
Construction of the "Grzegorz" shaft, including the construction of the infrastructure and the accompanying headings	2

4. Analysis of the economic and financial situation of TAURON Capital Group

4.1 Selected financial data of TAURON Polska Energia and TAURON Capital Group

Table no 5. Selected financial data of TAURON Polska Energia and TAURON Capital Group

SELECTED FINANCIAL DATA	in PLN thou.		in EUR thou.	
	2017 period from 01.01.2017 to 31.03.2017	2016 period from 1.01.2016 to 31.03. 2016 *(converted data)*	2017 period from 1.01.2017 to 31.03.2017	2016 period from 1.01.2016 to 31.03. 2016 *(converted data)*
Selected consolidated financial data of TAURON Polska Energia Capital Group				
Revenue on sales	4,589,537	4,564,505	1,070,047	1,047,890
Operating profit	773,553	457,180	180,353	104,956
Gross profit	819,107	411,595	190,974	94,491
Net profit	640,535	323,806	149,340	74,338
Net profit attributable to shareholders of the parent entity	639,830	323,245	149,176	74,209
Net profit attributable to non-controlling shares	705	561	164	129
Other total income	(15,565)	18,361	(3,629)	4,215
Total aggregate income	624,970	342,167	145,711	78,553
Total aggregate income attributable to shareholders of the parent entity	624,261	341,606	145,546	78,424
Total aggregate income attributable to non-controlling shares	709	561	165	129
Profit per share (in PLN/EUR) (basic and diluted)	0.37	0.18	0.09	0.04
Weighted average number of shares (in pcs) (basic and diluted)	1,752,549,394	1,752,549,394	1,752,549,394	1,752,549,394
Net cash flows from operating activity	875,703	465,534	204,169	106,874
Net cash flows from investment activity	(1,537,015)	(1,126,600)	(358,354)	(258,638)
Net cash flows from financial activity	452,241	555,866	105,440	127,613
Increase/(decrease) in net cash and equivalents	(209,071)	(105,200)	(48,745)	(24,151)
	Status as at 31.03.2017	**Status as at 31.12.2016**	**Status as at 31.03.2017**	**Status as at 31.12.2016**

Fixed assets	29,251,028	29,148,253	6,931,852	6,588,665
Current assets	3,965,103	4,308,641	939,642	973,924
Total Assets	33,216,131	33,456,894	7,871,494	7,562,589
Share capital	8,762,747	8,762,747	2,076,579	1,980,729
Equity attributable to shareholders of the parent entity	17,273,527	16,649,266	4,093,447	3,763,396
Equity attributable to non-controlling shares	30,761	30,052	7,290	6,793
Total equity	17,304,288	16,679,318	4,100,737	3,770,189
Long-term liabilities	12,037,860	11,968,719	2,852,708	2,705,407
Short-term liabilities	3,873,983	4,808,857	918,049	1,086,993
Total liabilities	15,911,843	16,777,576	3,770,757	3,792,400

Selected separate financial data of TAURON Polska Energia S.A.				
	in PLN thou.		**in EUR thou.**	
	2017 period from 01.01.2017 to 31.03.2017	**2016 period from 01.01.2016 to 31.03. 2016 *(converted data)***	**2017 period from 01.01.2017 to 31.03.2017**	**2016 period from 01.01.2016 to 31.03. 2016 *(converted data)***
Revenue on sales	1,908,605	1,935,419	444,990	444,321
Operating profit (loss)	193,182	(1,764)	45,040	(405)
Gross profit	323,923	40,979	75,522	9,408
Net profit	277,713	60,454	64,749	13,879
Other total income	(3,425)	20,378	(799)	4,678
Total aggregate income	274,288	80,832	63,950	18,557
Profit per share (in PLN/EUR) (basic and diluted)	0.16	0.03	0.04	0.01
Weighted average number of shares (in pcs) (basic and diluted)	1,752,549,394	1,752,549,394	1,752,549,394	1,752,549,394
Net cash flows from operating activity	315,051	(284,965)	73,454	(65,420)
Net cash flows from investment activity	(729,825)	(314,582)	(170,158)	(72,220)
Net cash flows due to financial activity	459,076	558,328	107,033	128,177
Increase/(decrease) in net cash and equivalents	44,302	(41,219)	10,329	(9,463)
	Status as at 31.03.2017	**Status as at 31.12.2016**	**Status as at 31.03.2017**	**Status as at 31.12.2016**
Fixed assets	26,320,843	25,855,329	6,237,462	5,844,333
Current assets	1,642,574	1,817,047	389,254	410,725
Total Assets	27,963,417	27,672,376	6,626,716	6,255,058
Share capital	8,762,747	8,762,747	2,076,579	1,980,729
Equity	16,804,556	16,530,268	3,982,311	3,736,498
Long-term liabilities	8,951,472	8,969,976	2,121,302	2,027,572
Short-term liabilities	2,207,389	2,172,132	523,103	490,988
Total liabilities	11,158,861	11,142,108	2,644,405	2,518,560

The above financial data were converted into EUR, cumulatively for the 1st quarter of 2017 and 2016, according to the following principles:
- individual items of the statement of financial standing - according to the average NBP exchange rate announced on 31 March 2017 - PLN/EUR 4.2198 (as at 30 December 2016 - PLN/EUR 4.4240)
- individual items of the statement of comprehensive income and the statement of cash flows - according to the exchange rate representing the arithmetic means of average NBP exchange rates announced on the last day of each month of the financial period from 01 January 2017 to 31 March 2017 - PLN/EUR 4.2891 (for the period from 01 January 2016 to 31 March 2016 - PLN/EUR 4.3559).

4.2 Key operating data of TAURON Capital Group

In the 1st quarter of 2017, TAURON Group Capital reached the following key operating parameters:

Table no 6. Key operating parameters of TAURON Capital Group

Key operating parameters	unit	Q 1 2017	Q 1 2016	Change % 2017/2016
Commercial coal production	M Mg	**1.51**	1.21	124.8%
Electricity generation (gross production)	TWh	**4.89**	4.31	113.5%
Generation of electricity from renewable sources	TWh	**0.33**	0.41	80.5%
Production from biomass	*TWh*	***0.10***	*0.20*	*50.0%*
Production of hydroelectric power plants and wind farms	*TWh*	***0.23***	*0.22*	*104.5%*
Heat generation	PJ	**5.30**	4.84	109.5%
Distribution of electricity	TWh	**13.31**	12.73	104.6%
Sales of electricity (by Sales and Generation Areas)	TWh	**11.93**	12.55	95.1%
- retail sales	*TWh*	**9.12**	*8.37*	109.0%
- wholesale	*TWh*	**2.80**	*4.18*	67.1%
Number of clients - Distribution	thou.	**5,487**	5,431	101.0%

4.3 Sales structure according to areas of operations

The table below shows the volumes and structure of sales of TAURON Capital Group, broken down into individual Segments of activity for the 1st quarter of 2017, as compared to the 1st quarter of 2016.

Table no 7. Volumes and structure of sales of TAURON Capital Group broken down into individual Segments of activity

Specification	unit	Q 1 2017	Q 1 2016	Change in % 2017/2016
Sales of coal by the Mining Segment	M Mg	**1.79**	1.22	146.7%
Sales of electricity and heat by the Generation Segment	TWh	**4.81**	3.95	121.8%
	PJ	**7.49**	6.90	108.6%
Sales of electricity distribution services by the Distribution Segment	TWh	**13.31**	12.73	104.6%
Retail sales of electricity by the Sales Segment	TWh	**9.12**	8.36	109.1%

Mining Segment

The basic activity conducted by TAURON Capital Group within the Mining Segment comprises mining, enrichment and sales of hard coal as well as sales of methane as accompanying fossil from Brzeszcze deposit.

Within TAURON Group three mines operate: ZG Sobieski, ZG Janina and ZG Brzeszcze. The Mining Plant is the producer of coal offered for sale on the market in coarse, medium coal assortments and as steam coal dust.

The volume of coal sales in the 1st quarter of 2017 amounted to 1.8 million Mg which, compared to the corresponding period of 2016, means a 47% growth and results from a higher demand on the coal market due to lower temperatures of January and February; coal production was also higher.

In the 1st quarter of 2017, 71% of the current demand of TAURON Capital Group for coal used for generation of electricity and heat was satisfied by hard coal coming from own mining plants. The remaining part of the demand was covered from external sources.

The production of commercial coal in the 1st quarter of the current year was 25% higher than in the corresponding period of the previous year, as a result of increase of mining capacity of ZG Brzeszcze and favourable distribution of extraction walls in ZG Janina.

Generation Segment

The basic activity of the Generation Segment within TAURON Capital Group comprises generation of electricity and heat in:

1) coal-fired and biomass burning power plants and combined heat and power plants,
2) hydroelectric power plants,
3) wind farms.

The total achievable capacity of the generation units of the Generation Segment at the end of March 2017 amounted to 5.0 GW of electric capacity and 2.4 GW of heat capacity.

In the 1st quarter of 2017 the Generation Segment produced 4.9 TWh of electricity, i.e. approx. 14% more in relation to the previous year (4.3 TWh), which is a consequence of a higher contracted sales YoY.

Production from RES reached 0.33 TWh, i.e. approx. 20% less in relation to the previous year (0.41 TWh), which resulted from reduction of biomass burning.

In the 1st quarter of 2017, sales of electricity from own production, including energy purchased for trading purposes, reached 4.8 TWh, which means a 22% increase in relation to the corresponding period of 2016. In relation to 2016, the volume of resale of energy purchased was higher (0.4 TWh in the 1st quarter of 2017; 0.1 TWh in the 1st quarter of 2016).

Sales of heat in the 1st quarter of 2017 amounted to 7.5 PJ, i.e. 9% more in relation to the corresponding period of the previous year, which resulted from lower external temperatures YoY and an increased consumer demand.

Distribution Segment

TAURON Capital Group is the largest electric energy distributor in Poland, both in terms of the volume of the electricity supplied and the revenue gained from distribution activity. The Distribution Segment operates distribution grids of considerable range, located in the southern part of Poland.

In the 1st quarter of 2017, the Distribution Segment supplied in total 13.3 TWh of electricity, including almost 12.6 TWh to end consumers. During this period, the Distribution Segment provided distribution services to 5.49 million consumers. In the corresponding period of the previous year, the Distribution Segment supplied, in total, approximately 12.7 TWh of electricity to about 5.43 million consumers, including 12.3 TWh to end consumers. The YoY increase in the volume of supplies to end consumers results from the GDP growth and depends on the growth of energy consumption in relation to the growth of consumers' production sold, mainly those connected to the MV grid.

Sales Segment

The Sales Segment comprises activities in the scope of electricity and gas sales and wholesale trading of electricity and other products of the energy market. The activity in the scope of sales comprises retail sales of electricity and natural gas to end clients and with the purpose of its further resale, including, to key clients.

On the other hand, operations within wholesale trading comprise mainly wholesale trading in electricity, trade and management of CO2 emission allowances, property rights arising from the certificates of electricity origin and fuel.

In the 1st quarter of 2017 companies of the Sales Segment sold the total of 9.1 TWh of electricity to approx. 5.3 million clients, both households and enterprises, i.e. 9% more than in the corresponding period of the previous year.

4.4 Financial situation of TAURON Capital Group after the third quarter of 2016

4.4.1 Analysis of financial situation

In the table below the analysis of financial situation of TAURON Capital Group for the 1st quarter of 2017 is presented, as compared to the status as at the end of 2016.

Table no 8. Structure of the interim condensed consolidated statement of financial situation

Consolidated statement of financial situation	Status as at 31 March 2017	Status as at 31 December 2016	Change % (2017 vs 2016)
ASSETS			
Fixed assets	**88.1%**	**87.1%**	101.1%
Current assets	**11.9%**	**12.9%**	92.7%
TOTAL ASSETS	**100.0%**	**100.0%**	
LIABILITIES			
Equity attributable to shareholders of the parent entity	52.0%	49.8%	104.1%
Non-controlling shares	0.093%	0.090%	102.7%
Total equity	**52.1%**	**49.9%**	104.5%
Long-term liabilities	36.2%	35.8%	101.3%
Short-term liabilities	11.7%	14.4%	81.1%
Total liabilities	**47.9%**	**50.1%**	95.5%
TOTAL LIABILITIES	**100.0%**	**100.0%**	
Financial liabilities	9,498,834	8,138,502	116.7%
Net financial liabilities	8,436,287	7,730,259	109.1%
Net debt/EBITDA ratio	2.31	2.32	99.8%
Current liquidity ratio	1.02	0.89	114.3%

In the structure of assets as at 31 March 2017, fixed assets constitute 88% of total assets, which means a change by 1% in relation to the status as at the end of 2016.

The share of current assets as at 31 March 2017 decreased to the level of 12% of total assets.

In the structure of liabilities as at 31 March 2017, liabilities make 48% of total liabilities, including 36% of long-term liabilities and 12% of short-term liabilities in the balance sheet total, which means a change in the structure of debt in relation to the end of 2016 when the share of liabilities amounted to 36% and 14%, respectively.

In relation to 2016, in the 1st quarter of 2017 a growth of net financial liabilities by 7% occurred, which did not translate directly into the net debt/EBITDA ratio due to the good EBITDA result generated in the 1st quarter of 2017, triggering a higher rolled EBITDA result calculated against the quarterly ratio.

The current liquidity ratio increased to the level of 1.02. The liquidity of the Company is not at risk - the indicators are maintained at a high, safe level.

Consolidated statement of comprehensive income

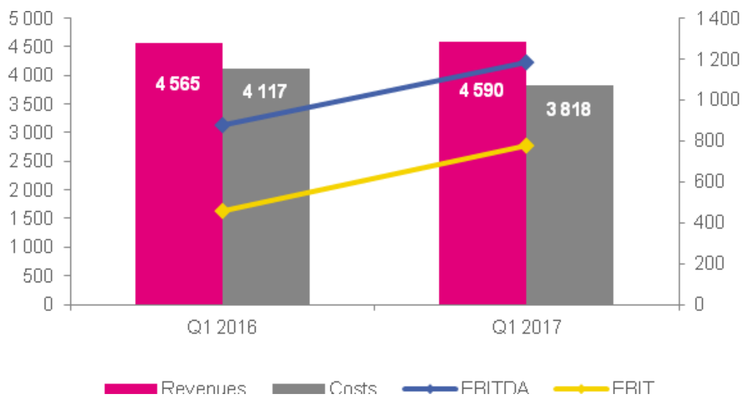
The table below presents selected items of the consolidated statement of comprehensive income of TAURON Capital Group for the period of 3 months, ended on 31 March 2017, as well as comparative data for the period of 3 months ended on 31 March 2016. These items are provided in accordance with the interim condensed consolidated financial statements of TAURON Capital Group, compliant with the International Financial Reporting Standards approved by the European Union for the period of 3 months ended on 31 March 2017.

Table no 9. Condensed interim consolidated statement of comprehensive income

Specification (PLN thous.)	Q 1 2017 (unaudited)	Q 1 2016 (unaudited)	Change % (2017 vs. 2016)
Revenue on sales	**4,589,537**	**4,564,505**	100.5%
Own cost of sales	(3,818,244)	(4,117,031)	92.7%
Other operating revenues and costs	2,260	9,706	23.3%
Operating profit (loss)	**773,553**	**457,180**	169.2%
Operating profit margin (%)	***16.9%***	***10.0%***	*168.3%*
Share in the profit of joint projects	37,241	23,035	161.7%
Interest costs of debt	(50,073)	(72,739)	68.8%
Other financial revenues and costs	58,386	4,119	1,417.5%
Gross profit (loss)	**819,107**	**411,595**	199.0%
Gross profit margin (%)	**17.8%**	**9.0%**	197.9%
Income Tax	(178,572)	(87,789)	203.4%
Net profit (loss) for the period	**640,535**	**323,806**	197.8%
Net profit margin (%)	**14.0%**	**7.1%**	196.7%
Total income for the period	**624,970**	**342,167**	182.7%
Profit attributable to:			
Shareholders of the parent entity	**639,830**	**323,245**	**197.9%**
Non-controlling shares	705	561	125.7%
EBIT and EBITDA			
EBIT	**773,553**	**457,180**	169.2%
EBITDA	**1,185,241**	**874,111**	**135.6%**

The figure below shows the financial results of TAURON Capital Group for the 1st quarter of 2017, as compared to the corresponding period of 2016.

Figure no. 4. Financial results of TAURON Capital Group for the 1st quarter of 2016 and 2017



In the first quarter of 2017 TAURON Capital Group generated revenue at a level comparable to the results reported for the first quarter of 2016 (growth of 0.5%). The major factors affecting the level of the revenue gained include:

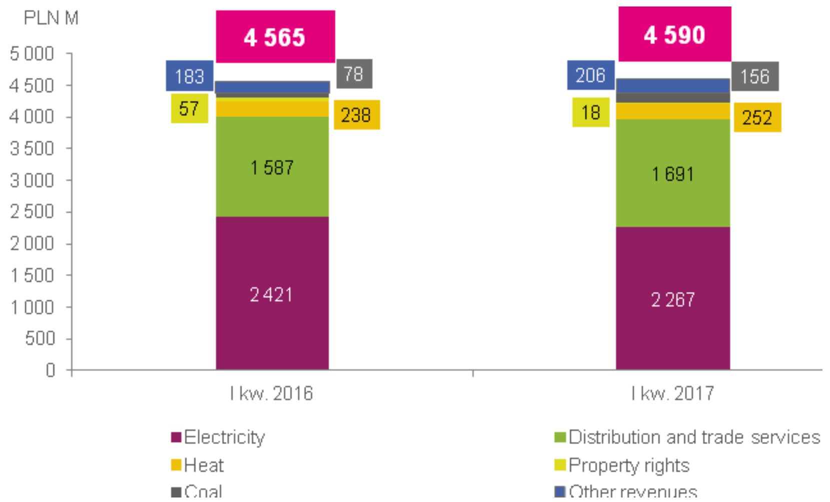
1. growth of revenue on sales of distribution services due to the growth in the volume of distribution

service sales (by 5%) and the rate for the distribution services provided to end consumers (by 6%),

2. growth of revenue on sales of coal, due to the growth of coal sales volume (by 25%) - a higher consumer demand,
3. growth of revenue on sales of heat and transmission services due to lower temperatures in the 1st quarter of the current year, as compared to the 1st quarter of 2016,
4. decline in revenue on electricity sold, due to a lower volume of energy wholesale, lower sales prices of energy and lower revenues from ORM - as a consequence of higher contracted sales than a year ago,
5. decline in revenue on sales of property rights of electricity origin, mainly due to a significant decline in PM OZE (PR RES) market prices.

The figure below shows the structure of revenue of TAURON Capital Group for the 1st quarter of 2017 as compared to the 1st quarter of 2016.

Figure no 5. Structure of revenue of TAURON Capital Group for the 1st quarter of 2016 and 2017.



In the first quarter of 2017 costs of operations of TAURON Capital Group amounted to PLN 3.8 billion, which means that their level was 7.3% lower than the costs incurred in the first quarter of 2016. The main reasons of lower costs included a lower value of goods and materials sold, mainly as a result of a lower volume of energy purchase outside the Group and lower prices of electricity purchase as well as lower costs of redemption of energy certificates of origin and electricity consumption for the balancing difference.
On the other hand, the growth in costs referred to distribution services - a higher volume of transmission service purchase in connection with the achievement of a higher volume of supplies and other external services.

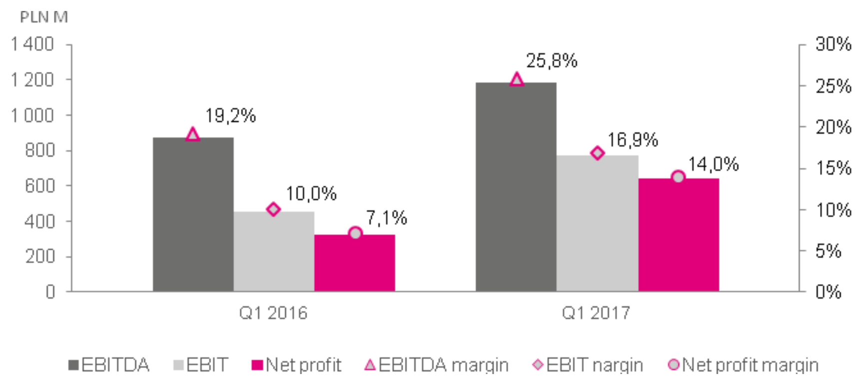
The EBITDA margin reached in the first quarter of 2017 reached 25.8% and was lower by 6.6 percentage points as compared to the corresponding period of the previous year. The levels of EBIT margin and net profit margin were also higher than a year ago, amounting to 16.9% and 14.0%, respectively.

In accordance with the presented consolidated statement of comprehensive income, the total comprehensive income of TAURON Capital Group, including the net profit increased or decreased by the change in value of hedging instruments, currency translation differences arising from conversion of a foreign entity and other revenues after tax, amounted to PLN 625 million in the 1st quarter of 2017, as compared to PLN 342 million generated in the corresponding period of 2016.

The total income attributable to shareholders of the parent entity reached PLN 624 million, as compared to PLN 342 million gained a year ago, and the net profit attributable to shareholders of the parent entity reached PLN 640 million, as compared to PLN 323 million gained in the same period of the previous year.

The figure below shows the financial results of TAURON Capital Group and the level of margins accomplished in the first quarter of 2017 as compared to the first quarter of 2016.

Figure no 6. Financial results of TAURON Capital Group and the level of accomplished margins



4.4.2 Financial results according to areas of operations

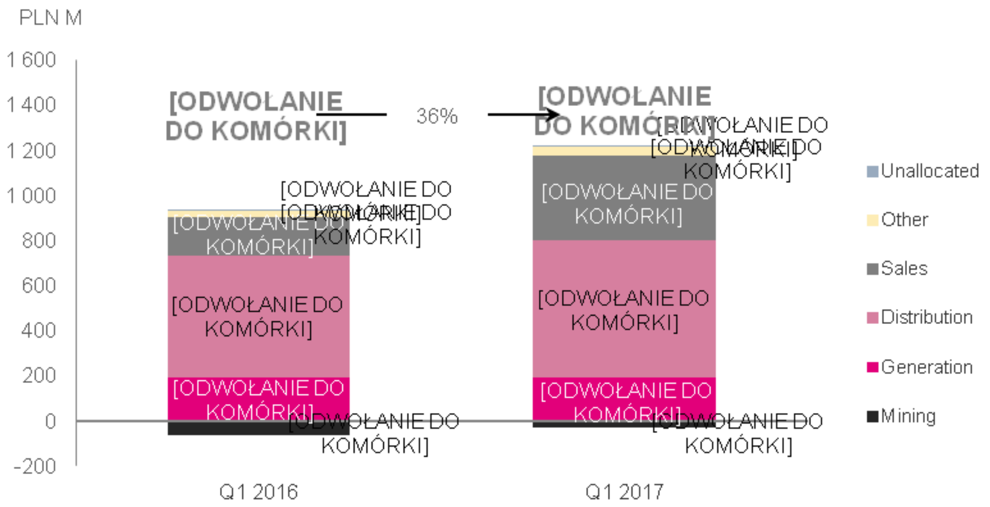
The table below shows EBITDA results of TAURON Capital Group, broken down into individual Segments of operations for the period of the 1st quarter of 2017, as compared to the corresponding period of 2016. The data for individual areas do not include consolidation exclusions.

Table no 10 EBITDA of TAURON Capital Group according to Segments of operations

EBITDA (PLN thous.)	Q 1 2017	Q 1 2016	Change % 2017 vs 2016
Mining	**(29,453)**	(64,758)	45.5%
Generation	**190,666**	191,149	99.7%
Distribution	**607,011**	543,259	111.7%
Sales	**379,971**	167,960	226.2%
Other	**35,726**	30,486	117.2%
Unallocated items and exemptions	1,320	6,015	21.9%
Total EBITDA	**1,185,241**	**874,111**	135.6%

The figure below shows the EBITDA structure of TAURON Capital Group for the 1st quarter of 2016 and 2017.

Figure no. 7. EBITDA structure of TAURON Capital Group



The Distribution Segment and the Sales Segment have the highest share in EBITDA of TAURON Capital Group.

Mining Segment

The table below shows the results of the Mining Segment.

Table no 11. Results of Mining Segment

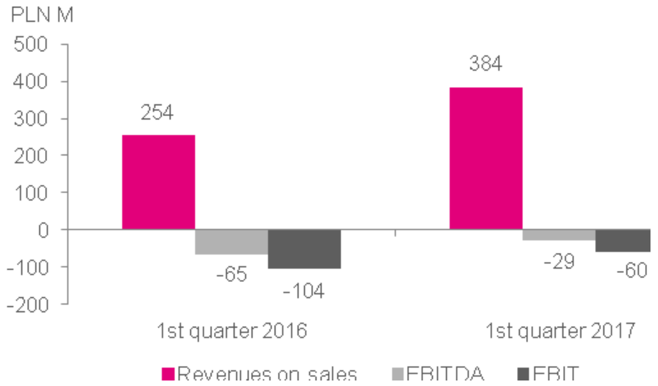
Specification (PLN thous.)	Q 1 2017	Q 1 2016	Change % 2017 vs 2016
Mining			
Revenue on sales	**384,093**	**254,154**	**151.1%**
coal - coarse and medium assortments	*112,775*	*64,384*	*175.2%*
steam coal	*248,349*	*169,261*	*146.7%*
other products, materials and services	*22,969*	*20,509*	*112.0%*
EBIT	**(59,645)**	**(103,507)**	**57.6%**
Depreciation and write-downs	30,192	38,749	77.9%
EBITDA	**(29,453)**	**(64,758)**	**45.5%**

The operating results, EBIT and EBITDA of the Mining Segment in the 1st quarter of 2017 reached a higher level than in the corresponding period of 2016. The following factors affected the level of results obtained:

1) sales of the volume of each assortment higher, on average, by 46.5%,
2) average price of assortments sold higher by 3.7%,
3) unit cost of commercial coal production lower by 24.8% as a result of a higher cost of coal mining and production in connection with higher costs of mining services,
4) sales of a significant part of coal from reserves in the 1st quarter of 2017, which resulted in recognising the value of coal reserves in own cost in this period. In the 1st quarter of 2016, sales of commercial coal were comparable to the volume of coal produced, whereas the surplus of sales over the production of the 1st quarter of 2017 reached 276 thousand Mg.

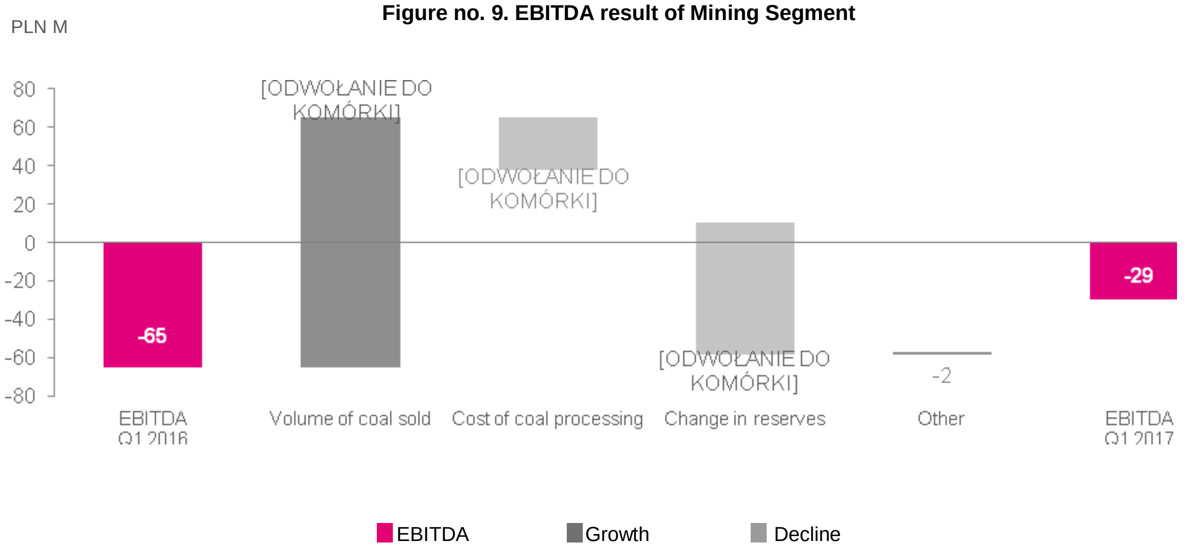
The figure below shows the financial data of the Mining Segment for the 1st quarter of 2017 as compared to the 1st quarter of 2016.

Figure no 8. Financial data of the Mining Segment for the 1st quarter of 2016 and 2017.



The figure below shows the EBITDA result of the Mining Segment, including the significant factors affecting the YoY change.

Figure no. 9. EBITDA result of Mining Segment



Generation Segment

The table below shows the results of the Generation Segment.

Table no 12. Results of the Generation Segment

Specification (PLN thous.)	Q 1 2017	Q 1 2016	Change % 2017 vs 2016
Generation			
Revenue on sales	**1,219,157**	**1,271,824**	**95.9%**
electricity	*838,213*	*779,090*	*107.6%*
heat (including heat transmission)	*327,985*	*308,138*	*106.4%*
property rights arising from certificates of electricity origin	*37,163*	*171,907*	*21.6%*
other	*15,796*	*12,689*	*124.5%*
EBIT	**92,258**	**89,222**	**103.4%**
Depreciation and write-downs	98,408	101,927	96.5%
EBITDA	**190,666**	**191,149**	**99.7%**

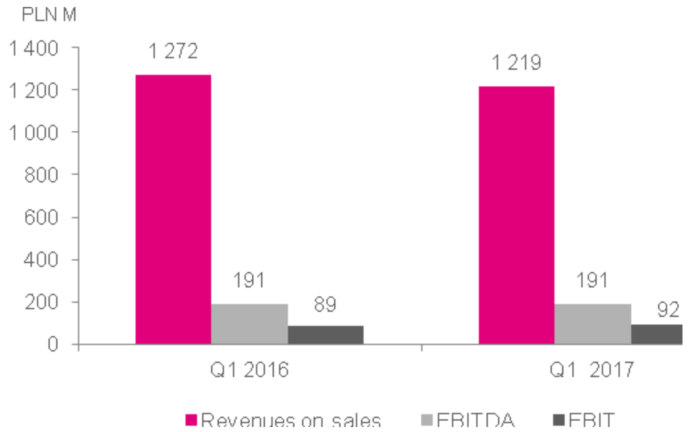
In the 1st quarter of 2017, the revenues on sales in the Generation Segment were lower by 4% as compared to the corresponding period of the previous year, mainly due to lower revenues on sales of property rights to electricity certificates of origin (lower sales volume and price of PM OZE).

EBITDA and EBIT results of the Generation Segment for the 1st quarter of 2017 reached a level similar to the corresponding period of last year. The following factors affected the level of achieved results:

1) lower margin on electricity, mainly due to a lower energy sales price YoY,
2) lower price of property rights from RES - the effect of PM OZE oversupply on the market,
3) higher margin on heat - a higher volume of sales of heat and transmission services (effect of a lower external temperature (1st quarter of 2016: 2.2˚C, 1st quarter of 2017: 0.6˚C)) and a higher rate for transmission services,
4) higher costs of CO_2 reserve - a result of a higher deficit of free CO_2 emission allowances in relation to CO_2 emission YoY (resulting mainly from recognising a higher amount of free allowances in the settlement) and lower costs of term CO_2 contracting YoY,
5) lower result on other operating activity (lower revenue on received compensations and higher costs of electrical damages YoY).

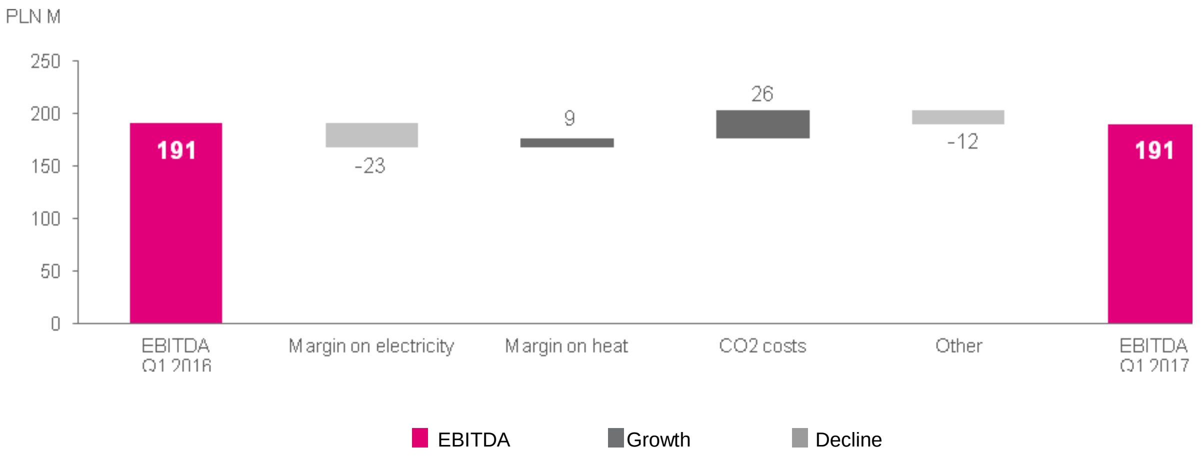
The figure below shows the financial data of the Generation Segment for the 1st quarter of 2017 as compared to the 1st quarter of 2016.

Figure no 10. Financial data of the Generation Segment for the 1st quarter of 2016 and 2017.



The figure below shows the EBITDA result of the Generation Segment, including significant factors influencing the YoY change.

Figure no. 11. EBITDA result of the Generation Segment



Distribution Segment

The table below shows the results of the Distribution Segment.

Table no 13. Results of the Distribution Segment

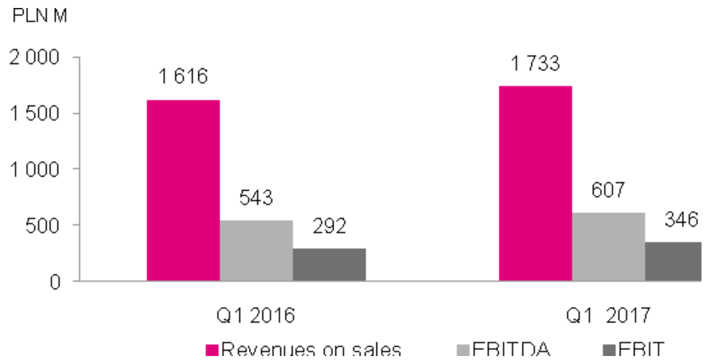
Specification (PLN thous.)	Q 1 2017	Q 1 2016	Change % 2017 vs 2016
Distribution			
Revenues on sales	**1,733,421**	**1,616,387**	**107.2%**
distribution services	*1,671,308*	1,527,295	*109.4%*
connection fees	*23,999*	21,743	*110.4%*
maintenance of street lightning	*28,448*	28,150	*101.1%*
other services	*9,667*	39,199	*24.7%*
EBIT	**345,611**	**291,592**	**118.5%**
Depreciation and write-downs	261,400	251,667	103.9%
EBITDA	**607,011**	**543,259**	**111.7%**

In the 1st quarter of 2017, as compared to the corresponding period of 2016, the Distribution Segment recorded a growth in revenues by 7%, whereas the growth of results at the EBIT and EBITDA level reached 19% and 12%, respectively. The following factors affected the level of achieved results:

1) growth of the average rate of distribution service sales to end consumers in each tariff group, mainly due to the carrying forward of the increasing transitional fee and RES fee,
2) growth of supplies to industrial consumers as a result of GDP and production growth, in particular, among consumers in B group; a decline in supplies to consumers in A group as a result of difficulties in the mining and metallurgical sector and due to the growth in consumers' own generation,
3) growth in revenues from connecting fees and revenues due to elimination of collisions as a result of an earlier implementation of the investment,
4) increase in costs of transmission services purchase due to a significant growth of the transitional fee rate and recognising the RES fee which did not occur in the 1st quarter of 2016 (the fees are carried forward in the tariff for 2017),
5) decline in the balancing difference ratio as a result of the specific spread of energy injected and released from the DSO grid, where recognising of the estimated level of sales to LV consumers took place in the scope of expenses, higher than those consumers' energy consumption (visible on the revenue side in the energy balance); the factor is of transitional nature and will be subject to settlement while acquiring measurement data concerning the actual consumption by individual consumers,
6) decline in the price of balancing of energy losses, as the resultant of prices of energy purchase and resale in the Group,
7) growth in costs of tax on grid assets arising from the increase in the value of assets as a result of performed investment,
8) minor growth in fixed costs, in particular, costs of renovation services,
9) growth of result on street lighting arising from a lower failure rate of road lighting due to modernisation works performed in the previous years and resulting from the growth in the scope of services and updating the rate of concluded agreements for making infrastructure available.

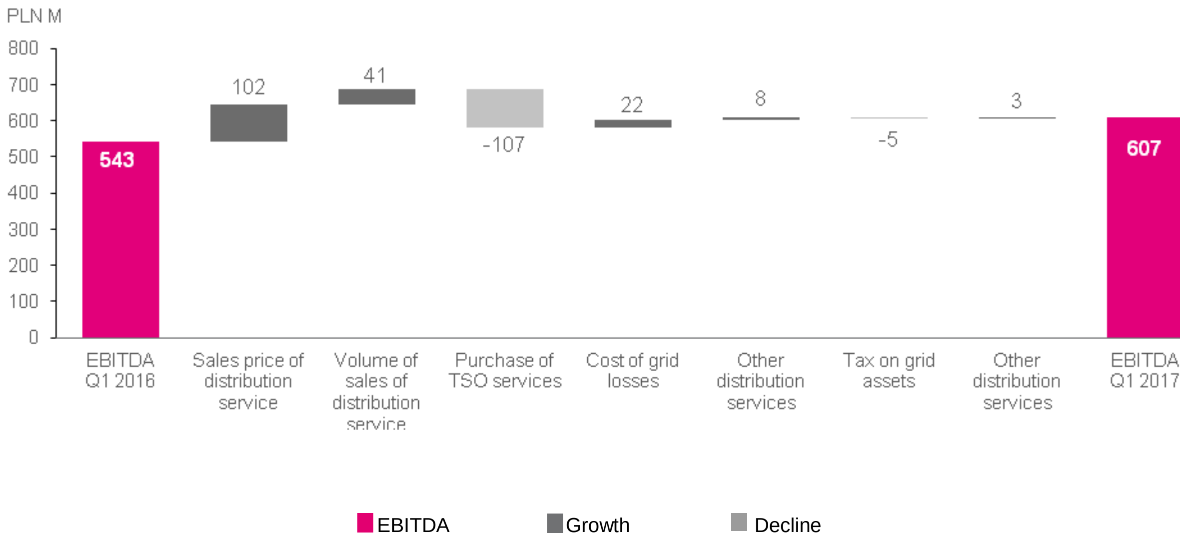
The figure below shows the financial data of the Distribution Segment for the 1st quarter of 2017 as compared to the 1st quarter of 2016.

Figure no 12. Financial data of the Distribution Segment for the 1st quarter of 2016 and 2017.



The figure below presents the EBITDA result of the Distribution Segment, including significant factors influencing the YoY change.

Figure no. 1. EBITDA result of the Distribution Segment



Sales Segment

The table below shows results of the Sales Segment.

Table no. 14. Results of the Sales Segment

Specification (PLN thous.)	Q 1 2017	Q 1 2016	Change % 2017 vs 2016
Sales			
Revenues on sales	**3,617,437**	**3,508,658**	**103.1%**
electricity, including:	2,330,412	2,260,268	103.1%
revenues from retail sales of electricity	*1,997,168*	*1,862,991*	*107.2%*
greenhouse gas emission allowances	495	10,758	4.6%
fuel	379,814	390,148	97.4%
distribution service (transferred)	882,542	833,131	105.9%
other services, including commercial services	24,174	12,822	168.4%
EBIT	**377,274**	**161,419**	**233.7%**
Depreciation and write-downs	(2,697)	(6,541)	41.2%
EBITDA	**379,971**	**167,960**	**226.2%**

In the 1st quarter of 2017 revenues on sales in the Sales Segment were higher by 3.1% as compared to the corresponding period of the previous year, mainly as a result of higher revenues on sales of electricity (a higher sales volume) and higher revenues on sales of fuel, with the simultaneous decline in revenues on sales of greenhouse gas emission allowances.

EBITDA and EBIT results of the Sales Segment in the 1st quarter of 2017 reached a level significantly higher than in the corresponding period of 2016, which was mainly influenced by the reversal of the provision for ECSW and creating the provisions for PR. The following factors affected the level of results achieved:

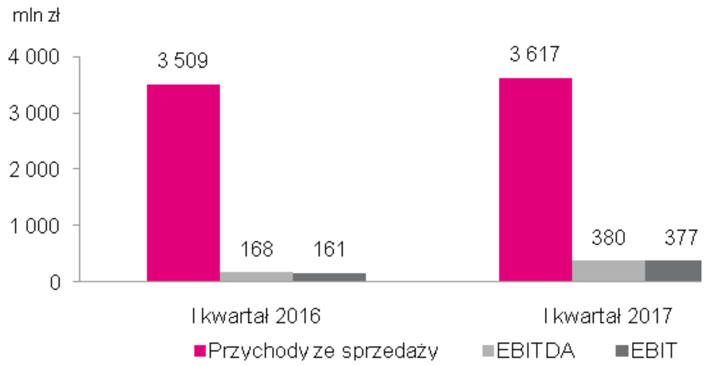
1) volume and prices of energy - a positive impact on the result is caused by a higher volume of total electricity sales by 0.4 TWh YoY (from 10.8 TWh to 11.2 TWh, including a growth of retail sales by

o 0.7 TWh and a decline of wholesale by 0.3 TWh), with the simultaneous decline in sales prices to business clients in connection with low market prices of PMOZE and the reduction of G tariff in TS by 5% YoY. The price was also affected by a high share of sales of exchange-traded products, where the sales price depends on the level of conventional energy quotations on TGE.

2) prices of property rights - positive impact on the result through taking advantage of the favourable market situation, mainly in the scope of "green" certificates (execution of the PMOZE purchase at lower prices) and the simultaneous change of regulations in the scope of PR calculation related to energy efficiency,
3) obligation to redeem property rights - adverse impact on the result as a consequence of growth in the level of the obligation for "green" certificates from 15% to 15.4%, for "violet" certificates from 1.5% to 1.8%, for "green" certificates from 6.0% to 7.0% and maintaining of the obligation to redeem certificates from co-generation for "red" certificates at a level of 23.2%, as well as introduction of the obligation for PMOZE_BIO (so-called "blue" property rights) at a level of 0.65%,
4) reversal of the provision for agreements giving rise to liabilities with the joint venture (ECSW) affected the increase in the financial result of the Sales Segment by PLN 190 million, as a consequence of entry into force of the Agreement concluded between TAURON and PGNiG in the scope of gas and electricity agreements and annexes to multiannual agreements for sales of gas and electricity related to the project on construction of the CCGT unit in Stalowa Wola.
5) other - in connection with the negative result on other operating activity and higher fixed costs.

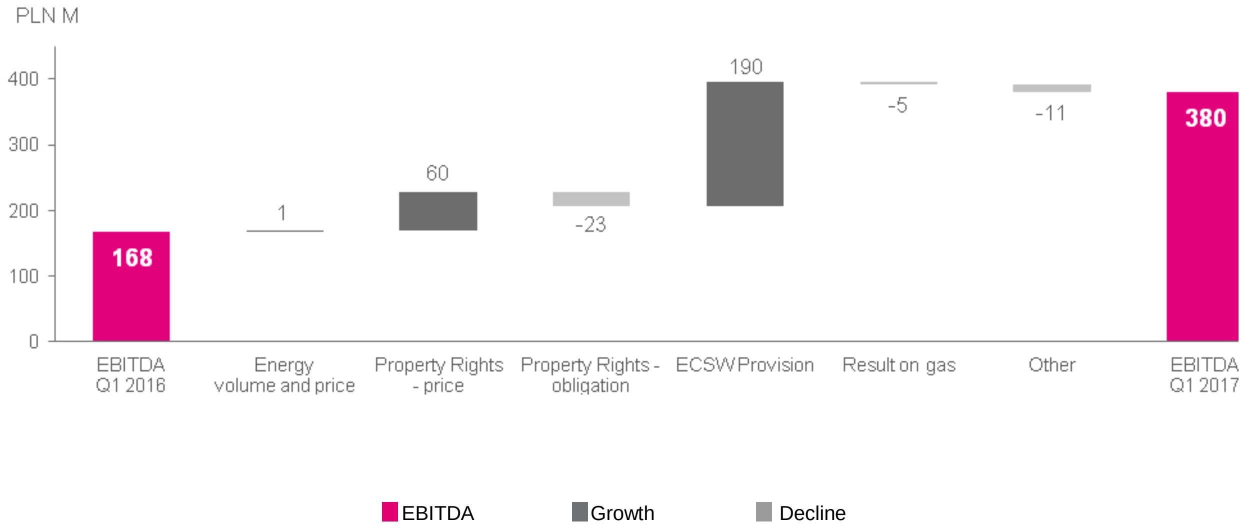
The figure below shows the financial data of the Sales Segment for the 1st quarter of 2017 as compared to the 1st quarter of 2016.

Figure no. 12. Financial data of the Sales Segment for the 1st quarter of 2016 and 2017.



The figure below shows the EBITDA result of the Sales Segment, including significant factors influencing the YoY change.

Figure no. 13. EBITDA result of the Sales Segment



Other Segment

The table below shows the results of Other Segment.

Table no 15. Results of Other Segment

Specification (PLN thous.)	Q 1 2017	Q 1 2016	Change % 2017 vs 2016
Other			
Revenues on sales	**194,781**	217,442	**89.6%**
customer service, accounting and IT services	*140,431*	134,480	*95.8%*
electricity and property rights arising from certificates of electricity origin	*3,572*	3,586	*99.6%*
biomass	*20,805*	46,810	*44.4%*
aggregates	*21,512*	20,360	*105.7%*
other revenues	*14,412*	6,255	*230.4%*
EBIT	**16,735**	12,439	**134.5%**
Depreciation and write-downs	18,991	18,047	105.2%
EBITDA	**35,726**	30,486	**117.2%**

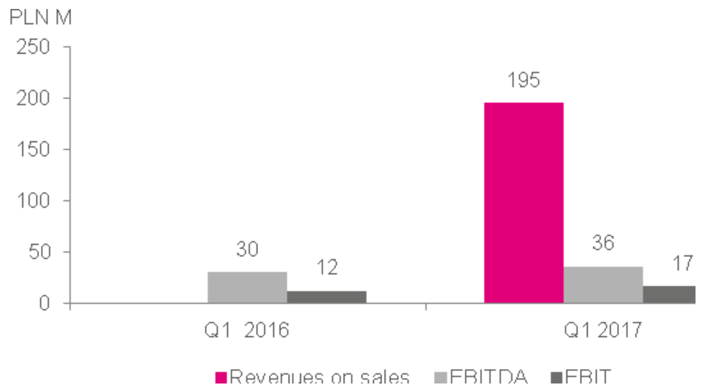
Revenues on sales of the Other Segment in the 1st quarter of 2017 were 10% lower than in the corresponding period of the previous year, mainly due to lower sales of biomass and lower revenues on activity carried out by TAURON Obsługa Klienta (CUW services).

Higher results of the Other Segment YoY arise from the following events:

- obtaining a higher margin on sales of stone assortments,
- lower costs of operation of companies in the Segment,
- decline in turnover on sales of electricity and property rights, which reduced the accomplished negative margin.

The figure below shows the financial data of the Other Segment for the 1st quarter of 2017 as compared to the 1st quarter of 2016.

Figure no. 16. Financial data of the Other Segment for the 1st quarter of 2016 and 2017.



4.4.3 Economic situation

In the table below, the consolidated statement of financial standing as at 31 March 2017, as compared to 31 December 2016, is presented.

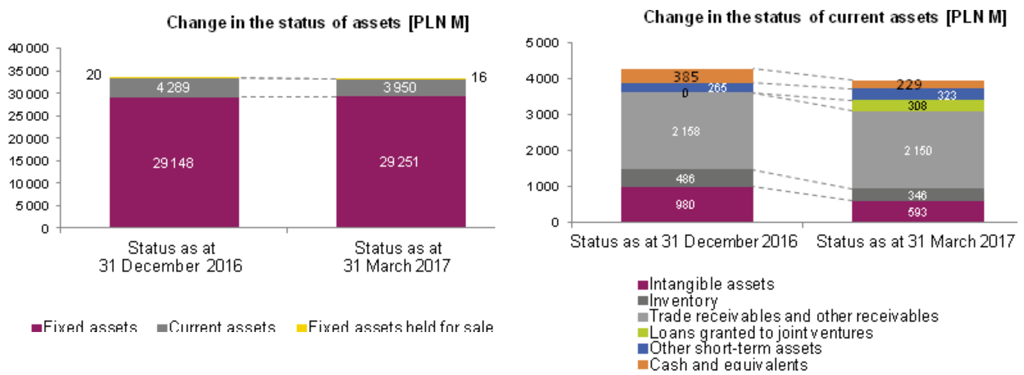
Table no 16. Consolidated condensed statement of financial standing - assets (significant items)

Consolidated statement of financial situation (in PLN thous.)	Status as at 31 March 2017	Status as at 31 December 2016	Change % (2017 vs. 2016)
ASSETS			
Fixed assets	**29,251,028**	**29,148,253**	**100.4%**
Tangible fixed assets	26,577,498	26,355,189	100.8%
Current assets	**3,965,103**	**4,308,641**	**92.0%**
Cash and equivalents	229,386	384,881	59.6%
Fixed assets and assets of the Group for disposal, classified as held for trade	15,552	19,612	79.3%
TOTAL ASSETS	**33,216,131**	**33,456,894**	**99.3%**

As at 31 March 2017 the statement of financial situation of TAURON Capital Group recognises balance sheet total lower by o 0.7%, as compared to 31 December 2016.

The figure below shows the change in the status of assets and current assets as at 31 March 2017, as compared to 31 December 2016.

Figure no. 17. Change in the status of assets and current assets



Fixed assets constitute the major item of assets as at the end of September 2016, with the share of 88% of the balance sheet total. As compared to the status as at the end of the previous year, the value of fixed assets is higher by PLN 103 million (0.4%), as a result of changes in the analytical items of fixed assets specified below:

1) tangible fixed assets – a growth by 1% as a result of ongoing investments, implemented in the companies of TAURON Capital Group,
2) certificates of energy origin and gases emission rights for redemption - a decline by 90% in connection with re-classification, mainly of CO_2 emission allowances, to current assets in order to fulfil the obligation related to the aforementioned assets,
3) value of stocks and shares in joint ventures – a growth by 6% arising mainly from the share of TAURON Capital Group in the profit generated by TAMEH HOLDING in 2016,
4) other long-term non-financial assets - a decline by approx. 6% as a result of settlement of the advance payment for tangible fixed assets under construction and intangible assets,
5) assets due to deferred income tax - a decline by 14% as a result of calculated deferred tax.

The following factors had an impact on the decline in the value of current assets by PLN 344 million (8%):

1) energy certificates of origin and CO_2emission rights - a decline by 39%, which is caused by the settlement of the redemption obligation for 2016 and a growth of their status in connection with production and acquisition of property rights and CO_2 emission allowances in view of the redemption obligation of the current year,
2) inventory - a decline by 29% as a result of sales of coal from dumps in connection with the growth in demand for coal fuel from the market and a higher production of electricity and heat by the generation units of the Generation Segment,
3) loans granted in favour of joint ventures – over 20-fold growth is associated with the loan granted by TAURON Polska Energia S.A. to Elektrociepłownia Stalowa Wola S.A. for an earlier repayment of claims arising from loan agreements concluded for the construction of the power and heat unit in Stalowa Wola by the borrower,
4) other financial assets - a growth by 51% as a result of growth mainly in refundable variation margins and initial margins related to futures contracts,
5) other non-financial assets - a growth by 10%, mainly as a result of growth in assets related to the preparation of production in coal mines and cyclical creation of write-downs for the Company Social Benefits Fund. The growth of this item is partly reduced by the settlement of advance payments on account of deliveries,
6) status of cash and equivalents - a decline by 40%. The reasons of the change were described in item 4.4.4. hereof related to cash flow account.

In the table below, the consolidated statement of financial standing - liabilities, is presented.

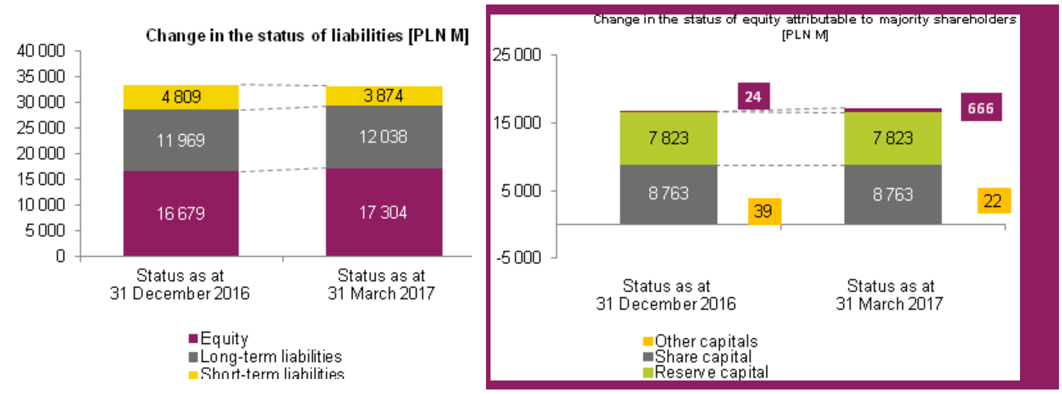
Table no 17. Consolidated condensed statement of financial standing - liabilities (significant items)

Consolidated statement of financial situation (in PLN thous.)	Status as at 31 March 2017	Status as at 31 December 2016	Change % (2017 vs. 2016)
LIABILITIES			
Equity attributable to shareholders of the parent entity	17,273,527	16,649,266	103.7%
Non-controlling shares	30,761	30,052	102.4%
Total equity	**17,304,288**	**16,679,318**	**103.7%**
Long-term liabilities	**12,037,860**	**11,968,719**	**100.6%**
Liabilities due to debt	8,850,672	8,759,789	101.0%
Short-term liabilities	**3,873,983**	**4,808,857**	**80.6%**

Consolidated statement of financial situation (in PLN thous.)	Status as at 31 March 2017	Status as at 31 December 2016	Change % (2017 vs. 2016)
Liabilities due to debt	648,162	219,740	295.0%
Total liabilities	**15,911,843**	**16,777,576**	**94.8%**
TOTAL LIABILITIES	**33,216,131**	**33,456,894**	**99.3%**

The figure below shows the change in the status of liabilities and equity as at 31 March 2017 and 31 December 2016.

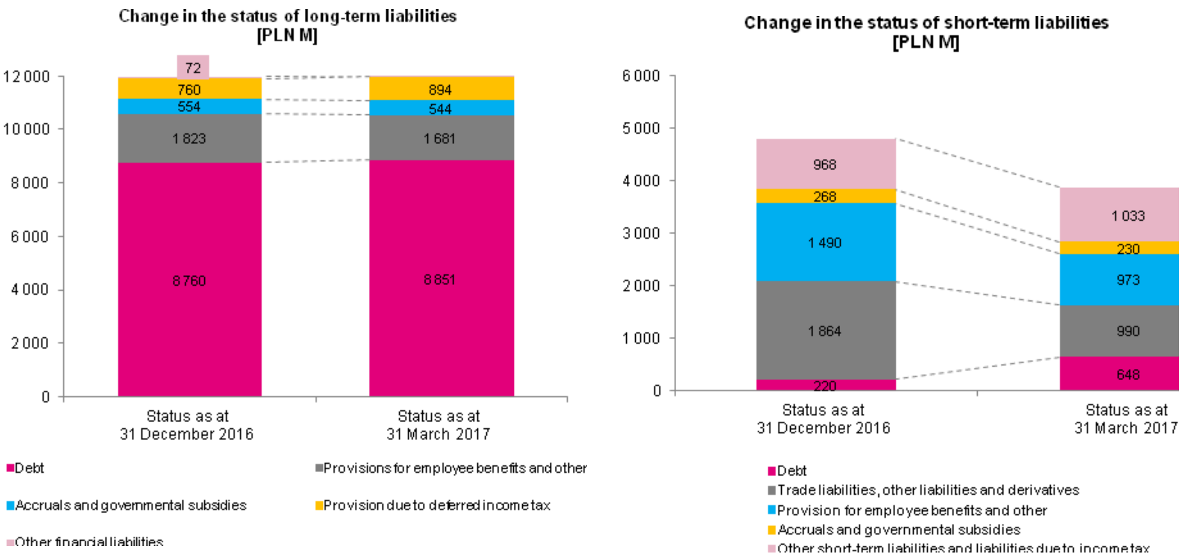
Figure no. 18. Change in the status of liabilities and equity



Similar to previous years, the equity is still the dominating source of financing of the assets, and its share in the balance sheet total increased to 52%.

The figure below shows the change in the status of liabilities as at 31 March 2017 and 31 December 2016.

Figure no. 19. Change in the status of liabilities



In the 1st quarter of 2017, the value of long-term liabilities of TAURON Capital Group increased by PLN 69 million (1%), which resulted from the following factors:

1) provisions - a decline by 8% as a result of reversal of the provision for agreements with a joint venture giving rise to liabilities,
2) liabilities due to deferred tax - a growth by 18%.

The value of short-term liabilities of TAURON Capital Group decreased by PLN 935 million (19%), which resulted from the following factors:

1) liabilities due to indebtedness - a growth by 195% as a result of raising new financing in the 1st quarter of 2017,
2) investment liabilities - a decline by 79% and liabilities towards suppliers - a decline by 7%,
3) provisions - a decline by 35%, which is the resultant of using the provision created in 2016 on account of the fulfilment of the obligation to submit electricity certificates of origin for redemption, arising from the provisions of the Act of 10 April 1997 - Energy Law and CO_2 emission allowances as well as creating of the provision on account of fulfilment of the obligations described above,
4) prepayments - a decline by 14%, which results from periodically created settlements for employee benefits,
5) liabilities due to taxes and fees - a growth by 13%, which results from higher liabilities due to value added taxes.

4.4.4 Cash Flows

Consolidated statement of cash flows

In the table below, selected information from the condensed interim statement of cash flows is presented for a period of three months of 2017, in relation to the corresponding period of 2016.

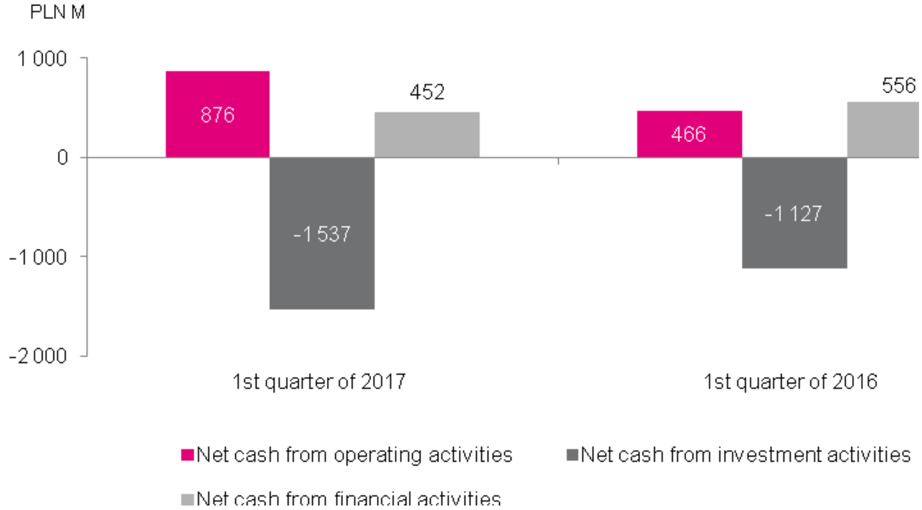
Table no 18. Condensed interim statement of cash flows (data in PLN thousand)

Statement of cash flows (data in PLN thousand)	Q 1 2017	Q 1 2016	Change % (2017 vs. 2016)
Cash flows from operating activities			
Gross profit / (loss)	819,107	411,595	199.0%
Adjustments	56,596	53,939	104.9%
Net cash from operating activities	**875,703**	**465,534**	**188.1%**
Cash flows from investment activities			
Sales of tangible fixed assets and intangible assets	10,092	5,442	185.4%
Purchase of tangible fixed assets and intangible assets	(1,251,411)	(993,936)	125.9%
Loans granted	(292,742)	(6,000)	4,879.0%
Net cash from investment activity	**(1,537,015)**	**(1,126,600)**	**136.4%**
Cash flows from financial activities			
Issue of debt securities	500,000	2,860,000	17.5%
Redemption of debt securities	0	(2,250,000)	0.0%
Repayment of loans/credits	(22,462)	(22,323)	100.6%
Interest paid	(12,677)	(25,165)	50.4%
Net cash from financial activity	**452,241**	**555,866**	**81.4%**
Increase/(decrease) in net cash and cash equivalents	**(209,071)**	**(105,200)**	**198.7%**
Cash opening balance	**354,733**	**327,715**	**108.2%**
Cash closing balance	**145,662**	**222,515**	**65.5%**

The sum of all cash streams of net flows of cash from operating, investment and financial activities in the 1st quarter of 2017 was a negative value and amounted to PLN (209.1) million.

The figure below presents cash flows in the period of the 1st quarter of 2017 and 2016.

Figure no. 20. Cash flows in the 1st quarter of 2017 and 2016



The value of cash flows on operating activities accomplished in the reporting period was higher by 88% than the cash stream acquired in the corresponding period of the previous year. The following factors had the most noticeable impact on the change in this item of cash flow account:

1) positive change in the status of inventory as a result of a higher coal sales, which is associated with the growth in demand for the coal extracted PLN +124 million,
2) payment of income tax lower by PLN 177 million, which resulted from advance payments for income tax made by the Tax Capital Group in the 1st quarter of 2017 in the amount of PLN 39 million, whereas in the 1st quarter of 2016 the Group made advance payments for income tax in the amount of PLN 127 million and paid income tax for 2015 in the amount of PLN 85 million,
3) positive change in the balance of receivables and liabilities at a level of PLN +20 million.

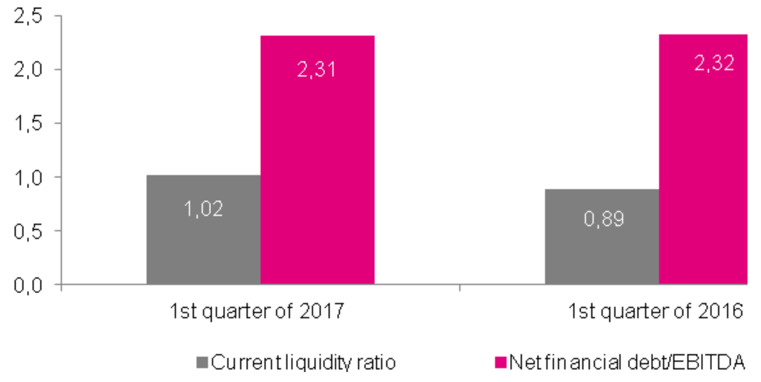
Expenditures due to the purchase of tangible fixed assets represented the factor of the highest impact on the developments of the cash stream of investment nature, which were higher by 26% in the reporting period than the expenditures incurred in the corresponding period of 2016. In the current period, the highest expenditures were incurred by the Generation and Distribution Segments. In addition, in the 1st quarter of 2017, TAURON Group granted loans to Elektrociepłownia Stalowa Wola S.A. for an earlier repayment of claims arising from loan agreements concluded for the construction of the power and heat unit in Stalowa Wola by the borrower.

The positive value of cash of financial nature results from the issue of bonds conducted in the 1st quarter of 2017, with the nominal value of PLN 500 million. In addition, TAURON Capital Group repaid instalments of loans at a level of PLN 22 million, including interest on loans drawn and bonds issued in the amount of PLN 12 million.

Irrespective of the negative value of cash flows it can be stated that TAURON Group continues the development process and keeps strengthening its market position. It should be noted that the value of operating flows shows a positive balance, consequently enabling TAURON Capital Group to finance its current operations independently. In the analysed period, TAURON Capital Group did not incur any external financial resources. The ratio of current liquidity and the net debt to EBITDA ratio remain at a safe level.

The figure below presents cash flow and debt ratio in the 1st quarter of 2017 and 2016.

Figure no. 21. Liquidity and debt ratios



TAURON Capital Group effectively manages its financial liquidity using the implemented central model of financing and the central policy of financial risk management. In order to minimise the potential disturbances in cash flows and the risk of liquidity loss, TAURON Capital Group uses the *cash pooling* mechanism. Currently, TAURON Capital Group uses various sources of financing, such as, for example, overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing contracts and lease contracts with the purchase option.

4.5 Factors and events, including those of unusual nature, significantly affecting the condensed financial statement

In the first quarter of 2017, no factors or events of unusual nature occurred, which would significantly affect the financial results achieved.

4.6 Factors which, according to the opinion of the Issuer, may have an impact on the financial results achieved by it in the perspective of at least the next quarter

External factors

As in the past, the following external factors will mainly affect the results of TAURON Capital Group operations:

1) the macroeconomic situation, especially in Poland, and the economic situation of the area where TAURON Capital Group operates, as well as at the EU and global economy level, including volatility of interest rates and currency exchange rates, etc., influencing the valuation of assets and liabilities recognised by the Company in the statement of financial situation,
2) political environment, especially in Poland as well as at the EU level, including the positions and decisions of public administration institutions and bodies, e.g.: Office for Competition and Consumers Protection (UOKiK), ERO and EC.
3) changes in regulations related to the energy sector as well as changes in the legal environment, including: tax law, commercial law, environmental protection law, in particular: the announced liberalisation of electricity prices for households, the announcement of the ERO President related to the application of maximum prices in tariffs for G group (instead of fixed priced), in order to protect consumers against rapid changes of prices upon full liberalisation,

4) planned introduction of the mechanism for generation capacity compensation (so-called capacity market) and decisions concerning the future shape of ORM and intervention cold reserve,
5) the support system for electricity generation in high-performance co-generation, resulting, on the one hand, in the growth of redemption costs of "red" and "yellow" certificates of electricity sellers to end consumers, and, on the other hand, in the growth of revenues on sales of "red" and "yellow" certificates of generators of energy in co-generation,
6) situation in the electricity sector, including the activity and measures undertaken by competition in the energy market,
7) the number of CO_2 emission allowances allocated free of charge, as well as prices of allowances purchased - under the circumstances of the deficit in free allowances,
8) electricity prices on the wholesale market,
9) sales prices of electricity and coal as well as distribution tariffs, as factors influencing the level of revenues,
10) prices of certificates of origin of energy from renewable sources and co-generation,
11) a new system of RES support, so-called RES auctions,
12) prices of energy raw materials,
13) environmental protection requirements,
14) research and technical progress,
15) demand for electricity and other products of the energy market, including changes arising from seasonality and weather conditions.

Internal factors

The following internal factors affecting the result of TAURON Capital Group activity are most significant:

1) activities in the area of optimisation of processes in all companies of TAURON Capital Group,
2) implementation of the OPEX Efficiency Improvement Programme in TAURON Capital Group for 2016-2018, including the consolidation and restructuring projects, Voluntary Redundancy Programmes for employees,
3) pace and effects of implementation of TAURON Group Strategy for the years 2016-2025,
4) decisions in the scope of implementation of key investment projects, in particular, in the scope of construction of new and modernisation of the existing generation capacity, building new connections and modernisation of the existing distribution grids, heating networks, construction of underground excavations,
5) marketing activities in the scope of acquisition of new clients and loyalty activities in terms of maintaining existing clients,
6) centralising the financial management area in TAURON Capital Group, supported by such tools as: central model of financing, cash flow management policy with the cash pool, risk management policy in the financial area, insurance policy,
7) the opportunity to acquire debt financing on international markets - Tauron Polska Energia S.A. Is considering a number of financing opportunities, including potentially through the acquisition of funds on international equity markets, if market conditions are favourable and the Company recognises that it is a favourable solution for it at a given moment. At this stage, no formal decision on this issue has been taken yet. The Company monitors markets, evaluating the available options in this area.
8) activity of the Tax Capital Group, mainly aimed at optimising the implementation of the obligations associated with the settlement of corporate income tax by key companies of TAURON Capital Group,

9) procurement management by TAURON, in particular, fuel purchases for the needs of generation entities included in TAURON Capital Group,
10) geological and mining conditions of extraction,
11) potential failures of equipment, installations and grids belonging to TAURON Capital Group.

The activity of TAURON Capital Group demonstrates seasonality which refers, in particular, to production, distribution and sales of heat, distribution and sales of electricity to individual consumers and sales of coal to individual consumers for heating purposes. Sales of heat depends on the atmospheric conditions, in particular, on air temperature, and it is higher in the autumn and winter season. The level of electricity sales to individual consumers depends on the length of a day, which usually makes electricity sales in this group of consumers lower in the spring and summer season and higher in the autumn and winter season.

Sales of coal to individual consumers is higher in the autumn and winter season. The seasonality of the remaining areas of TAURON Capital Group operations is limited.

The impact of the aforementioned factors on the financial result achieved in the 1st quarter of 2017 is described in section 4 hereof. Effects of this impact are visible both in a short-term and long-term perspective.

4.7 Position of the Management Board concerning a possibility to accomplish forecasts of results for a given year, published earlier

TAURON Capital Group did not publish any forecasts of financial results for 2017. The financial situation of TAURON Capital Group is stable and no negative events occurred which would cause any threat to its business continuity or significant deterioration of its financial standing.

The detailed description of the financial standing understood as the provision of financial resources for both operating and investment activity is included in section 4 hereof.

5. Other information and events which occurred in the first quarter of 2017

5.1 Significant achievements or failures of the Issuer which occurred in the first quarter of 2017

Information on the intention to recognise write-offs due to the loss in the carrying amount of generation units of the Generation segment in the financial statements as at 31 December 2016

Due to the completion of major works associated with impairment tests of assets as at 31 December 2016, on 14 February 2017 the Management Board of TAURON Polska Energia S.A. (TAURON) decided to recognise write-offs due to the loss in the carrying amount of generation units of the Generation Segment. The Generation Segment comprises companies generating electricity and heat from conventional and renewable sources. The requirement to recognise those events in financial results arises mainly from the following changes in the market environment taken into account in the tests: 1) regulations in the area of renewable energy sources, 2) decline in prices of certificates of origin for energy from renewable sources, 3) continuing unfavourable market conditions (in terms of profitability of coal-based power industry).

The write-offs recognised as at 31 December 2016 in the consolidated financial statements of TAURON for the year ended on 31 December 2016 (in relation to companies of the Generation Segment): 1) the value of created write-offs related to wind farms: approx. PLN 281 million, 2) the value of reversed net write-offs (i.e. the surplus of reversed write-offs against their value at creation) related to the generation assets in the area of electricity and heat generation: approx. PLN 204 million, 3) the total net write-off amount (i.e. the excess of created write-offs over their value at reversal): approx. PLN 77 million,

4) the total estimated impact on charging the net financial result: approx. PLN 62 million.

The write-offs recognised as at 31 December 2016 in the separate financial statements of TAURON for the year ended on 31 December 2016 (in relation to companies of the Generation Segment): 1) the value of created write-offs due to the loss in the carrying amount of stocks and shares held and the intragroup loan: approx. PLN 613 million, 2) the total estimated impact on charging the net financial result: approx. PLN 613 million.

The value of the aforementioned write-offs will not affect the EBITDA result, understood by the Company as EBIT increased by depreciation and write-offs for non-financial assets.

The above information was published in the current report no. 3/2017 of 14 February 2017.

Termination of long-term contracts for the purchase of property rights by a subsidiary

On 28 February 2017, TAURON Sprzedaż sp. z o.o. (a subsidiary of the Issuer, TAURON Sprzedaż) 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 (so-called "green" certificates, hereinafter referred to as PMOZE) by TAURON Sprzedaż. The following customers, owners of installations generating electricity from renewable sources, are parties to contracts concluded in 2008:

1) - in.ventus spółka z ograniczoną odpowiedzialnością EW Dobrzyń spółka komandytowa,
2) - in.ventus spółka z ograniczoną odpowiedzialnością Ino 1 spółka komandytowa,
3) - in.ventus spółka z ograniczoną odpowiedzialnością EW Gołdap spółka komandytowa.

The Contracts were terminated with immediate effect due to the failure of the parties to reach an agreement under contractual negotiations in accordance with the procedure envisaged under the contracts. As a result of termination of the Contracts TAURON Sprzedaż will avoid a loss constituting a difference between contractual prices and the market price of "green" certificates. The estimated value of the aforementioned loss due to continued execution of the Contracts until the end of their originally assumed term (i.e. by 2023) - considering the spot market prices of green certificates - shall amount to approximately PLN 343 million net. The total value of contractual liabilities of TAURON Sprzedaż estimated for the period 2017-2023 shall amount to approximately PLN 417 million net. The above value was calculated according to the price formulas adopted in the Contracts for the period from the day of drawing up this report until the end of their originally assumed effective term (i.e. by 2023).

The above information was published in the current report no. 6/2017 of 28 February 2017.

Conclusion of the annex with the consortium RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A., for construction of power unit at Elektrownia Jaworzno III

On 1 March 2017 the management board of TAURON's subsidiary – TAURON Wytwarzanie (the Contracting Authority) signed an annex with the consortium RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A., (the Contractor) to the contract for the construction of 910 MW_e supercritical power unit at Jaworzno III - Elektrownia II power plant, currently implemented within the separated branch of the Contracting Authority - 910 MW Jaworzono Branch in Jaworzno in the scope of: steam boiler, turbine set, main building, electrical part and process control and automation system of the Unit.

Pursuant to the Annex, net price of the Contract will be increased by the amount of PLN 71.05 million, i.e. up to the amount of PLN 470 million, and the deadline for delivery of the subject matter of the Contract will be extended by 8 months, i.e. by the 67th month following the date of concluding of the Contract at the latest, which means that the new assumed deadline of handover of the Unit for operation is November 2019.

The decision on signing of the aforementioned annex by TAURON Wytwarzanie was taken on 28 February 2017. On the same day, concluding of the annex under the terms indicated above was also positively evaluated by TAURON Management Board.

Introduction of amendments to the Contract resulted from the requirement to change the foundation method of the Unit facilities to indirect method as well as arrangement of additional works by the parties, favourable for the Contracting Authority for technical and economic reasons (construction of the foundation for the fifth zone of the electro filter (EF) and extension of the EF switchboard building). The additional works will enable the Contracting Authority to gain savings during the envisaged shutdown of the Unit in 2021 in order to adjust a part of the Unit for the purpose of fulfilment of future requirements of BAT conclusions. The Contracting Authority partly acknowledged the legitimacy of the Contractor's claims associated with the aforementioned circumstances and variation order requests. Claims arising from the change in design standards (EUROCODES) were not deemed legitimate by the Contracting Authority.

In connection with the foregoing, warranties granted by the Contractor were extended:

1) by 6 months in relation to the availability of the Unit for direct deliveries carried out by RAFAKO S.A., maximum sustainable efficiency of the boiler, technical minimum of the Unit and content of free water in exhaust behind IOS, vibration level for the structure,
2) 12 months in the construction and engineering scope of the Unit.

The Contractor shall also ensure adequate extension of the performance bond.

Signing of the Annex shall change the terms of the Contract with the Contractor; however, it will not affect any changes of the whole investment budget.

The Company informed of the amendment to the aforementioned agreement in current reports: no. 5/2017 of 28 February 2017 and no. 7/2017 of 1 March 2017.

Decision of the Management Board of TAURON Polska Energia S.A. concerning the motion to the Ordinary General Meeting of the Company requesting covering the net loss of the Company for financial year 2016 from the supplementary capital of the Company and refraining from recommending the use of the reserve capital for pay-out of the dividend

On 13 March 2017, the Management Board of TAURON Polska Energia S.A. adopted the resolution concerning the submission of the motion to the Ordinary General Meeting of TAURON Polska Energia S.A. requesting covering the net loss of the Company for financial year 2016 from the reserve capital of the Company. The net loss of the Company for 2016 amounted to PLN 166,252,898.52.

At the same time, with reference to the information on the adoption of the dividend policy for the years 2016-2025, submitted by means of the current report no. 35/2016 of 2 September 2016, the Management Board of the Company decided to refrain from recommending the use of the reserve capital of the Company for pay-out of the dividend for 2016 to the Company shareholders.

The above decision arises from the needs associated with the implementation of the investment programme with the value of approx. PLN 18 billion up to 2020 and ensuring the financial stability of TAURON Group, including, in particular, maintaining the net debt/EBITDA ratio defined in financial covenants of TAURON at a level which would not exceed 3.5x.

Furthermore, in accordance with the information published by the Company in the current report no. 41/2016, the planned suspension of the dividend pay-out up to 2019 was one of the factors enabling the Fitch rating agency to affirm the long-term ratings of TAURON at the investment level and revise the outlook from negative to stable (current report no. 41/2016 of 14 November 2016).

The Company informed of the aforementioned event in the current report no. 8/2017 of 13 March 2017.

Enter into force of the Agreement on the conditions for further implementation of the "Construction of a CCGT Unit in Stalowa Wola" project, including the annexes

In reference to Current Report no. 36/2016 of 27 October 2016 on the execution of an agreement on the conditions for further implementation of the "Construction of a CCGT Unit in Stalowa Wola" project (the "Project") and annexes thereto, the Management Board of TAURON Polska Energia S.A. (The Issuer, TAURON) informed that on 31 March 2017 Elektrociepłownia Stalowa Wola S.A. (ECSW) ordered the repayment of all liabilities towards all the financial institutions which had financed ECSW to date (i.e. the European Investment Bank, the European Bank for Reconstruction and Development, and Bank Polska Kasa Opieki S.A.) (the Financial Institutions) in amount of PLN 581.4 million. Upon crediting the accounts of the Financial Institutions, the conditions precedent were fulfilled and thus the documents referred to in the aforementioned report entered into force, i.e.:

a) the agreement concerning determination of key preconditions for the Project restructuring, between TAURON, Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG), and Elektrociepłownia Stalowa Wola S.A. (ECSW) (the Agreement); b) annex to the power purchase agreement of 11 March 2011 (Energy Purchase Agreement) between TAURON, PGNiG and ECSW; c) annex to the gas fuel supply agreement of 11 March 2011 (Gas Supply Agreement) between PGNiG and ECSW.

First of all, the Agreement sets forth the rules of settlement of liquidated damages, modification of the pricing formulas used so far to ensure the prices reflect market rates and addresses the issues related to financial restructuring of the Project. The Agreement reflects the intent of the Project sponsors (TAURON, PGNiG) (the Sponsors) to continue the construction of the CCGT unit, amend the Gas Supply Agreement and the Energy Purchase Agreement and change the funding formula of the Project from project finance to corporate finance. The amendments to the Gas Supply Agreement and the Power Purchase Agreement provide, in particular, for introducing market rates for the pricing formulas used under these agreements. Furthermore, in view of delays in the Project implementation, the annex to the Gas Supply Agreement provides for changes to the amounts, times and methodologies of charging liquidated damages.

ECSW raised funds for repayment of the credit facilities under loan agreements concluded with PGNiG and TAURON (the "Sponsors"); under the loan agreements pursuant to which each of the Sponsors granted a loan of PLN 290.7 million to ECSW.

In connection with the implementation of the provisions of the Standstill Agreement referred to in Current Report no. 36/2016, the Financial Institutions were committed to return the bank guarantees received from the Sponsors for an aggregate amount of about PLN 629 million, including the amount of approx. PLN 314.5 million representing the aggregate amount of the bank guarantees provided by the Issuer.

Notwithstanding the foregoing, the Sponsors and ECSW are continuing their joint efforts to raise new funds for financing the construction of a CCGT Unit in Stalowa Wola project, on the terms and with a structure more favourable than those under the previous agreements.

The Company informed of the aforementioned event in the current report no. 11/2017 of 31 March 2017.

5.2 Other significant events which occurred in the first quarter of 2017

In accordance with Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, TAURON Capital Group is entitled to receive free emission allowances pursuant to Article 10c of the aforementioned Directive ("derogation allowances"). In order to acquire free allowances due to electricity generation for 2016, on 29 September 2016 TAURON Capital Group submitted material and financial reports on the settlement of investment expenditure incurred for the implementation of investment tasks included in the National Investment Plan for the reporting period from 1 July 2015 to 30 June 2016.
Pursuant to the reports submitted, on 21 April 2017 allocation of free CO2 emission allowances was issued to accounts of TAURON Capital Group installations, at a quantity arising from capital expenditure incurred, i.e. 1,680,838 EUA.
In addition, in February 2017, accounts of installations belonging to TAURON Capital Group were supplied by free allowances for heat production for 2017 in the total quantity of 469,945 EUA.

5.3 Market situation

Situation in the energy market

In the first quarter of 2017 energy consumption in the National Power System (KSE) amounted to 43,876 GWh and it was higher by 2.74% as compared to the corresponding period of the previous year. The major factor of growth in energy consumption was the intensive and cold winter continuing until the end of

February. The average temperature in Poland in the 1st quarter of 2017 was lower by 1.16°C than a year earlier and amounted to 0.73°C. Wind conditions in winter months were also worse than a year ago which, under lower dynamics of growth in capacity installed in wind turbines at a level of approx. 5.7 GW resulted n energy generation from wind in January and February lower by 182 GWh than in the 1st quarter of 2016. Only in March an improvement in wind conditions and growth in wind generation was noticeable. In total, in the period of the 1st quarter of 2017 energy generation from wind was 5.16% higher year-on-year. This means that wind sources covered approx. 8% of the energy demand in KSE. Owing to the cooler winter, the majority of sources increased production year-on-year. The overall production in the KSE in the 1st quarter of 2017 increased year-on-year by 5.3%, which resulted, among others, from the high demand of France, Germany, Czech Republic and Slovakia.

In January and February 2017, the balance of energy foreign exchange amounted to 748 GWh (exports), whereas in March the reversed trend was observed (import balance at a level of 330 GWh).

The demand for energy from conventional power plants in the 1st quarter of 2017 increased in relation to the corresponding period of the previous year. Lignite-fired power plants increased their production by as much as 16.04% (to 14,042 GWh), which is the result of renovation of units performed in the 1st quarter of 2016. Gas-fired power plants produced 1,577 GWh, i.e. by 8.83% more, mainly due to the operation of the new unit in Włocławek. Systemic coal-fired power plants decreased their production by 0.45% (21,627 GWh), whereas industrial power plants produced 2,803 GWh, i.e. by 4.04% more. Taking into consideration the conditions for electricity production, it should be assessed that the 1st quarter of 2017 was a very favourable period for the energy generation subsector.

Electricity prices in the wholesale market

The average electricity price at the RDN (Day-Ahead Market) of TGE S.A. In the 1st quarter of 2017 amounted to PLN 154.87/MWh and it was higher by PLN 2.62/MWh as compared to the corresponding period of 2016. In peak demand hours, the average prices reached approximately PLN 182.64/MWh and were lower by PLN 4.56/MWh than in the 1st quarter of 2016. The decline in prices was mainly affected by lower peak energy prices.

In January, the average price at the RDN amounted to PLN 162.42/MWh for Base and PLN 195.66/MWh for Peak. In February and March the prices gradually decreased, however, due to the cold winter and a lower generation from renewable sources than usually in this part of the year, the declines in prices were not as significant as in previous years. The average RDN prices for February and March reached PLN 155.73/MWh and PLN 146.53/MWh, respectively. Prices on the balancing market (CRO) were close to SPOT prices at TGE. In January, the average price of the balancing market amounted to PLN 166.30/MWh, in February - PLN 154.03/MWh, and in March PLN 148.50/MWh. Clearing prices on the balancing market in the 1st quarter of 2017 were slightly higher than the exchange prices - the average price amounted to PLN 156.71/MWh.

Spot prices of energy also increased in annual terms on markets adjacent to Poland. In that case, the growth was much higher, mainly due to the frosty winter and problems faced by the generation subsector in France. The suspected defects of materials in pressure elements of reactors led to temporary decommissioning of some of them, which translated into a sharp increase in spot prices in France and indirectly in Germany. The average quarterly price on the German EPEX Spot reached EUR 41.31/MWh and it was higher by as much as EUR 16.13/MWh year-on-year. A similar situation occurred on the Czech OTE market where the price increased by approx. EUR 16/MWh, to the level of EUR 42.24/MWh. Besides the impact of the crisis in France, the growth in prices was also affected by the frosty winter and, as in Poland, a relatively low generation from renewable sources which, under a growing demand for energy, was a driver of price growth in the current markets.

In the analysed quarter, the market of forward contracts showed a significant volatility. Despite relatively high spot prices, the annual Base Y-18 contract has been corrected since the beginning of January from the level of PLN 165 to 162/MWh. Its further decline to approx. PLN 160/MWh were correlated with the downward trend on the market of CO_2 emission allowances. In February, the decline on the CO_2 market also determined corrections of the Base Y-18 product which, having hit the minimum at a level of PLN 158.37/MWh started to recover its value due to information on a possible growth of coal prices on the domestic market to approx. PLN 10/GJ. In March 2017, a considerable uncertainty was observed on forward markets. Energy prices in the base contract for 2018 were quoted in the range of PLN 159-160/MWh, which resulted from the uncertainties on the CO_2 market, awaiting the publication of verified emissions for 2016 and the PSCMI1 index for steam coal for January 2017.

Prices of Property Rights

In the 1st quarter of 2017 the index of green property rights (PM OZE, green certificates) followed the downward trend, establishing new all-time lows. The average weighted price in the 1st quarter of 2017, as compared to the previous quarter, dropped by approx. PLN 5/MWh and reached the value of PLN 34.62/MWh at the end of March. One of the factors responsible for price declines on the spot market of property rights is the continuously remaining high surplus. At the end of March this year, the balance of the register of certificates reached 23.6 TWh, and while considering certificates blocked for redemption – 22.3 TWh (a year earlier it amounted to 17.4 TWh). The emerging information concerning planned amendments to the Act on renewable energy sources constituted another factor fostering the decline. The amendments should enable maintaining the competitiveness on auctions, increasing volumes offered by the government, which should affect the reduction of trade on the market. The designed amendments shall refer, among others, to calculation of public aid for existing RES installations. The substitution fee for 2017 was determined at a level of 2016, i.e. PLN 300.03/MWh, whereas the obligation to redeem certificates slightly increased to the level of 15.4%.

In the case of blue certificates confirming energy generation from agricultural biogas, the obligation to present certificates for redemption dropped to 0.6%. Prices of TGEozebio index in the first quarter oscillated above the applicable substitution fee. The average weighted value of the index reached the level of PLN 327.55/MWh, exceeding the level of the substitution fee by PLN 27.52/MWh.

Prices of co-generation property rights in the 1st quarter of 2017 demonstrated high stability and kept the level close to the substitution fees. In the period under discussion, the property rights confirming generation of electricity throughout 2016 in high-performance co-generation (PMEC-2016), gas co-generation (PMGM-2016) and during methane removal from coal mines (PMMET-2016) reached, respectively, the following average values: PLN 10.76/MWh for the PMEC-2016 index, PLN 123.61/MWh for the PMGM-2016 index, PLN 62.27/MWh for PMMET-2016.

During the 1st quarter of 2017, the value of the index of property rights arising from PMEF energy efficiency certificates, i.e. so-called white certificates, dropped from PLN 1260.97 to 973.88/toe. The average weighted value of this index in the first quarter reached the level of PLN 1090.62/toe, with the substitution fee amounting to PLN 1500/toe.

Prices of CO_2 emission allowances

The first quarter of 2017 demonstrated a high volatility of CO_2 emission allowances prices, which was a consequence of events of regulatory nature as well as those directly arising from the market environment. The aforementioned regulatory measures include, inter alia, the legislative work of the European Parliament associated with the structure of phase IV of the EU ETS system. The European Parliament adopted several significant assumptions, the most important of which include:

- increase of the number of CO_2 emission allowances from the overall pool of allowances available on the market, transferred to the Market Stability Reserve (MSR) to 24% in the first four years of functioning of the consecutive phase of the mechanism,
- maintaining the linear emission reduction factor (LRF) at a level of 2.2%,
- removal of 800 million t of CO_2 emission allowances from the MSR mechanism.

In the period under discussion, the meeting of Ministers of Environment of European Union member states was held during which, despite the objection of several states, including Poland, all proposals voted in the European Parliament were adopted.

The current prices of emission allowances in the 1st quarter of 2017 were significantly affected by the increased supply on the market, which was a consequence of the termination of the “backloading” mechanism and the allocation of free CO_2 emission allowances for the sector of industry. Information regarding verified CO_2 emissions which decreased by approx. 2.7% also had negative implications for prices. Due to the factors indicated above, prices of CO_2 emission allowances did not demonstrate a high growth potential and their average value on the spot market in the 1st quarter of 2017 reached the level of

EUR 5.15 /Mg CO_2.

Gas prices in the wholesale market

In the 1st quarter of 2017, the average spot price of gas on TGE amounted to PLN 89.44/MWh, which represents a growth by PLN 22.43/MWh as compared to the corresponding period of 2016. The reason of high prices was the persistent low temperature which translated into an increased demand for gas. A higher demand for gas had a positive effect of the volume of trade. The total volume of trade of the spot market in the 1st quarter of the current year amounted to almost 6.5 TWh (+24% YoY). Contrary to markets with a shorter delivery period, on the forward market a downward trend has dominated since the beginning of 2017. The reference annual contract with the delivery in 2018 (GAS_BASE_Y-17) in the first days of January was quoted at PLN 92.27/MWh, whereas at the end of the 1st quarter, its value dropped to PLN 81.67/MWh.

6. Information and events which occurred after the balance sheet day

Signing the letter of intent concerning the coal gasification project

On 20 April 2017, TAURON Polska Energia S.A. (the Issuer) and the Grupa Azoty S.A. company (Grupa Azoty, and jointly with the Issuer: the Parties) signed a letter of intent ("Letter of Intent") defining the general rules concerning the commencement of the cooperation oriented to the implementation of the coal gasification project (the Project).

The Parties concluded the Letter of intent due to the fact that among various coal conversion methods those offering effective use of coal resources, also compliant with the directions of the European Union policy, have a predominant role in the medium- and long-term perspective. It results, inter alia, from the necessity to reduce ecological noxiousness of energy and chemical processes, including a significant reduction of CO_2 emission.

The product of the technological system the letter of intent refers to is mainly the synthesis gas with the composition allowing for its direct use in the production of hydrogen, ammonia, methanol and other chemicals. The Parties recognised that the current consumption of natural gas in the industry producing nitrogen fertilisers can be partly replaced by the synthesis gas obtained as a result of coal gasification. This creates new perspectives for the mining industry, increasing the energy security of the country through the development of low-emission technology.

The project is at the preFeed (Preliminary Front End Engineering Design) stage and accompanying analyses, including market analyses are performed. Under the project, Grupa Azoty commissioned works associated with the documentation, in particular, the preliminary selection of licensors and updating the analyses. The estimated value of the Project will range from EUR 400 to 600 million, depending on the selected technological version.

The Issuer declared its participation in the implementation of the Project under the rules to be defined by the Parties in separate agreements, including, with the assumption of selection and performance of the installation ensuring maximising of the use of hard coal originating from mines belonging the Issuer's capital group. If the Issuer is unable to guarantee the relevant quantity or parameters of coal required by the installation, supplementing of supplies with coal originating from other suppliers is permissible.

The letter of intent expresses the readiness of the parties to undertake talks and defines the general framework of the cooperation and, at the current stage, it does not generate financial or management implications for individual Parties. The Parties declared the intention of cooperation and expressed the will to sign further agreements, including agreements associated with the establishment of the joint special purpose vehicle (SPV) implementing the project. The letter of intent shall be effective until 31 December 2017. Each of the Parties shall be entitled to terminate the letter of intent, under a monthly period of notice.

The above information was published in the current report no. 12/2017 of 02 April 2017.

Estimated financial figures of TAURON Group for the 1st quarter of 2017

On 27 April 2017, TAURON published selected consolidated financial data of TAURON Polska Energia

Capital Group for the 1st quarter of 2017. Information on estimated financial results was published in the current report no. 15/2017 of 27 April 2017.

Convening of the Ordinary General Meeting of TAURON

On 27 April 2017, the Management Board of TAURON Polska Energia, acting pursuant to Article 395 § 1, Article 399 § 1 and Article 402(1) of the Commercial Companies Code and § 30 item 1 of the Company Articles of Association, convened the Ordinary General Meeting of the Company for 29 May 2017 at 11 a.m. in Novotel Katowice Centrum Hotel in Katowice at Al. Roździeńskiego 16.

The Company informed of the aforementioned event in the current report no. 13/2017 of 27 April 2017. The wording of draft resolutions of the Ordinary General Meeting and the documents which were not publicly announced earlier and which will be discussed by the Ordinary General Meeting, have been provided in the current report no. 14/2017 of 12April 2016.

7. Proceedings pending before the court, competent arbitration authority or public administration authority

In the first quarter of 2017 no proceedings were pending in TAURON Capital Group (in relation to the Issuer or its subsidiaries) concerning liabilities and receivables whose single or aggregate value would exceed 10% of the equity of TAURON Polska Energia.

8. Information on transactions with affiliated entities

All transactions with affiliated entities are concluded on arm's length basis. Detailed information on significant transactions with affiliated entities has been provided in note 50 of the Consolidated interim financial statement for the period of three months, ended on 31 March 2017.

9. Information on granted guarantees, loan or credit sureties

In the first quarter of 2017, neither TAURON Polska Energia, nor its subsidiaries granted any loan or credit sureties or guaranties – jointly to one entity or this entity's subsidiary, at the aggregate value equivalent to the value of at least 10% of TAURON Polska Energia equity.

10. Other information which, according to the Issuer’s opinion, could be essential for the evaluation of the human resources, assets, financial situation, financial result and their changes, and which is essential to assess the possibility of fulfilment of the obligations by the Capital Group of the Issuer

Besides the reported events indicated above in this document, from 01 January 2017 until the day of submission of this report, no other events occurred which are significant for the assessment of the possibility of fulfilment of the obligations by TAURON Capital Group. The Management Board of TAURON expresses its position that the information presented in this report describes the human resources, economic and financial situation of the Company in a comprehensive manner, and confirms that no other incidents occurred, undisclosed by the Company, which could be relevant for the assessment of the situation.