TAURON Polska Energia S.A. Capital Group

Condensed interim consolidated financial statements
prepared in accordance with the International Financial Reporting Standards,
as endorsed by the European Union
for the 3-month period ended 31 March 2018

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited restated figures)*
Sales revenue	**11**	4 825 532	4 591 081
Cost of sales	**12**	(3 880 151)	(3 556 087)
Profit on sale		**945 381**	**1 034 994**
Selling and distribution expenses	**12**	(112 269)	(110 209)
Administrative expenses	**12**	(122 903)	(153 492)
Other operating income and expenses	**13**	140 035	2 260
Share in profit/(loss) of joint ventures	**21**	25 242	37 241
Operating profit		**875 486**	**810 794**
Interest expense on debt	**14**	(38 403)	(50 073)
Finance income and other finance costs	**14**	(45 985)	58 386
Profit before tax		**791 098**	**819 107**
Income tax expense	**15.1**	(154 429)	(178 572)
Net profit		**636 669**	**640 535**
Measurement of hedging instruments	**29.3**	(13 108)	(4 217)
Foreign exchange differences from translation of foreign entities		4 538	(13 865)
Income tax	**15.1**	2 490	801
Other comprehensive income subject to reclassification to profit or loss		**(6 080)**	**(17 281)**
Actuarial gains/(losses)	**31.1**	(1 206)	2 130
Income tax	**15.1**	231	(404)
Share in other comprehensive income of joint ventures	**21**	160	(10)
Other comprehensive income not subject to reclassification to profit or loss		**(815)**	**1 716**
Other comprehensive income, net of tax		**(6 895)**	**(15 565)**
Total comprehensive income		**629 774**	**624 970**
Net profit:			
Attributable to equity holders of the Parent		636 153	639 830
Attributable to non-controlling interests		516	705
Total comprehensive income:			
Attributable to equity holders of the Parent		629 256	624 261
Attributable to non-controlling interests		518	709
Basic and diluted earnings per share (in PLN):		0.36	0.37

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
ASSETS			
Non-current assets			
Property, plant and equipment	**17**	28 233 340	28 079 886
Goodwill	**18**	40 156	40 156
Energy certificates and emission allowances for surrender	**19.1**	44 589	303 130
Other intangible assets	**20**	1 247 530	1 254 077
Investments in joint ventures	**21**	528 633	499 204
Loans granted to joint ventures	**22**	185 777	240 767
Other financial assets	**23**	216 134	238 354
Other non-financial assets	**24.1**	360 009	346 846
Deferred tax assets	**15.2**	42 059	46 122
		30 898 227	**31 048 542**
Current assets			
Energy certificates and emission allowances for surrender	**19.2**	764 295	652 260
Inventories	**25**	321 813	295 463
Receivables from buyers	**26**	2 059 112	2 032 813
Receivables arising from taxes and charges	**27**	194 041	244 126
Loans granted to joint ventures	**22**	299 100	329 665
Other financial assets	**23**	292 137	219 933
Other non-financial assets	**24.2**	178 434	87 055
Cash and cash equivalents	**28**	457 909	909 249
Non-current assets classified as held for sale		15 727	15 910
		4 582 568	**4 786 474**
TOTAL ASSETS		**35 480 795**	**35 835 016**

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED

	Note	As at 31 March 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**29.1**	8 762 747	8 762 747
Reserve capital	**29.2**	7 657 086	7 657 086
Revaluation reserve from valuation of hedging instruments	**29.3**	12 433	23 051
Foreign exchange differences from translation of foreign entities		11 314	6 776
Retained earnings/(Accumulated losses)	**29.4**	2 301 126	1 586 786
		18 744 706	**18 036 446**
Non-controlling interests		**32 282**	**31 367**
Total equity		**18 776 988**	**18 067 813**
Non-current liabilities			
Debt	**30**	9 467 201	9 501 414
Provisions for employee benefits	**31**	1 089 713	1 380 650
Provisions for disassembly of fixed assets, land restoration and other provisions	**32**	353 398	351 138
Accruals, deferred income and government grants	**35**	363 869	541 318
Deferred tax liabilities	**15.2**	857 670	871 865
Liabilities to suppliers		4 588	-
Other financial liabilities	**39**	82 631	91 879
		12 219 070	**12 738 264**
Current liabilities			
Debt	**30**	319 055	351 382
Liabilities to suppliers	**36**	881 079	1 042 427
Capital commitments	**37**	242 448	797 304
Provisions for employee benefits	**31**	100 105	134 273
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	**33**	915 183	948 946
Other provisions	**34**	353 227	353 271
Accruals, deferred income and government grants	**35**	272 100	296 576
Liabilities arising from taxes and charges	**38**	631 368	451 748
Other financial liabilities	**39**	382 355	342 162
Other non-financial liabilities	**40**	387 817	310 850
		4 484 737	**5 028 939**
Total liabilities		**16 703 807**	**17 767 203**
TOTAL EQUITY AND LIABILITIES		**35 480 795**	**35 835 016**

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2018 *(UNAUDITED)*

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 31 December 2017 (restated figures)		**8 762 747**	**7 657 086**	**23 051**	**6 776**	**1 586 786**	**18 036 446**	**31 367**	**18 067 813**
Impact of IFRS 9	**8**	**-**	**-**	**-**	**-**	**(100 422)**	**(100 422)**	**(14)**	**(100 436)**
Impact of IFRS 15	**8**	**-**	**-**	**-**	**-**	**179 426**	**179 426**	**411**	**179 837**
As at 1 January 2018		**8 762 747**	**7 657 086**	**23 051**	**6 776**	**1 665 790**	**18 115 450**	**31 764**	**18 147 214**
Net profit		-	-	-	-	636 153	**636 153**	516	**636 669**
Other comprehensive income		-	-	(10 618)	4 538	(817)	**(6 897)**	2	**(6 895)**
Total comprehensive income		**-**	**-**	**(10 618)**	**4 538**	**635 336**	**629 256**	**518**	**629 774**
As at 31 March 2018 *(unaudited)*		**8 762 747**	**7 657 086**	**12 433**	**11 314**	**2 301 126**	**18 744 706**	**32 282**	**18 776 988**

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2017 *(UNAUDITED)*

	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2017	**8 762 747**	**7 823 339**	**29 660**	**9 200**	**24 320**	**16 649 266**	**30 052**	**16 679 318**
Net profit	-	-	-	-	639 830	**639 830**	705	**640 535**
Other comprehensive income	-	-	(3 416)	(13 865)	1 712	**(15 569)**	4	**(15 565)**
Total comprehensive income	**-**	**-**	**(3 416)**	**(13 865)**	**641 542**	**624 261**	**709**	**624 970**
As at 31 March 2017 *(unaudited)*	**8 762 747**	**7 823 339**	**26 244**	**(4 665)**	**665 862**	**17 273 527**	**30 761**	**17 304 288**

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Cash flows from operating activities			
Profit (loss) before taxation		**791 098**	**819 107**
Share in (profit)/loss of joint ventures		(25 242)	(37 241)
Depreciation and amortization		422 938	410 270
Impairment losses on property, plant and equipment and intangible assets		(5 911)	4 373
Exchange differences		19 585	(75 630)
Interest and commissions		36 397	48 142
Other adjustments of profit before tax		19 659	8 180
Change in working capital	**41.1**	(573 200)	(260 214)
Income tax paid	**41.1**	(22 064)	(41 284)
Net cash from operating activities		**663 260**	**875 703**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**41.2**	(945 670)	(1 251 411)
Loans granted	**41.2**	(31 800)	(292 742)
Purchase of financial assets		(9 134)	(4 703)
Total payments		**(986 604)**	**(1 548 856)**
Proceeds from sale of property, plant and equipment and intangible assets		3 584	10 092
Other proceeds		850	11 841
Total proceeds		**4 434**	**11 841**
Net cash used in investing activities		**(982 170)**	**(1 537 015)**
Cash flows from financing activities			
Repayment of loans and borrowings	**41.3**	(36 251)	(22 462)
Interest paid	**41.3**	(10 030)	(12 677)
Other payments		(6 922)	(12 838)
Total payments		**(53 203)**	**(47 977)**
Issue of debt securities		-	500 000
Subsidies received		1 257	218
Total proceeds		**1 257**	**500 218**
Net cash from financing activities		**(51 946)**	**452 241**
Net increase / (decrease) in cash and cash equivalents		**(370 856)**	**(209 071)**
Net foreign exchange difference		3 188	(7)
Cash and cash equivalents at the beginning of the period	**28**	**801 353**	**354 733**
Cash and cash equivalents at the end of the period, *of which*:	**28**	**430 497**	**145 662**
restricted cash	**28**	141 778	141 511

(in PLN '000)

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

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

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

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, under number KRS 0000271562.

The duration of the Parent and the companies in the Capital Group is unlimited. The entities operate based on appropriate licences granted to individual companies of the Group.

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

The Group's condensed interim consolidated financial statements cover the 3-month period ended 31 March 2018 and present comparative data for the 3-month period ended 31 March 2017 as well as figures as at 31 December 2017. The data for the 3-month period ended 31 March 2018 and the comparative data for the 3-month period ended 31 March 2017, as contained herein, have not been audited or reviewed by a certified auditor. The comparative data as at 31 December 2017 were audited by a certified auditor.

These condensed interim consolidated financial statements for the 3-month period ended 31 March 2018 were approved for publication on 16 May 2018.

2. Composition of the TAURON Capital Group and joint ventures

As at 31 March 2018, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

Item	Company name	Registered office	Operating segment	Interest in the share capital by TAURON Polska Energia S.A.	Interest in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno	Generation	100.00%	100.00%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Generation	100.00%	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%	100.00%
7	TAURON Serwis Sp. z o.o.	Katowice	Generation	95.61%	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution	99.74%	99.75%
9	TAURON Dystrybucja Serwis S.A.	Wrocław	Distribution	100.00%	100.00%
10	TAURON Dystrybucja Pomiary Sp. z o.o.[1]	Tarnów	Distribution	99.74%	99.75%
11	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
12	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%	100.00%
13	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%	100.00%
16	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Other	100.00%	100.00%
17	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%	100.00%
18	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o.[1]	Tarnów	Other	99.74%	99.75%

[1]TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses shares in TAURON Dystrybucja Pomiary Sp. z o.o.

As at 31 March 2018, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

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

[1] *TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. through a subsidiary, TAURON Wytwarzanie S.A.*
[2] *TAURON Polska Energia S.A. holds direct interest in the issued capital and the governing body of TAMEH HOLDING Sp. z o.o., which holds 100% interest in the issued capital and the governing bodies of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.*

3. Statement of compliance

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

The condensed interim consolidated financial statements do not contain all information and disclosures required for annual consolidated financial statements and they should be read jointly with the Group's consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2017.

4. Going concern

These condensed interim consolidated financial statements have been prepared on the assumption that the Group companies will continue as a going concern in the foreseeable future. As at the date of approving these condensed interim consolidated financial statements no circumstances have been detected that could put the going concern operation of the Group's companies at risk.

5. Functional and presentation currency

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

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

6. Material values based on professional judgement and estimates

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

Items of the condensed interim consolidated financial statements exposed to a considerable risk of material adjustment of the carrying amounts of assets and liabilities are presented below.

(in PLN '000)

Item	Note	Estimates and assumptions
Property, plant and equipment	Note 17	At the end of each reporting period, the Group verifies whether or not there are objective indications of impairment of items of property, plant and equipment. If there are objective indications of impairment, the Group is obliged to perform impairment tests for items of property, plant and equipment. The Group reviews, at least at the end of each financial year, the useful lives of property, plant and equipment, and depreciation charges may be adjusted effective from the beginning of the reporting period when the review was completed.
Goodwill	Note 18	Goodwill is tested for impairment annually and at the end of each reporting period if indications of impairment are identified.
Loans granted	Note 22	In line with IFRS 9 *Financial Instruments* the Group adequately classifies and measures originated loans and estimates impairment allowances, as discussed in detail in Note 8 to these condensed interim consolidated financial statements.
Receivables from buyers	Note 26	In line with IFRS 9 *Financial Instruments* the Group estimates impairment allowances on receivables from buyers, as discussed in detail in Note 8 to these condensed interim consolidated financial statements.
Derivative instruments	Note 42.2	Derivative financial instruments are measured at fair value at the end of each reporting period. Derivative instruments acquired and held for internal purposes are not measured at the end of the reporting period.
Deferred tax assets	Note 15.2	At the end of each reporting period, the Group verifies whether or not the deferred tax assets may be realized.
Provisions	Note 31 Note 32 Note 33 Note 34	The value of provisions is determined based on assumptions made by the Group as well as a methodology and calculation method that is appropriate for a specific provision. To this end, the Group verifies the probability of an outflow of resources embodying economic benefits and estimates reliably the amount necessary to fulfil the obligation. Provisions are recognized if the probability of an outflow of resources embodying economic benefits is higher than 50%.

Apart from the above, the Group makes significant estimates as regards the contingent liabilities recognised, and in particular as regards court cases the Group companies are party to. Contingent liabilities have been presented in detail in Note 45 hereto.

7. New standards and interpretations which have been published but are not yet effective

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

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

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

(in PLN '000)

IFRS 16 *Leases*

Effective date in the EU: annual periods beginning on or after 1 January 2019.

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

Impact on the consolidated financial statements

A preliminary analysis of the impact of IFRS 16 *Leases* on the applied accounting policies has shown a change material for the Group, i.e. the need to recognize lease assets and liabilities for leases currently classified as operating leases in the financial statements. The Group analyses all its lease agreements to identify leases which require recognition of assets and liabilities in the financial statements. Moreover, the Group identified key areas where the impact of IFRS 16 *Leases* is analysed. These areas include transmission line easement, right to perpetual usufruct of land and lease agreements. As at the date these condensed interim consolidated financial statements were authorized for issue, the Group analyses the impact of planned changes on the consolidated financial statements.

According to the Management Board revised IFRS 9 *Financial Instruments*, entering into force as of 1 January 2019, will not materially impact the accounting policies applied.

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

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

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
IFRS 17 *Insurance contracts*	1 January 2021
Revised IFRS 10 *Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* with subsequent amendments	the effective date has been postponed
Annual Improvements to IFRS (Cycle 2015-2017):	
IAS 12 *Income Taxes*	1 January 2019
IAS 23 *Borrowing Costs*	1 January 2019
IFRS 3 *Business Combinations*	1 January 2019
IFRS 11 *Joint Arrangements*	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Revised IAS 19 *Employee Benefits*	1 January 2019
Revised IAS 28 *Investments in Associates and Joint Ventures*	1 January 2019
Amendments to References to the Conceptual Framework in IFRS	1 January 2020

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

Hedge accounting principles applicable to the portfolio of financial assets and liabilities also remain outside the scope of the regulations adopted by the EU, as they have not been approved for use in the EU.

8. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these condensed interim consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2017, except for the application of new and revised standards and changes to the accounting principles applied by the Group and discussed below.

8.1. New and revised standards applied

According to the Management Board, the following new standards and revised standards have a material impact on the accounting policies applied thus far:

IFRS 9 *Financial Instruments*

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

Key changes introduced by IFRS 9 *Financial Instruments*:

- **Change in the classification and measurement of financial assets**

Instead of the four classes of financial assets identified by IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 9 *Financial Instruments* identifies three categories of financial assets:

- Financial assets measured at amortized cost;
- Financial assets measured at fair value through other comprehensive income (FVTOCI);
- Financial assets measured at fair value through profit or loss (FVTPL).

Pursuant to IFRS 9 *Financial Instruments*, financial assets are classified upon initial recognition based on:

- cash flow characteristics (SPPI test; Solely Payments of Principal and Interest);
- a business model underlying the management of financial assets.

- **Introduction of a new impairment testing model based on expected credit losses**

IFRS 9 *Financial Instruments* replaces the incurred credit losses with the concept of expected credit losses, resulting in recognition of a loss allowance upon initial recognition of an asset. The requirements regarding impairment of financial assets apply to financial assets measured at amortized cost and at fair value through other comprehensive income.

Impact on the consolidated financial statements as at 1 January 2018

The Group decided to apply IFRS 9 *Financial Instruments* with the effect as of 1 January 2018. The Group decided not to restate the comparable data, as permitted by IFRS. The data as at 31 December 2017 and for the 3-month period ended 31 March 2017 were presented in line with IAS 39 *Financial Instruments: Recognition and Measurement*.

Impact of the application of IFRS 9 *Financial instruments* on retained earnings as at 1 January 2018:

(in PLN '000)

Categories and classes of financial instruments in line with IAS 39	IAS 39		IFRS 9			Effect of change
	At amortized/ historical cost	At fair value	At amortized cost	Fair value through: Profit/loss	Fair value through: Other comprehensive income	Increase/ (decrease)
1 Financial assets at fair value through profit or loss - held for trading	**-**	**154 574**	**-**	**154 574**	**-**	**-**
Derivative instruments	-	53 216	-	53 216	-	-
Investment fund units	-	101 358	-	101 358	-	-
2 Financial assets available for sale	**141 698**	**2 719**	**-**	**118 386**	**-**	**(26 031)**
Long-term shares	141 656	-	-	115 625	-	(26 031)
Short-term shares	42	-	-	42	-	-
Investment fund units	-	2 719	-	2 719	-	-
3 Loans and receivables	**2 734 059**	**-**	**2 427 299**	**177 275**	**-**	**(129 485)**
Receivables from buyers	2 032 813	-	2 001 342	-	-	(31 471)
Gross value	2 226 180	-	2 226 180	-	-	-
Impairment loss	(193 367)	-	(224 838)	-	-	(31 471)
Deposits	39 756	-	39 756	-	-	-
Loans granted	580 979	-	332 005	150 960	-	(98 014)
Gross value	580 979	-	340 212	150 960	-	(89 807)
Impairment loss	-	-	(8 207)	-	-	(8 207)
Other financial receivables	80 511	-	54 196	26 315	-	-
4 Hedging derivative instruments	**-**	**28 482**	**-**	**28 482**	**-**	**-**
5 Cash and cash equivalents	**-**	**909 249**	**-**	**909 249**	**-**	**-**
Total effect of the application of IFRS 9 on financial assets		**-**	**-**			**(155 516)**
1 Financial liabilities measured at amortised cost	**470 239**	**-**	**437 184**	**-**	**-**	**33 055**
Loan granted by European Investment Bank	470 239	-	437 184	-	-	33 055
Total effect of the application of IFRS 9 on financial liabilites						**33 055**
Effect on retained earnings						**(122 461)**
Deferred tax						**22 025**
Effect on retained earnings after deferred tax						**(100 436)**

The data presented above, which are assessed by the Group as complied in all material respects with the regulations of IFRS 9 *Financial instruments*, have not been audited or reviewed by a certified auditor. Therefore there is a possibility that the data enclosed in the consolidated financial statements for the year ended 31 December 2018 may differ from the data presented in these condensed interim consolidated financial statements.

- **Change in the classification and measurement of financial assets**

The categories of financial assets identified in IAS 39 *Financial Instruments: Recognition and Measurement* cannot be directly translated into those identified in IFRS 9 *Financial instruments* and therefore the Group has developed a method of classification of financial assets which sets the terms of the SPPI and the business model tests. On such basis the Group carried out the business model and SPPI tests for all financial assets material as at 1 January 2018.

The analysis revealed that a considerable portion of financial assets presented in the above table generates cash flows corresponding solely to the repayment of principal and interest and they are maintained under a business model based solely on acquiring cash flows, which translates into classification as financial assets measured at amortized cost.

The subordinated loan and the loans used for the purposes of debt repayment originated to the joint venture Elektrociepłownia Stalowa Wola S.A., measured at amortized cost in line with IAS 39 *Financial Instruments: Recognition and Measurement*, with the carrying amount as at 1 January 2018 of PLN 240 767 thousand, have been classified to financial assets measured at fair value through profit or loss at PLN 150 960 thousand, since the cash flows they generated do not correspond solely to the repayment of principal and interest. The application of IFRS 9 *Financial instruments* reduced the Group's retained earnings as at 1 January 2018 by PLN 89 807 thousand.

IFRS 9 *Financial Instruments* requires that interests in other entities be measured at fair value, also with respect to those interests which — due to a limited availability of information — have so far been measured at cost less any impairment losses. Therefore the Group estimated the fair value of the above instruments in line with the adjusted net assets method considering its share in the net assets and adjusting the value by relevant factors affecting the measurement such as the non-controlling interest discount and the discount for the lack of liquidity of the above instruments. The application of IFRS 9 *Financial instruments* to measurement of equity investments reduced the Group's retained earnings as at 1 January 2018 by PLN 26 031 thousand. The above instruments comply with IFRS 9 *Financial Instruments* are measured at fair value through profit or loss.

- **Introduction of a new impairment testing model based on expected credit losses**

The Group has identified the following categories of financial assets for which it has verified the impact of the calculation of expected credit losses in line with IFRS 9 *Financial Instruments* on the consolidated financial statements;

- receivables from buyers; and
- originated loans.

As far as the receivables from buyers are concerned, the Group has designated a portfolio of strategic counterparties in the case of which it is expected that the historical performance (lack of material delinquencies) does not provide full information on the expected credit losses that the Group may be exposed to. The risk of insolvency on the part of the strategic counterparties has been assessed based on the ratings assigned to the counterparties using an internal scoring model and appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, is calculated based on the estimated potential recovery due to the security lodged. It is expected that the historical performance information concerning the receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for such a group of counterparties have been estimated through an analysis of ageing of receivables and percentage ratios assigned to individual ranges and groups (such as receivables claimed at court, receivables from counterparties in bankruptcy) which help estimate the value of receivables from buyers which are not expected to be paid.

The total value of the loss allowance for expected credit losses due to receivables from buyers, following the application of IFRS 9 *Financial Instruments* increased compared to the value of the allowance calculated based on previous terms, which resulted in a decrease in retained earnings as at 1 January 2018 by PLN 31 471 thousand.

As far as originated loans are concerned, the Group assesses the risk of insolvency on the part of the borrowers based on the ratings assigned to the counterparties using an internal scoring model, appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, is calculated based on the estimated potential recovery due to the security lodged and the time value of money.

The application of IFRS 9 *Financial instruments* to the expected credit losses under originated loans measured at amortized cost resulted in a decrease of the Group's retained earnings as at 1 January 2018 by PLN 8 207 thousand.

- **Change in the basis of measurement for liabilities in the event of modification of contractual cash flows**

IFRS 9 *Financial Instruments* also introduces a change in the basis of measurement for liabilities if the contractual cash flows have been modified. The TAURON Group has liabilities due to loans from the European Investment Bank and the liabilities have been modified through a change in interest rates at an agreed date. The application of IFRS 9 *Financial instruments* increased the Group's retained earnings as at 1 January 2018 by PLN 33 055 thousand.

- **Hedge accounting**

As at 1 January 2018 the Group held instruments hedging fluctuations in cash flows related to issued bonds and resulting from the interest rate risk. These interest rate swaps are subject to hedge accounting.

An analysis of risks and rewards related to the adoption of the hedge accounting solutions introduced by IFRS 9 *Financial Instruments* in light of the Group's portfolio of financial instruments revealed that the principles defined in IAS 39 *Financial Instruments: Recognition and Measurement* should still be applied. It is not expected that the application of the provisions of IFRS 9 *Financial Instruments* concerning hedge accounting will have a material impact on the Group's consolidated financial statements as regards its transactions. The Group has been monitoring the work carried out by the International Accounting Standards Board with respect to IFRS 9 *Financial Instruments* related to hedge accounting and the date of obligatory application of the hedge accounting provisions.

- **Measurement of financial guarantee liabilities**

The Group has analysed the impact of IFRS 9 *Financial Instruments* on the measurement of financial guarantee liabilities. The analysis did not reveal any significant impact of IFRS 9 *Financial Instruments* on the measurement of liabilities in the amount of expected credit losses method.

(in PLN '000)

IFRS 15 *Revenue from Contracts with Customers*

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

The standard specifies how and when to recognize revenue as well as requires more informative, relevant disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and a number of interpretations concerning revenue recognition.

The key principles introduced by IFRS 15 *Revenue from Contracts with Customers* are:

- five steps of revenue recognition: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to each performance obligation; and recognize revenue when (or as) the entity satisfies a performance obligation;
- revenue is recognized when (or as) the entity satisfies the obligation to transfer an asset. The asset has been transferred as control has passed;
- The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

The new standard requires significantly extended disclosures regarding sales and revenue to enable users of financial statements to understand the nature, timing, amount as well as risk and uncertainty of revenue and cash flows arising from contracts with customers. In particular, an entity should disclose quantitative and qualitative information about its contracts with customers, its significant judgements and estimates and any assets recognized from the costs to obtain or fulfil a contract with a customer.

Impact on the consolidated financial statements as at 1 January 2018

The Group has decided to apply the modified retrospective approach allowed by IFRS 15 *Revenue from Contracts with Customers*, i.e. with the cumulative effect of initially applying this Standard recognized at the date of initial application. The Group decided not to restate the comparable data, as permitted by IFRS. The data as at 31 December 2017 and for the 3-month period ended 31 March 2017 were prepared in line with IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and interpretations related to revenue recognition issued before IFRS 15 *Revenue from Contracts with Customers* was endorsed.

The Group has conducted a five-step analysis of its contracts with customers, which is necessary for proper measurement of its revenue in accordance with IFRS 15 *Revenue from Contracts with Customers* — from identification of contracts (or contract groups), through selection of liability items and determination of prices, their allocation to individual liability items to revenue recognition.

Impact of the application of IFRS 15 *Revenue from Contracts with Customers* on retained earnings as at 1 January 2018:

Impact on retained earnings	
Distribution segment	
Write-off of deferred income (connection fees)	195 666
	195 666
Sales segment	
Recognition of assets relating to variable consideration and discounts	7 426
Recognition of assets relating to contract acquisition costs	18 929
	26 355
Total impact of IFRS 15	**222 021**
Deferred tax	(42 184)
Impact on retained earnings, taking account of deferred tax	**179 837**

The data presented above, which are assessed by the Group as complied in all material respects with the regulations of IFRS 15 *Revenue from Contracts with Customers*, have not been audited or reviewed by a certified auditor. Therefore there is a possibility that the data enclosed in the consolidated financial statements for the year ended 31 December 2018 may differ from the data presented in these condensed interim consolidated financial statements.

In the Distribution segment, the Group analysed contracts constituting the basis for recognition of revenue from the connection of new buyers as well as distribution and comprehensive services contracts in light of IFRS 15 *Revenue from Contracts with Customers* so as to identify separate services as required by the standard. The measures taken by the Group included an analysis of the sources of law which form the basis for the provision of the aforesaid services, the legal obligations imposed on it with respect to the connection of new buyers, its discretion to set the prices of services, the relationship and interdependence of the consideration received for the provision of the aforesaid services, the possibility to include both supplies in one contract, the rights of customers being parties to the connection contract and the distribution/comprehensive contract to resign from the purchase of distribution/comprehensive services. Considering this analysis the Group decided that, in accordance with IFRS 15 *Revenue from Contracts with Customers*, the distribution/comprehensive services contracts and the connection contracts are not a single obligation and should not be recognized in aggregate. Therefore, the Group recognizes revenues from the connection contracts on a non-recurring basis when the promised service, i.e. connection to the grid, has been performed. Such recognition complies with the Group's accounting policy and will not change its profit/loss.

As far as the recognition of revenue from connection fees for services performed by 1 July 2009 is concerned, the Group assessed that, the application of a retrospective approach would result in a transfer, as at 1 January 2018 PLN 195 666 thousand of deferred income to the Group's equity and consequently no recognition of revenue of the above deferred income in the Group's future profit or loss (with approx. PLN 22 million in the year ended 31 December 2018).

As part of measures taken to implement IFRS 15 *Revenue from Contracts with Customers*, the Group also analysed the following key issues that affect the profit/loss and the Group's revenues and expenses in the Sales segment:

- Customer acquisition costs — costs to execute new contracts with customers incurred by the companies in the Sales segment on external counterparties and other companies in the Group.

  The Group has analysed whether such costs may be recognized as the costs of obtaining a contract in line with IFRS 15 *Revenue from Contracts with Customers* and capitalized throughout the term of the contract. The analysis revealed that the costs of commission the payment of which depends on a specific contract and which were charged to profit or loss on a non-recurring basis by 31 December 2017 satisfy the conditions for classification to the costs of obtaining a contract and thus they may be capitalized as of 1 January 2018. The application of IFRS 15 *Revenue from Contracts with Customers* with respect to the costs of obtaining a contract increased the Group's retained earnings as at 1 January 2018 by PLN 18 929 thousand.

- Multiple-element arrangements — contracts whereby the customer is offered multiple products of the Group which guarantees more favourable terms and conditions than if the products were sold under separate contracts. This applies mainly to combined sales of gas and electricity.

  The analysis revealed that in the case of sales of electricity and gas the Group may apply a simplification whereby separate goods/services, which are generally the same and whose transfer to a customer is conducted in the same manner, are recognized as a single performance obligation. It also revealed that the allocation of the discount between the supply of electricity and gas off the prices set out in the multiple-element arrangements with customers is close to the individual selling prices (determined as the cost plus margin). Therefore, the prices set out in the contracts with customers may be applied directly to separate recognition of revenues from the supplies of electricity and gas and no further reallocation of the discount is necessary. Consequently, the above issue does not impact the Group's equity as at 1 January 2018. Moreover, following the analyses the Group identified its role of an intermediary in the transmission of gaseous fuel.

- Variable consideration, discounts — a customer who signs a contract or acquires additional goods or services is entitled to a cash discount.

  Following an analysis of the contractual provisions, the Group decided that the discounts given to buyers under the customer schemes in place should be included in the calculation of the transaction price and should reduce the revenue from sales of goods or services. In the opinion of the Group the discounts offered by the companies in the Sales segment are not a separate performance obligation. Therefore, the discount offered to the customer is carried forward, i.e. it is recognised as a reduction of revenue over the average outstanding duration of the relevant contract as determined by the Group. The application of IFRS 15 *Revenue from Contracts with Customers* with respect to variable consideration increased the Group's retained earnings by PLN 7 426 thousand as at 1 January 2018.

(in PLN '000)

- Agreements to sell Group's products and services combined with after-sale services — the Group has made an agreement with the buyer to sell products/services with additional after-sale services (e.g. electrician services) and a property insurance contract with a business partner (insurer) whereby the insurer provides the ancillary service directly to the buyer. The fee for the ancillary service has been included in the commercial fee.

  The Group has analysed the contractual provisions to determine whether its obligation is a performance obligation in the form of delivery of specific services in which case the Group would be an ordering party, or in the form of ordering the delivery of the services to a third party in which case the Group would be an intermediary. Having analysed the responsibilities, risks and freedom of prices as regards the services provided by the third party, the Group believes that as far as the above agreements are concerned, it is an intermediary. In view of the above, in accordance with IFRS 15 *Revenue from Contracts with Customers*, the Group recognizes the revenue from the above services, at the amount of consideration net of the fee paid to the third party for the services provided by the party. The above issue does not materially affect the Group's retained earnings as at 1 January 2018.

In the opinion of the Group, as far as the sales of heat in the Generation segment is concerned, the customer who is party to a contract cannot derive benefits from individual chargeable elements listed in the contract. This means that individual elements of a contract do not meet the criteria necessary for being treated as separate performance obligations. Therefore, every contract with a customer contains one performance obligation in the form of comprehensive heat supply service. The above issue does not affect the Group's retained earnings as at 1 January 2018.

As the Group has decided to apply the modified retrospective approach with the cumulative effect of initially applying IFRS 15 *Revenue from Contracts with Customers* recognized at the date of first application, the condensed interim consolidated statement of financial position as at 31 March 2018 was compared below with the statement of financial position prepared as at the same date in line with the accounting principles applicable before IFRS 15 *Revenue from Contracts with Customers* was endorsed, i.e. in accordance with IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and interpretations related to revenue recognition.

	As at 31 March 2018 *(unaudited)*	Restatement to comply with the principles applicable before IFRS 15 was endorsed	As at 31 March 2018 *(unaudited restated figures)*
ASSETS			
Non-current assets	**30 898 227**	**(7 606)**	**30 890 621**
Other non-financial assets	360 009	(12 170)	347 839
Deferred tax assets	42 059	4 564	46 623
Current assets	**4 582 568**	**(14 789)**	**4 567 779**
Receivables arising from taxes and charges	194 041	689	194 730
Other non-financial assets	178 434	(15 478)	162 956
TOTAL ASSETS	**35 480 795**	**(22 395)**	**35 458 400**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent	**18 744 706**	**(174 612)**	**18 570 094**
Retained earnings/(Accumulated losses)	2 301 126	(174 612)	2 126 514
Non-controlling interests	**32 282**	**(400)**	**31 882**
Total equity	**18 776 988**	**(175 012)**	**18 601 976**
Non-current liabilities	**12 219 070**	**131 732**	**12 350 802**
Accruals, deferred income and government grants	363 869	167 844	531 713
Deferred tax liabilities	857 670	(36 112)	821 558
Current liabilities	**4 484 737**	**20 885**	**4 505 622**
Accruals, deferred income and government grants	272 100	20 885	292 985
Total liabilities	**16 703 807**	**152 617**	**16 856 424**
TOTAL EQUITY AND LIABILITIES	**35 480 795**	**(22 395)**	**35 458 400**

(in PLN '000)

The table below presents the comparison of the condensed interim consolidated statement of comprehensive income for the 3-month period ended 31 March 2018 with the statement of comprehensive income prepared for the same period in line with the principles applicable before IFRS 15 *Revenue from Contracts with Customers* was endorsed, i.e. in accordance with IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and interpretations related to revenue recognition.

	3-month period ended 31 March 2018 *(unaudited)*	Restatement to comply with the principles applicable before IFRS 15 was endorsed	3-month period ended 31 March 2018 *(unaudited restated figures)*
Sales revenue	4 825 532	7 127	4 832 659
Cost of sales	(3 880 151)	(1 321)	(3 881 472)
Profit on sale	**945 381**	**5 806**	**951 187**
Selling and distribution expenses	(112 269)	(162)	(112 431)
Operating profit	**875 486**	**5 644**	**881 130**
Profit before tax	**791 098**	**5 644**	**796 742**
Income tax expense	(154 429)	(819)	(155 248)
Net profit	**636 669**	**4 825**	**641 494**
Other comprehensive income subject to reclassification to profit or loss	**(6 080)**	**-**	**(6 080)**
Other comprehensive income not subject to reclassification to profit or loss	**(815)**	**-**	**(815)**
Other comprehensive income, net of tax	**(6 895)**	**-**	**(6 895)**
Total comprehensive income	**629 774**	**4 825**	**634 599**
Net profit:			
Attributable to equity holders of the Parent	636 153	4 813	640 966
Attributable to non-controlling interests	516	12	528
Total comprehensive income:			
Attributable to equity holders of the Parent	629 256	4 813	634 069
Attributable to non-controlling interests	518	12	530
Basic and diluted earnings per share (in PLN):	0.36	0,00	0.36

Clarifications to IFRS 15 *Revenue from Contracts with Customers*

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

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

According to the Management Board, the introduction of the following revised standards and interpretations has not materially affected the accounting policies applied thus far.

Standard	Effective in the EU as of *(annual periods beginning on or after the date provided)*
Revised IFRS 4 *Insurance Contracts*	1 January 2018
Revised IFRS 2 *Share-based Payments: Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Revised IAS 40 *Investment Property – Transfers of Investment Property*	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Annual Improvements to IFRS (cycle 2014-2016):	
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2018
IAS 28 *Investments in Associates and Joint Ventures*	1 January 2018

(in PLN '000)

8.2. Other changes in accounting principles applied by the Group

- **The change in the method of measuring the release of energy certificates and emission allowances**

The Group analysed lawful methods of the release of energy certificates and emission allowances that would be appropriate considering the competitive environment. In the opinion of the Group the release of energy certificates and emission allowances measured using the FIFO method helps measure the Group's inventories at the most valid prices, which may be significant considering fluctuations in the market prices of such assets. The analysis also revealed that the FIFO method is the most commonly used method in the power sector.

Considering the above the Management Board decided to change the method of releasing energy certificates and emission allowances as of 1 January 2018. After the change, the release of energy certificates and emission allowances have been measured using the FIFO method. Previously, the release was measured using the weighted average cost formula.

- **Change in the presentation of interest in the profit or loss of joint ventures measured using the equity method in the consolidated statements of comprehensive income**

Investments in joint ventures relate to Elektrociepłownia Stalowa Wola S.A. and TAMEH HOLDING Sp. z o.o. Taking into account, that the above companies operate in the power industry as well as their business activities and results are connected with the operating activities in the Generation segment, the Management Board decided to change the presentation method of the profits or losses of joint ventures with the effect from 1 January 2018. After the change, the share in the profit or loss of joint ventures is presented in the operating profit or loss of the Group. Before, the share in the profit or loss of joint ventures was not recognised in the operating profit or loss of the Group, but on the level of the profit before tax. According to the Management Board, recognition of the share in the profits or losses of joint ventures in the operating profit or loss of the Group more accurately reflects the nature of the business activities of joint ventures and the Group's involvement in co-managing the business operations and ongoing monitoring of the results of joint ventures.

The change has not had any effect on the Group's profit/loss.

- **Change in the presentation method of derivative instruments**

As of 1 January 2018, the Group has presented the measurement effects and the gain or loss on forward transactions - derivative financial instruments separately in assets and liabilities, disclosing gains or losses on individual contracts. Previously, the Group applied a simplified approach involving the recognition of the effects of measurement and realized transaction gain or loss taking into account a long and a short position of a given transaction.

The change has not had any effect on the Group's profit/loss.

The impact of the changes in question on the condensed interim consolidated statement of comprehensive income for the 3-month period ended 31 March 2017 and the statement of financial position as at 31 December 2017 has been presented in the tables below.

	3-month period ended 31 March 2017 *(authorised figures)*	Change of the method of measuring the release of energy certificates and emission allowances	Change of the method of presenting the share in profit (loss) of joint ventures	3-month period ended 31 March 2017 *(unaudited restated figures)*
Sales revenue	4 589 537	1 544	-	4 591 081
Cost of sales	(3 554 543)	(1 544)	-	(3 556 087)
Profit on sale	**1 034 994**	**-**	**-**	**1 034 994**
Share in profit/(loss) of joint ventures	-	-	37 241	37 241
Operating profit	**773 553**	**-**	**37 241**	**810 794**
Share in profit/(loss) of joint ventures	37 241	-	(37 241)	-
Profit before tax	**819 107**	**-**	**-**	**819 107**
Net profit	**640 535**	**-**	**-**	**640 535**

(in PLN '000)

	As at 31 December 2017 *(authorised figures)*	Change of the method of measuring the release of energy certificates and emission allowances	Change of the method of presenting derivative instruments	As at 31 December 2017 *(restated figures)*
ASSETS				
Non-current assets	**31 049 127**	**(844)**	**259**	**31 048 542**
Other financial assets	238 095	-	259	238 354
Deferred tax assets	46 966	(844)	-	46 122
Current assets	**4 742 894**	**(4 443)**	**48 023**	**4 786 474**
Energy certificates and emission allowances for surrender	656 703	(4 443)	-	652 260
Other financial assets	171 910	-	48 023	219 933
TOTAL ASSETS	**35 792 021**	**(5 287)**	**48 282**	**35 835 016**
EQUITY AND LIABILITIES				
Total equity	**18 067 813**	**-**	**-**	**18 067 813**
Non-current liabilities	**12 738 005**	**-**	**259**	**12 738 264**
Other financial liabilities	91 620	-	259	91 879
Current liabilities	**4 986 203**	**(5 287)**	**48 023**	**5 028 939**
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	953 389	(4 443)	-	948 946
Liabilities arising from taxes and charges	452 592	(844)	-	451 748
Other financial liabilities	294 139	-	48 023	342 162
Total liabilities	**17 724 208**	**(5 287)**	**48 282**	**17 767 203**
TOTAL EQUITY AND LIABILITIES	**35 792 021**	**(5 287)**	**48 282**	**35 835 016**

9. Seasonality of operations

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

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

OPERATING SEGMENTS

10. Information on operating segments

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

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

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

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

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

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

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

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

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

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

The Group's reporting format for the period from 1 January 2018 to 31 March 2018 and for the comparative period was based on the following operating segments:

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

** Entities recognized with the equity method*

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

(in PLN '000)

10.1. Operating segments

For the 3-month period ended 31 March 2018 or as at 31 March 2018 *(unaudited)*

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	175 097	756 842	897 731	2 975 051	20 811	-	**4 825 532**
Inter-segment sales	210 146	415 341	891 106	478 612	174 742	(2 169 947)	**-**
Segment revenue	**385 243**	**1 172 183**	**1 788 837**	**3 453 663**	**195 553**	**(2 169 947)**	**4 825 532**
Profit/(loss) of the segment	**(23 376)**	**346 424**	**371 565**	**175 782**	**18 860**	**(12 732)**	**876 523**
Share in profit/(loss) of joint ventures	-	25 242	-	-	-	-	**25 242**
Unallocated expenses	-	-	-	-	-	(26 279)	**(26 279)**
EBIT	**(23 376)**	**371 666**	**371 565**	**175 782**	**18 860**	**(39 011)**	**875 486**
Net finance income (costs)	-	-	-	-	-	(84 388)	**(84 388)**
Profit/(loss) before income tax	**(23 376)**	**371 666**	**371 565**	**175 782**	**18 860**	**(123 399)**	**791 098**
Income tax expense	-	-	-	-	-	(154 429)	**(154 429)**
Net profit/(loss) for the period	**(23 376)**	**371 666**	**371 565**	**175 782**	**18 860**	**(277 828)**	**636 669**
Assets and liabilities							
Segment assets	2 126 068	11 234 331	17 380 517	2 878 641	507 173	-	**34 126 730**
Investments in joint ventures	-	528 633	-	-	-	-	**528 633**
Unallocated assets	-	-	-	-	-	825 432	**825 432**
Total assets	**2 126 068**	**11 762 964**	**17 380 517**	**2 878 641**	**507 173**	**825 432**	**35 480 795**
Segment liabilities	733 722	1 112 197	1 797 367	1 679 455	304 813	-	**5 627 554**
Unallocated liabilities	-	-	-	-	-	11 076 253	**11 076 253**
Total liabilities	**733 722**	**1 112 197**	**1 797 367**	**1 679 455**	**304 813**	**11 076 253**	**16 703 807**
EBIT	**(23 376)**	**371 666**	**371 565**	**175 782**	**18 860**	**(39 011)**	**875 486**
Depreciation/amortization	**(33 712)**	**(100 380)**	**(266 318)**	**(2 006)**	**(20 522)**	**-**	**(422 938)**
Impairment	**(2)**	**6 734**	**(230)**	**-**	**(321)**	**-**	**6 181**
EBITDA	**10 338**	**465 312**	**638 113**	**177 788**	**39 703**	**(39 011)**	**1 292 243**
Other segment information							
Capital expenditure *	39 382	242 911	273 481	169	12 757	-	**568 700**

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

For the 3-month period ended 31 March 2017 *(unaudited restated data)* or as at 31 December 2017 *(restated data)*

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	168 140	551 445	819 504	3 032 912	19 080	-	**4 591 081**
Inter-segment sales	215 953	669 256	913 917	584 525	175 701	(2 559 352)	**-**
Segment revenue	**384 093**	**1 220 701**	**1 733 421**	**3 617 437**	**194 781**	**(2 559 352)**	**4 591 081**
Profit/(loss) of the segment	**(59 645)**	**92 258**	**345 611**	**377 274**	**16 735**	**24 386**	**796 619**
Share in profit/(loss) of joint ventures	-	37 241	-	-	-	-	**37 241**
Unallocated expenses	-	-	-	-	-	(23 066)	**(23 066)**
EBIT	**(59 645)**	**129 499**	**345 611**	**377 274**	**16 735**	**1 320**	**810 794**
Net finance income (costs)	-	-	-	-	-	8 313	**8 313**
Profit/(loss) before income tax	**(59 645)**	**129 499**	**345 611**	**377 274**	**16 735**	**9 633**	**819 107**
Income tax expense	-	-	-	-	-	(178 572)	**(178 572)**
Net profit/(loss) for the period	**(59 645)**	**129 499**	**345 611**	**377 274**	**16 735**	**(168 939)**	**640 535**
Assets and liabilities							
Segment assets	2 085 538	11 298 814	17 409 160	3 090 248	508 825	-	**34 392 585**
Investments in joint ventures	-	499 204	-	-	-	-	**499 204**
Unallocated assets	-	-	-	-	-	943 227	**944 071**
Total assets	**2 085 538**	**11 798 018**	**17 409 160**	**3 090 248**	**508 825**	**943 227**	**35 835 016**
Segment liabilities	849 728	1 858 246	2 339 080	1 406 589	386 693	-	**6 840 336**
Unallocated liabilities	-	-	-	-	-	10 926 867	**10 927 711**
Total liabilities	**849 728**	**1 858 246**	**2 339 080**	**1 406 589**	**386 693**	**10 926 867**	**17 767 203**
EBIT	**(59 645)**	**129 499**	**345 611**	**377 274**	**16 735**	**1 320**	**810 794**
Depreciation/amortization	**(30 194)**	**(97 505)**	**(261 438)**	**(2 185)**	**(18 948)**	**-**	**(410 270)**
Impairment	**2**	**(903)**	**38**	**(512)**	**(43)**	**-**	**(1 418)**
EBITDA	**(29 453)**	**227 907**	**607 011**	**379 971**	**35 726**	**1 320**	**1 222 482**
Other segment information							
Capital expenditure *	29 221	334 693	262 087	249	9 838	-	**636 088**

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

(in PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited restated figures)*
Sale of goods for resale, finished goods and materials without elimination of excise	**3 072 539**	**2 916 663**
Excise	(108 666)	(112 113)
Sale of goods for resale, finished goods and materials	**2 963 873**	**2 804 550**
Electricity	2 417 431	2 266 711
Heat energy	258 390	252 450
Energy certificates	15 571	19 207
Coal	154 773	155 942
Gas	70 110	67 162
Other goods for resale, finished goods and materials	47 598	43 078
Rendering of services	**1 846 476**	**1 771 475**
Distribution and trade services	1 777 338	1 690 733
Connection fees	15 425	20 726
Maintenance of road lighting	29 374	26 703
Other services	24 339	33 313
Other revenue	**15 183**	**15 056**
Total	**4 825 532**	**4 591 081**

The Group's sales revenue by operating segments has been presented below.

For the 3-month period ended 31 March 2018 *(unaudited)*

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**164 169**	**671 903**	**1 164**	**2 110 296**	**16 341**	**2 963 873**
Electricity	135	397 207	-	2 020 089	-	**2 417 431**
Heat energy	-	258 390	-	-	-	**258 390**
Energy certificates	-	15 329	-	242	-	**15 571**
Coal	154 773	-	-	-	-	**154 773**
Gas	-	-	-	70 110	-	**70 110**
Other goods for resale, finished goods and materials	9 261	977	1 164	19 855	16 341	**47 598**
Rendering of services	**10 569**	**81 350**	**888 280**	**864 713**	**1 564**	**1 846 476**
Distribution and trade services	40	76 968	835 807	864 523	-	**1 777 338**
Connection fees	-	51	15 374	-	-	**15 425**
Maintenance of road lighting	-	-	29 374	-	-	**29 374**
Other services	10 529	4 331	7 725	190	1 564	**24 339**
Other revenue	**359**	**3 589**	**8 287**	**42**	**2 906**	**15 183**
Total	**175 097**	**756 842**	**897 731**	**2 975 051**	**20 811**	**4 825 532**

For the 3-month period ended 31 March 2017 *(unaudited restated figures)*

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**159 983**	**469 970**	**4 515**	**2 155 967**	**14 115**	**2 804 550**
Electricity	133	195 592	-	2 070 986	-	**2 266 711**
Heat energy	-	252 450	-	-	-	**252 450**
Energy certificates	-	17 889	-	1 318	-	**19 207**
Coal	155 942	-	-	-	-	**155 942**
Gas	-	-	-	67 162	-	**67 162**
Other goods for resale, finished goods and materials	3 908	4 039	4 515	16 501	14 115	**43 078**
Rendering of services	**7 804**	**77 492**	**807 492**	**876 940**	**1 747**	**1 771 475**
Distribution and trade services	48	74 115	740 842	875 728	-	**1 690 733**
Connection fees	-	-	20 726	-	-	**20 726**
Maintenance of road lighting	-	-	26 703	-	-	**26 703**
Other services	7 756	3 377	19 221	1 212	1 747	**33 313**
Other revenue	**353**	**3 983**	**7 497**	**5**	**3 218**	**15 056**
Total	**168 140**	**551 445**	**819 504**	**3 032 912**	**19 080**	**4 591 081**

(in PLN '000)

12. Expenses by type

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited restated figures)*
Depreciation of property, plant and equipment and amortization of intangible assets	(422 938)	(410 270)
Impairment of property, plant and equipment and intangible assets	5 911	(4 373)
Materials and energy	(300 760)	(317 462)
Maitenance and repair services	(43 077)	(51 619)
Distribution services	(551 301)	(526 885)
Other external services	(198 249)	(195 823)
Cost of obligation to remit the emission allowances	(84 176)	(55 845)
Other taxes and charges	(187 366)	(192 723)
Employee benefits expense	(547 933)	(654 390)
Allowance for doubtful debts	(2 975)	(4 458)
Other	(18 373)	(13 567)
Total costs by type	**(2 351 237)**	**(2 427 415)**
Change in inventories, prepayments, accruals and deferred income	(69 161)	(81 006)
Cost of goods produced for internal purposes	111 121	90 010
Selling and distribution expenses	112 269	110 209
Administrative expenses	122 903	153 492
Cost of goods for resale and materials sold	(1 806 046)	(1 401 377)
Cost of sales	**(3 880 151)**	**(3 556 087)**

Decrease in employee benefit costs in the 3-month period ended 31 March 2018, versus the comparable period, is mainly the recognition in the current period of the effects of the release of actuarial provisions for the employee tariff and the Company's Social Benefit Fund in the part related to the existing employees, as future pensioners, by the company in the Generation segment in the amount of PLN 49 270 thousand and PLN 5 469 thousand respectively and the release of the provisions for jubilee bonuses in the amount of PLN 121 172 thousand. Additionally, following the release of the provision for jubilee benefits, the company paid out PLN 79 316 thousand in compensation to employees, which was charged to the Group's operating expenses. The above-mentioned events are described in detail in Note 31 to these condensed interim consolidated financial statements.

Increase in the value of goods and materials sold during the 3-month period ended 31 March 2018 versus the comparable period, is the recognition of the effects of the release of provisions for onerous contracts with a joint venture in the amount of PLN 190 265 thousand, as described in Note 32.3 to these condensed interim consolidated financial statements.

13. Other operating revenue and expenses

In the 3-month period ended 31 March 2018, the company from the Generation segment released a provision for employee tariff and the Company's Social Benefit Fund in the portion related to pensioners. The impact of the release above-mentioned provisions on the increase in other operating revenue of the Group was PLN 127 051 thousand and PLN 12 419 thousand, respectively.

(in PLN '000)

14. Finance income and costs

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Income and costs from financial instruments	**(70 947)**	**24 370**
Interest income	22 005	8 314
Interest costs	(38 403)	(50 073)
Commission relating to borrowings and debt securities	(1 970)	(1 913)
Gain/loss on derivative instruments	(703)	(6 489)
Foreign exchange gains/losses	(23 394)	74 043
Remeasurement of originated loans	(30 470)	-
Other	1 988	488
Other finance income and costs	**(13 441)**	**(16 057)**
Interest on employee benefits	(9 431)	(10 195)
Interest on discount of other provisions	(3 139)	(4 242)
Other	(871)	(1 620)
Total, *including recognized in the statement of comprehensive income:*	**(84 388)**	**8 313**
Interest expense on debt	(38 403)	(50 073)
Finance income and other finance costs	(45 985)	58 386

In the 3-month period ended 31 March 2018, exchange losses exceeded exchange gains by PLN 23 394 thousand. The exchange losses are mainly the exchange difference related to the Company's debt in the euro, i.e. loans obtained from a subsidiary, subordinated bonds and eurobonds. Exchange losses exceeded exchange gains by PLN 32 775 thousand. In the 3-month period ended 31 March 2018, the Group realized exchange differences of PLN 10 298 thousand to carry out investment projects.

The costs of updating the value of loans granted are mainly related to the recognition of the effects of the agreement consolidating the debt of Elektrociepłownia Stalowa Wola S.A. towards the Company, as described in detail in Note 22 to these condensed interim consolidated financial statements.

15. Income tax

15.1. Tax expense in the statement of comprehensive income

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Current income tax	**(181 144)**	**(37 159)**
Current income tax expense	(172 371)	(33 041)
Adjustments to current income tax from previous years	(8 773)	(4 118)
Deferred tax	**26 715**	**(141 413)**
Income tax expense in profit/(loss)	**(154 429)**	**(178 572)**
Income tax expense relating to other comprehensive income	**2 721**	**397**

The increase in the current income tax liability and a decrease in the deferred income tax liability in the 3-month period ended 31 March 2018, versus the comparable period, is related to the planned fulfilment of the obligation to surrender property rights for 2017 after the balance sheet date, i.e. in the 3-month period ended 30 June 2018, by companies from the Sales segment. In the comparable period the companies from the Sales segment fulfilled a significant part of their obligation to surrender property rights or pay a substitution fee for 2016 of PLN 542 152 thousand, which reduced the current tax liability and increased the deferred income tax liability.

(in PLN '000)

15.2. Deferred income tax

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
difference between tax base and carrying amount of fixed and intangible assets	1 554 078	1 546 630
difference between tax base and carrying amount of financial assets	54 940	46 806
different timing of recognition of sales revenue for tax purposes	104 521	107 511
difference between tax base and carrying amount of energy certificates	7 490	7 964
other	49 677	47 841
Deferred tax liabilities	**1 770 706**	**1 756 752**
provisions	566 948	579 336
difference between tax base and carrying amount of fixed and intangible assets	169 355	167 531
power infrastructure received free of charge and received connection fees	9 280	46 669
difference between tax base and carrying amount of financial assets and financial liabilities	120 752	63 336
different timing of recognition of cost of sales for tax purposes	54 369	41 842
tax losses	13 988	13 386
other	20 403	18 909
Deferred tax assets	**955 095**	**931 009**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**42 059**	**46 122**
Deferred tax liability	**(857 670)**	**(871 865)**

As at 31 March 2018 and 31 December 2017, the deferred tax assets was set off against deferred tax liability of companies from the Tax Capital Group ("TCG") due to the fact that the said companies had filed a combined tax return under the Tax Capital Group agreements.

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

The deferred tax asset concerning tax losses applies mainly to the Mining segment. The tax losses in the segment were incurred before the Company joined the Tax Capital Group, i.e. before 1 January 2015. The Company intends to carry the loss forward over five subsequent years following the validity of the Tax Capital Group.

16. Dividends paid and proposed

On 12 March 2018, the Management Board of TAURON Polska Energia S.A. adopted a resolution to file a motion with the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. to allocate the Company's net profit the 2017 financial year of PLN 854 351 thousand to the Company's reserve capital. On 16 April 2018, the Ordinary General Shareholders' Meeting of the Company adopted a resolution following the recommendation of the Management Board.

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

(in PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

17. Property, plant and equipment

For the 3-month period ended 31 March 2018 *(unaudited)*

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**122 780**	**22 580 965**	**18 647 127**	**895 144**	**4 856 088**	**47 102 104**
Direct purchase	-	-	-	-	502 279	**502 279**
Borrowing costs	-	-	-	-	39 187	**39 187**
Transfer of assets under construction	103	210 695	124 908	7 985	(343 691)	**-**
Sale	-	(314)	(16 309)	(7 051)	(27)	**(23 701)**
Liquidation	-	(11 064)	(11 208)	(1 285)	-	**(23 557)**
Received free of charge	-	958	-	-	-	**958**
Transfers to/from assets held for sale	-	(650)	(47)	(261)	-	**(958)**
Overhaul expenses	-	-	-	-	4 346	**4 346**
Items generated internally	-	-	-	-	8 690	**8 690**
Other movements	(354)	(1 489)	2 278	(2 400)	388	**(1 577)**
Foreign exchange differences from translation of foreign entities	-	-	6	9	-	**15**
Closing balance	**122 529**	**22 779 101**	**18 746 755**	**892 141**	**5 067 260**	**47 607 786**
ACCUMULATED DEPRECIATION						
Opening balance	**(407)**	**(8 553 035)**	**(9 866 322)**	**(565 315)**	**(37 139)**	**(19 022 218)**
Depreciation for the period	-	(199 254)	(184 188)	(18 888)	-	**(402 330)**
Increase of impairment	-	(147)	(78)	(36)	-	**(261)**
Decrease of impairment	-	5 978	206	38	20	**6 242**
Sale	-	276	15 996	6 772	-	**23 044**
Liquidation	-	8 658	10 677	1 282	-	**20 617**
Transfers to/from assets held for sale	-	181	26	207	-	**414**
Other movements	-	84	(1 574)	1 544	-	**54**
Foreign exchange differences from translation of foreign entities	-	-	(4)	(4)	-	**(8)**
Closing balance	**(407)**	**(8 737 259)**	**(10 025 261)**	**(574 400)**	**(37 119)**	**(19 374 446)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**122 373**	**14 027 930**	**8 780 805**	**329 829**	**4 818 949**	**28 079 886**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**122 122**	**14 041 842**	**8 721 494**	**317 741**	**5 030 141**	**28 233 340**
of which operating segments:						
Mining	**2 774**	**782 804**	**649 948**	**15 620**	**318 956**	**1 770 102**
Generation	**41 256**	**2 301 961**	**3 696 375**	**34 478**	**3 821 929**	**9 895 999**
Distribution	**61 232**	**10 867 370**	**4 256 589**	**252 614**	**886 758**	**16 324 563**
Other segments and other operations	**16 860**	**89 707**	**118 582**	**15 029**	**2 498**	**242 676**

(in PLN '000)

For the 3-month period ended 31 March 2017 *(unaudited)*

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**121 980**	**21 603 044**	**18 164 046**	**850 102**	**3 261 173**	**44 000 345**
Direct purchase	-	-	-	-	561 401	**561 401**
Borrowing costs	-	-	-	-	22 201	**22 201**
Transfer of assets under construction	138	163 086	101 310	4 843	(269 377)	**-**
Sale, disposal	(76)	(2 173)	(2 304)	(6 100)	(3)	**(10 656)**
Liquidation	(3)	(6 243)	(29 766)	(1 851)	-	**(37 863)**
Received free of charge	-	1 779	-	-	-	**1 779**
Transfers to/from assets held for sale	-	(4 849)	(2 221)	(14)	(11)	**(7 095)**
Overhaul expenses	-	-	-	-	20 066	**20 066**
Items generated internally	-	-	-	-	10 540	**10 540**
Other movements	(111)	109	101	(26)	410	**483**
Foreign exchange differences from translation of foreign entities	-	-	(18)	(23)	-	**(41)**
Closing balance	**121 928**	**21 754 753**	**18 231 148**	**846 931**	**3 606 400**	**44 561 160**
ACCUMULATED DEPRECIATION						
Opening balance	**(433)**	**(7 825 966)**	**(9 268 038)**	**(517 062)**	**(33 657)**	**(17 645 156)**
Depreciation for the period	-	(195 955)	(176 712)	(18 092)	-	**(390 759)**
Increase of impairment	-	(38)	(71)	(23)	-	**(132)**
Decrease of impairment	-	690	297	40	-	**1 027**
Sale, disposal	-	1 577	2 177	5 828	-	**9 582**
Liquidation	-	5 290	29 398	1 793	-	**36 481**
Transfers to/from assets held for sale	-	3 227	1 966	14	-	**5 207**
Other movements	-	20	49	-	-	**69**
Foreign exchange differences from translation of foreign entities	-	-	11	8	-	**19**
Closing balance	**(433)**	**(8 011 155)**	**(9 410 923)**	**(527 494)**	**(33 657)**	**(17 983 662)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**121 547**	**13 777 078**	**8 896 008**	**333 040**	**3 227 516**	**26 355 189**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**121 495**	**13 743 598**	**8 820 225**	**319 437**	**3 572 743**	**26 577 498**
of which operating segments:						
Mining	**2 774**	**722 039**	**603 633**	**16 728**	**351 761**	**1 696 935**
Generation	**41 252**	**2 384 529**	**3 898 107**	**35 892**	**2 538 060**	**8 897 840**
Distribution	**60 609**	**10 542 913**	**4 190 722**	**249 214**	**678 431**	**15 721 889**
Other segments and other operations	**16 860**	**94 117**	**127 763**	**17 603**	**4 491**	**260 834**

In the 3-month period ended 31 March 2018, the Group acquired property, plant and equipment of PLN 541 466 thousand, including capitalized costs of external financing. The major purchases made in connection with investments in the following operating segments:

Operating segment	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Distribution	268 650	247 420
Generation	232 346	307 730
Mining	36 840	25 475

Impairment tests

An analysis of the impact of the market developments in the thirst quarter of 2018 was carried out considering the fact that the Company's market cap has been lower than its carrying amount for a long time, changes in global commodity prices and in the local power coal market following the consolidation in the mining sector, amendments to the Act on Renewable Energy Sources and publication of related obligations for the years 2018 and 2019, which affected the prices of renewable energy certificates, the Act on the capacity market passed and discussion of the functional solutions set out in the capacity market regulations and persisting unfavourable market conditions for the profitability of conventional power industry.

The analysis showed considerable changes in market prices of greenhouse gas emission allowances. However, additional costs related to the prices of allowances were incurred in the market as a result of changes in wholesale prices of electricity. In the first quarter of 2018 the prices grew considerably in the market of greenhouse gas emission allowances due to speculative activities. Still, considering the expected change of the growth trend at the end of the year, the factor should not be considered a risk that would necessitate changes to the long-term projections prepared based on information as of 31 December 2017.

(in PLN '000)

Therefore, it was assumed that the most recent results of impairment tests focusing on property, plant and equipment, which were performed as at 31 December 2017, were up-to-date.

The tests conducted as at 31 December 2017 required estimating the value in use of cash-generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

The recoverable amount of the property, plant and equipment corresponds to their value in use. The impairment losses were charged to the cost of sales.

Impairment tests carried out as at 31 December 2017, and the key assumptions underlying the tests, have been described in Note 11 to the consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2017.

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

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		31 December 2017	30 June 2017 *(unaudited)*	As at 31 December 2017	Year ended 31 December 2017	
Elektrownia Jaworzno II	TAURON Wytwarzanie S.A.	8.39%	8.20%	105 454	118 469	-
Elektrownia Jaworzno III				894 229	136 307	85 672
Elektrownia Łaziska				466 037	-	177 229
Elektrownia Łagisza				1 384 014	35 762	178 213
Elektrownia Siersza				69 361	133 211	-
Elektrownia Stalowa Wola				(34 348)	530	-
Capital projects in progress				-	211	-
ZW Bielsko Biała	TAURON Ciepło Sp. z o.o.	7.58%	7.42%	531 540	22 490	27 543
ZW Tychy				469 264	37 309	23 628
Hydropower plants	TAURON Ekoenergia Sp. z o.o.	8.64%	8.55%	501 188	62 875	40 638
Wind farms		9.54%	7.67% - 9.08%	401 128	111 271	95 291
Total CGU					**658 435**	**628 214**
Common assets	TAURON Wytwarzanie S.A.	8.39%	8.20%	(8 834)	294	-
Total impairment losses					**658 729**	**628 214**

The impairment tests also covered loans grated to a joint venture – Elektrociepłownia Stalowa Wola S.A., which were discussed in detail in Note 22 to these condensed interim consolidated financial statements. The tests were based on assumptions consistent with those used for purposes of testing other assets for impairment. The test results indicated that no impairment losses needed to be recognized.

18. Goodwill

Operating segment	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	581	581
Total	**40 156**	**40 156**

Impairment tests

Having analysed the impact of market developments in the first quarter of 2018, as discussed in detail in Note 17 hereto, the Group has decided that the results of the most recent impairment tests carried out as at 31 December 2017 are still up-to-date.

The test carried out as at 31 December 2017 was performed for the net assets increased by goodwill in each operating segment. The recoverable amount in each company was determined based on the value in use.

(in PLN '000)

Impairment tests carried out as at 31 December 2017, and the key assumptions underlying the tests, have been described in Note 11 to the consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2017. The assumptions were also used to estimate the value of other intangible assets.

The impairment test performed as at 31 December 2017 did not reveal impairment of the carrying amount of goodwill in the segments.

19. Energy certificates and gas emission allowances

19.1. Long-term energy certificates and gas emission allowances

For the 3-month period ended 31 March 2018 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**95 795**	**207 335**	**303 130**
Direct purchase	12 538	-	**12 538**
Reclassification	(89 355)	(181 724)	**(271 079)**
Closing balance	**18 978**	**25 611**	**44 589**

For the 3-month period ended 31 March 2017 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**110 430**	**15 830**	**126 260**
Direct purchase	8 606	-	**8 606**
Reclassification	(106 694)	(15 830)	**(122 524)**
Closing balance	**12 342**	**-**	**12 342**

19.2. Short-term energy certificates and gas emission allowances

For the 3-month period ended 31 March 2018 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**327 324**	**324 936**	**652 260**
Direct purchase	107 461	323	**107 784**
Generated internally	16 003	-	**16 003**
Cancellation	(2 418)	(279 953)	**(282 371)**
Reclassification	88 895	181 724	**270 619**
Closing balance	**537 265**	**227 030**	**764 295**

For the 3-month period ended 31 March 2017 *(unaudited restated figures)*

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**543 536**	**423 847**	**967 383**
Direct purchase	139 219	-	**139 219**
Generated internally	15 685	-	**15 685**
Cancellation	(490 734)	(169 335)	**(660 069)**
Reclassification	105 619	15 830	**121 449**
Closing balance	**313 325**	**270 342**	**583 667**

(in PLN '000)

20. Other intangible assets

For the 3-month period ended 31 March 2018 *(unaudited)*

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**6 403**	**773 287**	**644 480**	**236 548**	**148 502**	**1 809 220**
Direct purchase	-	-	-	-	14 198	**14 198**
Transfer of intangible assets not made available for use	-	28	47 171	3 472	(50 671)	**-**
Sale/ Liquidation	-	(137)	(46)	(50)	-	**(233)**
Transfers to/from assets held for sale	-	(19)	-	-	-	**(19)**
Other movements	-	352	(3)	156	(450)	**55**
Foreign exchange differences from translation of foreign entities	-	-	20	-	-	**20**
Closing balance	**6 403**	**773 511**	**691 622**	**240 126**	**111 579**	**1 823 241**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 265)**	**(25 371)**	**(439 639)**	**(84 861)**	**(7)**	**(555 143)**
Amortization for the period	(63)	-	(16 180)	(4 365)	-	**(20 608)**
Increase of impairment	-	(7)	-	-	-	**(7)**
Sale/ Liquidation	-	-	29	49	-	**78**
Transfers to/from assets held for sale	-	-	17	-	-	**17**
Other movements	-	-	(29)	-	-	**(29)**
Foreign exchange differences from translation of foreign entities	-	-	(19)	-	-	**(19)**
Closing balance	**(5 328)**	**(25 378)**	**(455 821)**	**(89 177)**	**(7)**	**(575 711)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**1 138**	**747 916**	**204 841**	**151 687**	**148 495**	**1 254 077**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1 075**	**748 133**	**235 801**	**150 949**	**111 572**	**1 247 530**

For the 3-month period ended 31 March 2017 *(unaudited)*

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**5 434**	**786 283**	**610 578**	**211 873**	**93 060**	**1 707 228**
Direct purchase	-	-	-	-	21 880	**21 880**
Transfer of intangible assets not made available for use	-	-	8 952	2 601	(11 553)	**-**
Sale, disposal / Liquidation	-	(710)	(58)	(29)	-	**(797)**
Other movements	15	(918)	(6 142)	6 189	(763)	**(1 619)**
Foreign exchange differences from translation of foreign entities	-	-	(57)	-	-	**(57)**
Closing balance	**5 449**	**784 655**	**613 273**	**220 634**	**102 624**	**1 726 635**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 120)**	**(25 617)**	**(387 075)**	**(64 982)**	**(7)**	**(482 801)**
Amortization for the period	(20)	-	(15 257)	(4 234)	-	**(19 511)**
Decrease of impairment	-	8	-	-	-	**8**
Sale, disposal / Liquidation	-	-	53	24	-	**77**
Other movements	(15)	-	2 178	(2 114)	-	**49**
Foreign exchange differences from translation of foreign entities	-	-	50	-	-	**50**
Closing balance	**(5 155)**	**(25 609)**	**(400 051)**	**(71 306)**	**(7)**	**(502 128)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**314**	**760 666**	**223 503**	**146 891**	**93 053**	**1 224 427**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**294**	**759 046**	**213 222**	**149 328**	**102 617**	**1 224 507**

(in PLN '000)

21. Interests in joint ventures

Investments in joint-ventures measured using the equity method as at 31 March 2018 and for the 3-month period ended 31 March 2018 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 March 2018 or for the 3-month period ended 31 March 2018 *(unaudited)*
Non-current assets	1 278 031	1 751 073	**3 029 104**
Current assets, *including:*	2 733	540 339	**543 072**
cash and cash equivalents	*260*	*134 174*	***134 434***
Non-current liabilities (-) *including:*	(669 495)	(673 204)	**(1 342 699)**
debt	*(619 090)*	*(587 229)*	***(1 206 319)***
Current liabilities (-) *including:*	(670 413)	(479 050)	**(1 149 463)**
debt	*(598 244)*	*(49 797)*	***(648 041)***
Total net assets	(59 144)	1 139 158	**1 080 014**
Share in net assets	(29 572)	569 579	**540 007**
Investment in joint ventures	**-**	**528 633**	**528 633**
Share in revenue of joint ventures	17	186 248	**186 265**
Share in profit/(loss) of joint ventures	**-**	**25 242**	**25 242**
Share in other comprehensive income of joint ventures	**-**	**160**	**160**

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

Investments in joint-ventures measured using the equity method as at 31 December 2017 and for the 3-month period ended 31 March 2017 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2017 or for the 3-month period ended 31 March 2017 (unaudited)
Non-current assets	1 219 954	1 658 016	**2 877 970**
Current assets, *including:*	3 830	552 456	**556 286**
cash and cash equivalents	*2 673*	*197 401*	***200 074***
Non-current liabilities (-) *including:*	(538 278)	(670 240)	**(1 208 518)**
debt	*(488 440)*	*(588 368)*	***(1 076 808)***
Current liabilities (-) *including:*	(726 070)	(460 096)	**(1 186 166)**
debt	*(659 374)*	*(49 415)*	***(708 789)***
Total net assets	(40 564)	1 080 136	**1 039 572**
Share in net assets	(20 282)	540 068	**519 786**
Investment in joint ventures	**-**	**499 204**	**499 204**
Share in revenue of joint ventures	3	174 352	**174 355**
Share in profit/(loss) of joint ventures	**-**	**37 191**	**37 191**
Share in other comprehensive income of joint ventures	**-**	**(10)**	**(10)**

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

Elektrociepłownia Stalowa Wola S.A.

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

(in PLN '000)

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

The conditions precedent were satisfied on 31 March 2017, which was followed by the entry into force of the aforesaid agreement and annexes. The issue has been discussed in more detail in Note 32.3 to these condensed interim consolidated financial statements.

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

Additionally, the Company has receivables arising from loans disbursed to Elektrociepłownia Stalowa Wola S.A. with the carrying amount of PLN 484 877 thousand, which has been discussed in more detail in Note 22 to these condensed interim consolidated financial statements.

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014, the TAURON Group entered into an agreement with the ArcelorMittal Group. It is an agreement between entities holding interests in TAMEH HOLDING Sp. z o.o. which governs the investment and operational projects carried out in the industrial power sector. The duration of the agreement is 15 years and may be extended. Following the transactions concluded in 2014, each capital group holds 50% of shares in TAMEH HOLDING Sp. z o.o.

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

22. Loans to joint ventures

Loans to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 31 March 2018 and 31 December 2017 are presented in the below tables:

	Agreement date	Loan amount	As at 31 March 2018 *(unaudited)*				Maturity date	Interest rate
			Principal*	Interest	Impairment allowance	Total		
Debt consolidation agreement	28.02.2018	609 951	485 619	3 368	(4 110)	**484 877**	The principal of PLN 310 851 thousand and interest mature on 30 June 2033. The principal amount of PLN 299 100 thousand was repaid on 30 April 2018.	fixed
Total			**485 619**	**3 368**	**(4 110)**	**484 877**		
Non-current			186 519	3 368	(4 110)	**185 777**		
Current			299 100	-	-	**299 100**		

** The equity measured at amortised cost.*

	Agreement date	Loan amount	As at 31 December 2017			Maturity date	Interest rate	Purpose
			Principal	Interest	Total			
Subordinated loan	20.06.2012	177 000	177 000	35 052	**212 052**	31.12.2032	floating/ WIBOR 3M+mark-up	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14.12.2015	15 850	15 850	1 370	**17 220**	31.12.2027	floating/ WIBOR 3M+mark-up	Repayment of the principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
	15.12.2016	15 300	11 000	495	**11 495**		floating/ WIBOR 6M+mark-up	
Arrangements to consolidate the borrower's debt	30.06.2017	150 000	150 000	3 259	**153 259**	28.02.2018	floating/ WIBOR 6M+mark-up	Payment of total liabilities under loan agreements entered into by the borrower with the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. and financing of current operations
	31.10.2017	175 157	175 157	1 249	**176 406**			
Total			**529 007**	**41 425**	**570 432**			
Non-current			203 850	36 917	**240 767**			
Current			325 157	4 508	**329 665**			

On 12 January 2018, the Company and Elektrociepłownia Stalowa Wola S.A. signed a loan agreement totalling PLN 27 000 thousand to be used for the operations of the borrower. Under the agreement the loan and interest, accrued based on the 1M WIBOR rate increased by margin, should be repaid by 28 February 2018. The repayment of the principal, interest and other expenses and amounts due to the Company was secured with the borrower's blank promissory note and a promissory note agreement.

On 28 February 2018 the Company and Elektrociepłownia Stalowa Wola S.A. concluded an agreement to consolidate the debt of the borrower totalling PLN 609 951 thousand by renewing all the existing liabilities of the borrower arising from loans extended and outstanding by 28 February 2018. Under the agreement the consolidated amounts comprised the principal amounts of originated loans with the carrying amount as at 31 December 2017 of PLN 529 007 thousand; the principal amount of a loan of 12 January 2018 totalling PLN 27 000 thousand and related interest accrued as at 28 February 2018 totalling PLN 53 944 thousand.

According to the agreement, on 30 April 2018, a portion of the loan of PLN 299 100 thousand was repaid and the remaining part of the debt of PLN 310 851 thousand with interest accrued since 1 March 2018 will be repaid by 30 June 2033. The loan bears interest at a fixed interest rate and is secured with a blank promissory note and a promissory note agreement

As the debt consolidation agreement changed significant contractual terms, the Company no longer discloses funds from loans under the agreement derecognising their previous balance sheet value in the amount of PLN 511 952 thousand and discloses a new asset item measured at fair value at initial recognition in the amount of PLN 481 582 thousand, which has increased the financial expenses by PLN 30 370 thousand.

On 8 March 2018 Elektrociepłownia Stalowa Wola S.A. entered into a loan agreement with Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A. whereby Bank Gospodarstwa Krajowego and PGNiG S.A. will each provide a PLN 450 000 thousand loan to Elektrociepłownia Stalowa Wola S.A. The loan matures on 14 June 2030. The loan agreement sets out that the funds will be disbursed once Elektrociepłownia Stalowa Wola S.A. has satisfied the conditions precedent, one of them being a bank guarantee issued on the instruction of the Company and securing the borrower's debt at the bank presented to Bank Gospodarstwa Krajowego. A bank guarantee was issued after the balance sheet date, i.e. on 11 April 2018, as discussed in detail in Note 46 to these condensed interim consolidated financial statements.

In view of the aforementioned agreement, on 8 March 2018 Elektrociepłownia Stalowa Wola S.A. as a borrower, Polskie Górnictwo Naftowe i Gazownictwo SA, PGNiG Termika S.A., TAURON Polska Energia S.A., TAURON Wytwarzanie S.A. as subordinated creditors and the Bank Gospodarstwa Krajowego as the Agent, entered into a debt subordination agreement. Pursuant to the concluded agreement, the debt of Elektrociepłownia Stalowa Wola S.A. due to the Company under the debt consolidation agreement of 28 February 2018 for a total amount of PLN 609 951 thousand has constituted subordinated debt ("subordinated debt"). As at date of approving these condensed interim consolidated financial statements for issue the subordinated debt amounted to PLN 310 851 thousand. The loan amount will be increased by interest accrued until the maturity date.

On 30 March 2018, the Company and Elektrociepłownia Stalowa Wola S.A. signed a loan agreement of up to PLN 7 290 thousand to be used for the operations of the borrower. Under the agreement the loan and interest accrued at a fixed interest rate should be repaid by 30 June 2033. The repayment of the principal, interest and other expenses and amounts due to the Company is secured with the borrower's blank promissory note and a promissory note agreement. As at 31 March 2018 the loan amount was not disbursed to the borrower. After the end of the reporting period, on 13 April 2018, the Company — on the instruction of the borrower — released a tranche amounting to PLN 7 000 thousand.

After the balance sheet date, i.e. on 11 April 2018 Polskie Górnictwo Naftowe i Gazownictwo S.A., TAURON Polska Energia S.A. and the borrower - Elektrociepłownia Stalowa Wola S.A. concluded a VAT loan agreement for the total amount of PLN 13 000 thousand, to finance the borrower's VAT obligations related to completion of the construction of the gas and steam unit in Stalowa Wola. Pursuant to an agreement the Company will grant a loan up to PLN 6 500 thousand to Elektrociepłownia Stalowa Wola S.A. Under the agreement the principal amount of the loan will be repaid by 30 September 2020 and interest calculated based on WIBOR 1M plus mark-up will be repaid by the 15th day of each calendar month. The repayment of the principal, interest and other expenses and amounts due to the Company is secured with the borrower's blank promissory note and a promissory note agreement. After the end of the reporting period, on 27 April 2018, the Company — on the instruction of the borrower — released a tranche amounting to PLN 500 thousand.

Condensed interim consolidated financial statements for the 3-month period ended 31 March 2018 prepared in accordance with the IFRS as endorsed by the European Union (in PLN '000)

23. Other financial assets

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
Shares	121 880	141 698
Deposits and deposits for Mine Decommissioning Fund	43 810	39 756
Derivative instruments	122 867	81 698
Investment fund units	104 641	104 077
Loans granted	11 322	10 547
Bid bonds, deposits and collateral transferred	65 687	61 817
Initial margins	32 370	11 140
Other	5 694	7 554
Total	**508 271**	**458 287**
Non-current	216 134	238 354
Current	292 137	219 933

As at 31 March 2018 the shares held by the Group are mainly shares in the following entities:

- SCE Jaworzno III Sp. z o.o., in the amount of PLN 30 789 thousand;
- Przedsiębiorstwo Energetyki Cieplnej Tychy Sp. z o.o., in the amount of PLN 24 241 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 14 817 thousand.
- PGE EJ 1 Sp. z o.o., in the amount of PLN 12 651 thousand;
- Magenta Grupa TAURON Sp. z o.o. in the amount of PLN 9 500 thousand.

The value of the shares decreased in the 3-month period ended 31 March 2018 following fair value measurement of shares as at 1 January 2018 in line with IFRS 9 *Financial Instruments*, as discussed in detail in Note 8 to the condensed interim consolidated financial statements. As at 31 December 2017, the shares were measured at cost less any impairment losses.

24. Other non-financial assets

24.1. Other non-current non-financial assets

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Prepayments for assets under construction and intangible assets *including:*	149 874	163 906
related to project realization: Construction of 910 MW Power Unit in Jaworzono III Power Plant	*148 761*	*162 589*
Costs of preparing production in hard coal mines	156 763	144 061
Prepayments for debt charges	14 391	12 252
Contract acquisition costs and costs of discounts	10 730	-
Other prepayments	28 251	26 627
Total	**360 009**	**346 846**

(in PLN '000)

24.2. Other current non-financial assets

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Costs settled over time	**103 881**	**79 935**
Costs of preparing production in hard coal mines	43 792	52 123
Property and tort insurance	5 214	3 010
IT, telecom and postal services	21 637	15 074
Prepayments for debt charges	3 967	3 917
Contract acquisition costs and costs of discounts	14 068	-
Other prepayments	15 203	5 811
Other current non-financial assets	**74 553**	**7 120**
Advance payments for deliveries	6 530	4 858
Transfers made to the Social Benefit Fund	41 241	-
Other current assets	26 782	2 262
Total	**178 434**	**87 055**

25. Inventories

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Gross value		
Coal, *of which:*	197 467	189 464
Raw materials	*89 033*	*33 260*
Semi-finished goods and work-in-progress	*108 434*	*155 180*
Emission allowances	3 064	382
Other inventories	128 953	114 450
Total	**329 484**	**304 296**
Measurement to fair value		
Emission allowances	899	8
Measurement to net realisable value		
Other inventories	(8 570)	(8 841)
Total	**(7 671)**	**(8 833)**
Fair value		
Gas emission allowances	3 963	390
Net realisable value		
Coal, *of which:*	197 467	189 464
Raw materials	*89 033*	*33 260*
Semi-finished goods and work-in-progress	*108 434*	*155 180*
Other inventories	120 383	105 609
Total	**321 813**	**295 463**

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

The Company recognized a gain on measurement of PLN 899 thousand as at 31 March 2018 following an increase in the prices of emission allowances.

(in PLN '000)

26. Receivables from buyers

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Value of items before allowance/write-down		
Receivables from buyers	1 516 847	1 521 554
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	557 535	499 601
Receivables claimed at court	205 311	205 025
Total	**2 279 693**	**2 226 180**
Allowance/write-down		
Receivables from buyers	(39 473)	(12 849)
Receivables claimed at court	(181 108)	(180 518)
Total	**(220 581)**	**(193 367)**
Value of item net of allowance (carrying amount)		
Receivables from buyers	1 477 374	1 508 705
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	557 535	499 601
Receivables claimed at court	24 203	24 507
Total	**2 059 112**	**2 032 813**

27. Receivables arising from taxes and charges

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Corporate Income Tax receivables	616	2 128
VAT receivables	140 513	211 520
Excise duty receivables	48 231	29 718
Other	4 681	760
Total	**194 041**	**244 126**

28. Cash and cash equivalents

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Cash at bank and in hand	448 601	703 202
Short-term deposits (up to 3 months)	9 307	205 889
Other	1	158
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**457 909**	**909 249**
restricted cash	141 778	152 952
Bank overdraft	(1 366)	(93 503)
Cash pool	(22 141)	(13 676)
Foreign exchange	(3 905)	(717)
Total cash and cash equivalents presented in the statement of cash flows	**430 497**	**801 353**

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

As at 31 March 2018, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 72 644 thousand and cash on the accounts used for the settlement of electricity and emission allowances traded on the Polish Power Exchange (Towarowa Giełda Energii S.A.) of PLN 62 622 thousand.

(in PLN '000)

29. Equity

29.1. Issued capital

Issued capital as at 31 March 2018 *(unaudited)*

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

As at 31 March 2018, the value of the issued capital, the number of shares and the nominal value of shares did not change as compared to 31 December 2017.

Shareholding structure as at 31 March 2018 *(unaudited, to the best of the Company's knowledge)*

Shareholder	Number of shares	Value of shares	Percentage of share capital	Percentage of total vote
State Treasury	526 848 384	2 634 242	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	910 553	10.39%	10.39%
Nationale - Nederlanden Otwarty Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	**1 752 549 394**	**8 762 747**	**100%**	**100%**

To the best of the Company's knowledge, the shareholding structure as at 31 March 2018 had not changed since 31 December 2017.

29.2. Reserve capital

On 16 April 2018, the Ordinary General Shareholders' Meeting of the Company adopted a resolution to allocate the Company's net profit for the 2017 financial year, totalling PLN 854 351 thousand to the Company's reserve capital.

29.3. Revaluation reserve — valuation of hedging instruments

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Opening balance	**23 051**	**29 660**
Remeasurement of hedging instruments	(13 483)	(3 842)
Remeasurement of hedging instruments charged to profit or loss	375	(375)
Deferred income tax	2 490	801
Closing balance	**12 433**	**26 244**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued bonds, which has been discussed in more detail in Note 42.2 to these condensed interim consolidated financial statements.

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

As at 31 March 2018, the Company recognized PLN 12 433 thousand in the revaluation reserve from valuation of hedging instruments. It represents an asset arising from valuation of interest rate swaps as at the end of the reporting period, totalling PLN 15 749 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The amount of PLN 375 thousand constituting a change in valuation of instruments related to interest accrued on bonds as at the end of the reporting period was recognized in the profit for the period.

(in PLN '000)

29.4. Retained earnings and accumulated losses and restrictions on dividend payment

Prior year profit/loss arising from settlement of business combinations with subsidiaries and actuarial gains and losses related to provisions for post-employment benefits recognized through other comprehensive income are not distributable.

As at 31 March 2018 and as at the date of approval of these condensed interim consolidated financial statements for publication no other dividend restrictions occurred.

30. Debt

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Loans and borrowings	1 028 476	1 191 388
Bonds issued	8 735 133	8 637 435
Finance lease	22 647	23 973
Total	**9 786 256**	**9 852 796**
Non-current	9 467 201	9 501 414
Current	319 055	351 382

30.1. Loans and borrowings

Loans and borrowings taken out as at 31 March 2018 *(unaudited)*

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within *(after the balance sheet date)*:					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	59 241	59 241	27 525	5 505	7 341	7 341	11 529	-
	fixed	963 590	963 590	34 655	120 521	155 177	155 177	262 850	235 210
Total PLN		**1 022 831**	**1 022 831**	**62 180**	**126 026**	**162 518**	**162 518**	**274 379**	**235 210**
USD	floating	400	1 365	1 365	-	-	-	-	-
Total USD		**400**	**1 365**	**1 365**	**-**	**-**	**-**	**-**	**-**
Total			**1 024 196**	**63 545**	**126 026**	**162 518**	**162 518**	**274 379**	**235 210**
Interest increasing carrying amount			4 280						
Total			**1 028 476**						

Loans and borrowings taken out as at 31 December 2017

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within *(after the balance sheet date)*:					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	55 757	55 757	22 297	5 496	7 341	7 341	13 282	-
	fixed	1 036 011	1 036 011	35 187	127 054	162 240	162 240	273 506	275 784
Total PLN		**1 091 768**	**1 091 768**	**57 484**	**132 550**	**169 581**	**169 581**	**286 788**	**275 784**
EUR	floating	22 060	92 009	92 009	-	-	-	-	-
Total EUR		**22 060**	**92 009**	**92 009**	**-**	**-**	**-**	**-**	**-**
USD	floating	418	1 454	1 454	-	-	-	-	-
Total USD		**418**	**1 454**	**1 454**	**-**	**-**	**-**	**-**	**-**
Total			**1 185 231**	**150 947**	**132 550**	**169 581**	**169 581**	**286 788**	**275 784**
Interest increasing carrying amount			6 157						
Total			**1 191 388**						

Changes in the balance of loans and borrowings, excluding interest increasing their carrying amount, in the 3-month period ended 31 March 2018 and in the comparative period, have been presented below.

(in PLN '000)

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Opening balance	**1 185 231**	**1 256 467**
Impact of IFRS 9	**(33 055)**	**-**
Opening balance after adjustement	**1 152 176**	**1 256 467**
Movement in bank overdrafts and cash pool loans received	**(87 693)**	**59 688**
Movement in loans (excluding bank overdrafts and cash pool loans):	**(40 287)**	**(22 401)**
Repaid	(36 251)	(22 462)
Change in valuation	(4 036)	61
Closing balance	**1 024 196**	**1 293 754**

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

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	78 664	84 039
		Construction and start-up of a co-generation unit at EC Bielsko Biała	Fixed	15.12.2021	112 621	120 061
		Modernization and extension of power grid	Fixed	15.06.2024	251 644	266 139
			Fixed	15.09.2024	114 923	128 711
			Fixed	15.09.2024	144 342	160 819
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	265 649	282 341
Overdraft facility	Bank Gospodarstwa Krajowego	Financing of transactions involving emission allowance, energy and gas	Floating	31.12.2018	-	92 048
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	19 000	20 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	13 973	13 881
Other loans and borrowings					27 660	23 349
Total					**1 028 476**	**1 191 388**

30.2. Bonds issued

Bonds issued as at 31 March 2018 *(unaudited)*

(in PLN '000)

Issuer	Tranche/ Bank	Redemption date	Currrency	Principal at nominal value in currency	As at balance sheet date		of which maturing within *(after the balance sheet date):*		
					Interest accrued	Principal at amortised cost	up to 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	911	99 885	99 885	-	-
		20.12.2020	PLN	100 000	911	99 851	-	99 851	-
		20.12.2021	PLN	100 000	911	99 828	-	99 828	-
		20.12.2022	PLN	100 000	911	99 810	-	99 810	-
		20.12.2023	PLN	100 000	911	99 795	-	-	99 795
		20.12.2024	PLN	100 000	911	99 785	-	-	99 785
		20.12.2025	PLN	100 000	911	99 776	-	-	99 776
		20.12.2026	PLN	100 000	911	99 767	-	-	99 767
		20.12.2027	PLN	100 000	911	99 761	-	-	99 761
		20.12.2028	PLN	100 000	911	99 757	-	-	99 757
		20.12.2020	PLN	70 000	628	69 966	-	69 966	-
		20.12.2021	PLN	70 000	628	69 963	-	69 963	-
		20.12.2022	PLN	70 000	628	69 961	-	69 961	-
		20.12.2023	PLN	70 000	628	69 959	-	-	69 959
		20.12.2024	PLN	70 000	628	69 958	-	-	69 958
		20.12.2025	PLN	70 000	628	69 957	-	-	69 957
		20.12.2026	PLN	70 000	628	69 957	-	-	69 957
		20.12.2027	PLN	70 000	628	69 956	-	-	69 956
		20.12.2028	PLN	70 000	628	69 956	-	-	69 956
		20.12.2029	PLN	70 000	628	69 955	-	-	69 955
	Bond Issue Scheme of 24.11.2015	29.12.2020	PLN	1 600 000	12 067	1 597 412	-	1 597 412	-
	TPEA1119	4.11.2019	PLN	1 750 000	19 416	1 749 309	1 749 309	-	-
	European Investment Bank	16.12.2034	EUR	190 000	10 673	798 500	-	-	798 500
	Eurobonds EURBD050727	5.07.2027	EUR	500 000	36 969	2 088 224	-	-	2 088 224
TAURON Sweden Energy AB (publ)		3.12.2029	EUR	168 000	8 067	701 503	-	-	701 503
Total					**102 582**	**8 632 551**	**1 849 194**	**2 106 791**	**4 676 566**

Bonds issued as at 31 December 2017

Issuer	Tranche/ Bank	Redemption date	Currrency	Principal at nominal value in currency	As at balance sheet date		of which maturing within *(after the balance sheet date):*		
					Interest accrued	Principal at amortised cost	up to 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	107	99 869	99 869	-	-
		20.12.2020	PLN	100 000	107	99 838	-	99 838	-
		20.12.2021	PLN	100 000	107	99 817	-	99 817	-
		20.12.2022	PLN	100 000	107	99 800	-	99 800	-
		20.12.2023	PLN	100 000	107	99 787	-	-	99 787
		20.12.2024	PLN	100 000	107	99 778	-	-	99 778
		20.12.2025	PLN	100 000	107	99 770	-	-	99 770
		20.12.2026	PLN	100 000	107	99 761	-	-	99 761
		20.12.2027	PLN	100 000	107	99 756	-	-	99 756
		20.12.2028	PLN	100 000	107	99 752	-	-	99 752
		20.12.2020	PLN	70 000	74	69 963	-	69 963	-
		20.12.2021	PLN	70 000	74	69 961	-	69 961	-
		20.12.2022	PLN	70 000	74	69 959	-	69 959	-
		20.12.2023	PLN	70 000	74	69 958	-	-	69 958
		20.12.2024	PLN	70 000	74	69 957	-	-	69 957
		20.12.2025	PLN	70 000	74	69 956	-	-	69 956
		20.12.2026	PLN	70 000	74	69 956	-	-	69 956
		20.12.2027	PLN	70 000	74	69 955	-	-	69 955
		20.12.2028	PLN	70 000	74	69 955	-	-	69 955
		20.12.2029	PLN	70 000	74	69 955	-	-	69 955
	Bond Issue Scheme of 24.11.2015	29.12.2020	PLN	1 600 000	389	1 597 188	-	1 597 188	-
	TPEA1119	4.11.2019	PLN	1 750 000	7 609	1 749 277	1 749 277	-	-
	European Investment Bank	16.12.2034	EUR	190 000	1 597	791 355	-	-	791 355
	Eurobonds EURBD050727	5.07.2027	EUR	500 000	24 425	2 069 193	-	-	2 069 193
TAURON Sweden Energy AB (publ)		3.12.2029	EUR	168 000	1 950	695 139	-	-	695 139
Total					**37 780**	**8 599 655**	**1 849 146**	**2 106 526**	**4 643 983**

(in PLN '000)

On 9 March 2018 the Bond Issue Scheme of 24 November 2015 was extended. Based on annexes to the agency and depositary agreement and the guarantee agreement a few banks extended the availability period of funds under the Bond issue scheme, i.e. the maximum value of the Bond Issue Scheme :

- until 31 December 2021 is PLN 6 070 000 thousand (before the annexes it was PLN 5 320 000 thousand);
- until 31 December 2022 is PLN 5 820 000 thousand (before the annexes it was PLN 2 450 000 thousand).

By 31 December 2020 the Scheme's value will not change and will not exceed PLN 6 270 000 thousand.

The annexes were concluded with the following banks participating in the Scheme: Bank Handlowy w Warszawie S.A., Bank BGŻ BNP Paribas S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A. Due to the extension, the financing margin in the Scheme has not changed.

Key instruments recognized under bonds issued by the Company as at the end of the reporting period:

- eurobonds of the total face value of EUR 500 000 thousand and issue price accounting for 99.438% of the face value, with fixed interest paid on an annual basis. The bonds have been admitted to trading on the London Stock Exchange. They were rated "BBB" by the Fitch rating agency;
- bonds issued under the Bond Issue Scheme dated 24 November 2015 of the face value of PLN 1 600 000 thousand. The bonds were issued as unsecured, dematerialized coupon securities. Their interest was determined by reference to WIBOR 6M increased by a fixed margin;
- bonds issued on 4 November 2014 for the amount of PLN 1 750 000 thousand with the value up to PLN 5 000 000 thousand as of July 2013 under a Bond Issue Scheme. Those are five-year unsecured bonds with floating interest based on WIBOR 6M increased by margin and with a six-month interest period;
- bonds of the face value of PLN 1 700 000 thousand issued under the Long-Term Bond Issue Scheme in line with contracts concluded with Bank Gospodarstwa Krajowego. Those are dematerialized, unsecured and coupon bonds. The interest rate is floating, based on WIBOR 6M increased by the bank's margin.

Changes in the balance of bonds, excluding interest which increased the carrying amount

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Opening balance	**8 599 655**	**7 666 081**
Issue*	-	499 543
Change in valuation	32 896	(71 253)
Closing balance	**8 632 551**	**8 094 371**

**Costs of issue have been included.*

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, which has been discussed in more detail in Note 42.2 to these condensed interim consolidated financial statements.

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. The key covenant is the net debt to EBITDA ratio (for the domestic bond issue schemes) which sets the maximum allowed debt less cash in relation to generated EBITDA. As at 31 March 2018, none of these covenants had been breached and the contractual provisions were complied with.

(in PLN '000)

31. Provisions for employee benefits

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Provision for post-employment benefits and jubilee bonuses	1 154 700	1 469 108
Provision for employment termination benefits	35 118	45 815
Total	**1 189 818**	**1 514 923**
Non-current	1 089 713	1 380 650
Current	100 105	134 273

31.1. Provisions for post-employment benefits and jubilee bonuses

For the 3-month period ended 31 March 2018 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**321 894**	**530 215**	**106 321**	**510 678**	**1 469 108**
Current service costs	3 770	2 437	699	5 753	**12 659**
Actuarial gains and losses	1 227	-	(21)	(6 641)	**(5 435)**
Benefits paid	(8 360)	(31)	(838)	(6 453)	**(15 682)**
Past service costs	217	(176 321)	(17 419)	(121 858)	**(315 381)**
Interest expense	2 189	3 403	730	3 109	**9 431**
Closing balance	**320 937**	**359 703**	**89 472**	**384 588**	**1 154 700**
Non-current	293 031	347 199	86 401	342 100	**1 068 731**
Current	27 906	12 504	3 071	42 488	**85 969**

Past service costs, which decreased the provisions in the 3-month period ended 31 March 2018 by PLN 315 381 thousand result mainly from the release of the following provisions by the company in the Generation segment:

- provision for the employee tariff in the part related to pensioners in the amount of PLN 127 051 thousand and employees, as future pensioners, in the amount of PLN 49 270 thousand based on the Management Board's agreement with social partners and approved amendments to the Collective Labour Agreement;
- provision for jubilee bonuses of PLN 121 172 thousand based on arrangements amending employment contracts under which the bonuses will not be paid out.
- provision for the Company's Social Benefit Fund in the part related to pensioners in the amount of PLN 12 419 thousand and employees, as future pensioners, in the amount of PLN 5 469 thousand.

The release of the above provisions decreased the Group's operating expenses by PLN 175 911 thousand and increased its other operating revenue by PLN 139 470 thousand.

Additionally, following the release of the provision for jubilee benefits, the company paid out PLN 79 316 thousand in compensation to employees. which was charged to the Group's operating expenses.

The impact of the events in question on the financial performance of the Group has been described in detail in Notes 12 and 13 hereto.

(in PLN '000)

For the 3-month period ended 31 March 2017 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**307 281**	**532 184**	**112 469**	**2 248**	**526 209**	**1 480 391**
Current service costs	3 675	2 901	586	-	7 064	**14 226**
Actuarial gains and losses	(1 964)	-	(166)	-	(6 417)	**(8 547)**
Benefits paid	(6 857)	(22)	(921)	-	(7 907)	**(15 707)**
Interest expense	2 039	3 832	809	-	3 515	**10 195**
Closing balance	**304 174**	**538 895**	**112 777**	**2 248**	**522 464**	**1 480 558**
Non-current	271 729	518 705	108 326	-	467 324	**1 366 084**
Current	32 445	20 190	4 451	2 248	55 140	**114 474**

Measurement of provisions for employee benefits

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

The provisions for employee benefits were measured as at 31 March 2018 based on actuarial projections. Actuarial assumptions made in preparing the projections for 2018 were the same as those used for measuring provisions as at 31 December 2017. Key actuarial assumptions made as at 31 December 2017 for the purpose of calculation of the liability:

	31 December 2017
Discount rate (%)	3.00%
Estimated inflation rate (%)	2.50%
Employee rotation rate (%)	1.15% - 8.64%
Estimated salary increase rate (%)	1.80% - 2.50%
Estimated electricity price increase rate (%)	3.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%
Remaining average employment period	9.89 – 20.40

31.2. Provisions for employment termination benefits

For the 3-month period ended 31 March 2018 *(unaudited)*

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	**29 567**	**10 542**	**5 706**	**45 815**
Recognition	197	-	-	**197**
Reversal	(2 245)	-	-	**(2 245)**
Utilization	(2 301)	(642)	(5 706)	**(8 649)**
Closing balance	**25 218**	**9 900**	**-**	**35 118**
Non-current	20 982	-	-	**20 982**
Current	4 236	9 900	-	**14 136**

For the 3-month period ended 31 March 2017 *(unaudited)*

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	**17 599**	**17 062**	**16 561**	**51 222**
Recognition	11 104	-	-	**11 104**
Utilization	(2 413)	(3 204)	(4 597)	**(10 214)**
Closing balance	**26 290**	**13 858**	**11 964**	**52 112**
Non-current	11 642	-	-	**11 642**
Current	14 648	13 858	11 964	**40 470**

(in PLN '000)

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

For the 3-month period ended 31 March 2018 *(unaudited)*

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
Opening balance	**191 975**	**124 091**	**316 066**
Interest cost (discounting)	1 441	925	**2 366**
Recognition/(reversal), net	79	(57)	**22**
Closing balance	**193 495**	**124 959**	**318 454**
Non-current	193 495	99 956	**293 451**
Current	-	25 003	**25 003**
Other provisions, long-term portion			**59 947**
Total			**353 398**

For the 3-month period ended 31 March 2017 *(unaudited)*

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity and provision for costs	Provisions, total
Opening balance	**146 885**	**115 302**	**198 844**	**461 031**
Interest cost (discounting)	1 285	743	2 214	**4 242**
Recognition	28	-	2 211	**2 239**
Reversal	-	-	(190 265)	**(190 265)**
Closing balance	**148 198**	**116 045**	**13 004**	**277 247**
Non-current	148 198	103 728	4 625	**256 551**
Current	-	12 317	8 379	**20 696**
Other provisions, long-term portion				**46 478**
Total				**303 029**

32.1. Provision for mine decommissioning costs

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

As at 31 March 2018, the balance of the provision was PLN 193 495 thousand, and the change concerned mainly the unwinding of discount – PLN 1 441 thousand.

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

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

- provision for ash pile reclamation costs, which totalled PLN 41 294 thousand as at 31 March 2018 (versus PLN 40 990 thousand as at 31 December 2017);
- provision for windfarm dismantling costs, which totalled PLN 58 321 thousand as at 31 March 2018 (versus PLN 57 887 thousand as at 31 December 2017);
- provision for costs of liquidation of fixed assets – a chimney in Elektrownia Jaworzno as well as cooling towers and a unit in Elektrownia Łagisza, which totalled PLN 25 344 thousand as at 31 March 2018 (versus PLN 25 214 thousand as at 31 December 2017).

(in PLN '000)

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

In the 3-month period ended 31 March 2017, following the entry into force of the agreement to set out they key boundary conditions for the restructuring of "Construction of a gas and steam unit in Stalowa Wola" project concluded by TAURON Polska Energia S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A., an annex to the agreement to sell electricity of 11 March 2011 between the Company, Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A. and an annex to the agreement to supply gaseous fuel of 11 March 2011 between Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A., the Company released in full the following provisions:

- a provision resulting from the fact that under a long-term agreement to sell electricity concluded between Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company was obliged to purchase half of the volume of electricity generated by Elektrociepłownia Stalowa Wola S.A. at a price calculated in line with the "cost plus" formula, which covers the production costs and the financing costs;
- a provision resulting from the fact that the Company was obliged to cover losses which may have been incurred under the take-or-pay clause of the comprehensive agreement to supply gaseous fuel entered into by PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. Pursuant to the said clause, Elektrociepłownia Stalowa Wola S.A. was obliged to pay PGNiG S.A. for uncollected gas.

The balance of provisions as at 31 March 2017 was PLN 13 004 thousand and concerned the provision for costs of operation of Elektrociepłownia Stalowa Wola S.A.

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

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

For the 3-month period ended 31 March 2018 ***(unaudited)***

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**324 937**	**624 009**	**948 946**
Recognition	84 234	168 259	**252 493**
Reversal	(58)	(3 827)	**(3 885)**
Utilisation	(279 953)	(2 418)	**(282 371)**
Closing balance	**129 160**	**786 023**	**915 183**

For the 3-month period ended 31 March 2017 ***(unaudited restated figures)***

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**209 736**	**742 120**	**951 856**
Recognition	55 927	187 028	**242 955**
Reversal	(82)	(23)	**(105)**
Utilisation	(169 335)	(546 575)	**(715 910)**
Closing balance	**96 246**	**382 550**	**478 796**

33.1. Provision for gas emission liabilities

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

(in PLN '000)

As at 31 March 2018, the provision for gas emission liabilities amounted to PLN 129 160 thousand and regarded the obligatory surrendering of emission allowances for:

- a period of financial year ended 31 December 2017 of PLN 46 819 thousand, including that of TAURON Wytwarzanie S.A. - PLN 8 878 thousand and TAURON Ciepło Sp. z o.o. - PLN 37 941 thousand;
- a 3-month period ended 31 March 2018 of PLN 82 341 thousand, including that of TAURON Wytwarzanie S.A. - PLN 71 485 thousand and TAURON Ciepło Sp. z o.o. - PLN 10 856 thousand.

33.2. Provision for the obligation to surrender energy certificates

As at 31 March 2018, the Group recognized a short-term provision for the obligation to surrender energy certificates of PLN 786 023 thousand, comprising:

- the obligation for the period of 2017 year: PLN 632 222 thousand;
- the obligation for the 3-month period ended 31 March 2018: PLN 153 801 thousand.

The obligation for PLN 461 831 thousand was covered by certificates held as at the end of the reporting period, the amount of PLN 197 942 thousand is planned to be paid in the form of a substitution fee and the amount of PLN 126 250 thousand through the purchase of property rights.

34. Other provisions

For the 3-month period ended 31 March 2018 *(unaudited)*

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**92 030**	**296 313**	**388 343**
Interest cost (discounting)	-	773	**773**
Recognition/(reversal), net	331	4 048	**4 379**
Utilisation	(101)	(5 223)	**(5 324)**
Closing balance	**92 260**	**295 911**	**388 171**
Non-current	-	59 947	**59 947**
Current	92 260	235 964	**328 224**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**25 003**
Total			**353 227**

For the 3-month period ended 31 March 2017 *(unaudited)*

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**92 143**	**262 592**	**354 735**
Recognition/(reversal), net	369	2 518	**2 887**
Utilisation	(63)	(2 215)	**(2 278)**
Closing balance	**92 449**	**262 895**	**355 344**
Non-current	-	46 478	**46 478**
Current	92 449	216 417	**308 866**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**20 696**
Total			**329 562**

Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 31 March 2018, the relevant provision amounted to PLN 92 260 thousand and was related to the following segments:

- Generation: PLN 50 996 thousand;
- Distribution: PLN 41 264 thousand.

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

(in PLN '000)

Provisions for counterparty claims, court disputes and other provisions

Material provisions recognized as other provisions have been discussed below:

Item	Operating segment	Description	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Provisions for penalties fixed by the contracts	Generation	Considering the risk that the two projects listed below will not be continued (their continuity is required under the subsidy contracts): • construction of a biomass boiler in Elektrownia Jaworzno III; • construction of a system of power generation from renewable sources in Stalowa Wola; in 2016 a provision has been recognised for the costs of returning the subsidy totalling PLN 52 297 thousand. The revalued provision as at 31 March 2018 amounted to PLN 56 130 thousand.	56 130	55 358
Provision for a fine to the Energy Regulatory Office	Distribution	The provision was recognized due to the risk of violation of the Energy Law of 10 April 1997 by misleading the President of the Energy Regulatory Office, following their demand for information.	6 000	6 000
Provision for increased transmission easement charges	Distribution	The provision was recognized due to the risk of increased periodic charges for transmission easement related to energy infrastructure located within the Forestry Commission areas overseen by the Regional State Forest Directorate in Wrocław, following a the change of designation of the land from forestry to industrial.	47 650	47 650
Provision for real estate tax	Mining	Provision for proceedings regarding real property tax on undergrund structures.	1 839	3 446
	Distribution	Provision for the business risk regarding tax on real property classified as power grid assets.	39 356	39 356
Provision for VAT	Sales	The provision was recognized in connection with pending inspection proceedings instituted by the Director of the Tax Inspection Office in Warsaw in relation to the value added tax. The duration of the proceedings was extended by the Director of the Tax Inspection Office a number of times and then by the Head of the Mazovian Customs and Tax Office. Currently, the new deadline for the completion of the inspection proceedings has been set for 28 June 2018. As at 31 March 2018, the provision was PLN 69 729 thousand. An increase in the provision by PLN 1 035 thousand is attributable to interest accrued for the 3-month period ended 31 March 2018.	69 729	68 694

(in PLN '000)

35. Deferred income and government grants

35.1. Deferred income and government grants

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Deferred income	**62 118**	**259 220**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	59 935	62 342
Connection fees	-	195 666
Other	2 183	1 212
Government grants	**329 020**	**333 556**
Subsidies obtained from EU funds	232 652	235 065
Forgiven loans from environmental funds	25 812	26 258
Measurement of preferential loans	35 870	36 251
Other	34 686	35 982
Total	**391 138**	**592 776**
Non-current	361 307	541 318
Current	29 831	51 458

Following the endorsement of IFRS 15 *Revenue from Contracts with Customers*, as discussed in detail in Note 8 to these condensed interim consolidated financial statements, the balance of deferred income from connection fees for services performed by 1 July 2009 of PLN 195 666 thousand was recognized in the Group's equity.

35.2. Accrued expenses

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Unused holidays	67 210	54 679
Bonuses	144 187	108 037
Environmental protection charges	12 711	45 133
Other	20 723	37 269
Total	**244 831**	**245 118**
Non-current	2 562	-
Current	242 269	245 118

36. Liabilities to suppliers

Current liabilities to suppliers as at 31 March 2018 and 31 December 2017 are presented in the table below:

Operating segment	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Distribution	276 562	355 374
Polskie Sieci Elektroenergetyczne S.A.	*229 823*	*231 973*
Sales	304 998	265 660
Mining	140 757	172 758
Generation	121 530	164 980
Other	37 232	83 655
Total	**881 079**	**1 042 427**

37. Capital commitments

Short-term capital commitments as at 31 March 2018 and 31 December 2017 are presented in the table below:

(in PLN '000)

Operating segment	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Distribution	99 112	438 492
Generation	80 590	227 084
Mining	36 141	74 682
Sales and other	26 605	57 046
Total	**242 448**	**797 304**

A drop in capital commitments in the Generation segment concerned mainly a decrease related to the construction of unit no. 910 in Jaworzno in the amount of PLN 134 926 thousand, which totalled PLN 73 918 thousand as at 31 March 2018. As at 31 December 2017, capital commitments totalled PLN 208 844 thousand.

Long-term capital commitments have been presented in the condensed interim consolidated statement of financial position within other financial liabilities. As at 31 March 2018 and 31 December 2017, the related commitments totalled PLN 10 680 thousand and PLN 10 666 thousand, respectively.

Commitments to incur capital expenditure

As at 31 March 2018 and 31 December 2017, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 854 377 thousand and PLN 3 891 230 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Generation	Constructin new capacity in Jaworzno III Power Plant (910 MW)	2 114 699	2 277 479
Distribution	Construction of new electrical connections	569 270	594 627
	Modernization and reconstruction of existing networks	582 406	451 907
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	222 910	235 377
	Construction of the 800 m drift at Janina Mining Plant	108 302	112 065
	Investment Program in Brzeszcze Mining Plant	38 671	25 617

38. Liabilities arising from taxes and charges

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
Corporate Income Tax	196 995	38 446
Personal Income Tax	50 417	54 161
Excise	44 935	43 760
VAT	168 878	110 867
Social security	153 447	190 443
Environmental charges	298	1 494
Other	16 398	12 577
Total	**631 368**	**451 748**

Tax Capital Group

On 30 October 2017 the articles of association of the Tax Capital Group for the years 2018–2020 were registered. Under the previous articles of association, TCG was registered for the period of three fiscal years from 2015 to 2017.

The major companies constituting the Tax Capital Group as from 1 January 2018 are TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

(in PLN '000)

As at 31 March 2018, the Tax Capital Group had an income tax liability of PLN 196 115 thousand, including:

- PLN 26 712 thousand which is the surplus of tax expense of the Tax Capital Group for 2017 in the amount of PLN 262 183 over the income tax withheld by the Tax Capital Group in 2017 in the amount of PLN 235 471 thousand;
- PLN 169 403 thousand for the 3-month period ended 31 March 2018 which is the tax expense of the Tax Capital Group.

Regulations concerning VAT, corporate income tax and social insurance charges are frequently amended. The applicable regulations may also contain ambiguous issues, which lead to differences in opinions concerning the legal interpretation of tax legislation both among the tax authorities and between such authorities and enterprises.

Tax reports and other matters (e.g. customs or foreign currency transactions) may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities assessed during such audits have to be paid together with interest. Consequently, the figures presented and disclosed in these condensed interim consolidated financial statements may change in the future if a final decision is issued by tax inspection authorities.

As of 15 July 2016, changes were introduced to the Tax Ordinance to incorporate the general anti-avoidance rule (GAAR), which is aimed to prevent the creation and use of artificial legal structures with a view to avoiding the payment of taxes in Poland. GAAR defines tax avoidance as an activity which is primarily intended to derive a tax benefit that is, in specific circumstances, in conflict with the scope and the objectives of the applicable tax law. The new regulations will require considerably more judgement in the assessment of the tax consequences of transactions. GAAR should be applied to transactions made following its entry into force as well as transactions made prior to its implementation for which benefits continued or continue to be derived following the date of GAAR introduction.

39. Other financial liabilities

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
Wages, salaries	109 446	203 544
Bid bonds, deposits and collateral received	72 378	86 233
Insurance contracts	1 872	3 246
Derivative instruments	118 304	62 466
Margin deposits	89 425	7 163
Other	73 561	71 389
Total	**464 986**	**434 041**
Non-current	82 631	91 879
Current	382 355	342 162

40. Other current non-financial liabilities

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Payments from customers relating to future periods	**385 718**	**309 298**
Amounts overpaid by customers	273 837	253 182
Prepayments for connection fees	15 924	16 741
Excess of the Company's Social Benefits Fund's liabilities over assets	52 923	91
Other	43 034	39 284
Other current non-financial liabilities	**2 099**	**1 552**
Total	**387 817**	**310 850**

(in PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

41. Significant items of the condensed interim consolidated statement of cash flows

41.1. Cash flows from operating activities

Changes in working capital

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited restated figures)*
Change in receivables	**(80 235)**	**(40 392)**
Change in receivables from buyers in statement of financial position	(26 299)	2 409
Change in other financial receivables	(23 240)	(37 080)
Adjustment accounting for impairment allowances recognized in correspondence with retained earnings following the endorsement of IFRS 9 *Finanical Instruments*	(31 471)	-
Other adjustments	775	(5 721)
Change in inventories	**(28 616)**	**138 580**
Change in inventories in statement of financial position	(26 350)	139 661
Adjustment related to transfer of invetories to/from property, plant and equipment	(2 266)	(1 081)
Change in payables excluding loans and borrowings	**(200 316)**	**(143 995)**
Change in liabilities to suppliers in statement of financial position	(156 760)	(54 488)
Change in payroll, social security and other financial liabilities	(24 907)	(74 152)
Change in non-financial liabilities in statement of financial position	76 967	78 193
Change in liabilities due to taxes excluding income tax	21 071	52 994
Adjustment of VAT change related to capital commitments	(122 120)	(154 060)
Other adjustments	5 433	7 518
Change in other non-current and current assets	**101 922**	**488 712**
Change in other current and non-current non-financial assets in statement of financial position	(104 542)	9 467
Change in receivables due to taxes excluding income tax	48 573	9 356
Change in non-current and current emission allowances	279 630	169 335
Change in non-current and current energy certificates	(133 124)	328 299
Change in advance payments for property, plant and equipment and intangible assets	(14 275)	(26 918)
Adjustment accounting for costs of acquiring new contracts and bonuses capitalized in correspondence with retained earnings as a result of endorsement of IFRS 15 *Revenue from Contracts with Customers*	26 355	-
Other adjustments	(695)	(827)
Change in deferred income, government grants and accruals	**(8 044)**	**(49 806)**
Change in deferred income, government grants and accruals in statement of financial position	(201 925)	(47 762)
Adjustmet related to property, plant and equipment and intangible assets received free of charge	(1 148)	(1 826)
Adjustment related to subsidies received	(637)	(218)
Adjustment accounting for recognizing deferred income from connection fees in retained earning following the endorsement of IFRS 15 *Revenue from Contracts with Customers*	195 666	-
Change in provisions	**(357 911)**	**(653 313)**
Change of short term and long term provisions in statement of financial position	(356 652)	(655 178)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	(1 206)	2 130
Other adjustments	(53)	(265)
Total	**(573 200)**	**(260 214)**

Income tax paid

Income tax paid in the amount of PLN 22 064 thousand results mainly from the Tax Capital Group's payment of advance income tax for December 2017 in the 3-month period ended 31 March 2018 totalling PLN 19 623 thousand.

(in PLN '000)

41.2. Cash from investing activities

Purchase of property, plant and equipment and intangible assets

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Purchase of property, plant and equipment	(502 279)	(561 401)
Purchase of intangible assets	(14 198)	(21 880)
Change in the balance of VAT-adjusted capital commitments	(432 722)	(665 416)
Change in the balance of advance payments	14 275	26 918
Costs of overhaul and internal manufacturing	(13 036)	(30 606)
Other	2 290	974
Total	**(945 670)**	**(1 251 411)**

Loans granted

The Parent's expenses related to loan granting include:

- a loan disbursed to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 27 000 thousand, which has been discussed in more detail in Note 22 to these condensed interim consolidated financial statements and
- a loan granted to PGE EJ 1 Sp. z o.o. of PLN 4 800 thousand.

41.3. Cash from financing activities

Loans and borrowings repaid

Expenditure incurred to repay loans and borrowings, as presented in the condensed interim consolidated statement of cash flows in the amount of PLN 36 251 thousand, arise mainly from the Parent's repayment of loan instalments to the European Investment Bank, totalling PLN 35 205 thousand, during the 3-month period ended 31 March 2018.

Interest paid

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Interest paid in relation to debt securities	-	(1 459)
Interest paid in relation to loans and borrowings	(9 882)	(11 001)
Interest paid in relation to the finance lease	(148)	(217)
Total	**(10 030)**	**(12 677)**

Condensed interim consolidated financial statements for the 3-month period ended 31 March 2018 prepared in accordance with the IFRS as endorsed by the European Union (in PLN '000)

OTHER INFORMATION

42. Financial instruments

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

Categories and classes of financial assets	As at 31 March 2018 *(unaudited)* Carrying amount	Fair value
1 Financial assets measured at amortized cost	**2 650 088**	
Receivables from buyers	2 059 112	2 059 112
Deposits	43 810	43 810
Loans granted	496 199	496 387
Other financial receivables	50 967	50 967
2 Financial assets measured at fair value through profit or loss (FVTPL)	**844 332**	
Derivative instruments	107 118	107 118
Shares (non-current)	121 838	121 838
Shares (current)	42	42
Other financial receivables	52 784	52 784
Investment fund units	104 641	104 641
Cash and cash equivalents	457 909	457 909
3 Derivative hedging instruments	**15 749**	**15 749**
4 Financial assets excluded from the scope of IFRS 9	**528 633**	
Investments in joint ventures	528 633	
Total financial assets, ***of which in the statement of financial position:***	**4 038 802**	
Non-current assets	**930 544**	
Investments in joint ventures	528 633	
Loans granted to joint ventures	185 777	
Other financial assets	216 134	
Current assets	**3 108 258**	
Receivables from buyers	2 059 112	
Loans granted to joint ventures	299 100	
Other financial assets	292 137	
Cash and cash equivalents	457 909	

Categories and classes of financial assets	As at 31 December 2017 *(restated figures)* Carrying amount	Fair value
1 Assets at fair value through profit or loss, held for trading	**154 574**	
Derivative instruments	53 216	53 216
Investment fund units	101 358	101 358
2 Financial assets available for sale	**144 417**	
Shares (non-current)	141 656	
Shares (current)	42	
Investment fund units	2 719	2 719
3 Loans and receivables	**2 734 059**	
Receivables from buyers	2 032 813	2 032 813
Deposits	39 756	39 756
Loans granted	580 979	491 171
Other financial receivables	80 511	80 511
4 Financial assets excluded from the scope of IAS 39	**499 204**	
Investments in joint ventures	499 204	
5 Derivative hedging instruments	**28 482**	**28 482**
6 Cash and cash equivalents	**909 249**	**909 249**
Total financial assets, ***of which in the statement of financial position:***	**4 469 985**	
Non-current assets	**978 325**	
Investments in joint ventures	499 204	
Loans granted to joint ventures	240 767	
Other financial assets	238 354	
Current assets	**3 491 660**	
Receivables from buyers	2 032 813	
Loans granted to joint ventures	329 665	
Other financial assets	219 933	
Cash and cash equivalents	909 249	

Categories and classes of financial liabilities	As at 31 March 2018 *(unaudited)* Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**11 238 406**	
Preferential loans	33 554	33 554
Arm's length loans	993 556	1 033 826
Bank overdrafts	1 366	1 366
Bonds issued	8 735 133	8 774 702
Liabilities to suppliers	885 667	885 667
Other financial liabilities	224 684	224 684
Capital commitments	253 128	253 128
Salaries and wages	109 446	109 446
Insurance contracts	1 872	1 872
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**118 304**	
Derivative instruments	118 304	118 304
3 Financial liabilities excluded from the scope of IFRS 9	**22 647**	
Liabilities under finance leases	22 647	
Total financial liabilities, ***of which in the statement of financial position:***	**11 379 357**	
Non-current liabilities	**9 554 420**	
Debt	9 467 201	
Other financial liabilities	82 631	
Liabilities to suppliers	4 588	
Current liabilities	**1 824 937**	
Debt	319 055	
Liabilities to suppliers	881 079	
Capital commitments	242 448	
Other financial liabilities	382 355	

Categories and classes of financial liabilities	As at 31 December 2017 *(restated figures)* Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**12 040 129**	
Preferential loans	34 506	34 506
Arm's length loans	1 063 379	1 065 694
Bank overdrafts	93 503	93 503
Bonds issued	8 637 435	8 695 096
Liabilities to suppliers	1 042 427	1 042 427
Other financial liabilities	154 119	154 119
Capital commitments	807 970	807 970
Salaries and wages	203 544	203 544
Insurance contracts	3 246	3 246
2 Financial liabilities at fair value through profit or loss, held for trading	**62 466**	
Derivative instruments	62 466	62 466
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**23 973**	
Obligations under finance leases	23 973	
Total financial liabilities, ***of which in the statement of financial position:***	**12 126 568**	
Non-current liabilities	**9 593 293**	
Debt	9 501 414	
Other financial liabilities	91 879	
Liabilities to suppliers	-	
Current liabilities	**2 533 275**	
Debt	351 382	
Liabilities to suppliers	1 042 427	
Capital commitments	797 304	
Other financial liabilities	342 162	

(in PLN '000)

Instruments measured at fair value through profit or loss (FVTPL):

- Derivative financial instruments measured at fair value as at the end of the reporting period and classified as assets and liabilities measured at fair value through profit or loss, or designated as hedging derivatives (subject to hedge accounting), have been measured in line with the method described in Note 42.2 hereto. Disclosures regarding the fair value hierarchy have been given in Note 42.2 to these condensed interim consolidated financial statements.
- The measurement of investment fund units has been classified to Level 1 in the fair value hierarchy.
- IFRS 9 *Financial Instruments* requires that interests in other entities be measured at fair value, also with respect to those interests which — due to a limited availability of information — have so far been measured at cost less any impairment losses. Therefore, the Group estimated the fair value of the interests held, as discussed in detail in Note 8 hereto. The measurement of interests in question resulted in Level 3 classification in fair value hierarchy. The measurement of other financial receivables measured at fair value was also classified Level 3.

Financial instruments classified to other categories of financial instruments:

- Fixed-rate financial instruments, which included loans obtained from the European Investment Bank, subordinated bonds and eurobonds issued as well as bonds issued by a subsidiary were measured by the Group at fair value. The debt consolidation agreement with Elektrociepłownia Stalowa Wola S.A. bearing a fixed-interest rate was also measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to a given bond or loan, i.e. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy.
- As at 31 March 2018 and 31 December 2017 the fair value of other financial instruments (except for those excluded from the scope of IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*) did not differ considerably from the amounts presented in the financial statements for the following reasons:

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

  – the instruments are related to arm's length transactions.
- Shares in jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured using the equity method.

42.2. Derivative instruments

	As at 31 March 2018 *(unaudited)*				As at 31 December 2017 *(restated figures)*			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
CCIRS	(10 649)	-	**-**	**(10 649)**	(9 299)	-	**-**	**(9 299)**
IRS	398	15 351	**15 749**	**-**	23	28 459	**28 482**	**-**
Commodity forwards/futures	(1 011)	-	**106 644**	**(107 655)**	395	-	**53 216**	**(52 821)**
Currency forwards	474	-	**474**	**-**	(346)	-	**-**	**(346)**
Total			**122 867**	**(118 304)**			**81 698**	**(62 466)**
Non-current			16 664	(5 893)			26 704	(5 217)
Current			106 203	(112 411)			54 994	(57 249)

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

(in PLN '000)

Derivative instrument	Methodology of determining fair value hierarchy
IRS	Difference between the discounted interest cash flows based on the floating and fixed interest rates. Reuters' interest rate curve is the input data.
CCIRS	Difference between the discounted interest cash flows of the payable and receivables streams, in two various currencies, denominated in the measurement currency. Reuters' interest rate curve, basis spreads and NBP fixing for relevant currencies are the input data.
Forward currency contracts	Difference between the discounted future cash flows between the future price as at the valuation date and the transaction price multiplied by the par value of the FX contract. Reuter's NBP fixing and the interest rate curve implied from fx swap transaction for a relevant currency is the input data.
Commodity forwards, futures	The fair value of forwards for the purchase and sale of emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.

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

	As at 31 March 2018 *(unaudited)*		As at 31 December 2017 *(restated figures)*	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity - related derivatives	106 644	-	53 216	-
Derivative instruments - currency	-	474	-	-
Derivative instruments - IRS	-	15 749	-	28 482
Total	**106 644**	**16 223**	**53 216**	**28 482**
Liabilities				
Commodity - related derivatives	107 655	-	52 821	-
Derivative instruments - currency	-	-	-	346
Derivative instruments - CCIRS	-	10 649	-	9 299
Total	**107 655**	**10 649**	**52 821**	**9 645**

Hedging derivative instruments (subject to hedge accounting) – IRS

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

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

As at 31 March 2018, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

- CCIRSs that hedge foreign currency cash flows resulting from the payment of interest on the issued eurobonds;
- commodity derivatives (futures, forward) including emission allowance and other commodity purchase and sale transactions;
- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

The CCIRSs have been used with respect to the Company's Coupon Only Cross Currency Swap fixed-fixed transactions concluded in 2017 and in January 2018 and involve an exchange of interest payments on the total nominal value of EUR 500 000 thousand. They mature in July 2027. In accordance with the terms and conditions, the Company pays interest at a fixed rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question.

43. Principles and objectives of financial risk management

The objectives and principles of financial risk management have not changed since 31 December 2017.

As at 31 March 2018, the Parent was a party to hedging transactions covered by the policy for specific risk management in the area of finance, entered into with a view to hedging interest cash flows from issued bonds. The Parent applies hedge accounting to the aforementioned transactions. The accounting treatment of the aforementioned hedging transactions has been discussed in detail in Note 42.2 to these condensed interim consolidated financial statements.

44. Finance and capital management

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

(in PLN '000)

45. Contingent liabilities

Item	Description
Claims related to termination of long-term contracts	**Claims relating to termination of long-term contracts against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.** On 18 March 2015 the subsidiary in liquidation terminated long-term contracts concluded in the years 2009-2010 to purchase electricity and property rights from wind farms owned by the companies in the in.ventus group, Polenergia and Wind Invest. The reason for the termination of the contracts by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was that the counterparties had breached the contractual provisions by refusing to negotiate in good faith the terms and conditions of the contracts. A case was brought against the Company for the statements made in the notice of termination be declared void. In the case brought by Dobiesław Wind Invest Sp. z o.o. in 2016 the Regional Court in Warsaw dismissed the claim for declaring the termination of the contracts void. The claimant appealed against the ruling. On 16 March 2018 the Court of Appeal revoked the appealed judgment and remitted the case to the first-instance court. In 2016 the claims against the Company were changed to include claims for compensation for termination of the contracts totalling approx. PLN 39 993 thousand. In October 2017 Dobiesław Wind Invest Sp. z o.o. filed a new lawsuit against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. for payment of PLN 42 095 thousand of compensation and liquidated damages. In January 2018 the claims brought by Amon Sp. z o.o., Talia Sp. z o.o. and Mogilno III-VI have been amended by extending them with further claims for liquidated damages related to the termination of contracts in the total amount of approximately PLN 69 645 thousand. In February 2018, claims filed by Pękanino Wind Invest Sp. z o.o. and Nowy Jarosław Wind Invest Sp. z o.o., have been amended by including in them additional claims for damages related to the termination of contracts in the total amount of about PLN 54 149 thousand. In April 2018 Mogilno I-II filed a claim against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. for payment of damages in the total amount of PLN 6 204 thousand. In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation does not exceed 50%. Therefore, no provision for the related costs has been recognized. **Claim relating to termination of long-term contracts against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A.** In November 2014 an action was brought against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A. by Dobiesław Wind Invest Sp. z o.o. to prevent an imminent danger of loss. It was claimed that the Company should revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. A subsidiary claim was that TAURON Polska Energia S.A. should be obliged to provide security in the amount of PLN 183 391 thousand as a court deposit. On 8 March 2017, pursuant to a decision of the Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. the liquidation of the company was revoked. Therefore, in accordance with the order of the Regional Court in Krakow issued on 15 March 2017, the parties to the dispute exchanged pleadings to respond to the change in the company in which the claimant upheld their demands. On 2 August 2017 the Company's representative in the case received pleadings from Dobiesław Wind Invest Sp. z o.o. which changed the claims. The claimant withdrew the initial claim against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and changed the claim against the Company from a claim for prevention of an imminent danger of loss to a claim for compensation. Dobiesław Wind Invest Sp. z o.o. demands payment of approx. PLN 34 700 thousand with statutory interest as of the date of the claim to the date of payment. Moreover, the claimant seeks a ruling that the Company is liable for future damages of Dobiesław Wind Invest Sp. z o.o., which the latter estimates at approx. PLN 254 000 thousand, (resulting from the Company's alleged torts) and a security of approx. PLN 254 000 thousand in case the court does not establish the Company's liability for future losses. The factual basis of the claim, in accordance with the claimant, is the termination of the long-term contracts to sell electricity and property rights by subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. An analysis of the justification of the statements of the claim shows that they are wholly groundless. At a hearing on 4 October 2017, upon request of TAURON Polska Energia S.A., the Court decided that the new statement of claim against TAURON Polska Energia S.A. would be examined separately. As far as the initial claims against TAURON Polska Energia S.A. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (demand that the liquidation be revoked), the Court referred the case to be examined at a closed-door hearing and dismissed. After the balance sheet date, on 12 April 2018, the Court issued a decision in which in relation to Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. discontinued these proceedings in their entirety, and in relation to TAURON Polska Energia S.A. in part as regards the Company's obligation to dismiss the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. As the court will have to examine extensive evidence and conduct an analysis of a legal issue which has not been resolved before, it is too early to anticipate the outcome of the proceedings but it is very likely that the decision of the court will be favourable for the defendants.

(in PLN '000)

Item	Description
Claims relating to termination of long-term contracts - continued	**Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.** On 20 July 2017 the Company was served with a summons dated 29 June 2017 of Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 39 700 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at approx. PLN 465 900 thousand. The case will be heard by a Regional Court in Katowice. On 18 September 2017, the Company responded to the summons, in which it filed, inter alia, to dismiss the action in its entirety as wholly groundless. On 1 December 2017, Gorzyca Wind Invest Sp. z o.o. submitted a reply to the reply to the claim, in which upheld the position contained in the summons and denied the position and argumentation of the Company presented in response to the statement of claim. By the decision of the District Court in Katowice of 8 February 2018, the proceedings brought by Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia SA, is entirely carried out in camera, the announcement of the decision ending the proceedings will take place publicly. Another summons, dated 29 June 2017, of Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 28 500 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 201 600 thousand was delivered on 21 August 2017. On 5 October 2017, the Company filed a reply to the claim in which it filed, inter alia, to dismiss the action in its entirety as wholly grounless. On 1 December 2017, Pękanino Wind Invest Sp. z o.o. filed a reply to the reply to the claim in which claimant upheld the position contained in the summons and denied the position and argumentation of the Company presented in response to the summons. After the balance sheet date, on 16 April 2018, the first hearing took place during which the Court dismissed the requests to suspend the proceedings and to exclude disclosure. The case is pending. On 16 October 2017 the Company was served a summons dated 29 June 2017 of Nowy Jarosław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 27 000 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 197 800 thousand. On 28 December 2017 the Company filed a reply to the claim in which it filed, inter alia, to dismiss the action in its entirety as wholly groundless. The date of the first hearing was set for 30 May 2018. The factual basis of all the claims, in accordance with the claimants, is the termination of the long-term contracts to purchase electricity and property rights resulting from energy certificates by subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and the total amount of the future loss incurred by all members of the Wind Invest group estimated by the claimant will be PLN 1 212 900 thousand. As at the date of approval of these condensed interim consolidated financial statements for publication the probability of obtaining a positive settlement in disputes can be assessed positively, i.e. the chances are 70%. **Termination of long-term contracts to purchase property rights by TAURON Sprzedaż Sp. z o.o.** On 28 February 2017, TAURON Sprzedaż Sp. z o.o., a subsidiary, submitted termination notices regarding long-term contracts for the purchase of property rights under green certificates by the subsidiary. The party to the contracts in 2008 are companies from the in.ventus group. The contracts were terminated after the parties were unable to reach an agreement in renegotiation of the contracts in line with the terms and conditions provided for therein. Total net contractual liabilities of TAURON Sprzedaż Sp. z o.o. under the terminated contracts for the years 2017-2023, as at the date of the termination would be approx. net PLN 417 000 thousand. There are no pending court disputes in connection with the termination of the contracts by TAURON Sprzedaż Sp. z o.o. Based on an analysis of the legal circumstances, supported by an analysis performed by independent legal firms, the Group does not see any reason to recognize provisions in connection with the termination of the contracts by TAURON Sprzedaż Sp. z o.o.
Use of real estate without contract	Companies in the Group do not hold legal titles to all land crossed by distribution networks or the land on which heat installations and related devices are sited. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential, not submitted claims of owners of land with unregulated legal status, since there are no detailed records of such land. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.
Amount	As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 92 260 thousand (Note 34).
Claims filed by Huta Łaziska S.A.	Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of the Energy Regulatory Office. At present, the case is pending at the Regional Court in Warsaw. Based on a decision of 12 October 2001, the President of the Energy Regulatory Office ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had not paid its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the decision of the Court of Appeals in Warsaw, which was dismissed by the judgment of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the issue of the above decision by the President of the Energy Regulatory Office on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages. Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office (jointly and severally) Huta claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001. In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the decision of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. The case has been heard by the first-instance court since 27 November 2012. Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.
Amount	Claim regarding payment of damages of PLN 182 060 thousand.

(in PLN '000)

Item	Description
Claim filed by ENEA S.A.	The claim filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A. in a case heard by the Regional Court in Katowice since 2016 regards the payment of PLN 17 086 thousand with statutory interest calculated from 31 March 2015 to the payment date. ENEA's claim is based on charges relating to unjust enrichment of the Company associated with possible errors in determination of aggregate measurement and settlement data by ENEA Operator Sp. z o.o. (as the Distribution System Operator), used as the basis for settlements between ENEA and the Company and Polskie Sieci Elektroenergetyczne S.A. arising from non-balancing volumes on the Balancing Market between January and December 2012. In the course of the proceedings, at the request of ENEA, the court decided to extend the suit against seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The sellers included two subsidiaries of TAURON Polska Energia S.A., i.e.: TAURON Sprzedaż Sp. z o.o. (from which ENEA S.A. demanded PLN 4 934 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment) and TAURON Sprzedaż GZE Sp. z o.o. (from which ENEA S.A. demanded PLN 3 480 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment). The demand for payment of the above amounts as well as the amounts claimed from the other five sellers was submitted by the petitioner in case the claim against TAURON Polska Energia S.A. is dismissed. The case is pending. By the date of approval of these condensed interim consolidated financial statements for publication, the hearing had been adjourned ex officio. The Company did not recognize any provision as, in its opinion, the risk of losing the case is below 50%. Provisions were recognized by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 5 297 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 3 769 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest reviewed as at 31 March 2018 and the cost of the proceedings.
Amount	As at 31 March 2018, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator sp. z o.o. in the course of the proceedings, the values of the claims against the Company and/or the Group companies may be expected to change.
Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)	In a notice of 5 April 2016, the President of the Energy Regulatory Office informed TAURON Dystrybucja S.A. of the instigation of administrative proceedings to impose a fine for a failure to maintain facilities, installations and equipment in a proper technical condition and for non-compliance with the terms of the electricity distribution licence. In a notice of 30 March 2017, the President of the Energy Regulatory Office informed the Company that the matter would be looked into on 30 April 2017. In subsequent notices of 8 May and 1 June 2017 the President of the Energy Regulatory Office extended the proceedings until 31 May and 30 June 2017, respectively. On 10 July 2017 the Company received a decision of the President of the Energy Regulatory Office to impose an administrative fine totalling PLN 350 thousand. In July 2017 the Company recognized a provision of PLN 351 thousand and on 24 July it filed an appeal with the Court of Competition and Consumer Protection through the President of the Energy Regulatory Office. On 30 January 2018, the Company received the response of the President of the Energy Regulatory Office to the Court of Competition and Consumer Protection to the appeal. At present, the Company is waiting for the next hearing to be scheduled by the Court of Competition and Consumer Protection. On 12 December 2017, the President of the URE initiated administrative proceedings against a company from the Generation segment regarding the imposition of a fine due to the suspicion of producing electricity at Dąbie Hydroelectricity [pl. Elektrownia Wodna Dąbie] and Przewóz Hydroelectricity [pl. Elektrownia Wodna Przewóz] without the permits for special use of Vistula waters for energy purposes required by the provisions of the Act of 20 July 2017 Water law of water. On 12 January 2018, the company sent appropriate explanations about the ongoing proceedings regarding the issue of the water-legal permits in question. By letter of 22 March 2018, the President of the Energy Regulatory Office requested information whether the company obtained decisions on granting water permits, indicating at the same time the date of 22 May 2018 to settle the matter. The company is of the opinion that the facts that are the basis for the initiation of the proceedings can not constitute a basis for imposing a fine, and therefore the company can not make a reliable valuation of the fine and the company has not created a provision for this. The companies in the Sales segment have been subject to the following proceedings: - proceedings instigated on 31 March 2017 against TAURON Sprzedaż Sp. z o.o. regarding the breach of the obligation to secure energy performance certificates and present them for cancellation to the President of the Energy Regulatory Office in 2013 year. In a notice dated 14 April 2017, the company provided information requested by the President of the Energy Regulatory Office. The final decision of the President of the Energy Regulatory Office dated on 28 February 2018 the proceedings were recognised as without object and discontinued. - proceedings instigated on 26 September 2017 regarding unjustified suspension of energy deliveries by TAURON Sprzedaż Sp. z o.o. with the participation of TAURON Dystrybucja S.A. to the end users. By decision of 12 February 2018, the President of the Energy Regulatory Office ruled on unjustified suspension of electricity supplies to the end users. - two proceedings instigated on 4 January 2018 against TAURON Sprzedaż z o.o., a subsidiary, for the imposition of a fine for failures consisting in unjustified suspension of electricity supply to the end users. - proceedings instigated on 18 and 27 February 2018 against TAURON Sprzedaż GZE Sp. z o.o., a subsidiary, regarding the disclosure of irregularities consisting in preventing the end users of a given offer or tariff group from being selected. The Company has provided appropriate explanations in matters. - proceedings instigated on 12 March 2018 against TAURON Sprzedaż GZE Sp. z o.o., a subsidiary, regarding the failure to provide the Agency for the Cooperation of Energy Regulators with data on time in accordance with Art. 8 sec. 1 of Regulation No. 1227/2011 of the European Parliament and of the Council of 25 October 2011 on the integrity and transparency of the wholesale energy market. The company has submitted relevant explanations in the case. The Companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Board the risk of adverse rulings and fines is low.

(in PLN '000)

Item	Description
Administrative and Explanatory proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	The President of UOKiK instigated the following procedures against a Sales segment company: - Proceedings instigated on 17 September 2013 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 and therefore constitutes a breach of the Act on competition and consumer protection of 16 February 2007 (Journal of Laws of 2007 No. 50, item 331 as amended; "Act on competition and consumer protection"). The company undertook to discontinue practices that violate the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. On 22 December 2014 the company received a decision of UOKiK closing the evidentiary proceedings. On 14 December 2015 the President of UOKiK demanded that the company answer whether the practices had been discontinued. The company responded in February 2016 informing that the practices had been discontinued and requested that the fine be waived. By decision of 22 February 2018, the President of UOKiK stated that the company applied the practice violating collective consumers' interests and its discontinuation as of 1 February 2016. The President of UOKiK did not impose a financial penalty on the company, and the company was obliged to publish a statement with the content specified in the decision. The company appealed against the decision to SOKiK [Court of Competition and Customer Protection]. - On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydroelectric power stations constitute a breach of the Act on competition and consumer protection. The actions in question include enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement. With a decision of 15 October 2015 the President of UOKiK instigated anti-trust proceedings. On 1 February 2016 UOKiK accepted the company's statement regarding presentation of a specific commitment. On 24 August 2016 the President of UOKiK issued a decision obliging the company to take appropriate measures aimed at preventing the alleged breaches within two months of the date on which the decision of the President of UOKiK becomes final. On 29 September 2016 the company appealed against the decision to the Court of Competition and Consumer Protection. On 2 December 2016 the President of the Office for Competition and Consumer Protection issued a decision whereby it changed the rationale of the previous decisions. The decision became final on 2 February 2017. A report on its implementation was prepared and sent to UOKiK on 31 March 2017. - On 11 May 2017 explanatory proceedings were instigated against TAURON Sprzedaż Sp. z o.o. to examine the scheme whereby the billing period for the sales of electricity is automatically extended (as set out in the Price List) if the consumer fails to take any action after being presented with a new (renewal) offering. The President of UOKiK requested that the company presents appropriate explanations. The latest explanations were given on 16 October 2017. - On 13 July 2017 explanatory proceedings were instigated against TAURON Sprzedaż GZE Sp. z o.o. to examine the breach of Article 6b.3 of the Energy Law regarding extra time given in the demands for payment to settle past-due liabilities. The company intends to take corrective measures and change the wording of the notice sent to the consumers. The final response is being prepared. - On 13 October and 8 November 2017 proceedings were instigated to examine the suspicion that the practices of the companies in the Sales segment violate the collective interests of consumers by making the switching of the electricity supplier more difficult. Under Article 49a of the Act on competition and consumer protection the companies were requested to respond to the accusation by the President of UOKiK that they made the switching of the supplier more difficult and misled consumers by letting them believe that they may terminate their contract with a different supplier free of charge. The companies submitted their latest responses on 3 November and 29 December 2017. The companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Board the risk of adverse rulings and fines is low. In relation to the companies from the Sales segment, there are also explanatory proceedings conducted by UOKiK regarding the preliminary determination whether the activities of the companies did not constitute a violation of the provisions of the Act on competition and consumer protection. The companies submit explanations, submit the requested documents and respond to the statements contained in the UOKIK's letters. The management boards of the companies assess, having in mind that the proceedings initiated are of the nature of explanatory proceedings that the probability of unfavorable settlement of cases is low and therefore the Group does not create provisions for these events.
Claim for reimbursement of the expenses incurred to protect a facility against the effects of mining activities	In December 2017 subsidiary TAURON Wydobycie S.A. was served with a claim for the payment of PLN 22 785 thousand, made by Galeria Galena Sp. z o.o. with its registered office in Gliwice, as reimbursement of the expenditures incurred to protect a facility located in Jaworzno against the effects of mining activities. On 7 March 2018, the company submitted a response to the statement of claim to the District Court in Katowice. After the balance sheet date, on 5 April 2018, the company received a claim for payment made by Galeria Galena Sp. z o.o. against legal successors of Kompania Węglowa S.A. along with an application to merge the matter in question into a joint investigation with the case against TAURON Wydobycie S.A. The company has not recognized any related provision as it believes that at this stage such a provision would be premature, considering legal and practical doubts, which prevent a straightforward prediction of the ruling of the Regional Court in Katowice and the amount of compensation, if any.
Real estate tax	There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities and underground excavation equipment. Since the tax is imposed by local authorities, there is no unified approach of taxation authorities and in several cases the method of calculation of the tax basis has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation facilities and excavations may change in future. Following the changes introduced in 2017 to the definition of construction facilities in the Investment Act in the scope of wind farms, there is no consistent approach to defining structures at present. This entails the risk of potential disputes with local authorities (municipalities) over the determination of the tax base for real estate tax on wind farms.
Amount	As at 31 March 2018 the potential disputed tax on wind farms is approx. PLN 2 300 thousand. In respect of real estate tax and economic risk related disputes, as at 31 March 2018, provisions in the total amount of PLN 41 195 thousand and accruals in the amount of PLN 2 314 thousand relating to tax related to wind farms have been recognised.

(in PLN '000)

Item	Description
Claim against PGE EJ 1 Sp. z o.o.	On 13 March 2015, a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (the "WorleyParsons consortium") responsible for conducting research as part of an investment project relating to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. filed claims against PGE EJ 1 Sp. z o.o. for the payment of PLN 92 315 thousand as compensation for termination of the contract. PGE EJ 1 Sp. z o.o. did not accept the claims, considering them to be baseless. In view of the foregoing, the WorleyParsons consortium has initiated litigation against PGE EJ 1 Sp. z o.o., which is being conducted by the Regional Court in Warsaw. As an investor holding a 10% interest in the issued capital of PGE EJ 1 Sp. z o.o., the company has made an agreement with the remaining shareholders, namely PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. regulating the relations between the shareholders and PGE EJ 1 Sp. z o.o. in the context of the claims lodged by the WorleyParsons consortium. The agreement sets out the terms on which additional funding may be provided by the shareholders to PGE EJ 1 Sp. z o.o. in the event that the claims are upheld, in whole or in part, and a specified amount is awarded by a final and enforceable court decision to the WorleyParsons consortium. A contingent liability has been recognized by the Company based on the aforesaid agreement. The Company expects that its potential additional exposure under the agreement should not exceed 10% of the claims filed against PGE EJ 1 Sp. z o.o.

46. Security for liabilities

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

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

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

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Real estate	66 784	68 251
Other financial receivables	31 958	11 139
Cash	45	9
Total	**98 787**	**79 399**

Other forms of collateral

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 31 March 2018 regard the following contracts concluded by the Parent:

(in PLN '000)

Agreement	Collateral form	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Hybrid financing contract governing the issue of subordinated bonds dated 6 September 2017	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 30 June 2034
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 17 December 2021
	declaration of submission to enforcement	up to PLN 360 000 thousand, valid until 29 December 2021
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 189 382 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 101 004 thousand (EUR 24 000 thousand) valid until 31 December 2019
	declaration of submission to enforcement	up to PLN 210 425 thousand (EUR 50 000 thousand) valid until 31 December 2020
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 10 242 thousand (USD 3 000 thousand) valid until 31 March 2019

Other forms of collateral against liabilities of the Group

As at 31 March 2018, other material forms of collateral regarding liabilities of the TAURON Group included:

- Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o.

On 15 May 2015 the Parent established a financial pledge and registered pledges of 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o., with the unit face value of PLN 100 and the total face value of PLN 329 340 thousand, accounting for approx. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG.

The Company established a first lien registered pledge of shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge of shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges of new shares acquired or taken up. Moreover, the Company assigned the rights to dividend and other payments. On 15 September 2016, Annex 1 was executed to the aforementioned agreement, whereby the maximum collateral amount was changed from the amount of PLN 840 000 thousand to PLN 1 370 000 thousand.

The agreement to establish registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as original borrowers, TAMEH HOLDING Sp. z o.o. as the parent and the guarantor, and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. The registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.

(in PLN '000)

As at 31 March 2018, the carrying amount of the investment in a joint venture measured using the equity method in the TAMEH HOLDING Sp. z o.o. Capital Group was PLN 528 633 thousand.

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Issuer of a blank promissory note	As at 31 March 2018 *(unaudited)*
Agreements concerning loans granted to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000
Performance bonds to include co-funding of engagements carried out.	TAURON Dystrybucja S.A.	243 292
Performance bonds under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management and reimbursement and performance bond under the co-funding agreements concluded with the Regional Fund for Environmental Protection and Water Management.	TAURON Ciepło Sp. z o.o.	228 606
Agreements to provide electricity supply services, an agreement with the National Fund for Environmental Protection and Water Management concerning partial cancellation of a loan and an agreement with the National Centre for Research and Development for the funding of a project.	TAURON Wytwarzanie S.A.	49 570

- Collateral under finance lease agreements

Finance lease agreement	Lessee	Carrying amount of the leased asset as at 31 March 2018 *(unaudited)*	Collateral
Real estate in Katowice	TAURON Polska Energia S.A.	20 797	The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

- The Company issued a corporate guarantee to secure the bonds issued by TAURON Sweden Energy AB (publ). The guarantee remains valid until 3 December 2029, i.e. until the date of redemption of bonds, and amounts to EUR 168 000 thousand. The beneficiaries of the guarantee are the bondholders.
- Under the bank guarantee agreement made with Bank Zachodni WBK S.A., the bank issued guarantees to secure stock exchange transactions resulting from the membership in Izba Rozliczeniowa Giełd Towarowych S.A. As at 31 March 2018 the Bank issued a guarantee for PLN 30 000 thousand valid unit 30 June 2018.
- Under the bank guarantee agreement made with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, at the request of the Company the bank issued bank guarantees to secure liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. totalling PLN 13 848 thousand and to secure the transactions performed by the Company for Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. totalling PLN 4 500 thousand, valid until 30 November 2018.

On 11 April 2018, after the balance sheet date, a bank guarantee up to PLN 444 000 thousand was issued for Bank Gospodarstwa Krajowego at the request of the Company. The guarantee secures bank exposure under a loan agreement concluded on 8 March 2018 among the borrower, Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego as well as Polskie Górnictwo Naftowe i Gazownictwo S.A., which has been described in more detail in Note 22 to these condensed interim consolidated financial statements. The guarantee was issued by MUFG Bank, Ltd., and is valid until 11 April 2019. It will be renewed on an annual basis.

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

(in PLN '000)

47. Related-party disclosures

47.1. Transactions with joint ventures

The Group has interest in the following joint ventures: Elektrociepłownia Stalowa Wola S.A. and the TAMEH HOLDING Sp. z o.o. Capital Group, which has been discussed in more detail in Note 21 to these condensed interim consolidated financial statements.

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

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Revenue	11 164	17 511
Costs	(13 711)	(13 345)

The key item of receivables from and liabilities to jointly-controlled entities is a loan granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 22 to these condensed interim consolidated financial statements.

The Company has also pledged collateral for the benefit of joint ventures, in the form of a pledge on the shares in TAMEH HOLDING Sp. z o.o., which has been discussed in more detail in Note 46 to these condensed interim consolidated financial statements.

47.2. Transactions with State Treasury companies

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

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

Revenue and expense

	3-month period ended 31 March 2018 *(unaudited)*	3-month period ended 31 March 2017 *(unaudited)*
Revenue	402 376	423 148
Costs	(801 202)	(773 536)

Receivables and liabilities

	As at 31 March 2018 *(unaudited)*	As at 31 December 2017
Receivables	239 540	253 834
Payables	364 385	322 002

As at 31 March 2018 and 31 December 2017, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 9 757 thousand.

In the 3-month period ended 31 March 2018, KGHM Polska Miedź S.A., PSE S.A. and Jastrzębska Spółka Węglowa S.A. were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. The total sales to these counterparties accounted for 94% of revenue generated on transactions with State Treasury companies. The Group concluded the largest purchase transactions with PSE S.A., Polska Grupa Górnicza S.A., Węglokoks S.A. and Jastrzębska Spółka Węglowa S.A. They accounted for 92% of the total value of purchases from the State Treasury companies in the 3-month period ended 31 March 2018.

Among the State Treasury companies, in the 3-month period ended 31 March 2017, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Katowicki Holding Węglowy S.A. and Polska Grupa Górnicza Sp. z o.o. were the major customers of the TAURON Polska Energia S.A. Capital Group. Total sales to these contracting parties accounted for 84% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Polska Grupa Górnicza Sp. z o.o. (at present Polska Grupa Górnicza S.A.)

(in PLN '000)

Purchases from these contracting parties accounted for 87% of the value of purchases from State Treasury companies during the 3-month period ended 31 March 2017.

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

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

47.3. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Parent and subsidiaries, paid or due in the 3-month period ended 31 March 2018 and in the comparative period, has been presented in the table below.

	3-month period ended 31 March 2018 *(unaudited)*		3-month period ended 31 March 2017 *(unaudited)*	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	**1 210**	**3 661**	**2 079**	**5 942**
Short-term benefits (with surcharges)	789	3 388	1 239	4 751
Employment termination benefits	395	97	634	1 051
Other	26	176	206	140
Supervisory Board	**204**	**237**	**214**	**164**
Short-term employee benefits (salaries and surcharges)	204	196	214	146
Other	-	41	-	18
Other key management personnel	**3 307**	**13 111**	**3 437**	**8 838**
Short-term employee benefits (salaries and surcharges)	2 922	10 884	2 675	8 278
Jubilee bonuses	-	1 880	-	93
Employment termination benefits	124	212	530	292
Other	261	135	232	175
Total	**4 721**	**17 009**	**5 730**	**14 944**

In accordance with the adopted accounting policy, the Group recognizes provisions for termination benefits for members of the Management Board and other key executives, which may be paid or due in future reporting periods. The amounts paid or payable until 31 March 2018 have been presented above.

48. Other significant information

Signing of the transaction documentation related to the investment of the Closed-end Investment Funds managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund) in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o

On 28 March 2018 the Company, a subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund – Non-public Assets Closed-end Equity Investment Fund) and Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund - Non-public Assets Closed-end Debt (Fixed Income) Investment Fund) (collectively the "Funds"), a part of whose investment portfolio is managed by Polski Fundusz Rozwoju S.A., signed the transaction documentation defining the terms of the Funds' equity investment in the Nowe Jaworzno Grupa TAURON Sp. z o.o.

The transaction documentation includes the investment agreement and the shareholders agreement, along with appendices thereto, including the drafts of a multi-year electricity sale agreement and a multi-year coal sale agreement that are to be concluded by the Company and the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

Investment Agreement defines the terms and conditions of the Funds' equity investment in the Nowe Jaworzno Grupa TAURON Sp. z o.o. This investment assumes the Funds joining the Nowe Jaworzno Grupa TAURON Sp. z o.o. and their participation in the subsequent recapitalizations of the Nowe Jaworzno Grupa TAURON Sp. z o.o., by taking up the newly created shares in exchange for financial contributions up to the total maximum amount of PLN 880 000 thousand, i.e. PLN 440 000 thousand by each of the Funds. The Funds' stake in the Nowe Jaworzno Grupa TAURON Sp. z o.o. share capital, as of the day the power unit of 910 MW in Jaworzno is commissioned, should reach approx. 14%, while the Company stake shall in no case drop below 50% + 1 share. The Company will be obligated to ensure the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. recapitalization to the extent required to complete the power unit's of 910

MW in Jaworzno construction project after the Funds have achieved the equity exposure in the amount equal to the above mentioned maximum level.

Investment Agreement makes joining the Nowe Jaworzno Grupa TAURON Sp. z o.o. by the Funds contingent on the fulfillment of specific suspending conditions. The suspending conditions include obtaining a consent of the President of the Office of Competition and Consumer Protection for the concentration, issuing by the Head of the National Revenue Administration (NRA) of the decision on approving the terms of the Electricity Sale Agreement as an advance pricing agreement ("APA Decision"), concluding by the Company and the Nowe Jaworzno Grupa TAURON Sp. z o.o. of the specified agreements, including the Electricity Sale Agreement and the Coal Sale Agreement, as well as completing (or ensuring completing) by the Company of the specified activities by the Nowe Jaworzno Grupa TAURON Sp. z o.o. corporate bodies (authorities). The suspending conditions are to be fulfilled within 4 months from the day of concluding the Investment Agreement, excluding the condition related to obtaining the APA Decision which is to be fulfilled within 7 months.

Shareholders Agreement defines the principles of corporate governance in the Nowe Jaworzno Grupa TAURON Sp. z o.o. This agreement grants the Funds, among others, a personal entitlement to appoint, suspend in their duties and dismiss one member of the Management Board and one member of the Supervisory Board of the Nowe Jaworzno Grupa TAURON Sp. z o.o. It also defines a catalogue of matters for the completion of which by the Nowe Jaworzno Grupa TAURON Sp. z o.o. a unanimous resolution of the Management Board, the Supervisory Board or the General Meeting of Shareholders of this company will be required. Shareholders Agreement will come into force on the day the Funds join the Nowe Jaworzno Grupa TAURON Sp. z o.o.

49. Events after the end of the reporting period

Financing a joint venture Elektrociepłownia Stalowa Wola S.A.

On 11 April 2018, as instructed by the Company, a bank guarantee was issued for PLN 444 000 thousand for Bank Gospodarstwa Krajowego to secure bank exposure under a loan agreement concluded on 8 March 2018 among the borrower, Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., which has been described in more detail in Note 46 to these condensed interim consolidated financial statements.

On 11 April 2018 Polskie Górnictwo Naftowe i Gazownictwo S.A., TAURON Polska Energia S.A. and the borrower - Elektrociepłownia Stalowa Wola S.A. concluded a VAT loan agreement for the total amount of PLN 13 000 thousand, as discussed in detail in Note 22 to these interim condensed consolidated financial statements.

On 30 April 2018 Elektrociepłownia Stalowa Wola S.A. repaid a portion of a loan of PLN 299 100 thousand in accordance with the debt consolidation agreement of 28 February 2018, as discussed in detail in Note 22 to these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 3-month period ended 31 March 2018 in accordance with International Accounting Standard 34 have been presented on 70 consecutive pages.

Katowice, 16 May 2018

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

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

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