Extended consolidated interim report of TAURON Polska Energia S.A. Capital Group for the third quarter of 2018

6 November 2018

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Condensed interim financial statements prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union for the 9-month period ended 30 September 2018

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for the 9-month period ended 30 September 2018

(in PLN '000)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2018 *(unaudited)*	3-month period ended 30 September 2017 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Sales revenue	11	2 100 804	5 812 583	1 774 029	5 394 681
Cost of sales	12	(1 986 144)	(5 655 175)	(1 742 639)	(5 062 589)
Profit on sale		**114 660**	**157 408**	**31 390**	**332 092**
Selling and distribution expenses	12	(4 973)	(15 391)	(5 356)	(17 507)
Administrative expenses	12	(26 850)	(91 570)	(32 632)	(86 006)
Other operating income and expenses		387	(3 664)	48	(1 231)
Operating profit (loss)		**83 224**	**46 783**	**(6 550)**	**227 348**
Dividend income	13	802 437	819 437	-	560 832
Interest income on bonds and loans	13	78 542	245 728	107 073	359 450
Interest expense on debt	13	(82 393)	(238 408)	(90 320)	(245 549)
Revaluation of shares	13	-	(1 003 061)	-	70 845
Revaluation of bonds and loans	13	(6 375)	139 102	-	(60 578)
Other finance income and costs	13	46 272	(95 605)	(56 291)	1 006
Profit (loss) before tax		**921 707**	**(86 024)**	**(46 088)**	**913 354**
Income tax expense	14.1	(20 200)	(24 195)	5 572	(53 539)
Net profit (loss)		**901 507**	**(110 219)**	**(40 516)**	**859 815**
Measurement of hedging instruments	26.4	(1 730)	(14 914)	748	(8 327)
Income tax expense	14.1	329	2 834	(142)	1 582
Other comprehensive income subject to reclassification to profit or loss		**(1 401)**	**(12 080)**	**606**	**(6 745)**
Actuarial gains/(losses)		(32)	128	74	101
Income tax expense	14.1	5	(25)	(14)	(19)
Other comprehensive income not subject to reclassification to profit or loss		**(27)**	**103**	**60**	**82**
Other comprehensive income, net of tax		**(1 428)**	**(11 977)**	**666**	**(6 663)**
Total comprehensive income		**900 079**	**(122 196)**	**(39 850)**	**853 152**
Earnings (loss) per share (in PLN):					
- basic and diluted, for net profit		0.52	(0.06)	(0.02)	0.49

(in PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 September 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
ASSETS			
Non-current assets			
Investment property	**16**	22 915	21 701
Shares	**17**	21 822 041	20 912 679
Bonds	**18**	5 242 624	6 009 920
Loans granted	**19**	321 737	382 989
Derivative instruments	**20**	52 300	26 704
Deferred tax assets	**14.2**	77 756	-
Other financial assets	**21**	2 789	2 724
Other non-financial assets		17 890	14 967
		27 560 052	**27 371 684**
Current assets			
Inventories	**22**	306 787	198 428
Receivables from buyers	**23**	679 370	719 133
Receivables arising from taxes and charges	**24**	22 601	36 094
Bonds	**18**	68 112	562 776
Loans granted	**19**	410 829	520 191
Derivative instruments	**20**	456 408	54 994
Other financial assets	**21**	466 803	131 640
Other non-financial assets		6 454	4 857
Cash and cash equivalents	**25**	496 729	721 577
		2 914 093	**2 949 690**
TOTAL ASSETS		**30 474 145**	**30 321 374**

(in PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION - CONTINUED

	Note	As at 30 September 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
EQUITY AND LIABILITIES			
Equity			
Issued capital	**26.1**	8 762 747	8 762 747
Reserve capital	**26.3**	8 511 437	7 657 086
Revaluation reserve from valuation of hedging instruments	**26.4**	10 971	23 051
Retained earnings / (Accumulated losses)	**26.3**	(417 996)	935 022
		16 867 159	**17 377 906**
Non-current liabilities			
Debt	**27**	9 444 902	9 472 454
Other financial liabilities	**28**	17 626	20 126
Derivative instruments	**20**	37 524	5 217
Deferred tax liabilities	**14.2**	-	29 843
Provisions for employee benefits		3 439	3 147
		9 503 491	**9 530 787**
Current liabilities			
Debt	**27**	2 342 567	2 725 763
Liabilities to suppliers	**30**	406 583	413 265
Other financial liabilities	**28**	605 477	62 590
Derivative instruments	**20**	462 838	57 249
Liabilities arising from taxes and charges	**31**	196 686	70 119
Other non-financial liabilities		15	-
Provisions for employee benefits		341	330
Other provisions	**29**	71 835	68 771
Accruals, deferred income and government grants		17 153	14 594
		4 103 495	**3 412 681**
Total liabilities		**13 606 986**	**12 943 468**
TOTAL EQUITY AND LIABILITIES		**30 474 145**	**30 321 374**

(in PLN '000)

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2018 (unaudited)

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 31 December 2017		**8 762 747**	**7 657 086**	**23 051**	**935 022**	**17 377 906**
Impact of IFRS 9	**8**	**-**	**-**	**-**	**(388 551)**	**(388 551)**
As at 1 January 2018		**8 762 747**	**7 657 086**	**23 051**	**546 471**	**16 989 355**
Distribution of prior year profit	**26.3**	-	854 351	-	(854 351)	-
Transactions with shareholders		**-**	**854 351**	**-**	**(854 351)**	**-**
Net profit (loss)		-	-	-	(110 219)	**(110 219)**
Other comprehensive income		-	-	(12 080)	103	**(11 977)**
Total comprehensive income		**-**	**-**	**(12 080)**	**(110 116)**	**(122 196)**
As at 30 September 2018 *(unaudited)*		**8 762 747**	**8 511 437**	**10 971**	**(417 996)**	**16 867 159**

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (unaudited)

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2017	**8 762 747**	**7 823 339**	**29 660**	**(85 478)**	**16 530 268**
Coverage of prior years loss	-	(166 253)	-	166 253	-
Transactions with shareholders	**-**	**(166 253)**	**-**	**166 253**	**-**
Net profit (loss)	-	-	-	859 815	**859 815**
Other comprehensive income	-	-	(6 745)	82	**(6 663)**
Total comprehensive income	**-**	**-**	**(6 745)**	**859 897**	**853 152**
As at 30 September 2017 *(unaudited)*	**8 762 747**	**7 657 086**	**22 915**	**940 672**	**17 383 420**

(in PLN '000)

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Cash flows from operating activities			
Profit (loss) before taxation		(86 024)	913 354
Depreciation and amortization		3 528	4 270
Interest and dividends, net		(804 079)	(678 518)
Impairment losses on shares		1 003 061	(70 845)
Impairment losses on bonds and loans		(139 102)	60 578
Foreign exchange difference		90 127	(9 850)
Other adjustments of profit before tax		572	18 379
Change in working capital	**32.1**	251 566	19 502
Income tax paid		(91 206)	28 817
Net cash from operating activities		**228 443**	**285 687**
Cash flows from investing activities			
Purchase of investment property		(3 926)	-
Purchase of bonds		(160 000)	(350 000)
Purchase of shares	**32.2**	(1 926 317)	(4 160 270)
Loans granted	**32.2**	(251 145)	(301 542)
Purchase of investment fund units		-	(50 000)
Other		(2 098)	(532)
Total payments		**(2 343 486)**	**(4 862 344)**
Redemption of bonds	**32.2**	1 248 770	3 197 110
Dividends received		819 437	356 458
Repayment of loans granted	**32.2**	420 115	-
Interest received	**32.2**	250 557	388 697
Redemption of investment fund units		75 346	-
Other		372	14
Total proceeds		**2 814 597**	**3 942 279**
Net cash from investing activities		**471 111**	**(920 065)**
Cash flows from financing activities			
Payment of finance lease liabilities		(23 519)	(2 559)
Repayment of loans and borrowings	**32.3**	(90 864)	(104 241)
Redemption of debt securities		-	(700 000)
Interest paid	**32.3**	(171 134)	(128 039)
Commission paid		(14 272)	(15 048)
Total payments		**(299 789)**	**(949 887)**
Issue of debt securities		-	2 707 462
Total proceeds		**-**	**2 707 462**
Net cash from financing activities		**(299 789)**	**1 757 575**
Net increase / (decrease) in cash and cash equivalents		**399 765**	**1 123 197**
Net foreign exchange difference		(1 662)	1 316
Cash and cash equivalents at the beginning of the period	**25**	**(1 559 232)**	**(1 045 441)**
Cash and cash equivalents at the end of the period, *of which:*	**25**	**(1 159 467)**	**77 756**
restricted cash	**25**	51 310	46 001

Explanatory notes to the condensed interim financial statements constitute an integral part hereof.

INFORMATION ABOUT TAURON POLSKA ENERGIA S.A. AND BASIS OF PREPARATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

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

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

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

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

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

The core business of TAURON Polska Energia S.A. is:

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

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

The Company's condensed interim financial statements cover the 9-month period ended 30 September 2018 and present comparative data for the 9-month period ended 30 September 2017 as well as figures as at 31 December 2017. The data for the 9-month period ended 30 September 2018 and the comparative data for the 9-month period ended 30 September 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 financial statements for the 9-month period ended 30 September 2018 were approved for publication on 6 November 2018.

The Company also prepared condensed interim consolidated financial statements for the 9-month period ended 30 September 2018, which were approved by the Management Board for publication on 6 November 2018.

These condensed interim financial statements are part of the consolidated report, which also includes the condensed interim consolidated financial statements for the 9-month period ended 30 September 2018.

2. Shares in related parties

As at 30 September 2018, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

(in PLN '000)

Item	Company name	Registered office	Core business	Share of TAURON Polska Energia S.A. in the entity's capital	Share of TAURON Polska Energia S.A. in the governing body
1	TAURON Wydobycie S.A.	Jaworzno	Hard coal mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation, transmission and distribution of electricity and heat	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno	Generation, transmission and distribution of electricity and heat and sale of electricity	100.00%	100.00%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Production, transmission and sale of electricity	100.00%	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100.00%	100.00%
7	TAURON Serwis Sp. z o. o.	Katowice	Services	95.61%	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.74%	99.75%
9	TAURON Dystrybucja Serwis S.A.	Wrocław	Services	100,00%	100,00%
10	TAURON Dystrybucja Pomiary Sp. z o.o.[1]	Tarnów	Services	99.74%	99.75%
11	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%	100.00%
12	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%	100.00%
13	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Limestone quarrying and stone quarrying	100.00%	100.00%
16	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Sale of electricity	100.00%	100.00%
17	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Services	100.00%	100.00%
18	Biomasa Grupa TAURON Sp. z o.o.[2]	Stalowa Wola	Wholesale of waste and scrap	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o.[1]	Tarnów	Services	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.
[2]On 8 October 2018 the name of the company was changed from Biomasa Grupa TAURON Sp. z o.o. to Bioeko Grupa TAURON Sp. z o.o.

As at 30 September 2018, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

Item	Company name	Registered office	Core business	Share of TAURON Polska Energia S.A. in the entity's capital and governing body
1	Elektrociepłownia Stalowa Wola S.A.[1]	Stalowa Wola	Generation of electricity	50.00%
3	TAMEH HOLDING Sp. z o.o.[2]	Dąbrowa Górnicza	Head office and holding operations	50.00%
4	TAMEH POLSKA Sp. z o.o.[2]	Dąbrowa Górnicza	Generation, transmission, distribution and sale of electricity and heat	50.00%
5	TAMEH Czech s.r.o.[2]	Ostrawa, Czech Republic	Production, trade and services	50.00%

[1] TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. 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 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 financial statements do not contain all information and disclosures required for annual financial statements and they should be read jointly with the Company's financial statements prepared in accordance with IFRS for the year ended 31 December 2017.

4. Going Concern

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

5. Functional and Presentation Currency

Polish zloty is the functional currency of the parent and the presentation currency of these condensed interim financial statements. These condensed interim 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 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 financial statements, there were no significant changes in estimates or estimation methods applied, which would affect the current or future periods, other than those presented below or mentioned further in these condensed interim financial statements.

The items of the financial statements which are exposed to the risk of material adjustment of the carrying amounts of assets and liabilities have been presented below. Detailed information regarding assumptions adopted has been presented in notes to these condensed interim financial statements, in line with the table below.

Item	Note	Estimates and assumptions
Shares	Note 17	As at every balance sheet date the Company assesses if there is any objective indication that the shares may be impaired. If any significant indications of impairment are identified, the Company has to carry out impairment tests for shares and to recognize an impairment loss or to reverse an impairment loss recognized before. In line with IFRS 9 *Financial Instruments* the Company adequately classifies shares in entities other than subsidiaries and jointly-controlled entities and remeasures them to fair value, as discussed in detail in Note 8 to these condensed interim financial statements.
Intra-group bonds	Note 18	At each balance sheet date the Company classifies intra-group bonds to current or non-current assets. Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. In accordance with IFRS 9 *Financial Instruments* the Company estimates impairment losses for intra-group bonds, as discussed in more detail in Note 8 to these condensed interim financial statements.
Loans granted	Note 19	In line with IFRS 9 *Financial Instruments* the Company adequately classifies and measures originated loans and estimates impairment allowances, as discussed in detail in Note 8 to these condensed interim financial statements.
Derivative instruments	Note 20	The Company measured derivative financial instruments 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.
Receivables from buyers	Note 23	In line with IFRS 9 *Financial Instruments* the Company estimates impairment allowances on receivables from buyers, as discussed in detail in Note 8 to these condensed interim financial statements.
Deferred tax assets	Note 14.2	As at the end of each reporting period, the Company asses the realisation of deferred tax assets and verifies deferred tax assets which were not recognized.
Provisions	Note 29	The value of provisions is determined based on assumptions made by the Company as well as a methodology and calculation method that is appropriate for a specific provision. To this end, the Company verifies the probability of an outflow of resources embodying economic benefits and estimates reliably the amount necessary to fulfil the obligation. The Company recognized provisions if the probability of an outflow of resources embodying economic benefits is higher than 50%.

Apart from the above, the Company makes significant estimates as regards the contingent liabilities is discloses, and in particular as regards court cases the Company is party to. Contingent liabilities have been presented in detail in Note 35 hereto.

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

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

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

According to the Management Board, standard IFRS 16 *Leases* may materially impact the accounting policies applied thus far:

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. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee 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 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 financial statements

A preliminary analysis of the impact of IFRS 16 *Leases* on the accounting policies has shown a change material for the Company, i.e. the need to recognize lease assets and liabilities for leases currently classified as operating leases in the financial statements. The Company has already completed the verification of all its agreements aimed to identify those which will be affected by IFRS 16 *Leases.* Currently, an analysis is being conducted to determine the effects of identified agreements under IFRS 16 *Leases*, specifically as regards the necessity to recognize assets and liabilities in the financial statements. The Company is currently developing a methodology of determining the incremental borrowing rate. As at the date of approval of these condensed interim financial statements for publication, the Company had not completed the analyses that would determine the impact of planned changes on the financial statements. Such analysis will be completed at a later date.

According to the Management Board, the amendments to IFRS 9 *Financial Instruments* and IFRIC 23 *Uncertainty over Income Tax Treatments*, entering into force as of 1 January 2019, will not materially impact the accounting policies applied thus far.

- **Standards and revised standards 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 and revised standards will not materially impact the accounting policies applied thus far:

(in PLN '000)

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
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
Revised IAS 19 *Employee Benefits*	1 January 2019
Revised IAS 28 *Investments in Associates and Joint Ventures*	1 January 2019
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*	1 January 2020
Amendments to IFRS 3 *Business Combinations*	1 January 2020
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 financial statements are consistent with those used for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2017, except for the application of the new standards and amendments to standards and changes to the accounting principles (policy) applied by the Company, as discussed below.

According to the Management Board, the following new standards and amendments to 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;
– financial assets measured at fair value through profit or loss.

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

– cash flow characteristics (Solely Payments of Principal and Interest);
– business model for managing the financial asset.

- **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 the 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.

(in PLN '000)

Impact on the financial statements as at 1 January 2018

The Company decided to apply IFRS 9 *Financial Instruments* with the effect as of 1 January 2018. The Company decided not to restate the comparative information, as permitted by the Standard. The data as at 31 December 2017 and for the 9-month period ended 30 September 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:

Categories and classes of financial instruments in line with IAS 39	IAS 39		IFRS 9			Effect of change
	At amortised /at historical cost	At fair value	At amortised 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	**39 244**	**-**	**-**	**25 351**	**-**	**(13 893)**
Long-term shares	39 244	-	-	25 351	-	(13 893)
3 Loans and receivables	**8 228 015**	**-**	**7 551 955**	**177 275**	**-**	**(498 785)**
Receivables from buyers	719 133	-	717 558	-	-	(1 575)
Gross value	720 057	-	720 057	-	-	-
Impairment loss	(924)	-	(2 499)	-	-	(1 575)
Bonds	6 572 696	-	6 176 103	-	-	(396 593)
Gross value	6 572 696	-	6 572 696	-	-	-
Impairment loss	-	-	(396 593)	-	-	(396 593)
Loans granted under cash pool agreement	190 526	-	190 526	-	-	-
Other loans granted	712 654	-	461 077	150 960	-	(100 617)
Gross value	712 654	-	471 887	150 960	-	(89 807)
Impairment loss	-	-	(10 810)	-	-	(10 810)
Other financial receivables	33 006	-	6 691	26 315	-	-
4 Hedging derivative instruments	**-**	**28 482**	**-**	**28 482***	**-**	**-**
5 Cash and cash equivalents	**-**	**721 577**	**-**	**721 577**	**-**	**-**
Total estimated effect of the application of IFRS 9 on financial assets						**(512 678)**
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 estimated effect of the application of IFRS 9 on financial liabilites						**33 055**
Estimated effect on retained earnings						**(479 623)**
Deferred tax						**91 072**
Estimated effect on retained earnings after deferred tax						**(388 551)**

** The Company has continued hedge accounting in line with IAS 39 Financial Instruments: Recognition and Measurement.*

The data presented above, which, according to the Company, comply with the requirements of IFRS 9 *Financial Instruments* in all material respects, were not audited by a certified auditor. Consequently, the final figures disclosed in the financial statements for 2018 may differ from those presented in these condensed interim 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 Company 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 Company 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 the generation of cash flows, which translates into their classification as financial assets measured at amortized cost.

The subordinated loan and the loans used for the purposes of repayment of debt 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 in the amount of PLN 150 960 thousand, since the cash flows they generate do not correspond solely to the repayment of principal and interest. The application of IFRS 9 *Financial instruments* reduced the Company'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 Company, estimated the fair value of shares held in PGE EJ 1 Sp. z o.o. 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. As the key factors affecting the value of the assumed shares had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Company assumes that the historical cost is an acceptable approximation of the fair value. The application of IFRS 9 *Financial Instruments* to measurement of equity investments reduced the Company's retained earnings as at 1 January 2018 by PLN 13 893 thousand. The above equity instruments are measured at fair value through profit or loss in line with IFRS 9 *Financial Instruments*.

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

The Company 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 financial statements;

- receivables from buyers; and
- held bonds of subsidiaries and originated loans.

As far as the receivables from buyers are concerned, the Company 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 Company may be exposed to. The risk of insolvency on the part of strategic counterparties has been assessed based on 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 recoveries from security interests. It is expected that the historical performance information concerning receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for this 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.

Based on the analyses, 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 1 575 thousand.

As far as originated loans and held bonds are concerned, the Company assesses the risk of insolvency on the part of the borrowers and issuers 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 recoveries from security interests and the time value of money.

The application of IFRS 9 *Financial Instruments* to the expected credit losses under purchased bonds and originated loans measured at amortized cost resulted in a decrease of the Company's retained earnings as at 1 January 2018 by PLN 396 593 thousand and PLN 10 810 thousand, respectively.

- **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 Company 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 Company's retained earnings as at 1 January 2018 by PLN 33 055 thousand.

- **Hedge accounting**

As at 1 January 2018 the Company 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 Company'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 Company's financial statements as regards its transactions. The Company 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 the obligatory application of the hedge accounting principles.

- **Measurement of financial guarantee liabilities**

The Company 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 loss allowance for expected credit losses.

IFRS 15 *Revenue from Contracts with Customers*
Clarifications to IFRS 15 *Revenue from Contracts with Customers*

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

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requires 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 Company 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 has to disclose quantitative and qualitative information about: its contracts with customers, its material judgements and estimates and capitalized costs of contract acquisition and performance.

Impact on the financial statements as at 1 January 2018

The Company 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 Company decided not to restate the comparative information, as permitted by the Standard. The data as at 31 December 2017 and for the 9-month period ended 30 September 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.

As part of the analysis, the Company reviewed concluded contracts, in terms of the amount of variable compensation, a guarantee for the sold goods, fulfilment of the conditions for recognizing combined contracts and the existence of elements of financing in the contracts.

Based on an analysis of contracts with customers the Company concludes that the implementation of IFRS 15 *Revenue from Contracts with Customers* does not have an impact on the Company's equity as at 1 January 2018.

(in PLN '000)

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

Standard	Effective date in the EU *(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

Other changes in accounting principles applied by the Company

As of 1 January 2018, the Company presents the measurement effects and the gain or loss on forwards and futures - derivative instruments separately in assets and liabilities, disclosing a gain or loss on a single contract. Previously, the Company applied a simplified approach involving the recognition of the effects of measurement and realized transaction gain or loss taking into account the short and the long positions.

The effect of the presentation change on the statement of financial position for the year ended 31 December 2017 is presented in the table below. The change has not had any effect on the Company's profit/loss.

	As at 31 December 2017 *(authorised figures)*	Change in presentation of derivative instruments	As at 31 December 2017 *(restated figures)*
ASSETS			
Non-current assets	**27 371 425**	**259**	**27 371 684**
Derivative instruments	26 445	259	26 704
Current assets	**2 901 667**	**48 023**	**2 949 690**
Derivative instruments	6 971	48 023	54 994
TOTAL ASSETS	**30 273 092**	**48 282**	**30 321 374**
EQUITY AND LIABILITIES			
Non-current liabilities	**9 530 528**	**259**	**9 530 787**
Derivative instruments	4 958	259	5 217
Current liabilities	**3 364 658**	**48 023**	**3 412 681**
Derivative instruments	9 226	48 023	57 249
TOTAL EQUITY AND LIABILITIES	**30 273 092**	**48 282**	**30 321 374**

9. Seasonality of operations

The Company's operations related to electricity sales are not seasonal in nature, hence the Company's performance in this area shows no significant fluctuations during the year. As the Company carries out holding operations, it may report significant dividend income recognized under finance income as at the dates of the resolutions on dividend payment, unless such resolutions set other record dates. During the 9-month period ended 30 September 2018, the Company recognized dividend income of PLN 819 437 thousand vs. PLN 560 832 thousand in the comparative period.

BUSINESS SEGMENTS

10. Information on operating segments

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

The assets of the "Holding activity" segment are:

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

The liabilities of the "Holding activity" segment are:

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

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

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

General and administrative expenses are presented under unallocated expenses, as they are incurred for the Group as a whole and are not directly attributable to a specific operating segment.

EBIT is the profit/loss on continuing operations before tax, finance income and finance costs, i.e. operating profit (loss).

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

(in PLN '000)

For the 9-month period ended 30 September 2018 or as at 30 September 2018 *(unaudited)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	744 817	-	-	**744 817**
Sales within the Group	5 059 569	8 197	-	**5 067 766**
Segment revenue	**5 804 386**	**8 197**	**-**	**5 812 583**
Profit/(loss) of the segment	**130 156**	**8 197**	**-**	**138 353**
Unallocated expenses	-	-	(91 570)	**(91 570)**
EBIT	**130 156**	**8 197**	**(91 570)**	**46 783**
Net finance income/(costs)	-	(138 650)	5 843	**(132 807)**
Profit/(loss) before income tax	**130 156**	**(130 453)**	**(85 727)**	**(86 024)**
Income tax expense	-	-	(24 195)	**(24 195)**
Net profit/(loss) for the period	**130 156**	**(130 453)**	**(109 922)**	**(110 219)**
Assets and liabilities				
Segment assets	2 334 391	28 054 208	-	**30 388 599**
Unallocated assets	-	-	85 546	**85 546**
Total assets	**2 334 391**	**28 054 208**	**85 546**	**30 474 145**
Segment liabilities	1 023 350	11 808 296	**-**	**12 831 646**
Unallocated liabilities	-	-	775 340	**775 340**
Total liabilities	**1 023 350**	**11 808 296**	**775 340**	**13 606 986**
EBIT	**130 156**	**8 197**	**(91 570)**	**46 783**
Depreciation/amortization	**(3 528)**	**-**	**-**	**(3 528)**
Impairment	**275**	**-**	**-**	**275**
EBITDA	**133 409**	**8 197**	**(91 570)**	**50 036**
Other segment information				
Capital expenditure *	5 971	-	-	**5 971**

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

For the 9-month period ended 30 September 2017 *(unaudited)* or as at 31 December 2017 *(restated figures)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	734 446	-	-	**734 446**
Sales within the Group	4 628 850	31 385	-	**4 660 235**
Segment revenue	**5 363 296**	**31 385**	**-**	**5 394 681**
Profit/(loss) of the segment	**281 969**	**31 385**	**-**	**313 354**
Unallocated expenses	-	-	(86 006)	**(86 006)**
EBIT	**281 969**	**31 385**	**(86 006)**	**227 348**
Net finance income (costs)	-	683 930	2 076	**686 006**
Profit/(loss) before income tax	**281 969**	**715 315**	**(83 930)**	**913 354**
Income tax expense	-	-	(53 539)	**(53 539)**
Net profit/(loss) for the period	**281 969**	**715 315**	**(137 469)**	**859 815**
Assets and liabilities				
Segment assets	1 796 606	28 423 410	-	**30 220 016**
Unallocated assets	-	-	101 358	**101 358**
Total assets	**1 796 606**	**28 423 410**	**101 358**	**30 321 374**
Segment liabilities	591 436	12 115 606	**-**	**12 707 042**
Unallocated liabilities	-	-	236 426	**236 426**
Total liabilities	**591 436**	**12 115 606**	**236 426**	**12 943 468**
EBIT	**281 969**	**31 385**	**(86 006)**	**227 348**
Depreciation/amortization	**(4 270)**	**-**	**-**	**(4 270)**
Impairment	**212**	**-**	**-**	**212**
EBITDA	**286 027**	**31 385**	**(86 006)**	**231 406**
Other segment information				
Capital expenditure *	32	-	-	**32**

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

In the 9-month period ended 30 September 2018, revenue from sales to two major clients, being members of the TAURON Capital Group, represented 73% and 10% of the Company's total revenue in the "Sales" segment, amounting to PLN 4 223 992 thousand and PLN 574 767 thousand, respectively. In the 9-month period ended 30 September 2017, revenue from sales to two major clients, being members of the TAURON Capital Group, represented 70% and 11% of the Company's total revenue in the "Sales" segment, amounting to PLN 3 769 689 thousand and PLN 592 316 thousand, respectively.

(in PLN '000)

For the 3-month period ended 30 September 2018 *(unaudited)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	323 594	-	-	**323 594**
Sales within the Group	1 769 018	8 192	-	**1 777 210**
Segment revenue	**2 092 612**	**8 192**	**-**	**2 100 804**
Profit/(loss) of the segment	**101 882**	**8 192**	**-**	**110 074**
Unallocated expenses	-	**-**	(26 850)	**(26 850)**
EBIT	**101 882**	**8 192**	**(26 850)**	**83 224**
Net finance income (costs)	-	860 542	(22 059)	**838 483**
Profit/(loss) before income tax	**101 882**	**868 734**	**(48 909)**	**921 707**
Income tax expense	-	-	(20 200)	**(20 200)**
Net profit/(loss) for the period	**101 882**	**868 734**	**(69 109)**	**901 507**
EBIT	**101 882**	**8 192**	**(26 850)**	**83 224**
Depreciation/amortization	**(1 042)**	**-**	**-**	**(1 042)**
Impairment	**140**	**-**	**-**	**140**
EBITDA	**102 784**	**8 192**	**(26 850)**	**84 126**
Other segment information				
Capital expenditure *	1 687	-	-	**1 687**

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

For the 3-month period ended 30 September 2017 *(unaudited)*

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	236 280	-	-	**236 280**
Sales within the Group	1 537 749	-	-	**1 537 749**
Segment revenue	**1 774 029**	**-**	**-**	**1 774 029**
Profit/(loss) of the segment	**26 082**	**-**	**-**	**26 082**
Unallocated expenses	-	**-**	(32 632)	**(32 632)**
EBIT	**26 082**	**-**	**(32 632)**	**(6 550)**
Net finance income (costs)	-	(48 472)	8 934	**(39 538)**
Profit/(loss) before income tax	**26 082**	**(48 472)**	**(23 698)**	**(46 088)**
Income tax expense	-	-	5 572	**5 572**
Net profit/(loss) for the period	**26 082**	**(48 472)**	**(18 126)**	**(40 516)**
EBIT	**26 082**	**-**	**(32 632)**	**(6 550)**
Depreciation/amortization	**(1 378)**	**-**	**-**	**(1 378)**
Impairment	**-**	**-**	**-**	**-**
EBITDA	**27 460**	**-**	**(32 632)**	**(5 172)**
Other segment information				
Capital expenditure *	-	-	-	**-**

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

(in PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Sale of goods for resale, finished goods and materials without elimination of excise	**5 754 086**	**5 314 079**
Excise	-	(609)
Revenue from sales of goods for resale and materials	**5 754 086**	**5 313 470**
Electricity	5 508 930	5 152 615
Gas	185 858	141 151
Property rights arising from energy certificates	1 586	14 909
Emission allowances	54 927	923
Other	2 785	3 872
Rendering of services	**58 497**	**81 211**
Trading income	48 262	38 603
Other	10 235	42 608
Total	**5 812 583**	**5 394 681**

TAURON Polska Energia S.A. acts as an agent coordinating and supervising purchases, supplies and transportation of fuels. The Company purchases coal from third parties and from the TAURON Group companies, which is subsequently sold to related parties. It recognizes revenue from agency services (supply management).

In the 9-month period ended 30 September 2018, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 747 816 thousand. The Company recognized revenue from agency services of PLN 23 786 thousand.

12. Expenses by type

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Depreciation of property, plant and equipment and amortization of intangible assets	(3 528)	(4 270)
Materials and energy	(1 176)	(1 093)
External services	(38 592)	(35 799)
Taxes and charges	(3 612)	(3 363)
Employee benefits expense	(67 028)	(63 306)
Advertising expenses	(18 714)	(17 421)
Other	(960)	(1 191)
Total costs by type	**(133 610)**	**(126 443)**
Selling and distribution expenses	15 391	17 507
Administrative expenses	91 570	86 006
Cost of goods for resale and materials sold	(5 628 526)	(5 039 659)
Cost of sales	**(5 655 175)**	**(5 062 589)**

The increase in the value of goods and materials sold during the 9-month period ended 30 September 2018 versus the comparable period arises mainly from the recognition of the effects of the release of provisions for onerous contracts with a joint venture in the amount of PLN 203 424 thousand, recognized in the comparable period, as described in Note 29 to these condensed interim financial statements.

(in PLN '000)

13. Finance income and costs

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Income and costs from financial instruments	**(132 493)**	**688 050**
Dividend income	819 437	560 832
Interest income on bonds and loans	245 728	359 450
Other interest income	4 800	11 014
Interest expense	(238 408)	(245 549)
Commissions due to external financing	(13 519)	(10 938)
Gain/(loss) on derivative instruments	(668)	(4 683)
Exchange gains/(losses)	(87 430)	6 808
Surplus of impairment losses (recognised)/reversed on shares	(1 003 061)	70 845
Revaluation of bonds and loans	139 102	(60 578)
Other	1 526	849
Other finance income and costs	**(314)**	**(2 044)**
Interest on discount	-	(2 330)
Other	(314)	286
Total, *including recognized in the statement of comprehensive income:*	**(132 807)**	**686 006**
Dividend income	819 437	560 832
Interest income on bonds and loans	245 728	359 450
Interest expense on debt	(238 408)	(245 549)
Revaluation of shares	(1 003 061)	70 845
Revaluation of bonds and loans	139 102	(60 578)
Other finance income and costs	(95 605)	1 006

In the 9-month period ended 30 September 2018, exchange losses exceeded exchange gains by PLN 87 430 thousand. Exchange losses are mainly exchange differences related to the Company's debt in the Euro, i.e. a loan obtained from a subsidiary, subordinated bonds and eurobonds. On that basis, exchange losses exceeded exchange gains by PLN 88 466 thousand. In the comparative period, exchange gains exceeded exchange losses.

During the 9-month period ended 30 September 2018 a surplus of impairment losses recognized in relation to shares occurred in the amount of PLN 1 003 061 thousand, mainly due to the recognition of impairment losses on shares: TAURON Wydobycie S.A. in amount of PLN 1 040 754 thousand, TAURON Wytwarzanie S.A in amount of PLN 473 517 thousand and reverse of impairment on shares TAURON Ekoenergia Sp. z o.o. in amount of PLN 538 144 as a results of impairment test for assets recognized on 30 June 2018, as discussed in detail in Note 17 to these condensed interim financial statements.

14. Income tax

14.1. Tax expense in the statement of comprehensive income

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Current income tax	**(37 913)**	**(51 575)**
Current income tax expense	(31 132)	(51 839)
Adjustments of current income tax from prior years	(6 781)	264
Deferred tax	**13 718**	**(1 964)**
Income tax expense in profit or loss	**(24 195)**	**(53 539)**
Income tax expense in other comprehensive income	**2 809**	**1 563**

(in PLN '000)

14.2. Deferred income tax

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
resulting from interest and impairment losses on bonds and loans	-	29 275
difference between tax base and carrying amount of other financial assets	94 276	9 694
valuation of hedging instruments	2 618	5 412
other	9 277	4 812
Deferred tax liabilities	**106 171**	**49 193**
provision for employee benefits	718	660
other provisions and accruals	2 429	2 270
difference between tax base and carrying amount of fixed and intangible assets	2 731	821
difference between tax base and carrying amount of financial assets	59 481	258
difference between tax base and carrying amount of financial liabilities	116 654	13 299
other	1 914	2 042
Deferred tax assets	**183 927**	**19 350**
Deferred tax assets/(liabilities), net, *of which:*	**77 756**	**(29 843)**
Deferred tax assets/(liabilities), net - recognized in profit or loss	(10 685)	(24 403)
Deferred tax assets/(liabilities), net - recognized in other comprehensive income	(2 631)	(5 440)
Deferred tax assets/(liabilities), net - recognized with retained profits	91 072	-

Deferred tax assets on deductible temporary differences arising from investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences. According to the Company, deductible temporary differences related to recognition of impairment losses on shares in subsidiaries of PLN 7 678 975 thousand will not be reversed in the foreseeable future, as the investments are not intended for sale. Consequently, no related deferred tax asset has been recognized.

As taxable profit is forecast for 2018 for the Tax Capital Group ("TCG") of which the Company is a member, and taxable profit is forecast for the subsequent years, the deferred tax asset related to all deductible differences, except those described above, has been recognized in these financial statements in the full amount.

The increase in the deferred tax asset arising from the difference between the tax values and carrying amounts of financial assets is mainly the effect of the recognition of an impairment loss on bonds, loans granted and receivables under a cash-pooling agreement and measurement of loans granted, recognized as at 30 September 2018 in accordance with IFRS 9 *Financial Instruments* in the total amount of PLN 73 906 thousand.

15. 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. 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 STATEMENT OF FINANCIAL POSITION

16. Investment property

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
COST		
Opening balance	**36 169**	**36 169**
Direct purchase	3 926	-
Closing balance	**40 095**	**36 169**
ACCUMULATED DEPRECIATION		
Opening balance	**(14 468)**	**(10 851)**
Depreciation for the period	(2 712)	(2 712)
Closing balance	**(17 180)**	**(13 563)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**21 701**	**25 318**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**22 915**	**22 606**

The investment property is composed of a perpetual usufruct right to land and buildings located in Katowice Szopienice, at ul. Lwowska 23. On 17 April 2018, the Management Board decided to acquire a perpetual usufruct right to land located in Katowice-Szopienice, in ul. Lwowska 23 with the right to buildings located in the land from PKO Leasing S.A. The objective of the decision was to fulfil the Company's obligations under a preliminary sales agreement concluded in 2008. On 25 April 2018 the Company's Supervisory Board agreed to the purchase of the real property by the Company. On 30 May 2018 the Company and PKO Leasing S.A. entered into a sales agreement under which the Company acquired the investment property in question.

17. Shares

Changes in shares from 1 January 2018 to 30 September 2018 *(unaudited)*

No.	Company	Gross value					Impairment losses			Net value	
		Opening balance	Impact of applying IFRS 9	Restated opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	1 001 755	-	1 001 755	340 000	1 341 755	(147 870)	(1 040 754)	(1 188 624)	853 885	153 131
2	TAURON Wytwarzanie S.A.	7 085 701	-	7 085 701	780 000	7 865 701	(5 347 296)	(473 517)	(5 820 813)	1 738 405	2 044 888
3	TAURON Ciepło Sp. z o.o.	1 928 043	-	1 928 043	-	1 928 043	-	-	-	1 928 043	1 928 043
4	TAURON Ekoenergia Sp. z o.o.	1 939 765	-	1 939 765	-	1 939 765	(1 125 693)	538 144	(587 549)	814 072	1 352 216
5	Marselwind Sp. z o.o.	307	-	307	-	307	-	-	-	307	307
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	1 268	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	3 551 026	-	3 551 026	350 000	3 901 026	-	-	-	3 551 026	3 901 026
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Dystrybucja Serwis S.A.	201 045	-	201 045	439 317	640 362	-	-	-	201 045	640 362
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	613 505	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	129 823	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	4 223	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	41 178	-	-	-	41 178	41 178
14	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	55 056	-	55 056	6 000	61 056	(55 056)	(6 000)	(61 056)	-	-
15	TAURON Sweden Energy AB (publ)	28 382	-	28 382	-	28 382	-	(20 933)	(20 933)	28 382	7 449
16	Biomasa Grupa TAURON Sp. z o.o.[1]	1 269	-	1 269	-	1 269	-	-	-	1 269	1 269
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	39 831	-	-	-	39 831	39 831
18	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	415 852	-	-	-	415 852	415 852
19	PGE EJ 1 Sp. z o.o.	26 546	(13 895)	12 651	6 000	18 651	-	-	-	26 546	18 651
20	Magenta Grupa TAURON Sp. z o.o.	9 500	-	9 500	-	9 500	-	-	-	9 500	9 500
21	ElectroMobility Poland S.A.	2 500	-	2 500	5 000	7 500	-	-	-	2 500	7 500
22	Other	391	-	391	-	391	-	-	-	391	391
	Total	**27 588 594**	**(13 895)**	**27 574 699**	**1 926 317**	**29 501 016**	**(6 675 915)**	**(1 003 060)**	**(7 678 975)**	**20 912 679**	**21 822 041**

[1] *On 8 October 2018 the name of the company was changed from Biomasa Grupa TAURON Sp. z o.o. to Bioeko Grupa TAURON Sp. z o.o.*

Changes in long-term investments in the 9-month period ended 30 September 2018 resulted from the following transactions:

- Increase in the issued capital of ElectroMobility Poland S.A.

On 3 January 2018, the Extraordinary General Shareholders' Meeting of ElectroMobility Poland S.A. adopted a resolution to increase the issued capital of the entity by PLN 20 000 thousand by way of increasing the par value of the shares from PLN 2 500 thousand up to PLN 7 500 thousand in exchange for a cash contribution of PLN 5 000 thousand. On 16 January 2018 the Company advanced monies to increase the capital. The aforesaid increase in the issued capital of ElectroMobility Poland S.A. was registered on 23 April 2018.

- Contributions to the capital of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

On 1 March 2018, the Extraordinary General Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. adopted a resolution concerning capital contributions to the company in the amount of PLN 6 000 thousand. The contributions are aimed to enable the company to finance its operations. The cash was contributed by the Company on 7 March 2018.

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

On 29 March 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 3 500 thousand, through the issue of 70 000 new shares with the par value of PLN 50 each. The nominal value of shares held by the Company was increased from PLN 35 850 thousand to PLN 39 350 thousand. The new shares were taken by the Company at the price of PLN 5 000 per share, i.e. for the total amount of PLN 350 000 thousand. On 12 April 2018 the Company provided funds to increase the capital. The increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered on 27 April 2018.

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

On 26 April 2018, the Extraordinary General Shareholders' Meeting of TAURON Wydobycie S.A. adopted a resolution to increase the company's issued capital by PLN 3 400 thousand, through the issue of 340 000 new shares with the par value of PLN 10 each. The nominal value of shares held by the Company was increased from PLN 357 111 thousand to PLN 360 511 thousand. The new shares were taken by the Company at the price of PLN 1 000 per share, i.e. for the total amount of PLN 340 000 thousand. On 9 May 2018 the Company provided funds to increase the capital. The aforesaid increase in the issued capital of TAURON Wydobycie S.A. was registered on 25 May 2018.

- Increase in the issued capital of TAURON Dystrybucja Serwis S.A.

On 18 June 2018, the Extraordinary General Shareholders' Meeting of TAURON Dystrybucja Serwis S.A. adopted a resolution to increase the company's issued capital by PLN 4 393 thousand, through the issue of 4 393 170 new shares with the par value of PLN 1 each. The nominal value of shares held by the Company was increased from PLN 5 101 thousand to PLN 9 494 thousand. The new shares were taken by the Company at the price of PLN 100 per share, i.e. for the total amount of PLN 439 317 thousand. On 3 July 2018 the Company provided funds to increase the capital. The aforesaid increase in the issued capital of TAURON Dystrybucja Serwis S.A. was registered on 22 August 2018.

- Increase in the capital of PGE EJ 1 Sp. z o.o.

On 9 August 2018, the Extraordinary General Shareholders' Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 60 000 thousand, through the issue of 425 530 new shares with the par value of PLN 141 each. All new shares were taken up and paid for by company's shareholders in proportion to their shares. The nominal value of shares held by the Company was increased from PLN 31 086 thousand to PLN 37 086 thousand in exchange for cash contribution of PLN 6 000 thousand. On 22 August 2018 the Company provided funds to increase the capital. The aforesaid increase in the issued capital of PGE EJ 1 sp. z o.o. was registered on 11 September 2018.

- Increase in the issued capital of TAURON Wytwarzanie S.A.

On 9 August 2018, the Extraordinary General Shareholders' Meeting of TAURON Wytwarzanie S.A. adopted a resolution to increase the company's issued capital by PLN 7 800 thousand, through the issue of 780 000 new shares with the par value of PLN 10 each. The nominal value of shares held by the Company was increased from PLN 1 494 459 thousand to PLN 1 502 259 thousand. The new shares were taken by the Company at the price of PLN 1 000 per share, i.e. for the total amount of PLN 780 000 thousand. On 27 and 28 August 2018 the Company provided funds to increase the issued capital of TAURON Wytwarzanie S.A. After the end of the reporting period, the aforesaid increase in the issued capital of TAURON Wytwarzanie S.A. was registered on 19 October 2018.

- Impairment loss on shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

In the 9-month period ended 30 September 2018 the Company recognized an impairment loss on its shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., a subsidiary, of PLN 6 000 thousand.

- Impairment loss on shares in TAURON Sweden Energy AB (publ)

In the 9-month period ended 30 September 2018 the Company recognized an impairment loss on its shares in TAURON Sweden Energy AB (publ), a subsidiary, of PLN 20 933 thousand.

Impairment tests

Considering the Company's market cap, which has been lower than its carrying amount for a long time, changes in emission allowance prices and in global commodity prices, a change in the standing of the domestic power coal market, amendments to the Act on Renewable Energy Sources, the pending legislatory proceedings regarding functional solutions of the capacity market, market conditions being unfavorable for the profitability of conventional power industry, an analysis of effect of market standing changes was performed in the third quarter of 2018.

The analysis showed changes in market prices of greenhouse gas emission allowances, electricity and natural gas. Additional costs related to the prices of allowances and commodities were directly incurred in the market as a result of changes in wholesale prices of electricity. In the third quarter of 2018, the short- term changes of prices relating to allowances and commodities grew, and at its end certain adjustments to the growth trend were observed. In the nearest perspective, the factor does not justify any change to long-term projections compared to information available as at 30 June 2018.

Therefore, it was assumed that the most recent results of impairment tests focusing on shares and intra-group loans and bonds recognized in non-current assets, which were performed as at 30 June 2018, were up-to-date.

The recoverable amount is the value in use.

Relevant tests were conducted based on the present value of projected cash flows from operations of the key entities, by reference to detailed projections by 2027 and the estimated residual value. The projections used for the power generating and mining units cover the entire period of their operation. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

Key assumptions made for purposes of the tests performed as at 30 June 2018

The weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.16% to 10.95% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (4.08%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is 2.5% and it corresponds to the estimated long-term inflation rate. As at 30 June 2018, WACC increased versus 31 December 2017 mainly due to a higher risk free rate and higher costs of debt financing.

The key business assumptions affecting the estimated value in use of the tested entities are:

- Coal prices projected for the coming years are high and stable as global prices will remain high and cost of transport will increase. According to international institutions, after 2021 and in the long run, coal prices will decrease as a result of the implementation of climate policy and the strategy to replace coal with energy from renewable sources followed by a growing number of countries. Prices forecast by the World Bank by 2030 show a downward trend. It has been assumed that in the years 2021–2040 the prices of power coal will decrease by 15%;
- The electricity wholesale price path for the years 2019-2027 with the perspective by 2040 has been adopted, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring greenhouse gas emission allowances. The price growth assumed for 2019 vs. the average SPOT price in the first half of 2018 is 13%. It has been assumed that power prices will decrease by 3% by 2021 vs. 2019, among others as a result of a capacity balance improvement resulting from the commissioning of new power units in Jaworzno and Opole. At the same time, the prices assumed for 2021 are 9% higher than the average SPOT price in 2018. An increase of 7.75% is assumed after 2021 and by 2027 (vs. 2021) followed by growth of 1% between 2028 and 2040 (fixed prices) vs. 2027;
- The operating reserve capacity mechanism is to remain in place until the end of 2020, i.e. until the Capacity Market has been implemented;
- Planned changes in the Polish market model aimed to introduce the Capacity Market mechanism have been taken into account (in line with the adopted and notified Act on the capacity market and the draft Capacity Market Regulations). Capacity payments are expected from 2021 to 2035. Basket auctions will be carried out based on the life of capacity contracts and capital expenditure (on new, modernized or existing facilities). The average annual Capacity Market budget during the period when the mechanism is applied is PLN 4 billion;
- Greenhouse gas emission limits for heat generation have been set in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat;

(in PLN '000)

- The greenhouse gas emission allowance price growth path for the years 2019-2027 with the perspective by 2040 has been adopted. It has been assumed that the market price will increase by ca. 40% by 2027, comparing to 2019 and by ca. 90% vs. the average price observed in the first half of 2018, with 2027 year price path followed in 2028-2040 (fixed prices);
- The price path assumed for emission certificates and the obligatory redemption in the subsequent years are based on the Act on Renewable Energy Sources amended in recent years. The assumptions arise among others from the need to achieve the indicative objectives of RES for 2020;
- Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network;
- In line with the amended Energy Law and certain other acts, the applicable CHP support system settlements for 2018 will be carried out until 30 June 2019. No support for CHP has been assumed thereafter for the existing coal based units;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed. The return on capital is conditional on the Regulatory Asset Value;
- The electricity retail price path has been adopted based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- End-user sales volumes taking into account GDP growth and increased market competition have been applied;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed;
- Maintaining the production capacity of the existing non-current assets as a result of replacement and development investments.

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

Sensitivity analyses conducted by the Company reveal that the Capacity Market mechanism (assuming that other market factors remain unchanged), the projected prices of electricity, the adopted discount rates, the prices of greenhouse gas emission allowances and of coal are the key factors exerting an effect on the estimated cash flows of the key entities. If the capacity market mechanism was disregarded in the process of estimation of the value in use of shares and intra-group loans and bonds, with other market conditions remaining unchanged, an additional net impairment loss of ca. PLN 3 656 million would be charged to the Company's profit or loss.

Test results

The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 30 June 2018 indicated impairment of the carrying amount of shares in subsidiaries of PLN 1 514 271 thousand and reversal of an impairment loss on shares in a subsidiary of PLN 538 144 thousand.

They were related to the following entities:

Company	WACC* assumed in tests as at		Recoverable amount As at 30 June 2018 *(unaudited)*	Impairment loss (recognized)/reversed in the period of 9 months ended 30 September 2018 *(unaudited)*
	30 June 2018 *(unaudited)*	31 December 2017		
TAURON Wytwarzanie S.A.	8.36%	8.39%	1 704 611	(473 517)
TAURON Ekoenergia Sp. z o.o.	9.51%	8.78%	1 573 467	538 144
TAURON Wydobycie S.A.	10.95%	10.20%	564 275	(1 040 754)

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

The impairment loss on shares in a subsidiary TAURON Wydobycie S.A. was recognized as at 30 June 2018 for the following reasons:

- high volatility of mining and geological conditions in mines owned by the TAURON Group. During the six months ended 30 June 2018 adverse conditions were identified in that area, which affected the commercial coal production volumes in the current period and the ones projected for the years to come;
- disadvantageous excavation front structure (short face runs), which generates additional costs of reinforcements;

(in PLN '000)

- limited competition in the market of mining materials and services, which results in the price growth in the first half of 2018 and in subsequent years.

The impairment loss on shares in a subsidiary TAURON Wytwarzanie S.A. was recognized as at 30 June 2018 for the following reasons in particular:

- increase in prices of carbon-based fuel and greenhouse gas emission allowances;
- increase in cost of transportation resulting from higher volumes of imported coal.

The option to reverse impairment on shares in TAURON Ekoenergia Sp. z o.o., a subsidiary, resulted in particular from changes in RES regulations regarding the calculation of the substitution fee and taxes on wind farms, s well as from an increase in the prices of energy and certificates for energy produced from renewable sources.

The loans extended to Elektrociepłownia Stalowa Wola S.A. were tested for impairment. The results of the test showed that there is no need for an impairment loss provided that the assumption are compliant with the impairment tests on shares.

Changes in shares from 1 January 2017 to 30 September 2017 *(unaudited)*

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	(Decreases) Increases	Closing balance	Opening balance	(Decreases) Increases	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	841 755	160 000	1 001 755	-	-	-	841 755	1 001 755
2	TAURON Wytwarzanie S.A.	7 236 727	(151 026)	7 085 701	(5 403 825)	120 057	(5 283 768)	1 832 902	1 801 933
3	TAURON Ciepło Sp. z o.o.	1 328 043	600 000	1 928 043	-	-	-	1 328 043	1 928 043
4	TAURON Ekoenergia Sp. z o.o.	939 765	-	939 765	(939 765)	-	(939 765)	-	-
5	Marselwind Sp. z o.o.	107	200	307	-	-	-	107	307
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	-	3 551 026	3 551 026	-	-	-	-	3 551 026
8	TAURON Dystrybucja S.A.	9 511 628	-	9 511 628	-	-	-	9 511 628	9 511 628
9	TAURON Dystrybucja Serwis S.A.	-	201 045	201 045	-	-	-	-	201 045
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	-	-	41 178	41 178
14	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	55 056	-	55 056	-	(49 212)	(49 212)	55 056	5 844
15	TAURON Sweden Energy AB (publ)	28 382	-	28 382	-	-	-	28 382	28 382
16	Biomasa Grupa TAURON Sp. z o.o.[1]	1 269	-	1 269	-	-	-	1 269	1 269
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	-	-	39 831	39 831
18	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
19	PGE EJ 1 Sp. z o.o.	26 546	-	26 546	-	-	-	26 546	26 546
20	ElectroMobility Poland S.A.	2 500	-	2 500	-	-	-	2 500	2 500
21	Other	550	21	571	-	-	-	550	571
	Total	**21 218 008**	**4 361 266**	**25 579 274**	**(6 343 590)**	**70 845**	**(6 272 745)**	**14 874 418**	**19 306 529**

[1]On 8 October 2018 the name of the company was changed from Biomasa Grupa TAURON Sp. z o.o. to Bioeko Grupa TAURON Sp. z o.o.

(in PLN '000)

18. Bonds

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

The table below presents the balances of acquired bonds and interest accrued as at 30 September 2018 and 31 December 2017 broken down by individual companies issuing the bonds.

Company	As at 30 September 2018 *(unaudited)*				As at 31 December 2017		
	Par value of purchased bonds	Accrued interest	Impairment loss	Total	Par value of purchased bonds	Accrued interest	Total
TAURON Wytwarzanie S.A.	286 150	390	(5 085)	**281 455**	1 064 920	10 689	**1 075 609**
TAURON Dystrybucja S.A.	3 300 000	41 286	(8 711)	**3 332 575**	3 770 000	62 326	**3 832 326**
TAURON Ciepło Sp. z o.o.	1 075 000	16 680	(8 581)	**1 083 099**	1 075 000	15 169	**1 090 169**
TAURON Wydobycie S.A.	570 000	12 246	(128 281)	**453 965**	570 000	4 592	**574 592**
TAURON Ekoenergia Sp. z o.o.	160 000	396	(754)	**159 642**	-	-	**-**
Total	**5 391 150**	**70 998**	**(151 412)**	**5 310 736**	**6 479 920**	**92 776**	**6 572 696**
Non-current	5 391 150	-	(148 526)	**5 242 624**	6 009 920	-	**6 009 920**
Current	-	70 998	(2 886)	**68 112**	470 000	92 776	**562 776**

Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements provide for the possibility to roll over the bonds. As at 30 September 2018, the par value of bonds maturing within one year, which were classified as long-term bonds, was PLN 416 150 thousand.

The change in the impairment of bonds has been presented in the table below.

	9-month period ended 30 September 2018 *(unaudited)*
As at 31 December 2017	**-**
Impact of IFRS 9	**(396 593)**
As at 1 January 2018	**(396 593)**
(Increases)/decreases of impairment loss	195 131
Transfer of impairment loss to receivables under a cash pool agreement	50 050
As at 31 June 2018	**(151 412)**

A change in the Company's estimates of the credit risk related to bonds issued by the subsidiary TAURON Wytwarzanie S.A. and repayment of a portion of bonds by the subsidiary TAURON Wytwarzanie S.A. in the amount of PLN 620 000 thousand were the key factors determining a reduction in the impairment losses on bonds.

19. Loans granted

	As at 30 September 2018 *(unaudited)*				As at 31 December 2017		
	Principal*	Interest	Impairment loss	Total	Principal	Interest	Total
Loan granted to TAURON Ekoenergia Sp. z o.o.	-	-	-	**-**	120 000	19 268	**139 268**
Loans granted to EC Stalowa Wola S.A.	203 827	262	(190)	**203 899**	529 007	41 425	**570 432**
Loans granted to PGE EJ 1 Sp. z o.o.	7 740	182	(48)	**7 874**	2 940	14	**2 954**
Granted cash pool loans including accrued interest	621 167	3 319	(103 693)	**520 793**	189 928	598	**190 526**
Total	**832 734**	**3 763**	**(103 931)**	**732 566**	**841 875**	**61 305**	**903 180**
Non-current	421 637	443	(100 343)	**321 737**	326 790	56 199	**382 989**
Current	411 097	3 320	(3 588)	**410 829**	515 085	5 106	**520 191**

**Including measurement of principal at amortized cost, except the subordinated loan to EC Stalowa Wola S.A., which is measured at fair value.*

Loan to a subsidiary

On 27 February 2018, a subsidiary - TAURON Ekoenergia Sp. z o.o. - repaid the total loan amounting to PLN 120 000 thousand with interest accrued of PLN 20 113 thousand, granted under a loan agreement concluded in 2015 for the amount of PLN 1 120 000 thousand for the purpose of redemption of intra-group bonds issued by the borrower in prior years to finance the construction of wind farms.

Loans to joint ventures

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 a 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 and totalling PLN 53 944 thousand.

In accordance with the consolidation agreement in question, on 30 April 2018 a portion of the principal amount of the loan of PLN 299 100 thousand was repaid, while the remaining portion 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 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. It derecognized their carrying amount of PLN 511 952 thousand and disclosed a new asset measured at fair value at initial recognition 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. provided a loan of up to PLN 450 000 thousand each to Elektrociepłownia Stalowa Wola S.A. The loan matures on 14 June 2030. The exposure of Bank Gospodarstwa Krajowego is secured with a bank guarantee issued upon request of the Company on 11 April 2018, as discussed in detail in Note 35 to these condensed interim 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 Bank Gospodarstwa Krajowego as the Agent, entered into a debt subordination agreement. Pursuant to the agreement, the debt of Elektrociepłownia Stalowa Wola S.A. owed to the Company under the debt consolidation agreement of 28 February 2018 for a total amount of PLN 609 951 thousand constitutes "subordinated debt". As at the date of approval of these condensed interim financial statements for publication, the nominal value of the loan, constituting subordinated debt owed to the Company, was PLN 310 851 thousand and its fair value was PLN 195 567 thousand.

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 30 June 2018, the loan with accrued interest measured at amortized cost totalled PLN 7 099 thousand.

(in PLN '000)

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 up to 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. Under the agreement, the Company will grant a loan of up to PLN 6 500 thousand to Elektrociepłownia Stalowa Wola S.A In accordance with the agreement the principal amount of the loan will be repaid by 30 September 2020 and interest accrued based on WIBOR 1M increased by a margin will be paid 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. As at 30 September 2018, the loan with accrued interest measured at amortized cost totalled PLN 1 233 thousand.

Loans granted under cash pool agreement

Detailed information on the cash pool service has been presented in Note 27.4 to these condensed interim financial statements.

20. Derivative instruments

	As at 30 September 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	(720)	-	**4 367**	**(5 087)**	(9 299)	-	**-**	**(9 299)**
IRS	236	13 545	**13 781**	**-**	23	28 459	**28 482**	**-**
Commodity future/forward	190	-	**490 560**	**(490 370)**	395	-	**53 216**	**(52 821)**
Currency forward	(4 905)	-	**-**	**(4 905)**	(346)	-	**-**	**(346)**
Total			**508 708**	**(500 362)**			**81 698**	**(62 466)**
Non-current			52 300	(37 524)			26 704	(5 217)
Current			456 408	(462 838)			54 994	(57 249)

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

Derivative instrument	Methodology of determining fair value hierarchy
IRS	The difference between discounted floating-rate interest cash flows and those based on fixed interest rates. Reuters interest rate curve is the input data.
CCIRS	The difference between discounted interest cash flows relating to payments and receipts, in two different currencies, expressed in the valuation currency. Interest rate curves, basis spreads and NBP fixing for the relevant currencies from Reuters are the input data.
Forward currency contracts	The difference between discounted future cash flows: the forward price at the valuation date and the transaction price, multiplied by the nominal value of the contract in a foreign currency. NBP fixing and the implied interest rate curve from FX swap transactions for the relevant currency from Reuters are 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.

(in PLN '000)

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

	As at 30 September 2018 *(unaudited)*		As at 31 December 2017 *(restated figures)*	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments - commodity	490 560	-	53 216	-
Derivative instruments - currency	-	-	-	-
Derivative instruments - IRS	-	13 781	-	28 482
Derivative instruments - CCIRS	-	4 367	-	-
Total	**490 560**	**18 148**	**53 216**	**28 482**
Liabilities				
Derivative instruments - commodity	490 370	-	52 821	-
Derivative instruments - currency	-	4 905	-	346
Derivative instruments - CCIRS	-	5 087	-	9 299
Total	**490 370**	**9 992**	**52 821**	**9 645**

Hedging derivative instruments (subject to hedge accounting) — IRS

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 30 September 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; and
- 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.

21. Other financial assets

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Receivables arising from income tax settlements of the TCG companies	174 977	6 133
Units in investment funds	25 916	101 358
Bid bonds, deposits, collateral transferred	9 548	15 343
Initial margin deposits	258 933	11 140
Other	218	390
Total	**469 592**	**134 364**
Non-current	2 789	2 724
Current	466 803	131 640

(in PLN '000)

22. Inventories

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Gross Value		
Energy certificates	250	250
Greenhouse gas emission allowances	310 372	198 459
Materials	100	40
Total	**310 722**	**198 749**
Measurement to net realisable value		
Energy certificates	(52)	(184)
Greenhouse gas emission allowances	(2)	(145)
Measurement to fair value		
Greenhouse gas emission allowances	(3 881)	8
Total	**(3 935)**	**(321)**
Net value		
Energy certificates	198	66
Greenhouse gas emission allowances	306 489	198 322
Materials	100	40
Total	**306 787**	**198 428**

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.

23. Receivables from buyers

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Gross Value		
Receivables from buyers	680 058	719 144
Receivables claimed at court	952	913
Total	**681 010**	**720 057**
Allowance/write-down		
Receivables from buyers	(688)	(11)
Receivables claimed at court	(952)	(913)
Total	**(1 640)**	**(924)**
Net Value		
Receivables from buyers	679 370	719 133
Receivables claimed at court	-	-
Total	**679 370**	**719 133**

As at 30 September 2018 and 31 December 2017, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 426 855 thousand and PLN 481 526 thousand, respectively.

Related-party transactions as well as related-party receivables and liabilities have been presented in Note 38.1 to these condensed interim financial statements.

24. Receivables arising from taxes and charges

As at 30 September 2018 receivables arising from taxes and charges amounted to PLN 22 601 thousand and comprised VAT receivables only. As at 31 December 2017, the related receivables totalled PLN 36 094 thousand.

(in PLN '000)

25. Cash and cash equivalents

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Cash at bank and in hand	496 718	521 343
Short-term deposits (up to 3 months)	11	200 234
Total cash and cash equivalents presented in the statement of financial position, *including*:	**496 729**	**721 577**
restricted cash	51 310	49 792
Cash pool	(1 656 314)	(2 186 508)
Overdraft	(745)	(93 502)
Foreign exchange	863	(799)
Total cash and cash equivalents presented in the statement of cash flows	**(1 159 467)**	**(1 559 232)**

The balances of short-term loans granted and taken out in a cash pool transaction are not cash flows from investing or financing activities, but a cash adjustment, as their main objective is to manage the Group's liquidity on a day-to-day basis.

Restricted cash includes mainly cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A.), amounting to PLN 50 497 thousand.

Information on cash pool balances has been presented in Note 27.4 to these condensed interim financial statements.

26. Equity

26.1. Issued capital

Issued capital as at 30 September 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 30 September 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.

26.2. Major shareholders

Shareholding structure as at 30 September 2018 *(unaudited)*

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

**The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Shareholders' Meeting of the Company. The limitation does not apply to the State Treasury and State Treasury owned companies in the period when the State Treasury and State Treasury owned companies hold shares in the Company entitling to more than 25% of the total votes in the Company.*

To the best of the Company's knowledge, the shareholding structure as at 30 September 2018 did not change as compared to 31 December 2017.

(in PLN '000)

26.3. Retained earnings and dividend limitation

Reserve capital — dividend limitation

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
amounts subject to distribution	**4 886 520**	**4 032 169**
amounts from distribution of prior years profits	4 886 520	4 032 169
non-distributable amounts	**3 624 917**	**3 624 917**
decrease in the value of issued capital	3 390 037	3 390 037
settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	**8 511 437**	**7 657 086**

Retained earnings — dividend limitation

Only PLN 13 thousand out of retained earnings may be distributed among the shareholders as at 30 September 2018.

On 16 April 2018, the Ordinary General Shareholders' Meeting 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.

26.4. Revaluation reserve from valuation of hedging instruments

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Opening balance	**23 051**	**29 660**
Remeasurement of hedging instruments	(15 127)	(8 708)
Remeasurement of hedging instruments charged to profit or loss	213	381
Deferred income tax	2 834	1 582
Closing balance	**10 971**	**22 915**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued bonds, as presented in detail in Note 20 to these condensed interim financial statements.

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

As at 30 September 2018, the Company recognized PLN 10 971 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 13 781 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 profit/loss for the period includes PLN 973 thousand, with PLN 760 thousand of the amount received in respect of hedges used in relation to closed interest periods and PLN 213 thousand resulting from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period.

(in PLN '000)

27. Debt

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Long-term portion of debt		
Subordinated hybrid bonds	810 608	791 355
Other issued bonds	7 165 275	7 113 161
Loans received from the European Investment Bank	758 094	873 770
Loans from the subsidiary	710 925	694 168
Total	**9 444 902**	**9 472 454**
Short-term portion of debt		
Subordinated hybrid bonds	29 533	1 597
Other issued bonds	59 164	34 233
Cash pool loans received, including accrued interest	2 070 730	2 377 034
Loans from the European Investment Bank	160 143	168 340
Loans from the subsidiary	22 252	27 112
Overdraft	745	93 502
Finance lease	-	23 945
Total	**2 342 567**	**2 725 763**

27.1. Bonds issued

Bonds as at 30 September 2018 *(unaudited)*

Tranche/Bank	Maturity date	Currency	Principal at nominal value in currency	As at balance sheet date		Of which maturing within *(after the balance sheet date)*		
				Accrued interest	Principal at amortized cost	up to 2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	911	99 918	99 918	-	-
	20.12.2020	PLN	100 000	911	99 878	-	99 878	-
	20.12.2021	PLN	100 000	911	99 850	-	99 850	-
	20.12.2022	PLN	100 000	911	99 828	-	99 828	-
	20.12.2023	PLN	100 000	911	99 812	-	-	99 812
	20.12.2024	PLN	100 000	911	99 800	-	-	99 800
	20.12.2025	PLN	100 000	911	99 789	-	-	99 789
	20.12.2026	PLN	100 000	911	99 779	-	-	99 779
	20.12.2027	PLN	100 000	911	99 772	-	-	99 772
	20.12.2028	PLN	100 000	911	99 766	-	-	99 766
	20.12.2020	PLN	70 000	628	69 972	-	69 972	-
	20.12.2021	PLN	70 000	628	69 968	-	69 968	-
	20.12.2022	PLN	70 000	628	69 965	-	69 965	-
	20.12.2023	PLN	70 000	628	69 963	-	-	69 963
	20.12.2024	PLN	70 000	628	69 961	-	-	69 961
	20.12.2025	PLN	70 000	628	69 960	-	-	69 960
	20.12.2026	PLN	70 000	628	69 959	-	-	69 959
	20.12.2027	PLN	70 000	628	69 958	-	-	69 958
	20.12.2028	PLN	70 000	628	69 957	-	-	69 957
	20.12.2029	PLN	70 000	628	69 957	-	-	69 957
Bond Issue Scheme of 24 November 2015	29.12.2020	PLN	1 600 000	12 079	1 597 869	-	1 597 869	-
TPEA1119	4.11.2019	PLN	1 750 000	19 466	1 749 369	1 749 369	-	-
European Investment Bank	16.12.2034	EUR	190 000	29 533	810 608	-	-	810 608
Eurobonds EURBD050727	5.07.2027	EUR	500 000	12 229	2 120 225	-	-	2 120 225
Total				**88 697**	**7 975 883**	**1 849 287**	**2 107 330**	**4 019 266**

(in PLN '000)

Bonds as at 31 December 2017

Tranche/Bank	Maturity date	Currency	Principal at nominal value in currency	As at balance sheet date		Of which maturing within *(after the balance sheet date)*		
				Accrued interest	Principal at amortized cost	up to 2 years	2 - 5 years	over 5 years
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 November 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
Total				**35 830**	**7 904 516**	**1 849 146**	**2 106 526**	**3 948 844**

The bond issue scheme of 24 November 2015 was extended on 9 March 2018. Under annexes to the agency and depositary agreement and to the guarantee agreement some banks extended the period of availability of the scheme's funds. Therefore, the maximum bond issue scheme value:

- until 31 December 2021 is PLN 6 070 000 thousand (before the annexes were signed it had been PLN 5 320 000 thousand);
- until 31 December 2022 is PLN 5 820 000 thousand (before the annexes were signed it had been 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. 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 fixed margin.

(in PLN '000)

Changes in the balance of bonds excluding interest increasing the carrying amount accrued in the 9-month period ended 30 September 2018 and in the comparable period have been presented below.

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Opening balance	**7 904 516**	**6 929 151**
Issue*	-	2 707 005
Redemption	-	(700 000)
Measurement change	71 367	11 632
Closing balance	**7 975 883**	**8 947 788**

**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, as discussed in more detail in Note 20 to these condensed interim financial statements.

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. 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 30 September 2018, none of these covenants were breached and the contractual provisions were complied with.

27.2. Loans from the European Investment Bank

As at 30 September 2018, the balance of loans obtained from the European Investment Bank was PLN 918 237 thousand, including interest accrued of PLN 3 959 thousand. As at 31 December 2017, the balance of loans from the European Investment Bank was PLN 1 042 110 thousand, including interest accrued of PLN 6 100 thousand.

In the 9-month period ended 30 September 2018, the Company repaid PLN 90 864 thousand of the principal amount and PLN 23 241 thousand of interest.

27.3. Loans from a subsidiary

As at 30 September 2018 the carrying amount of the loans granted by subsidiary TAURON Sweden Energy AB (publ) was PLN 733 177 thousand (EUR 171 648 thousand), including PLN 22 252 thousand (EUR 5 210 thousand) of interest accrued as at the end of the reporting period. As at 31 December 2017, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 721 280 thousand (EUR 172 932 thousand), including interest of PLN 27 112 thousand (EUR 6 500 thousand) accrued as at the end of the reporting period.

In the 9-month period ended 30 September 2018, the Company paid interest of EUR 6 000 thousand (PLN 25 251 thousand) under Annex 1 to the loan agreement of 1 December 2014, which was executed on 30 November 2017. Under the Annex, the payment of interest due on 30 November 2017 was postponed until 31 March 2018.

The Company's liability is a long-term loan granted under an agreement entered into in December 2014 by TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ). The loan bears interest at a fixed rate and interest is paid annually, in December, until the loan has been fully repaid i.e. until 29 November 2029.

27.4. Cash pool service

In order to optimize cash management, financial liquidity and finance income and costs, the TAURON Group has implemented a cash pool structure. On 18 December 2014, the Company concluded a new three-year zero-balancing agreement with PKO Bank Polski S.A. which may be extended by 12 months, with TAURON Polska Energia S.A. acting as an agent. The interest rate is at arm's length.

(in PLN '000)

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

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Receivables from cash pool loans granted	621 167	189 928
Interest receivable on loans granted under cash pool agreement	3 319	598
Impairment loss	(103 693)	-
Total Receivables	**520 793**	**190 526**
Loans received under cash pool agreement	2 068 817	2 374 430
Interest payable on loans received under cash pool agreement	1 913	2 604
Total Liabilities	**2 070 730**	**2 377 034**

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

Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand. As at 30 September 2018 the Company had no liabilities under this agreement.

The Company recognized an impairment loss for credit losses due to a loan granted to a subsidiary from the Mining and Generation segments under a cash pooling agreement as at the balance sheet date, because it intends to continue providing financial support to the entity in the form other than a cash pooling loan.

27.5. Overdraft facilities

As at 30 September 2018 the balance of overdraft facilities was due to an agreement for an overdraft in USD with mBank S.A., concluded by the Company for the purpose of financing margin deposits and commodity transactions — USD 203 thousand (PLN 745 thousand).

As at 31 December 2017, the balance of overdraft facilities was PLN 93 502 thousand.

28. Other financial liabilities

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Liabilities arising from income tax settlements of the TCG companies	21 572	34 836
Margin deposits	574 860	7 163
Commissions related to securities	-	5 889
Bid bonds, deposits and collateral received	363	5 400
Wages and salaries, deductions on wages and salaries as well as other employee related liabilities	3 476	6 424
Other	22 832	23 004
Total	**623 103**	**82 716**
Non-current	17 626	20 126
Current	605 477	62 590

The value of margin deposits results mainly from forward transactions for the supply of greenhouse gas emission allowances on foreign stock markets.

29. Other provisions

As at 30 September 2018 other provisions included mainly the provisions for tax risks due to the pending control proceedings. As at 31 December 2017 the Company recognized a related provision of PLN 68 694 thousand. As at 30 September 2018, the provision was PLN 71 835 thousand. An increase in the provision by PLN 3 141 thousand is attributable to interest accrued for the 9-month period ended 30 September 2018. The Company is a party to VAT inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The duration of these proceedings was several times extended by the TIO Director and by the Head of Mazowiecki Customs and Tax Office. On 30 August 2018 the Company's attorney received a report on tax books inspection, carried

(in PLN '000)

out under the inspection proceedings and pertaining to the period from October 2013 to April 2014. On 13 September 2018 the attorney filed reservations concerning the report. The newest proceedings closing dates fall on 23 November 2018, 22 and 28 December 2018.
Changes in other provisions in the comparable 9-month period ended 30 September 2017 have been presented in the table below.

	Provisions for onerous contracts with a jointly-controlled entity and provision for costs	Other provisions	Total provisions
Opening balance	**198 844**	**64 505**	**263 349**
Unwinding of discount and change in discount rate	2 330	-	**2 330**
Recognision	2 250	3 157	**5 407**
Reversal	(203 424)	-	**(203 424)**
Utilisation	-	(11)	**(11)**
Closing balance	**-**	**67 651**	**67 651**
Non-current	-	-	**-**
Current	-	67 651	**67 651**

Provision for onerous contracts with a joint venture and for costs

In the 9-month period ended 30 September 2018, 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 contract to sell electricity, concluded among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company was obliged to purchase half of the volume of electricity generated by Elektrociepłownia Stalowa Wola S.A. at a price 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 gaseous fuel supply contract 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;
- a provision for necessary additional costs which the Company may have been required to incur for the operation of Elektrociepłownia Stalowa Wola S.A. due to delays in project completion.

30. Liabilities to suppliers

As at 30 September 2018 the largest liabilities to suppliers were the liabilities towards subsidiary TAURON Wytwarzanie S.A. totalling PLN 125 564 thousand and towards the state-owned Polska Grupa Górnicza S.A. totalling PLN 73 446 thousand. As at 31 December 2017, these were the liabilities towards subsidiaries TAURON Wytwarzanie S.A. and TAURON Sprzedaż Sp. z o.o. totalling PLN 163 952 thousand and PLN 87 255 thousand, respectively.

(in PLN '000)

31. Liabilities arising from taxes and charges

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Corporate Income Tax	166 455	37 629
Personal Income Tax	2 124	1 878
VAT	25 301	25 385
Excise	-	880
Social security	2 685	4 311
Real estate tax	94	-
Other	27	36
Total	**196 686**	**70 119**

Income tax liabilities

On 30 October 2017 the articles of association of the Tax Capital Group for the years 2018–2020 were registered. Pursuant to the previous agreement, 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.

As at 30 September 2018, the Tax Capital Group had an income tax liability of PLN 166 455 thousand. comprising: The entire amount pertains to the 9-month period ended 30 September 2018 and constitutes a surplus of the Tax Group's tax charge of PLN 339 208 thousand over the tax withholdings paid of PLN 172 753 thousand.

At the same time, due to the settlements of the Company, acting as the Representative Company, with the Tax Capital Group companies, the Company reported a liability to these subsidiaries arising from tax overpayment of PLN 21 572 thousand, which has been presented in the condensed interim statement of financial position as "Other financial liabilities", as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 174 977 thousand, which have been presented in the condensed interim statement of financial position as "Other financial assets".

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 financial statements may change in future if a final decision is issued by tax control authorities.

(in PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF CASH FLOWS

32. Significant items of the condensed interim statement of cash flows

32.1. Cash from/used in operating activities

Changes in working capital

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Change in receivables	(203 635)	224 230
Change in inventories	(108 359)	39 173
Change in payables excluding loans and borrowings	550 153	(45 713)
Change in other non-current and current assets	7 354	3 405
Change in deferred income, government grants and accruals	2 559	(6 284)
Change in provisions	3 494	(195 309)
Change in working capital	**251 566**	**19 502**

32.2. Cash from/used in investing activities

Purchase of bonds

Payments to purchase bonds, in the amount of PLN 160 000 thousand, are related to purchases of intra-group bonds issued by TAURON Ekoenergia Sp. z o.o., subsidiary.

Acquisition of shares

Payments to acquire shares of PLN 1 926 317 thousand were related to the Company's transfer of funds to increase the capital of the following companies:

- TAURON Wytwarzanie S.A., amounting to PLN 780 000 thousand;
- TAURON Dystrybucja S.A., totalling PLN 439 317 thousand;
- Nowe Jaworzno Grupa TAURON Sp. z o.o., totalling PLN 350 000 thousand;
- TAURON Wydobycie S.A., totalling PLN 340 000 thousand;
- PGE EJ1 Sp. z o.o. - PLN 6 000 thousand;
- ElectroMobility Poland S.A. PLN 5 000 thousand;

and capital contributions to Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in the amount of PLN 6 000 thousand.

Loans granted

The Company'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 36 275 thousand, which has been discussed in more detail in Note 19 to these condensed interim financial statements and
- a loan granted to PGE EJ 1 Sp. z o.o. of PLN 4 800 thousand.

Under originated loans, the Company presents an increase in the balance of loans to subsidiaries under a long-term cash pool agreement in the amount of PLN 210 070 thousand.

Redemption of bonds

Proceeds from redemption of bonds, in the amount of PLN 1 248 770 thousand, are related to redemption of intra-group bonds issued by the following subsidiaries:

- TAURON Wytwarzanie S.A., totalling PLN 778 770 thousand;
- TAURON Dystrybucja S.A., totalling PLN 470 000 thousand;

(in PLN '000)

Repayment of loans granted

Repayment of loans of PLN 420 115 thousand includes:

- repayment of a portion of a loan of PLN 299 100 granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 19 to these condensed interim financial statements;

- repayment of a loan of PLN 120 000 granted to TAURON Ekoenergia, a subsidiary, which has been discussed in more detail in Note 19 to these condensed interim financial statements.

Interest received

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Interest received in relation to debt securities	230 431	388 697
Interest received in relation to loans granted	20 126	-
Total	**250 557**	**388 697**

32.3. Cash from/used in financing activities

Loan repayment

Expenditures due to repayment of loans and borrowings resulted from repayment of instalments of a loan granted by the European Investment Bank of PLN 90 864 thousand in the 9-month period ended 30 September 2018.

Interest paid

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Interest paid in relation to debt securities	(122 365)	(96 062)
Interest paid in relation to loans and borrowings	(48 573)	(31 481)
Interest paid in relation to the finance lease	(196)	(496)
Total	**(171 134)**	**(128 039)**

(in PLN '000)

OTHER INFORMATION

33. Financial instruments

Categories and classes of financial assets	As at 30 September 2018 *(unaudited)* Carrying amount	Fair value	Categories and classes of financial assets	As at 31 December 2017 *(restated figures)* Carrying amount	Fair value
1 Financial assets measured at amortized cost	**6 702 592**	**6 801 905**	**1 Financial assets at fair value through profit or loss, held for trading**	**154 574**	**154 574**
Receivables from buyers	679 370	679 370	Derivative instruments	53 216	53 216
Bonds	5 310 736	5 410 049	Investment fund units	101 358	101 358
Loans granted under cash pool agreement	520 793	520 793	**2 Financial assets available for sale**	**39 244**	
Other loans granted	16 206	16 206	Long-term shares	39 244	
Other financial receivables	175 487	175 487	**3 Loans and receivables**	**8 228 015**	**8 072 480**
2 Financial assets measured at fair value through profit or loss (FVTPL)	**1 517 677**	**1 517 677**	Receivables from buyers	719 133	719 133
Derivative instruments	494 927	494 927	Bonds	6 572 696	6 506 729
Long-term shares	36 349	36 349	Loans granted under cash pool agreement	190 526	190 526
Loans granted	195 567	195 567	Other loans granted	712 654	623 086
Other financial receivables	268 189	268 189	Other financial receivables	33 006	33 006
Investment fund units	25 916	25 916	**4 Financial assets excluded from the scope of IAS 39**	**20 873 435**	
Cash and cash equivalents	496 729	496 729	Shares in subsidiaries	20 457 583	
3 Derivative hedging instruments	**13 781**	**13 781**	Shares in jointly-controlled entities	415 852	
4 Financial assets excluded from the scope of IFRS 9	**21 785 692**		**5 Derivative hedging instruments**	**28 482**	**28 482**
Shares in subsidiaries	21 369 840		**6 Cash and cash equivalents**	**721 577**	**721 577**
Shares in jointly-controlled entities	415 852				
Total financial assets, ***of which in the statement of financial position:***	**30 019 742**		**Total financial assets,** ***of which in the statement of financial position:***	**30 045 327**	
Non-current assets	**27 441 491**		**Non-current assets**	**27 335 016**	
Shares	21 822 041		Shares	20 912 679	
Bonds	5 242 624		Bonds	6 009 920	
Loans granted	321 737		Loans granted	382 989	
Derivative instruments	52 300		Derivative instruments	26 704	
Other financial assets	2 789		Other financial assets	2 724	
Current assets	**2 578 251**		**Current assets**	**2 710 311**	
Receivables from buyers	679 370		Receivables from buyers	719 133	
Bonds	68 112		Bonds	562 776	
Loans granted	410 829		Loans granted	520 191	
Derivative instruments	456 408		Derivative instruments	54 994	
Other financial assets	466 803		Other financial assets	131 640	
Cash and cash equivalents	496 729		Cash and cash equivalents	721 577	

Categories and classes of financial liabilities	As at 30 September 2018 *(unaudited)* Carrying amount	Fair value	Categories and classes of financial liabilities	As at 31 December 2017 *(restated figures)* Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**12 817 155**	**12 935 089**	**1 Financial liabilities measured at amortized cost**	**12 670 253**	**12 699 476**
Arm's length loans, *of which:*	3 722 144	3 763 487	Arm's length loans, *of which:*	4 140 424	4 135 000
Liability under the cash pool loan	2 070 730	2 070 730	Liability under the cash pool loan	2 377 034	2 377 034
Loans from the European Investment Bank	918 237	946 163	Loans from the European Investment Bank	1 042 110	1 044 424
Loans from the subsidiary	733 177	746 594	Loans from the subsidiary	721 280	713 542
Overdraft	745	745	Overdraft	93 502	93 502
Bonds issued	8 064 580	8 141 171	Bonds issued	7 940 346	7 974 993
Liabilities to suppliers	406 583	406 583	Liabilities to suppliers	413 265	413 265
Other financial liabilities	623 039	623 039	Other financial liabilities	82 586	82 586
Liabilities due to purchases of fixed and intangible assets	64	64	Liabilities due to purchases of fixed and intangible assets	130	130
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**500 362**	**500 362**	**2 Financial liabilities at fair value through profit or loss, held for trading**	**62 466**	**62 466**
Derivative instruments	500 362	500 362	Derivative instruments	62 466	62 466
3 Financial liabilities excluded from the scope of IFRS 9	**-**		**3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39**	**23 945**	
Liabilities under finance leases	-		Liabilities under finance leases	23 945	
Total financial liabilities, ***of which in the statement of financial position:***	**13 317 517**		**Total financial liabilities,** ***of which in the statement of financial position:***	**12 756 664**	
Non-current liabilities	**9 500 052**		**Non-current liabilities**	**9 497 797**	
Debt	9 444 902		Debt	9 472 454	
Other financial liabilities	17 626		Other financial liabilities	20 126	
Derivative instruments	37 524		Derivative instruments	5 217	
Current liabilities	**3 817 465**		**Current liabilities**	**3 258 867**	
Debt	2 342 567		Debt	2 725 763	
Liabilities to suppliers	406 583		Liabilities to suppliers	413 265	
Derivative instruments	462 838		Derivative instruments	57 249	
Other financial liabilities	605 477		Other financial liabilities	62 590	

Dividing financial instruments into classes and categories follows the accounting standards binding as at the balance sheet date (as at 30 September 2018, IFRS 9 *Financial Instruments;* as at 31 December 2017, IAS 39 *Financial Instruments: Recognition and Measurement*).

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 20 to these condensed interim financial statements. Disclosures regarding the hierarchy of the fair value have been given in Note 20 to these condensed interim 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 Company estimated the fair value of the interests held, as discussed in detail in Note 8 hereto. The measurement of the interests in question resulted in Level 3 classification in the fair value hierarchy. The measurement of other financial receivables measured at fair value was also classified to Level 3.
- The Company classifies a loan granted to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2018 to assets measured at fair value though profit or loss, as discussed in detail in Note 19 to these condensed interim financial statements. The measurement of the loan in question resulted in Level 3 classification in fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- Fixed rate financial instruments — bonds purchased by the Company, loans from the European Investment Bank, a loan from a subsidiary, subordinated bonds and eurobonds issued — were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates. The measurement resulted in Level 2 classification in the fair value hierarchy.
- The fair value of other financial instruments as at 30 September 2018 and 31 December 2017 (except from 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 subsidiaries and jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured at cost less any impairment losses.

34. Finance and financial risk management

34.1. Financial risk management

The TAURON Group has implemented the policy for management of specific risks in the area of finance, which defines the strategy for management of the currency and interest rate risk. The policy has also introduced hedge accounting principles which set out the terms and conditions and types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS. The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk.

Hedge accounting

As at 30 September 2018, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance and subject to hedge accounting. The Company hedges a portion of the interest rate risk inherent in cash flows related to issued bonds, which has been discussed in more detail in Note 20 to these condensed interim financial statements.

(in PLN '000)

34.2. Finance and capital management

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

35. Contingent liabilities

As at 30 September 2018 and 31 December 2017 the Company's contingent liabilities were mainly the effect of securities and guarantees given on the instruction of related parties and were as follows:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary		As at 30 September 2018 *(unaudited)*		As at 31 December 2017	
			Validity	EUR	PLN	EUR	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	3.12.2029	168 000	717 595	168 000	700 711
corporate guarantee	TAURON Ekoenergia Sp. z o.o.	Business entities and buyers being parties to contracts with TAURON Ekoenergia Sp. z o.o. based on the electricity trading licence issued by the President of the Energy Regulatory Office	31.12.2030		16 400		16 400
blank promissory note with a promissory note declaration	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022		40 000		40 000
	TAURON Ciepło Sp. z o.o.		15.12.2022		30 000		30 000
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028*		415 852		415 852
surety contract	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	15.06.2021		914		914
surety contract	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Fund Advisors	28.09.2025		2 500		2 350
surety contract	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.	indefinite		5 000		5 000
	TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	31.03.2019		15 000		15 000
	Elektrociepłownia Stalowa Wola S.A.	Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	30.07.2020		1 667		1 667
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	TAURON Ciepło Sp. z o.o.	Elektrobudowa S.A.	31.12.2018		12 300		12 300
	other subsidiaries	various entities	2018-2020		1 913		1 534
liability towards MUFG Bank, Ltd. under guarantees issued by the bank for jointly-controlled entities	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2019		444 000		-

**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.*

Key contingent liabilities have been presented below:

- Corporate guarantee

Corporate guarantee given 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 (PLN 717 595 thousand). The beneficiaries of the guarantee are the bondholders.

- Registered and financial pledges on shares

On 15 May 2015, TAURON Polska Energia S.A. established a financial pledge and registered pledges on 3 293 403 issued shares of TAMEH HOLDING Sp. z o.o., representing 50% of the issued capital. RAIFFEISEN BANK INTERNATIONAL AG is the beneficiary of the aforesaid pledges. They include a first lien registered pledge on shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge on shares with the maximum collateral amount of PLN 840 000 thousand. On 15 September 2016, Annex 1 was executed to the aforementioned agreement, whereby the maximum collateral amount was changed from PLN 840 000 thousand to PLN 1 370 000 thousand. The Company also agreed to establish a financial pledge and registered pledges on new shares acquired or taken up. Moreover, the Company assigned the rights to dividend and other payments.

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.

As at 30 September 2018, the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand.

- Blank promissory notes

The Company issued blank promissory notes along with promissory note agreements, totalling PLN 70 000 thousand, as collateral for loan agreements entered into by its subsidiaries with the Regional Fund for Environmental Protection and Water Management in Katowice. The collateral in the form of promissory notes is valid until the subsidiaries' payment of all their liabilities to the lender. The promissory notes are valid until 15 December 2022.

- Liabilities to banks

On 11 April 2018, a bank guarantee of PLN 444 000 thousand was issued for the benefit of 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 and Polskie Górnictwo Naftowe i Gazownictwo S.A., which has been described in more detail in Note 19 to these condensed interim 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. The exposure of MUFG Bank, Ltd. to the Company in the form of a guarantee agreement dated 4 April 2018 is secured with a declaration of submission to enforcement up to PLN 621 000 thousand valid until 31 July 2019 (Note 36 to these condensed interim financial statements).

Key items of the Company's contingent liabilities arising from court proceedings:

- **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 judgement 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 judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. Since 27 November 2012 the case has been heard by the court of first instance.

Based on a legal analysis of claims the Company believes that they are unsubstantiated 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.

- **Claim filed by ENEA S.A.**

The claim filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, regards the payment of PLN 17 086 thousand with statutory interest from 31 March 2015 until the payment date. The basis of the claim brought by ENEA is unjust enrichment of the Company due to potential errors in the calculation of aggregated measurement and billing data by ENEA Operator Sp. z o.o. (being the Distribution System Operator), which are the basis of ENEA and the Company's settlements with Polskie Sieci Elektroenergetyczne S.A., due to an imbalance in the Balancing Market between January and December 2012.

During the proceedings, at the request of ENEA S.A. 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 financial statements for issue, the case had been adjourned until the date specified by the court.

The Company did not recognize any provision as, in the opinion of the Company, 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 5 421 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 3 857 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest accrued as at 30 September 2018 and the cost of the proceedings.

As at 30 September 2018, the value of the claim against the Company was 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. during the proceedings, the values of the claims against the Company and the Group companies may be expected to change.

- **Claims relating to termination of long-term contracts**

Claims relating to termination of long-term contracts against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

On 18 March 2015 a 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 renegotiate the terms of the contracts in good faith. The counterparties brought a case against the Company for the statements made in the notice of termination to 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 Appeals overruled the decision and remanded the case for re-examination by the Regional Court in Warsaw. The case is being re-examined by the first instance court.

The counterparties, along with the demand to declare the termination of the contracts void, claim liquidated damages related to the termination.

Since 2016 the claims against the company have been amended; liquidated damages related to the contract termination have been added. As at the date of approval of these interim condensed financial statements for publication, the amounts claimed were as follows:

- the in.ventus Group companies: EUR 4 687 thousand (i.e. PLN 20 020 thousand translated at the average NBP forex rate of 28 September 2018);
- the Polenergia Group companies: PLN 67 248 thousand;
- the Wind Invest Group companies: PLN 125 003 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.

Claims relating to termination of long-term contracts against the 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 the 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, according to the claimant, is the termination of the long-term contracts to sell electricity and property rights by the 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. At present, the case is pending by District Court in Katowice (the first instance). 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) are concerned, the Court referred the case to be examined at a closed-door hearing and dismissed. On 12 April 2018, the Court issued a decision whereby it dismissed the entire case against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. The case against TAURON Polska Energia S.A. was partially dismissed with respect to obligating the Company to revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. Dobiesław Wind Invest Sp. z o.o. lodged a complaint against the decision in question to the Court. In its decision of 26 June 2018 the Court rejected a complaint of Dobiesław Wind Invest Sp. z o.o. Consequently, the proceedings by the District Court in Kraków are being held in the first instance and focus on excluding the demand to provide security in the amount of PLN 183 391 thousand as a court deposit to liquidate the potential damages.

Bearing in mind the current status of the case, the chances that the rulings will be favourable for the Company are considerably higher than 50%.

Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.

On 20 July 2017 the Company was served with a claim 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 any 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 claim requesting that it be dismissed in whole as unsubstantiated. On 1 December 2017, Gorzyca Wind Invest Sp. z o.o. responded by upholding its position in addition to questioning the position adopted by the Company and the arguments put forward in its response to the claim. Following a decision of the Regional Court in Katowice of 8 February 2018, the suit brought by Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, thought the final ruling will be given in public.

A claim dated 29 June 2017, filed by Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of 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 to the Company on 21 August 2017. On 5 October 2017, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated. On 1 December 2017, Pękanino Wind Invest Sp z o.o. responded by upholding its position in addition to questioning the position adopted by the Company and the arguments put forward in its response to the claim. Following a decision of the Regional Court in Katowice, the suit brought by Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, thought the final ruling will be given in public.

On 16 October 2017 the Company was served with a claim 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 responded to the claim requesting that it be dismissed in whole as unsubstantiated. Following a decision of the Regional Court in Katowice, the suit brought by Nowy Jarosław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, thought the final ruling will be given in public.

The factual basis of all the claims, according to the claimants, is the termination of the long-term contracts to purchase electricity and property rights resulting from energy certificates by the 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 financial statements for publication, the probability that the rulings will be favourable for the Company is high (70%).

On 18 June 2018 the Company was served with a copy of a claim lodged against it by Amon Sp. z o.o. and Talia Sp. z o.o., which are members of the Capital Group of Polenergia S.A. In their claim Amon Sp. z o.o. and Talia Sp. z o.o. demand payment of damages: of PLN 47 556 thousand to Amon Sp Sp. z o.o. and of PLN 31 299 thousand to Talia Sp. z o.o. and determination of the Company' s liability for any future damages which may result from torts: in the total amount of PLN 158 262 thousand to Amon Sp. z o.o. and in the total amount of PLN 106 965 thousand to Talia Sp. z o.o.

According to the claim filed by Amon Sp. z o.o. and Talia Sp. z o.o., the grounds for the suit are the following torts:

- entrusting a subsidiary, Polska Energia Pierwsza Kompania Handlowa w likwidacji Sp. z o.o. with making purchases of electricity and property rights resulting from certificates of origin confirming generation of energy from renewable sources and the purchase of property rights arising from certificates of origin, confirming the generation of energy from renewable energy sources (wind farm) for the needs of the Company (and its Capital Group), based on long-term contracts concluded by Polska Energia Pierwsza Kompania Handlowa Sp. o.o with Amon Sp. z o.o. and Talia Sp. z o.o. and then - in the absence of consent to amend the aforementioned contracts - putting Polska Energia Pierwsza Kompania Handlowa Sp. o.o in the state of liquidation and taking actions in the course of liquidation resulting in the termination of the said contracts;
- intentionally taking advantage from the damage caused to Amon Sp. z o.o. and Talia Sp. z o.o.

a tort committed by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and persons acting as liquidators of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., performing activities entrusted by the Company on its behalf, consisting in the breaking of long-term contracts and the cessation of purchase of electricity and property rights from the complainants.

The court competent for hearing the claim is the Regional Court for Katowice. On 16 July 2018, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated and to examine the case in camera.

As at the date of approval of these condensed interim financial statements for publication, the probability that the rulings will be favourable for the Company is high (70%).

On 29 June 2018, the Company received a copy of the claim filed against it by In.Ventus Sp. z o.o. Mogilno I Sp. k. for payment of damages of EUR 12 286 thousand (i.e. PLN 53 587 thousand translated at the average exchange rate of the National Bank of Poland of 29 June 2018) and assessment of liability for any future damages resulting from tort, with a total estimated amount of EUR 35 706 thousand (i.e. PLN 155 735 thousand translated at the average exchange rate of the National Bank of Poland of 29 June 2018).

In the claim in question In.Ventus Sp. z o.o. Mogilno I Sp. k. seeks redress for own claims and those transferred by: In.Ventus Sp. z o.o. Mogilno II Sp. k., In.Ventus Sp. z o.o. Mogilno III Sp. k., In.Ventus Sp. z o.o. Mogilno IV Sp. k., In.Ventus Sp. z o.o. Mogilno V Sp. k., In.Ventus Sp. z o.o. Mogilno VI Sp. k.

As stated in the claim filed by In.Ventus Sp. z o.o. Mogilno I Sp. k., the claim is based on torts, which consist in entrusting a subsidiary, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. with making purchases of electricity and property rights resulting from certificates of origin confirming generation of energy from renewable sources for the needs of the Company and its Capital Group, based on long-term contracts concluded and persuading Polska Energia Pierwsza Kompania Handlowa Sp. o.o and its liquidators to terminate and non to perform the contracts in question and intentionally benefiting from the damages resulting from contract termination.

The court competent for hearing the claim is the Regional Court for Katowice. On 29 August 2018, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated and to examine the entire case in camera.

As at the date of approval of these condensed interim financial statements for publication, the probability that the rulings will be favourable for the Company is high (70%).

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 by PGE EJ 1 Sp. z o.o. Company PGE EJ 1 Sp. z o.o. did not accept the claims, considering them to be unsubstantiated. 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.

As at 31 December 2017, PGE EJ1 Sp. z o.o. did not recognize any provisions related to the above claims.

36. Security for liabilities

Key types of security for the Company's liabilities and transactions have been presented below.

(in PLN '000)

Agreement/transaction	Collateral	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 dated 25 October 2016 with MUFG Bank, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Bank guarantee agreement dated 4 April 2018 with MUFG Bank, Ltd.	declaration of submission to enforcement	up to PLN 621 000 thousand valid until 31 July 2019
Agreement for hybrid funding in the form of a subordinated bond issue scheme of 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
Bank guarantee issued by CaixaBank S.A. for the benefit of the Company as requested by Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. – as security of transmission agreement	bank guarantee	up to PLN 4 500 thousand valid until 30 November 2018
Agreement with Santander Bank Polska S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by Santander Bank Polska S.A.	up to PLN 150 000 thousand
Overdraft agreement and intra-day limit (bank account agreement) at PKO Bank Polski S.A. (overdraft of up to PLN 300 000 thousand and intra-day limit of 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 192 213 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 102 514 thousand (EUR 24 000 thousand) valid until 31 December 2019
	declaration of submission to enforcement	up to PLN 213 570 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 11 026 thousand (USD 3 000 thousand) valid until 31 March 2019
Security for adequate performance of obligations under Grant Agreements with the National Centre for Research and Development	blank promissory notes to secure the payment of the Company's liabilities	up to the total amount of PLN 4 244 thousand

37. Capital commitments

As at 30 September 2018 and 31 December 2017, the Company did not have any material capital commitments.

38. Related-party disclosures

38.1. Transactions with related parties and State Treasury companies

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

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

(in PLN '000)

Revenue and expenses

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Revenue from subsidiaries	**6 866 421**	**6 258 510**
Revenue from operating activities	5 815 583	5 324 737
Dividend income	800 777	542 474
Other operating income	4 170	3 720
Other finance income	245 891	387 579
Revenue from jointly-controlled entities	**44 439**	**50 995**
Revenue from State Treasury companies	**116 664**	**295 289**
Costs from subsidiaries	**(1 505 052)**	**(2 351 881)**
Costs of operating activities	(1 467 122)	(2 318 028)
Finance costs	(37 930)	(33 853)
Costs incurred with relation to transactions with jointly-controlled entities	**(3 987)**	**(2 229)**
Costs from State Treasury companies	**(689 126)**	**(428 721)**

Receivables and liabilities

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Loans granted to subsidiaries and receivables from subsidiaries	**6 878 111**	**7 561 140**
Receivables from buyers	619 333	658 936
Loans granted under cash pool agreement plus interest accrued	619 730	182 933
Other loans granted	-	139 268
Receivables arising from the TCG	174 615	6 078
Bonds	5 462 148	6 572 696
Other financial receivables	107	240
Other non-financial receivables	2 178	989
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**337 980**	**579 381**
Receivables from State Treasury companies	**22 603**	**49 941**
Liabilities to subsidiaries	**2 996 726**	**3 406 474**
Liabilities to suppliers	188 236	288 965
Loans received under cash pool agreement plus interest accrued	2 053 496	2 355 765
Other loans received	733 177	721 280
Liabilities arising from the TCG	21 572	34 836
Other financial liabilities	-	5 257
Other non-financial liabilities	245	371
Liabilities to jointly-controlled entities	**855**	**503**
Liabilities to State Treasury companies	**131 352**	**28 952**

Revenue from subsidiaries includes revenue from sales of coal to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o., which is presented in the statement of comprehensive income less cost in the amount of the surplus constituting the revenue due to agency services, presented in detail in Note 11 to these condensed interim financial statements.

In the 9-month period ended 30 September 2018, the major contracting party as regards sales revenue from transactions made by TAURON Polska Energia S.A. with State Treasury companies was PSE S.A. Sales to that entity accounted for 97% of the total revenue from State Treasury companies.

In the 9-month period ended 30 September 2018, Polska Grupa Górnicza S.A., Węglokoks S.A. and Jastrzębska Spółka Węglowa S.A. were the major contracting parties of TAURON Polska Energia S.A. as regards costs incurred in relation to transactions with State Treasury companies. Costs incurred in transactions with those entities represented 96% of total costs incurred in purchase transactions entered into with State Treasury companies.

(in PLN '000)

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

38.2. Compensation of the executives

The amount of compensation and other benefits paid or payable to the Management Board, Supervisory Board and other key executives of the Company in the 9-month period ended 30 September 2018 and in the comparative period has been presented in the table below.

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Management Board	**4 796**	**5 633**
Short-term benefits (with surcharges)	4 145	3 759
Temination benefits	620	1 624
Other	31	250
Supervisory Board	**617**	**559**
Short-term employee benefits (salaries and surcharges)	617	559
Other members of key management personnel	**13 250**	**10 852**
Short-term employee benefits (salaries and surcharges)	11 460	9 411
Temination benefits	898	756
Other	892	685
Total	**18 663**	**17 044**

In accordance with the adopted accounting policy, the Company recognizes provisions for termination benefits allocated to members of the Management Board and other key executives, which may be paid or payable in future reporting periods. The amount paid or payable until 30 September 2018 have been presented above.

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

39. Other material information

Signing transaction documentation related to the investment in a subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. made by Closed-end Investment Funds managed by Polski Fundusz Rozwoju S.A.

On 28 March 2018, the Company, its subsidiary, i.e. Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Infrastructure Investment Fund - Closed-End Investment Fund (Private Equity) and Infrastructure Investment Fund (Private Equity) Closed-End Debt Fund (Private Equity) ("Funds"), with a portion of the investment portfolio managed by Polski Fundusz Rozwoju S.A., signed transaction documentation specifying the terms of the Fund's equity investment in Nowe Jaworzno Grupa TAURON Sp. z o.o.

Transaction documentation includes an investment agreement and a shareholders' agreement together with appendices, including draft long-term electricity sales contracts and a long-term coal sale contract, concluded by the Company and its subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. by the balance sheet date.

The shareholders' agreement sets out the principles of corporate governance in Nowe Jaworzno Grupa TAURON Sp. z o.o. This agreement grants the Funds a personal right to appoint, suspend and dismiss one member of the Management Board and one member of the Supervisory Board of Nowe Jaworzno Grupa TAURON Sp. z o.o. It also specifies the matters for which a unanimous resolution of the Management Board, Supervisory Board or General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. will be required. The shareholders' agreement will enter into force as soon as the Funds become members of Nowe Jaworzno Grupa TAURON Sp. z o.o.

The investment agreement specifies the terms and conditions of the equity investment of the Funds in Nowe Jaworzno Grupa TAURON Sp. z o.o. This investment project assumes the Funds' becoming members of Nowe Jaworzno Grupa TAURON Sp. z o.o. and their participation in subsequent capital contributions to Nowe Jaworzno Grupa TAURON Sp. z o.o., by taking up new shares in exchange for cash contributions up to a total maximum amount of PLN 880 000 thousand, i.e. PLN 440 000 thousand by each of the Funds. As at the date when the 910 MW power unit in Jaworzno is put into operation, the interests of the Funds in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. should be approx. 14% and the interests of the Company should never fall below 50%+1 share. The Company will be obliged to make a capital contribution to its subsidiary – Nowe Jaworzno Grupa TAURON Sp. z o.o. – sufficient to build a 910 MW power unit in Jaworzno, after the Funds have reached their maximum equity interest.

Under the investment agreement, the Funds will become members of Nowe Jaworzno Grupa TAURON Sp. z o.o. after specified conditions precedent have been met. The conditions precedent include obtaining the consent of the President of the Office for Competition and Consumer Protection for concentration, obtaining a decision of the Head of the National Revenue Administration approving the terms of the contract for the sale of electricity as an advance pricing agreement ("APA Decision"), conclusion by the Company and its subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. of specified contracts, including a contract for the sale of electricity and a contract for the sale of coal, and performance (or the Company ensuring the performance) of certain activities by the governing bodies of Nowe Jaworzno Grupa TAURON Sp. z o.o. Conditions precedent were to be met within four months of the investment agreement, except for the condition related to the APA Decision, which should be satisfied within seven months.

On 17 July 2018, the Company was served with a decision of the President of the Office for Competition and Consumer Protection of 13 July 2018 granting unconditional consent for concentration consisting in the creation of a joint venture Nowe Jaworzno Grupa TAURON Sp. o.o. by the Company and Polski Fundusz Rozwoju S.A., acting through the Funds, on the terms set out in the application filed by the Company and Polski Fundusz Rozwoju S.A.

After the balance sheet date, on 19 October 2018, the Company received the APA Decision. The decision shall be binding for five years effective as of 1 November 2019 and is the last document the Company was obliged to obtain in order to satisfy the conditions precedent necessary for the Funds to become members of Nowe Jaworzno Grupa TAURON Sp. z o.o. In view of the foregoing, the Company believes that as at the date of approval of these condensed interim financial statements for publication, all conditions precedent which had to be satisfied for the Funds to become members of Nowe Jaworzno Grupa TAURON Sp. z o.o., had been met.

The Company and the Funds shall undertake measures aimed at the Funds becoming minority shareholders of Nowe Jaworzno Grupa TAURON Sp. z o.o. once the fulfillment of all conditions precedent determined in the investment agreement have been confirmed.

Conclusion of investment agreements to establish corporate venture capital funds

On 13 June 2018, the Company concluded two investment agreements to establish corporate venture capital funds. The agreements are conditional and their entry into force requires the satisfaction of a condition precedent in the form of an approval of the President of the Office for Competition and Consumer Protection, which was fulfilled on 8 August 2018.

Under the above-mentioned agreements, the Company will participate in two funds established as part of the PFR Starter FIZ and PFR NCBR CVC programs. Creation of the funds will allow the Company to provide multi-stage support to innovative businesses, including by enabling them to participate in acceleration programs, investing in start-ups under the PFR Starter FIZ program, and ensuring further financing rounds under the PFR NCBR CVC program. Ultimately, the capitalization of the fund established under the PFR Starter FIZ program is expected to be PLN 50 000 thousand, and of the one created under the PFR NCBR CVC program: PLN 160 000 thousand. The Company's interests in the funds will not exceed 25% and 49%, respectively.

40. Events after the end of the reporting period

Increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 11 October 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital from PLN 39 350 thousand to PLN 42 850 thousand, i.e. by PLN 3 500 thousand, through the issue of 70 000 new shares with the par value of PLN 50 each. All shares will be taken by the Company for PLN 5 000 per share, i.e. for the total amount of PLN 350 000 thousand, where the share premium in the increased issued capital of the Company in the total amount of PLN 346 500 thousand will be reclassified to reserve capital. On 12 October 2018 the Company advanced monies to increase the capital. The aforesaid increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered on 23 October 2018.

Increase in the issued capital of TAURON Wytwarzanie S.A.

On 19 October 2018, an increase in the issued capital of TAURON Wytwarzanie S.A. of PLN 7 800 thousand in accordance with a resolution of the Extraordinary General Shareholders' Meeting of 9 August 2018 was registered by the National Court Register.

Commencing negotiations regarding the purchase of wind farms

On 2 October 2018 the Company was invited to commence negotiations regarding the purchase of wind farms located in northern Poland, owned by the in.ventus Group ("Transaction"). The objective of the negotiations is to determine opportunities, principles, terms and financial parameters of the Transaction.

The total installed capacity of the wind farms referred to above approximates 200 MW.

The Transaction may take the form of the purchase of the German and Polish partnerships that operate the farms ("Project Entities") by the Company. In such a case, the Company would assume all rights and obligations of the former partners in Project Entities, at the same time acquiring their bank debt. According to the Company, another option is possible, i.e. the acquisition of enterprises of the Polish Project Entities.

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 9-month period ended 30 September 2018 in accordance with International Accounting Standard 34 have been presented on 57 consecutive pages.

Katowice, 6 November 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 ………………………………….

Condensed interim consolidated financial statements prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union for the 9-month period ended 30 September 2018

6 November 2018

tauron.pl

TAURON Polska Energia S.A. Capital Group

Condensed interim consolidated financial statements
prepared in accordance with the International Financial Reporting Standards,
as endorsed by the European Union
for the 9-month period ended 30 September 2018

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2018 *(unaudited)*	3-month period ended 30 September 2017 *(unaudited restated figures)*	9-month period ended 30 September 2017 *(unaudited restated figures)*
Sales revenue	**11**	4 476 268	13 301 802	4 115 965	12 873 989
Cost of sales, *of which:*	**12**	(3 813 413)	(11 363 362)	(3 502 389)	(10 519 163)
Impairment of non-financial non-current assets	***12***	*(5 488)*	*(339 267)*	*(9 056)*	*(42 183)*
Profit on sale		**662 855**	**1 938 440**	**613 576**	**2 354 826**
Selling and distribution expenses	**12**	(124 117)	(352 439)	(118 242)	(343 769)
Administrative expenses	**12**	(202 425)	(486 030)	(150 803)	(455 366)
Other operating income and expenses	**13**	19 184	164 968	(1 985)	24 049
Share in profit/(loss) of joint ventures	**21**	(4 779)	40 663	11 205	69 535
Operating profit		**350 718**	**1 305 602**	**353 751**	**1 649 275**
Interest expense on debt	**14**	(40 716)	(122 146)	(57 225)	(156 202)
Finance income and other finance costs	**14**	52 826	(95 261)	(55 463)	(11 418)
Profit before tax		**362 828**	**1 088 195**	**241 063**	**1 481 655**
Income tax expense	**15.1**	(76 384)	(233 315)	(52 310)	(287 425)
Net profit		**286 444**	**854 880**	**188 753**	**1 194 230**
Measurement of hedging instruments	**29.3**	(1 730)	(14 914)	748	(8 327)
Foreign exchange differences from translation of foreign entity		(3 216)	5 655	14 820	2 145
Income tax	**15.1**	329	2 834	(142)	1 582
Other comprehensive income subject to reclassification to profit or loss		**(4 617)**	**(6 425)**	**15 426**	**(4 600)**
Actuarial gains/(losses)	**31.1**	456	6 695	4 037	9 667
Income tax	**15.1**	(87)	(1 271)	(765)	(1 835)
Share in other comprehensive income of joint ventures	**21**	42	380	53	46
Other comprehensive income not subject to reclassification to profit or loss		**411**	**5 804**	**3 325**	**7 878**
Other comprehensive income, net of tax		**(4 206)**	**(621)**	**18 751**	**3 278**
Total comprehensive income		**282 238**	**854 259**	**207 504**	**1 197 508**
Net profit:					
Attributable to equity holders of the Parent		285 830	852 859	188 030	1 192 197
Attributable to non-controlling interests		614	2 021	723	2 033
Total comprehensive income:					
Attributable to equity holders of the Parent		281 623	852 228	206 778	1 195 466
Attributable to non-controlling interests		615	2 031	726	2 042
Basic and diluted earnings per share (in PLN):		0.16	0.49	0.11	0.68

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 September 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
ASSETS			
Non-current assets			
Property, plant and equipment	**17**	28 820 594	28 079 886
Goodwill	**18**	26 183	40 156
Energy certificates and emission allowances for surrender	**19.1**	176 075	303 130
Other intangible assets	**20**	1 255 070	1 254 077
Investments in joint ventures	**21**	528 767	499 204
Loans granted to joint ventures	**22**	203 897	240 767
Other financial assets	**23**	260 532	238 354
Other non-financial assets	**24.1**	293 597	346 846
Deferred tax assets	**15.2**	52 132	46 122
		31 616 847	**31 048 542**
Current assets			
Energy certificates and emission allowances for surrender	**19.2**	550 789	652 260
Inventories	**25**	442 684	295 463
Receivables from buyers	**26**	1 992 658	2 032 813
Receivables arising from taxes and charges	**27**	165 625	244 126
Loans granted to joint ventures	**22**	2	329 665
Other financial assets	**23**	789 487	219 933
Other non-financial assets	**24.2**	129 659	87 055
Cash and cash equivalents	**28**	754 353	909 249
Non-current assets classified as held for sale		12 922	15 910
		4 838 179	**4 786 474**
TOTAL ASSETS		**36 455 026**	**35 835 016**

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED

	Note	As at 30 September 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**	8 511 437	7 657 086
Revaluation reserve from valuation of hedging instruments	**29.3**	10 971	23 051
Foreign exchange differences from translation of foreign entity		12 431	6 776
Retained earnings/(Accumulated losses)	**29.4**	1 670 050	1 586 786
		18 967 636	**18 036 446**
Non-controlling interests		**32 649**	**31 367**
Total equity		**19 000 285**	**18 067 813**
Non-current liabilities			
Debt	**30**	9 459 494	9 501 414
Provisions for employee benefits	**31**	1 085 611	1 380 650
Provisions for disassembly of fixed assets, land restoration and other provisions	**32**	370 092	351 138
Accruals, deferred income and government grants	**35**	359 883	541 318
Deferred tax liabilities	**15.2**	776 426	871 865
Other financial liabilities	**39**	123 328	91 879
		12 174 834	**12 738 264**
Current liabilities			
Debt	**30**	293 355	351 382
Liabilities to suppliers	**36**	889 679	1 042 427
Capital commitments	**37**	393 700	797 304
Provisions for employee benefits	**31**	93 150	134 273
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	**33**	863 563	948 946
Other provisions	**34**	337 466	353 271
Accruals, deferred income and government grants	**35**	323 010	296 576
Liabilities arising from taxes and charges	**38**	512 086	451 748
Other financial liabilities	**39**	1 234 339	342 162
Other non-financial liabilities	**40**	339 559	310 850
		5 279 907	**5 028 939**
Total liabilities		**17 454 741**	**17 767 203**
TOTAL EQUITY AND LIABILITIES		**36 455 026**	**35 835 016**

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 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		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
Dividends		-	-	-	-	-	-	(879)	(879)
Other transactions with non-controlling shareholders		-	-	-	-	(42)	(42)	(267)	(309)
Distribution of prior years profits	29.2	-	854 351	-	-	(854 351)	-	-	-
Transactions with shareholders		-	854 351	-	-	(854 393)	(42)	(1 146)	(1 188)
Net profit		-	-	-	-	852 859	852 859	2 021	854 880
Other comprehensive income		-	-	(12 080)	5 655	5 794	(631)	10	(621)
Total comprehensive income		-	-	(12 080)	5 655	858 653	852 228	2 031	854 259
As at 30 September 2018 *(unaudited)*		8 762 747	8 511 437	10 971	12 431	1 670 050	18 967 636	32 649	19 000 285

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 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
Dividends	-	-	-	-	-	-	(564)	(564)
Other transactions with non-controlling shareholders	-	-	-	-	95	95	(215)	(120)
Coverage of prior years loss	-	(166 253)	-	-	166 253	-	-	-
Transactions with shareholders	-	(166 253)	-	-	166 348	95	(779)	(684)
Net profit	-	-	-	-	1 192 197	1 192 197	2 033	1 194 230
Other comprehensive income	-	-	(6 745)	2 145	7 869	3 269	9	3 278
Total comprehensive income	-	-	(6 745)	2 145	1 200 066	1 195 466	2 042	1 197 508
As at 30 September 2017 *(unaudited)*	8 762 747	7 657 086	22 915	11 345	1 390 734	17 844 827	31 315	17 876 142

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Cash flows from operating activities			
Profit before taxation		**1 088 195**	**1 481 655**
Share in (profit)/loss of joint ventures		(40 663)	(69 535)
Depreciation and amortization		1 282 398	1 256 139
Impairment losses on non-financial non-current assets		383 849	42 185
Exchange differences		65 937	(13 177)
Interest and commissions		120 052	150 068
Other adjustments of profit before tax		6 175	11 003
Change in working capital	**41.1**	(357 488)	145 752
Income tax paid	**41.1**	(222 162)	(82 599)
Net cash from operating activities		**2 326 293**	**2 921 491**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**41.2**	(2 569 631)	(2 709 422)
Loans granted	**41.2**	(41 075)	(301 542)
Purchase of investment fund units		-	(50 000)
Purchase of financial assets		(19 555)	(5 397)
Total payments		**(2 630 261)**	**(3 066 361)**
Proceeds from sale of property, plant and equipment and intangible assets		23 283	27 669
Repayment of loans granted	**41.2**	300 115	-
Dividends received		21 628	24 509
Redemption of investment fund units		77 742	-
Other proceeds		3 514	23 959
Total proceeds		**426 282**	**76 137**
Net cash used in investing activities		**(2 203 979)**	**(2 990 224)**
Cash flows from financing activities			
Redemption of debt securities		-	(700 000)
Repayment of loans and borrowings	**41.3**	(95 580)	(81 959)
Interest paid	**41.3**	(46 812)	(52 810)
Subsidies refunded		(10 000)	-
Other payments		(38 707)	(26 289)
Total payments		**(191 099)**	**(861 058)**
Issue of debt securities		-	2 707 462
Subsidies received		12 412	5 423
Total proceeds		**12 412**	**2 712 885**
Net cash used in/from financing activities		**(178 687)**	**1 851 827**
Net increase / (decrease) in cash and cash equivalents		**(56 373)**	**1 783 094**
Net foreign exchange difference		(1 634)	1 134
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**	**744 980**	**2 137 827**
restricted cash	**28**	149 908	140 488

(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 at ul. ks. Piotra Ściegiennego 3. The Company operates as a joint-stock company incorporated by a notarized deed on 6 December 2006. Until 16 November 2007 it had operated under the name Energetyka Południe S.A.

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, 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 9-month period ended 30 September 2018 and present comparative data for the 9-month period ended 30 September 2017 as well as figures as at 31 December 2017. The data for the 9-month period ended 30 September 2018 and the comparative data for the 9-month period ended 30 September 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 9-month period ended 30 September 2018 were approved for publication on 6 November 2018.

2. Composition of the TAURON Capital Group and joint ventures

As at 30 September 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.[2]	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.
[2]On 8 October 2018 the name of the company was changed from Biomasa Grupa TAURON Sp. z o.o. to Bioeko Grupa TAURON Sp. z o.o.

As at 30 September 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 approval of these condensed interim consolidated financial statements for publication, no circumstances had been identified which would indicate a risk to the Group companies' ability to continue as a going concern.

5. Functional and Presentation Currency

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

These condensed interim consolidated financial statements have been presented in the Polish zloty ("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.

(in PLN '000)

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.

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%.

Additionally, the Group's material estimates include contingent liabilities recognized, in particular, in relation to legal proceedings to which the Group companies are parties. Contingent liabilities have been presented in detail in Note 45 hereto.

7. 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"), amendments to standards and interpretation, which have been endorsed by the European Union, but are not yet effective**

According to the Management Board, the IFRS 16 *Leases* standard may materially impact the accounting policies applied thus far:

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. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee uses the incremental borrowing rate. Determination of the lease term under IFRS 16 *Leases* will require an assessment which has not previously been needed for operating leases as it did not affect the recognition of expenditure in the financial statements. Variable lease payments should be taken account of in the determination of lease payments where their variability depends on an index or an interest rate or where they are, in fact, fixed payments. Lessors continue to classify leases as operating or finance leases, i.e. in line with IAS 17 *Leases*. A lessor classifies lease 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.

(in PLN '000)

Impact on the consolidated financial statements

A preliminary analysis of the impact of IFRS 16 *Leases* on the accounting policies has shown a change material for the Group, i.e. the need to recognize lease assets and liabilities for leases currently classified as operating leases in the financial statements. The Group has already completed the verification of all its agreements aimed to identify those which will be affected by IFRS 16 *Leases.* Currently, an analysis is being conducted to determine the effects of identified agreements under IFRS 16 *Leases*, specifically as regards the necessity to recognize assets and liabilities in the financial statements. Additionally, the Group has identified key areas for which the impact of IFRS 16 *Leases* is being analysed, including among others land and transmission easement, decisions to deploy its equipment next to public roads, the right of perpetual usufruct as well as lease and rental agreements, particularly those relating to the construction of heating substations, transformer stations and linear infrastructure. The performed analysis includes in particular identification of an asset, verification whether the company has control over its use and determining the lease period. Further, the Group analyzes the option to apply a practical expedient involving resigning from the assessment whether contracts concluded before the first-time application of IFRS 16 *Leases*, for which no leases had been identified under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease,* fulfill the conditions to qualify as a lease under IFRS 16 *Leases*. The works performed in relation to implementation of IFRS 16 *Leases* include analysis of possible application of the standard to portfolios of leases bearing similar characteristics. The Group is currently developing a methodology of determining the incremental borrowing rate.

As at the date of approval of these condensed interim consolidated financial statements for publication, the Group had not finished the analyses that would determine the impact of the planned changes on the consolidated financial statements.

According to the Management Board, the amendments to IFRS 9 *Financial Instruments* and Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments*, entering into force as of 1 January 2019, will not materially impact the accounting policies applied thus far.

- **Standards and amendments to standards 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 and amendments to standards will not materially impact the accounting policies applied thus far:

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *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
Revised IAS 19 *Employee Benefits*	1 January 2019
Revised IAS 28 *Investments in Associates and Joint Ventures*	1 January 2019
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*	1 January 2020
Amendments to IFRS 3 *Business Combinations*	1 January 2020
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 standards, amendments to standards and changes to the accounting principles applied by the Group and discussed below.

8.1. Application of new standards, amendments to standards and interpretation

According to the Management Board, the following new standards and amendments to 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;
- financial assets measured at fair value through profit or loss.

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);
- business model for managing the financial asset.

- **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 the 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 effect as of 1 January 2018. The Group decided not to restate the comparative information, as permitted by the Standard. The data as at 31 December 2017 and for the 9-month period ended 30 September 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
				Fair value through:		
	At amortized/ historical cost	At fair value	At amortized cost	Profit/loss	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 Group still uses hedge accounting principles in line with IAS 39 Financial Instruments: Recognition and Measurement*

The data presented above, which, according to the Group, comply with the requirements of IFRS 9 *Financial Instruments* in all material respects, were not audited by a certified auditor. Consequently, the final figures disclosed in the consolidated financial statements for 2018 may differ from those presented in these condensed interim consolidated financial statements.

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

Assuming that 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*, the Group has developed a method of classification of financial assets which sets out 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 the generation of cash flows, which translates into their classification as financial assets measured at amortized cost.

The subordinated loan and the loans used for the purposes of repayment of debt 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 in the amount of PLN 150 960 thousand, since the cash flows they generate 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.

Under IFRS 9 *Financial Instruments* equity interests in other entities have to be measured at fair value. This also applies to those shares which, due to limited access to information, have so far been measured at cost less impairment. Therefore, the Group estimated the fair value of the said instruments using 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 limited liquidity of the above instruments. The application of IFRS 9 *Financial Instruments* to the measurement of equity interests reduced the Group's retained earnings as at 1 January 2018 by PLN 26 031 thousand. The above equity instruments are measured at fair value through profit or loss in line with IFRS 9 *Financial Instruments*.

- **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 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 strategic counterparties has been assessed based on 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 recoveries from security interests. It is expected that the historical performance information concerning receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for this 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 borrowers based on ratings assigned to 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 recoveries from security interests and the time value of money.

The application of IFRS 9 *Financial Instruments* to the expected credit losses on originated loans measured at amortized cost resulted in a decrease in 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 under loans from the European Investment Bank and the liabilities are 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 IFRS 9 *Financial Instruments* in the part concerning hedge accounting will have a material impact on the Group's consolidated financial statements as regards its transactions. The Company 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 the obligatory application of the hedge accounting principles.

- **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 loss allowance for expected credit losses.

(in PLN '000)

IFRS 15 *Revenue from Contracts with Customers*

Clarifications to 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 assets 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 has to disclose quantitative and qualitative information about: its contracts with customers, its material judgements and estimates and capitalized costs of contract acquisition and performance.

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 comparative information, as permitted by the standard. The data as at 31 December 2017 and for the 9-month period ended 30 September 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, according to the Group, comply with the requirements of IFRS 15 *Revenue from Contracts with Customers* in all material respects, were not audited by a certified auditor. Consequently, the final figures disclosed in the consolidated financial statements for 2018 may differ from those 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. Considering the findings of this analysis, the Group decided that, in accordance with IFRS 15 *Revenue from Contracts with Customers*, the distribution and comprehensive services contracts and the connection contracts are not a single obligation and should not be recognized together. Consequently, the Group recognizes revenue from the connection contracts on a non-recurring basis when the promised service, i.e. connection to the grid, has been performed. Such recognition is consistent 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 before 1 July 2009 is concerned, the Group has concluded that, if a retrospective approach is adopted, as at 1 January 2018 PLN 195 666 thousand of deferred income will be transferred to the Group's equity and revenue from the recognition of the above deferred income in the Group's future profit or loss will not be recognized (with approx. PLN 22 million in the year ended 31 December 2018).

One of the measures taken to implement IFRS 15 *Revenue from Contracts with Customers* was the Group's analysis of the following key issues that affect its profit or loss as well as revenue and expenses in the Sale segment:

- Customer acquisition costs – costs to execute new contracts with customers, incurred by the companies in the Sale 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 costs of commissions 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 as contract acquisition costs and thus they may be capitalized as of 1 January 2018. The application of IFRS 15 *Revenue from Contracts with Customers* with respect to customer acquisition costs increased the Group's retained earnings as at 1 January 2018 by PLN 18 929 thousand.

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

  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 revenue from sales of products or services. In the opinion of the Group, the discounts offered by the companies in the Sale segment are not a separate performance obligation. Consequently, the discount offered to the buyer is deferred, i.e. it is recognized as a reduction in 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.

Other issues analyzed by the Group in terms of IFRS 15 *Revenue from Contracts with Customers* which did not have an impact on the Group's equity as at 1 January 2018:

- Multiple-element arrangements – contracts whereby the buyer 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 gaseous fuels and electricity. The Group assumed that the prices set in the contracts with buyers may be applied directly to separate recognition of revenue from the supplies of electricity and gas and no further reallocation of the discount is necessary. Moreover, the Group identified its role of an intermediary in the transmission of gaseous fuels.

- Agreements to sell the Group's products and services combined with after-sale services – the Group has made an agreement with a 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 additional service directly to the buyer. The fee for the ancillary service has been included in the commercial fee. The Group is of the opinion that it performs the role of an intermediary under the said agreements. In view of the above, in accordance with IFRS 15 *Revenue from Contracts with Customers*, the Group recognizes 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.

- Heat sales contracts in the Generation segment – in the opinion of the Group, 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 a comprehensive heat supply service.

(in PLN '000)

- Transitional fees – charged by the Group from end users of electricity and transferred to the Transmission System Operator in line with IFRS 15 *Revenue from Contracts with Customers* should not be treated as revenue. After the effective date of IFRS 15 *Revenue from Contracts with Customers*, the Group recognizes these fees in net consideration amount.

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 as at 1 January 2018, the condensed interim consolidated statement of financial position as at 30 September 2018 has been compared 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 other interpretations related to revenue recognition.

	As at 30 September 2018 *(unaudited)*	Restatement to comply with the principles applicable before IFRS 15 was endorsed	As at 30 September 2018 *(unaudited restated figures)*
ASSETS			
Non-current assets	**31 616 847**	**(14 989)**	**31 601 858**
Other non-financial assets	293 597	(18 732)	274 865
Deferred tax assets	52 132	3 743	55 875
Current assets	**4 838 179**	**(14 109)**	**4 824 070**
Receivables arising from taxes and charges	165 625	3 082	168 707
Other non-financial assets	129 659	(17 191)	112 468
TOTAL ASSETS	**36 455 026**	**(29 098)**	**36 425 928**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent	**18 967 636**	**(169 144)**	**18 798 492**
Retained earnings/(Accumulated losses)	1 670 050	(169 144)	1 500 906
Non-controlling interests	**32 649**	**(377)**	**32 272**
Total equity	**19 000 285**	**(169 521)**	**18 830 764**
Non-current liabilities	**12 174 834**	**121 069**	**12 295 903**
Accruals, deferred income and government grants	359 883	155 052	514 935
Deferred tax liabilities	776 426	(33 983)	742 443
Current liabilities	**5 279 907**	**19 354**	**5 299 261**
Accruals, deferred income and government grants	323 010	19 354	342 364
Total liabilities	**17 454 741**	**140 423**	**17 595 164**
TOTAL EQUITY AND LIABILITIES	**36 455 026**	**(29 098)**	**36 425 928**

The table below presents the comparison of the condensed interim consolidated statement of comprehensive income for the 9-month period ended 30 September 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 other interpretations related to revenue recognition.

(in PLN '000)

	9-month period ended 30 September 2018 *(unaudited)*	Restatement to comply with the principles applicable before IFRS 15 was endorsed	9-month period ended 30 September 2018 *(unaudited restated figures)*
Sales revenue	13 301 802	578 878	13 880 680
Cost of sales	(11 363 362)	(565 803)	(11 929 165)
Profit on sale	**1 938 440**	**13 075**	**1 951 515**
Selling and distribution expenses	(352 439)	(1 383)	(353 822)
Operating profit	**1 305 602**	**11 692**	**1 317 294**
Profit before tax	**1 088 195**	**11 692**	**1 099 887**
Income tax expense	(233 315)	(1 376)	(234 691)
Net profit	**854 880**	**10 316**	**865 196**
Other comprehensive income, net of tax	**(621)**	**-**	**(621)**
Total comprehensive income	**854 259**	**10 316**	**864 575**
Net profit:			
Attributable to equity holders of the Parent	852 859	10 281	863 140
Attributable to non-controlling interests	2 021	35	2 056
Total comprehensive income:			
Attributable to equity holders of the Parent	852 228	10 281	862 509
Attributable to non-controlling interests	2 031	35	2 066
Basic and diluted earnings per share (in PLN):	0,49	-	0,49

According to the Management Board, the introduction of the following amendments to standards and interpretations has not materially impacted 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

8.2. Other changes in accounting and presentation principles applied by the Group

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

The Group has analyzed the methods of measuring the release of energy certificates and emission allowances allowed by the law and used in the competitive environment. In the opinion of the Group, the release of energy certificates and emission allowances measured using the FIFO method helps to 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 has also revealed that the FIFO method is the most commonly used method in the power sector to measure the release of energy certificates and emission allowances. Considering the above, the Group decided to change the method of measuring the release of energy certificates and emission allowances as of 1 January 2018. After the change, the release of energy certificates and emission allowances has been measured using the FIFO method. Previously, the release was measured using the weighted average cost formula.

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

- **A change in the presentation of a share of 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. The said companies are active in the power sector and their operations and performance are linked with the operating activities of the Generation segment. According to the Group, recognition of a share of profit or loss of joint ventures in the operating profit or loss of the Group more accurately reflects the nature of these joint ventures and the Group's involvement in managing and monitoring their performance on a day-to-day basis. In view of the above, the Group decided to change the presentation of its share of profit or loss of joint ventures with effect as of 1 January 2018. Consequently, the share of profit or loss of joint ventures is presented within the operating profit or loss of the Group. Before, the share of profit or loss of joint ventures was not recognized within the operating profit or loss of the Group but within its gross profit or loss.

(in PLN '000)

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

- **A change in the presentation of derivative financial instruments**

As of 1 January 2018, the Group has been presenting the effects of measurement and realized gains or losses on forwards and futures (derivative financial instruments) separately in assets and liabilities, disclosing a gain or loss on a single contract. Previously, the Group applied a simplified approach involving the recognition of the effects of measurement and realized gains or losses on contracts taking into account the short and the long positions.

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

The impact of the changes in question on the condensed interim consolidated statement of comprehensive income for the 9-month period ended 30 September 2017 and on the statement of financial position as at 31 December 2017 has been presented in the tables below.

	9-month period ended 30 September 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	9-month period ended 30 September 2017 *(unaudited restated figures)*
Sales revenue	12 871 320	2 669	-	12 873 989
Cost of sales	(10 516 494)	(2 669)	-	(10 519 163)
Profit on sale	**2 354 826**	**-**	**-**	**2 354 826**
Share in profit/(loss) of joint ventures	-	-	69 535	69 535
Operating profit	**1 579 740**	**-**	**69 535**	**1 649 275**
Share in profit/(loss) of joint ventures	69 535	-	(69 535)	-
Profit before tax	**1 481 655**	**-**	**-**	**1 481 655**
Net profit	**1 194 230**	**-**	**-**	**1 194 230**

	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.

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.

BUSINESS 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 reporting operating segments.

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

The Group's reporting format for the period from 1 January 2018 to 30 September 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. (on 8 October 2018 its name was changed to Bioeko 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 9-month period ended 30 September 2018 or as at 30 September 2018 *(unaudited)*

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	442 725	1 980 680	2 347 208	8 459 503	71 686	-	**13 301 802**
Inter-segment sales	508 650	1 288 069	2 221 373	1 368 468	544 797	(5 931 357)	**-**
Segment revenue	**951 375**	**3 268 749**	**4 568 581**	**9 827 971**	**616 483**	**(5 931 357)**	13 301 802
Profit/(loss) of the segment	**(916 681)**	**650 466**	**1 143 359**	**445 628**	**62 894**	**(39 277)**	**1 346 389**
Share in profit/(loss) of joint ventures	-	40 663	-	-	-	-	**40 663**
Unallocated expenses	-	-	-	-	-	(81 450)	**(81 450)**
EBIT	**(916 681)**	**691 129**	**1 143 359**	**445 628**	**62 894**	**(120 727)**	**1 305 602**
Net finance income (costs)	-	-	-	-	-	(217 407)	**(217 407)**
Profit/(loss) before income tax	**(916 681)**	**691 129**	**1 143 359**	**445 628**	**62 894**	**(338 134)**	**1 088 195**
Income tax expense	-	-	-	-	-	(233 315)	**(233 315)**
Net profit/(loss) for the period	**(916 681)**	**691 129**	**1 143 359**	**445 628**	**62 894**	**(571 449)**	**854 880**
Assets and liabilities							
Segment assets	1 487 764	11 878 165	17 840 427	3 730 514	501 583	-	**35 438 453**
Investments in joint ventures	-	528 767	-	-	-	-	**528 767**
Unallocated assets	-	-	-	-	-	487 806	**487 806**
Total assets	**1 487 764**	**12 406 932**	**17 840 427**	**3 730 514**	**501 583**	**487 806**	**36 455 026**
Segment liabilities	775 219	1 385 823	1 810 362	1 754 504	303 123	-	**6 029 031**
Unallocated liabilities	-	-	-	-	-	11 425 710	**11 425 710**
Total liabilities	**775 219**	**1 385 823**	**1 810 362**	**1 754 504**	**303 123**	**11 425 710**	**17 454 741**
EBIT	**(916 681)**	**691 129**	**1 143 359**	**445 628**	**62 894**	**(120 727)**	**1 305 602**
Depreciation/amortization	**(89 367)**	**(308 325)**	**(812 493)**	**(5 418)**	**(66 795)**	**-**	**(1 282 398)**
Impairment	**(732 858)**	**350 514**	**(692)**	**-**	**(559)**	**-**	**(383 595)**
EBITDA	**(94 456)**	**648 940**	**1 956 544**	**451 046**	**130 248**	**(120 727)**	**2 971 595**
Other segment information							
Capital expenditure *	160 621	909 386	1 208 940	6 015	39 759	-	**2 324 721**

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

For the 9-month period ended 30 September 2017 *(restated, unaudited)* or as at 31 December 2017 *(restated)*

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	519 088	1 324 843	2 418 992	8 544 000	67 066	-	**12 873 989**
Inter-segment sales	599 379	2 002 658	2 567 918	1 263 209	531 296	(6 964 460)	**-**
Segment revenue	**1 118 467**	**3 327 501**	**4 986 910**	**9 807 209**	**598 362**	**(6 964 460)**	12 873 989
Profit/(loss) of the segment	**(135 236)**	**44 184**	**998 769**	**683 919**	**55 817**	**10 483**	**1 657 936**
Share in profit/(loss) of joint ventures	-	69 535	-	-	-	-	**69 535**
Unallocated expenses	-	-	-	-	-	(78 196)	**(78 196)**
EBIT	**(135 236)**	**113 719**	**998 769**	**683 919**	**55 817**	**(67 713)**	**1 649 275**
Net finance income (costs)	-	-	-	-	-	(167 620)	**(167 620)**
Profit/(loss) before income tax	**(135 236)**	**113 719**	**998 769**	**683 919**	**55 817**	**(235 333)**	**1 481 655**
Income tax expense	-	-	-	-	-	(287 425)	**(287 425)**
Net profit/(loss) for the period	**(135 236)**	**113 719**	**998 769**	**683 919**	**55 817**	**(522 758)**	**1 194 230**
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	**943 227**
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	**10 926 867**
Total liabilities	**849 728**	**1 858 246**	**2 339 080**	**1 406 589**	**386 693**	**10 926 867**	**17 767 203**
EBIT	**(135 236)**	**113 719**	**998 769**	**683 919**	**55 817**	**(67 713)**	**1 649 275**
Depreciation/amortization	**(93 554)**	**(299 466)**	**(797 784)**	**(6 547)**	**(58 788)**	**-**	**(1 256 139)**
Impairment	**2**	**(42 744)**	**1 955**	**(512)**	**(7)**	**-**	**(41 306)**
EBITDA	**(41 684)**	**455 929**	**1 794 598**	**690 978**	**114 612**	**(67 713)**	**2 946 720**
Other segment information							
Capital expenditure *	88 787	1 122 816	972 540	588	32 630	-	**2 217 361**

** 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)

For the 3-month period ended 30 September 2018 *(unaudited)*

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	127 257	659 191	767 159	2 896 458	26 203	-	**4 476 268**
Inter-segment sales	145 332	490 206	714 451	518 954	175 674	(2 044 617)	**-**
Segment revenue	**272 589**	**1 149 397**	**1 481 610**	**3 415 412**	**201 877**	**(2 044 617)**	**4 476 268**
Profit/(loss) of the segment	**(50 515)**	**(44 941)**	**346 908**	**123 068**	**18 622**	**(13 926)**	**379 216**
Share in profit/(loss) of joint ventures	**-**	**(4 779)**	**-**	**-**	**-**	**-**	**(4 779)**
Unallocated expenses	-	-	-	-	-	(23 719)	**(23 719)**
EBIT	**(50 515)**	**(49 720)**	**346 908**	**123 068**	**18 622**	**(37 645)**	**350 718**
Net finance income (costs)	-	-	-	-	-	12 110	**12 110**
Profit/(loss) before income tax	**(50 515)**	**(49 720)**	**346 908**	**123 068**	**18 622**	**(25 535)**	**362 828**
Income tax expense	-	-	-	-	-	(76 384)	**(76 384)**
Net profit/(loss) for the period	**(50 515)**	**(49 720)**	**346 908**	**123 068**	**18 622**	**(101 919)**	**286 444**
EBIT	**(50 515)**	**(49 720)**	**346 908**	**123 068**	**18 622**	**(37 645)**	**350 718**
Depreciation/amortization	**(21 799)**	**(106 990)**	**(273 686)**	**(1 620)**	**(22 705)**	**-**	**(426 800)**
Impairment	**73**	**80**	**(137)**	**-**	**(209)**	**-**	**(193)**
EBITDA	**(28 789)**	**57 190**	**620 731**	**124 688**	**41 536**	**(37 645)**	**777 711**
Other segment information							
Capital expenditure *	69 780	339 863	415 462	1 713	17 573	-	**844 391**

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

For the 3-month period ended 30 September 2017 *(restated, unaudited)*

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	160 206	363 679	796 337	2 770 867	24 876	-	**4 115 965**
Inter-segment sales	176 577	678 993	822 579	359 346	180 898	(2 218 393)	**-**
Segment revenue	**336 783**	**1 042 672**	**1 618 916**	**3 130 213**	**205 774**	**(2 218 393)**	**4 115 965**
Profit/(loss) of the segment	**(69 420)**	**(36 258)**	**321 449**	**143 502**	**17 870**	**(6 503)**	**370 640**
Share in profit/(loss) of joint ventures	-	11 205	-	-	-	-	**11 205**
Unallocated expenses	-	-	-	-	-	(28 094)	**(28 094)**
EBIT	**(69 420)**	**(25 053)**	**321 449**	**143 502**	**17 870**	**(34 597)**	**353 751**
Net finance income (costs)	-	-	-	-	-	(112 688)	**(112 688)**
Profit/(loss) before income tax	**(69 420)**	**(25 053)**	**321 449**	**143 502**	**17 870**	**(147 285)**	**241 063**
Income tax expense	-	-	-	-	-	(52 310)	**(52 310)**
Net profit/(loss) for the period	**(69 420)**	**(25 053)**	**321 449**	**143 502**	**17 870**	**(199 595)**	**188 753**
EBIT	**(69 420)**	**(25 053)**	**321 449**	**143 502**	**17 870**	**(34 597)**	**353 751**
Depreciation/amortization	**(32 452)**	**(104 926)**	**(269 878)**	**(2 080)**	**(20 125)**	**-**	**(429 461)**
Impairment	**-**	**(11 255)**	**39**	**-**	**18**	**-**	**(11 198)**
EBITDA	**(36 968)**	**91 128**	**591 288**	**145 582**	**37 977**	**(34 597)**	**794 410**
Other segment information							
Capital expenditure *	32 915	308 899	367 910	6	12 389	-	**722 119**

** 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

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited restated figures)*
Sale of goods for resale, finished goods and materials without elimination of excise	**8 910 770**	**8 078 168**
Excise	(304 979)	(305 587)
Sale of goods for resale, finished goods and materials	**8 605 791**	**7 772 581**
Electricity	7 425 295	6 535 922
Heat energy	424 881	453 978
Energy certificates	46 758	39 777
Coal	391 922	478 906
Gas	177 330	135 236
Other goods for resale, finished goods and materials	139 605	128 762
Rendering of services	**4 650 024**	**5 055 672**
Distribution and trade services	4 422 020	4 798 972
Connection fees	57 158	85 035
Maintenance of road lighting	89 465	85 044
Other services	81 381	86 621
Other revenue	**45 987**	**45 736**
Total	**13 301 802**	**12 873 989**

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

For the 9-month period ended 30 September 2018 *(unaudited)*

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**417 561**	**1 821 789**	**2 929**	**6 305 656**	**57 856**	**8 605 791**
Electricity	232	1 345 963	-	6 079 089	11	**7 425 295**
Heat energy	-	424 881	-	-	-	**424 881**
Energy certificates	-	45 942	-	816	-	**46 758**
Coal	391 922	-	-	-	-	**391 922**
Gas	-	-	-	177 330	-	**177 330**
Other goods for resale, finished goods and materials	25 407	5 003	2 929	48 421	57 845	**139 605**
Rendering of services	**23 968**	**147 859**	**2 319 283**	**2 153 721**	**5 193**	**4 650 024**
Distribution and trade services	60	141 833	2 127 705	2 152 422	-	**4 422 020**
Connection fees	-	837	56 321	-	-	**57 158**
Maintenance of road lighting	-	-	89 465	-	-	**89 465**
Other services	23 908	5 189	45 792	1 299	5 193	**81 381**
Other revenue	**1 196**	**11 032**	**24 996**	**126**	**8 637**	**45 987**
Total	**442 725**	**1 980 680**	**2 347 208**	**8 459 503**	**71 686**	**13 301 802**

For the 9-month period ended 30 September 2017 *(restated, unaudited)*

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**494 808**	**1 156 759**	**13 535**	**6 054 966**	**52 513**	**7 772 581**
Electricity	190	655 319	-	5 880 413	-	**6 535 922**
Heat energy	-	453 978	-	-	-	**453 978**
Energy certificates	-	38 031	-	1 746	-	**39 777**
Coal	478 906	-	-	-	-	**478 906**
Gas	-	-	-	135 236	-	**135 236**
Other goods for resale, finished goods and materials	15 712	9 431	13 535	37 571	52 513	**128 762**
Rendering of services	**23 244**	**156 246**	**2 382 147**	**2 488 971**	**5 064**	**5 055 672**
Distribution and trade services	70	147 482	2 163 401	2 488 019	-	**4 798 972**
Connection fees	-	6	85 029	-	-	**85 035**
Maintenance of road lighting	-	-	85 044	-	-	**85 044**
Other services	23 174	8 758	48 673	952	5 064	**86 621**
Other revenue	**1 036**	**11 838**	**23 310**	**63**	**9 489**	**45 736**
Total	**519 088**	**1 324 843**	**2 418 992**	**8 544 000**	**67 066**	**12 873 989**

(in PLN '000)

For the 3-month period ended 30 September 2018 *(unaudited)*

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**120 107**	**622 246**	**893**	**2 204 644**	**21 651**	**2 969 541**
Electricity	24	527 997	-	2 138 074	10	**2 666 105**
Heat energy	-	76 832	-	-	-	**76 832**
Energy certificates	-	14 960	-	262	-	**15 222**
Coal	113 559	-	-	-	-	**113 559**
Gas	-	-	-	51 754	-	**51 754**
Other goods for resale, finished goods and materials	6 524	2 457	893	14 554	21 641	**46 069**
Rendering of services	**6 694**	**33 282**	**757 766**	**691 775**	**1 782**	**1 491 299**
Distribution and trade services	7	30 833	697 964	691 338	-	**1 420 142**
Connection fees	-	250	20 121	-	-	**20 371**
Maintenance of road lighting	-	-	29 699	-	-	**29 699**
Other services	6 687	2 199	9 982	437	1 782	**21 087**
Other revenue	**456**	**3 663**	**8 500**	**39**	**2 770**	**15 428**
Total	**127 257**	**659 191**	**767 159**	**2 896 458**	**26 203**	**4 476 268**

For the 3-month period ended 30 September 2017 *(restated, unaudited)*

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**152 364**	**328 371**	**4 135**	**1 971 875**	**20 120**	**2 476 865**
Electricity	10	232 891	-	1 929 925	-	**2 162 826**
Heat energy	-	81 498	-	-	-	**81 498**
Energy certificates	-	10 425	-	427	-	**10 852**
Coal	145 081	-	-	-	-	**145 081**
Gas	-	-	-	31 288	-	**31 288**
Other goods for resale, finished goods and materials	7 273	3 557	4 135	10 235	20 120	**45 320**
Rendering of services	**7 509**	**31 327**	**784 420**	**798 941**	**1 669**	**1 623 866**
Distribution and trade services	6	31 468	714 725	799 678	-	**1 545 877**
Connection fees	-	2	25 342	-	-	**25 344**
Maintenance of road lighting	-	-	30 935	-	-	**30 935**
Other services	7 503	(143)	13 418	(737)	1 669	**21 710**
Other revenue	**333**	**3 981**	**7 782**	**51**	**3 087**	**15 234**
Total	**160 206**	**363 679**	**796 337**	**2 770 867**	**24 876**	**4 115 965**

The decrease in revenue from sale of distribution and trade services in the 9-month period ended 30 September 2018 vs. the comparable period is related mostly to transitional fees charged by the Group from end users and transferred to the Transmission System Operator, recognized at the net consideration amount since 1 January 2018 in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transitional fee purchase costs in the 9-month period ended 30 September 2018, which, pursuant to IFRS 15 *Revenue from Contracts with Customers* reduced the revenue from sale of distribution and trade services amounted to PLN 561 488 thousand. In the comparable period, the transitional fee purchases were recognized under costs of sales.

(in PLN '000)

12. Expenses by type

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited restated figures)*
Depreciation of property, plant and equipment and amortization of intangible assets	(1 282 398)	(1 256 139)
Impairment of non-financial non-current assets	(383 849)	(42 185)
Materials and energy	(1 150 898)	(1 013 660)
Maitenance and repair services	(167 590)	(170 044)
Distribution services	(1 067 423)	(1 555 873)
Other external services	(600 256)	(620 183)
Cost of obligation to remit the emission allowances	(402 183)	(238 247)
Other taxes and charges	(516 543)	(531 831)
Employee benefits expense	(1 838 918)	(1 940 332)
Allowance for doubtful debts	(17 703)	(19 304)
Other	(76 478)	(64 682)
Total costs by type	**(7 504 239)**	**(7 452 480)**
Change in inventories, prepayments, accruals and deferred income	(52 111)	(132 347)
Cost of goods produced for internal purposes	401 201	304 585
Selling and distribution expenses	352 439	343 769
Administrative expenses	486 030	455 366
Cost of goods for resale and materials sold	(5 046 682)	(4 038 056)
Cost of sales	**(11 363 362)**	**(10 519 163)**

An increase in the value of impairment losses on non-financial non-current assets in the 9-month period ended 30 September 2018 vs. the comparable period resulted mainly from the recognition of the effects of impairment tests performed as at 30 June 2018, as a consequence of which the Group recognized a net impairment loss of PLN 388 101 thousand, covering the following items:

- property, plant and equipment – a net loss of PLN 296 845 thousand;
- other non-financial assets – a loss of PLN 76 266 thousand;
- goodwill – a loss of PLN 13 973 thousand;
- intangible assets – a loss of PLN 1 017 thousand.

Impairment tests have been discussed in detail in Notes 17 and 18 to these condensed interim consolidated financial statements.

The decrease in the value of distribution services in the 9-month period ended 30 September 2018 vs. the comparable period is related to transitional fees charged by the Group from end users and transferred to the Transmission System Operator, recognized at the net consideration amount in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transitional fee purchase costs in the 9-month period ended 30 September 2018, which, pursuant to principles binding prior to the adoption of IFRS 15 *Revenue from Contracts with Customers*, would be recognized under distribution services, amounted to PLN 561 488 thousand.

A decrease in employee benefit costs in the 9-month period ended 30 September 2018 versus the comparative period results mainly from the recognition of the effects of the reversal of actuarial provisions for the employee tariff and the Company's Social Benefits Fund in the part related to the existing employees as future pensioners by a company in the Generation segment in the current period, in the amount of PLN 49 270 thousand and PLN 5 469 thousand, respectively, and the reversal of provisions for jubilee bonuses of PLN 121 172 thousand. Additionally, following the reversal of provisions for jubilee bonuses, the company paid PLN 79 316 thousand in compensation to employees, which was charged to the Group's employee benefit costs. The above events have been discussed in more detail in Note 31.1 to these condensed interim consolidated financial statements.

An increase in the value of goods and materials sold during the 9-month period ended 30 September 2018 versus the comparative period arises from the recognition of the effects of the Company's reversal of provisions for onerous contracts with a joint venture in the net amount of PLN 201 174 thousand in the comparative period, as described in Note 32.3 to these condensed interim consolidated financial statements.

(in PLN '000)

13. Other operating revenue and expenses

In the 9-month period ended 30 September 2018, a company from the Generation segment reversed provisions for the employee tariff and the Company's Social Benefits Fund in the portion related to pensioners. The effect of the said reversal on an increase in the Group's other operating revenue was PLN 127 051 thousand and PLN 12 419 thousand, respectively.

14. Finance income and costs

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Income and costs from financial instruments	**(180 329)**	**(122 790)**
Dividend income	5 368	8 861
Interest income	19 820	29 304
Interest costs	(122 146)	(156 202)
Commission relating to borrowings and debt securities	(13 483)	(10 902)
Gain/loss on derivative instruments	(668)	(4 683)
Foreign exchange gains/losses	(63 702)	10 606
Remeasurement of originated loans	(4 988)	-
Other	(530)	226
Other finance income and costs	**(37 078)**	**(44 830)**
Interest on employee benefits	(25 412)	(30 568)
Interest on discount of other provisions	(9 490)	(10 309)
Other	(2 176)	(3 953)
Total, *including recognized in the statement of comprehensive income:*	**(217 407)**	**(167 620)**
Interest expense on debt	(122 146)	(156 202)
Finance income and other finance costs	(95 261)	(11 418)

In the 9-month period ended 30 September 2018, exchange losses exceeded exchange gains by PLN 63 702 thousand. Exchange losses are mainly exchange differences related to the Company's debt in the Euro, i.e. a loan obtained from a subsidiary, subordinated bonds and eurobonds. On that basis, exchange losses exceeded exchange gains by PLN 88 466 thousand. In the 9-month period ended 30 September 2018, the Group capitalized exchange differences of PLN 24 555 thousand in relation to investment projects.

15. Income tax

15.1. Tax expense in the statement of comprehensive income

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Current income tax	**(352 993)**	**(262 063)**
Current income tax expense	(344 223)	(257 893)
Adjustments to current income tax from previous years	(8 770)	(4 170)
Deferred tax	**119 678**	**(25 362)**
Income tax expense in profit/(loss)	**(233 315)**	**(287 425)**
Income tax expense relating to other comprehensive income	**1 563**	**(253)**

A reduction in the deferred tax expense in the 9-month period ended 30 September 2018 vs. the comparable period results mainly from the recognition of a deferred tax asset associated with a change in the carrying amount of property, plant and equipment, intangible assets and other non-financial assets identified by impairment tests carried out as at 30 June 2018, which produced a decrease in the deferred tax expense by PLN 71 084 thousand.

(in PLN '000)

15.2. Deferred income tax

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
difference between tax base and carrying amount of fixed and intangible assets	1 458 741	1 546 630
difference between tax base and carrying amount of financial assets	119 664	46 806
different timing of recognition of sales revenue for tax purposes	126 405	107 511
difference between tax base and carrying amount of energy certificates	8 527	7 964
other	37 322	47 841
Deferred tax liabilities	**1 750 659**	**1 756 752**
provisions	564 775	579 336
difference between tax base and carrying amount of fixed and intangible assets	147 416	167 531
power infrastructure received free of charge and received connection fees	9 010	46 669
difference between tax base and carrying amount of financial assets and financial liabilities	206 532	63 336
different timing of recognition of cost of sales for tax purposes	51 511	41 842
tax losses	15 487	13 386
other	31 634	18 909
Deferred tax assets	**1 026 365**	**931 009**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**52 132**	**46 122**
Deferred tax liability	**(776 426)**	**(871 865)**

As at 30 September 2018 and 31 December 2017, the deferred tax asset 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.

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 for 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. 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 9-month period ended 30 September 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	-	-	-	-	2 056 668	**2 056 668**
Borrowing costs	-	-	-	-	124 280	**124 280**
Transfer of assets under construction	4 835	760 128	432 776	38 522	(1 236 261)	**-**
Sale	(29)	(1 095)	(47 134)	(18 835)	(23)	**(67 116)**
Liquidation	(41)	(43 486)	(47 310)	(7 181)	(36)	**(98 054)**
Received free of charge	189	8 589	12	-	-	**8 790**
Transfers to/from assets held for sale	(164)	(2 060)	(7 635)	(2 012)	-	**(11 871)**
Overhaul expenses	-	-	-	-	42 987	**42 987**
Items generated internally	-	-	-	-	31 193	**31 193**
Other movements	(351)	(1 389)	2 850	(2 656)	(1 142)	**(2 688)**
Foreign exchange differences from translation of foreign entities	-	-	8	12	-	**20**
Closing balance	**127 219**	**23 301 652**	**18 980 694**	**902 994**	**5 873 754**	**49 186 313**
ACCUMULATED DEPRECIATION						
Opening balance	**(407)**	**(8 553 035)**	**(9 866 322)**	**(565 315)**	**(37 139)**	**(19 022 218)**
Depreciation for the period	-	(601 767)	(554 777)	(58 168)	-	**(1 214 712)**
Increase of impairment	-	(289 671)	(243 806)	(6 062)	(104 744)	**(644 283)**
Decrease of impairment	-	130 018	222 063	95	20	**352 196**
Sale	-	800	44 349	18 215	-	**63 364**
Liquidation	-	37 534	44 200	7 154	-	**88 888**
Transfers to/from assets held for sale	-	1 333	7 201	1 624	-	**10 158**
Other movements	-	442	(1 350)	1 806	-	**898**
Foreign exchange differences from translation of foreign entities	-	-	(5)	(5)	-	**(10)**
Closing balance	**(407)**	**(9 274 346)**	**(10 348 447)**	**(600 656)**	**(141 863)**	**(20 365 719)**
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	**126 812**	**14 027 306**	**8 632 247**	**302 338**	**5 731 891**	**28 820 594**
of which operating segments:						
Mining	**2 949**	**495 332**	**410 262**	**9 910**	**275 506**	**1 193 959**
Generation	**45 597**	**2 372 294**	**3 817 285**	**31 866**	**4 429 196**	**10 696 238**
Distribution	**61 406**	**11 072 458**	**4 295 609**	**245 298**	**1 022 887**	**16 697 658**
Other segments and other operations	**16 860**	**87 222**	**109 091**	**15 264**	**4 302**	**232 739**

(in PLN '000)

For the 9-month period ended 30 September 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	-	12	-	132	2 000 122	**2 000 266**
Borrowing costs	-	-	-	-	79 788	**79 788**
Transfer of assets under construction	683	599 176	382 793	38 487	(1 021 139)	**-**
Sale	(123)	(6 908)	(39 496)	(14 289)	(3)	**(60 819)**
Liquidation	(3)	(21 865)	(100 903)	(4 102)	-	**(126 873)**
Received free of charge	-	5 332	8	-	-	**5 340**
Transfers to/from assets held for sale	(30)	(14 909)	(2 394)	(15)	(11)	**(17 359)**
Overhaul expenses	-	-	-	-	57 359	**57 359**
Items generated internally	-	-	-	-	29 161	**29 161**
Other movements	(86)	(577)	934	135	(1 510)	**(1 104)**
Foreign exchange differences from translation of foreign entities	-	-	4	9	-	**13**
Closing balance	**122 421**	**22 163 305**	**18 404 992**	**870 459**	**4 404 940**	**45 966 117**
ACCUMULATED DEPRECIATION						
Opening balance	**(433)**	**(7 825 966)**	**(9 268 038)**	**(517 062)**	**(33 657)**	**(17 645 156)**
Depreciation for the period	-	(595 394)	(542 766)	(57 953)	-	**(1 196 113)**
Increase of impairment	-	(104 955)	(309 481)	(411)	(211)	**(415 058)**
Decrease of impairment	30	134 434	254 147	555	22	**389 188**
Sale	-	4 435	37 647	13 692	-	**55 774**
Liquidation	-	17 153	99 368	4 028	-	**120 549**
Transfers to/from assets held for sale	-	9 533	2 101	15	-	**11 649**
Other movements	-	114	132	(163)	-	**83**
Foreign exchange differences from translation of foreign entities	-	-	(4)	(4)	-	**(8)**
Closing balance	**(403)**	**(8 360 646)**	**(9 726 894)**	**(557 303)**	**(33 846)**	**(18 679 092)**
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	**122 018**	**13 802 659**	**8 678 098**	**313 156**	**4 371 094**	**27 287 025**
of which operating segments:						
Mining	**2 774**	**758 564**	**666 474**	**15 554**	**250 055**	**1 693 421**
Generation	**41 257**	**2 355 152**	**3 733 764**	**36 188**	**3 286 962**	**9 453 323**
Distribution	**61 127**	**10 597 803**	**4 159 461**	**244 176**	**830 713**	**15 893 280**
Other segments and other operations	**16 860**	**91 140**	**118 399**	**17 238**	**3 364**	**247 001**

In the 9-month period ended 30 September 2018, the Group acquired property, plant and equipment of PLN 2 180 948 thousand, including capitalized costs of external financing. The major purchases were made in connection with investments in the following operating segments:

Operating segment	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Distribution	1 169 907	942 922
Generation	841 526	1 044 957
Mining	151 940	79 192

Impairment tests

Considering the Company's market cap, which has been lower than its carrying amount for a long time, changes in emission allowance prices and in global commodity prices, a change in the standing of the domestic power coal market, amendments to the Act on Renewable Energy Sources, the pending legislatory proceedings regarding functional solutions of the capacity market, market conditions being unfavorable for the profitability of conventional power industry, an analysis of effect of market standing changes was performed in the third quarter of 2018.

The analysis showed considerable changes in market prices of greenhouse gas emission allowances, electricity and natural gas. Additional costs related to the prices of allowances and commodities were incurred directly in the market as a result of changes in wholesale prices of electricity. In the third quarter of 2018 a short-term price increase occurred, and at its end certain adjustments thereto were observed. In the nearest perspective, the factor does not justify any change to long-term projections compared to information available as at 30 June 2018.

Therefore, it was assumed that the most recent results of impairment tests focusing on property, plant and equipment and goodwill, which were performed as at 30 June 2018, were up-to-date.

(in PLN '000)

In the 6-month period ended 30 June 2018, the Group recognized new and reversed previous impairment losses on property, plant and equipment as a result of impairment tests.

The recoverable amounts of items of property, plant and equipment are equal to their values in use. Impairment losses were charged mostly to costs of sales.

The impairment loss regarding property, plant and equipment and its reversal resulting from the tests performed as at 30 June 2018 are related to the following cash generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		30 June 2018 *(unaudited)*	31 December 2017	As at 30 June 2018 *(unaudited)*	9-month period ended 30 September 2018 *(unaudited)*	
Mining	TAURON Wydobycie S.A.	10.95%	10.20%	667 210	641 674	-
Generation - Coal	TAURON Wytwarzanie S.A. / Nowe Jaworzno Grupa TAURON Sp. z o.o.	8.47%	8.35% - 8.39%	6 550 497	-	-
Generation - Biomass		8.36%	8.35% - 8.39%	(103 789)	-	-
ZW Bielsko Biała	TAURON Ciepło Sp. z o.o.	7.62%	7.58%	522 258	-	-
ZW Katowice				1 090 586	-	-
ZW Tychy				472 806	-	-
Local generators				78 789	-	-
Transmission		7.55%	7.55%	1 001 501	-	-
Hydropower plants	TAURON Ekoenergia Sp. z o.o.	8.92%	8.64%	743 627	-	-
Wind farms		10.57%	9.54%	753 577	-	344 829

As at 30 June 2018, impairment tests were performed for property, plant and equipment based on the following indications:

- the market value of the Company's net assets remaining below their carrying amount for a long period;
- global commodity prices and the local power coal market changing following the consolidation in the mining sector;
- high volatility in the mining and geological industries;
- disadvantageous excavation front structure (short face runs), which generates additional costs of reinforcements;
- limited competition in the market of mining materials and services, which results in price increases;
- 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;
- adoption of the Act on the Capacity Market and discussion of the functional solutions set out in the proposed capacity market regulations;
- persisting unfavourable market conditions for the conventional power industry;
- an increase in the risk-free rate.

The tests performed as at 30 June 2018 required the estimation of the value in use of cash generating units, based on their future cash flows discounted to their present value.

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

- TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o., where identification of cash generating units changed as compared to the tests carried out as at 31 December 2017. The Group recognized CGUs at a different level, by identifying two cash generating units in the operations of TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o. (which had been classified as a generation unit or a group of generation units before): CGU Generation Coal and CGU Generation Biomass. The key reason for the change in the approach to CGU classification, justifying consolidation of coal generation units, is the fairly advanced legislative process relating to the implementation of the Capacity Market mechanism and introducing the net available capacity as the product. The Act on the Capacity Market of 8 December 2017 was published on 3 January 2018, while the Capacity Market Regulations were approved by Decision of the President of the Energy Regulatory Office of 30 March 2018. On 7 February 2018, the European Commission notified the Capacity Market mechanism in Poland and it published the decision of 7 February 2018 approving the Capacity Market mechanism in Poland on 18 April 2018. The above legal measures justify the change in the approach to CGU in the tests performed as at 30 June 2018. The strategy adopted by the TAURON Group for purposes of joining the Capacity Market is a portfolio-based one, with maximization of the total revenue from the Capacity Market as its core objective. Decisions regarding the operation of or the entry into capacity contracts by specific generation units and the provision of standby or reserve capacity by other units will support the implementation of the TAURON Group's strategy dominated by interests of the Generation Segment, which rules out the independence of cash inflows generated by individual units. The only exception to this rule will be dedicated biomass units (renewable energy sources – RES) whose cash streams are partly independent and generated with the use of support mechanisms available for the renewable energy sector. In addition to the Capacity Market mechanism, the change in CGU identification in the Generation Segment has also been driven by electricity sales contract planning and fulfilment. The production portfolio is planned, coordinated and secured, both during the sales contracting process and electricity production planning and at the fuel procurement phase, at the level of the TAURON Group. Therefore, the decision-making capability of individual generation units with respect to generation of cash flows is limited;

- TAURON Ekoenergia Sp. z o.o. – where a test was carried out with respect to generation of electricity in hydroelectric power stations and one shared, integrated CGU for wind farms;
- TAURON Ciepło Sp. z o.o. – where generation of heat and electricity was separated from transmission and distribution of heat. Additional tests were carried out for individual generation units.

Key assumptions made for purposes of tests performed as at 30 June 2018:

- Coal prices projected for the coming years are high and stable as global prices will remain high and cost of transport will increase. According to international institutions, after 2021 and in the long run, coal prices will decrease as a result of the implementation of climate policy and the strategy to replace coal with energy from renewable sources followed by a growing number of countries. Prices forecast by the World Bank by 2030 show a downward trend. It has been assumed that in the years 2021–2040 the prices of power coal will decrease by 15%;
- The electricity wholesale price path for the years 2019-2027 with the perspective by 2040 has been adopted, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring greenhouse gas emission allowances. The price growth assumed for 2019 vs. the average SPOT price in the first half of 2018 is 13%. It has been assumed that power prices will decrease by 3% by 2021 vs. 2019, among others as a result of a capacity balance improvement resulting from the commissioning of new power units in Jaworzno and Opole. At the same time, the prices assumed for 2021 are 9% higher than the average SPOT price in 2018. An increase of 7.75% is assumed after 2021 and by 2027 (vs. 2021) followed by growth of 1% between 2028 and 2040 (fixed prices) vs. 2027;
- The operating reserve capacity mechanism is to remain in place until the end of 2020, i.e. until the Capacity Market has been implemented;
- Planned changes in the Polish market model aimed to introduce the Capacity Market mechanism have been taken into account (in line with the adopted and notified Act on the Capacity Market and the Capacity Market Regulations). Capacity payments are expected from 2021 to 2030. Basket auctions will be carried out based on the life of capacity contracts and capital expenditure (on new, modernized or existing facilities). The average annual Capacity Market budget during the period when the mechanism is applied is PLN 4 billion;
- Greenhouse gas emission limits for heat generation have been set in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat;
- The greenhouse gas emission allowance price growth path for the years 2019-2027 with the perspective by 2040 has been adopted. It has been assumed that the market price will increase by ca. 40% by 2027, comparing to 2019 and by ca. 90% vs. the average price observed in the first half of 2018, with 2027 year price path followed in 2028-2040 (fixed prices);
- The price path assumed for emission certificates and the obligatory redemption in the subsequent years are based on the Act on Renewable Energy Sources amended in recent year. The assumptions arise among others from the need to achieve the indicative objectives of RES for 2020;
- Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network;
- In line with the amended Energy Law and certain other acts, the applicable CHP support system settlements for 2018 will be carried out until 30 June 2019. No support for CHP has been assumed thereafter for the existing coal based units;

- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed. The return on capital is conditional on the Regulatory Asset Value;
- The electricity retail price path has been adopted based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- End-user sales volumes taking into account GDP growth and increased market competition have been applied;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed;
- Ensuring the production capacity of the existing non-current assets as a result of replacement investments has been assumed;
- The weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.16% to 10.95% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (4.08%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is 2.5% and it corresponds to the estimated long-term inflation rate. As at 30 June 2018, WACC increased comparing to 31 December 2017 mainly due to a higher risk free rate and higher costs of debt financing.

The impairment loss on assets in the Mining CGU was recognized as at 30 June 2018 for the following reasons:

- high volatility of mining and geological conditions in mines owned by the TAURON Group. During the 6-months period ended 30 June 2018 adverse conditions were identified in that area, which affected the commercial coal production volumes in the current period and the ones projected for the years to come;
- disadvantageous excavation front structure (short face runs), which generates additional costs of reinforcements;
- limited competition in the market of mining materials and services, which results in the price growth in the first half of 2018 and in subsequent years.

The option to reverse impairment on the assets of the Wind Farms CGU as at 30 June 2018 resulted in particular from changes in RES regulations regarding the calculation of the substitution fee and taxes on wind farms, as well as from an increase in the prices of energy and certificates for energy produced from renewable sources.

A sensitivity analysis performed for each CGU revealed that the value in use of the tested assets was mainly affected by the issue of the Capacity Market, with other market conditions remaining unchanged, forecast electricity prices, emission allowance prices, discount rates and hard coal prices. Presented below are estimated changes in the impairment loss on the Mining and Generation segment assets taking account of the effect of its reversal as at 30 June 2018 as a result of changes to key assumptions.

Parameter	Change	Net impact on impairment loss (i.e. reduced by derecognized amounts, in PLN million)	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	-	579
	-1%	583	-
Change of coal prices in the forecast period	+1%	21	-
	-1%	-	19
Change of gas emission allowances prices in the forecast period	+1%	170	-
	-1%	-	167
Change of WACC (net)	+0.1 p.p.	149	-
	-0.1 p.p.	-	151
Change of the rate on capacity market for 1MW	+1%	-	54
	-1%	54	-
Lack of recognition of payments relating to the Capacity Market		6 403	-

If the Capacity Market mechanism was disregarded in the process of estimation of the value in use of property, plant and equipment, with other market conditions and the internal sales strategy remaining unchanged, an additional net impairment loss of PLN 6 403 million would be recognized in the Group's profit or loss.

18. Goodwill

Operating segment	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Mining	-	13 973
Distribution	25 602	25 602
Generation	581	581
Total	**26 183**	**40 156**

Impairment tests

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

The test was performed based on the present value of projected cash flows from operations. The calculations were based on detailed projections for the period from 2018 to 2027 and the estimated residual value. For the Mining segment detailed projections by the date of depletion of the available coal resources were used. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

The weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.74% to 10.95% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (4.08%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is 2.5% and it corresponds to the estimated long-term inflation rate. As at 30 June 2018, WACC increased versus 31 December 2017 mainly due to a higher risk free rate and higher costs of debt financing.

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

(in PLN '000)

Operating segment	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		30 June 2018 *(unaudited)*	31 December 2017
Mining	• The adopted price path for power coal, other coal sizes and gaseous fuels. In 2019-2021 lower supply of power coal is expected, which will be compensated by higher imports of the commodity. At the same time, the global coal prices will remain high. It has been assumed that in the years 2021–2040 the prices of power coal will decrease by 15%; • The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin; • Maintaining the production capacity of the existing non-current assets as a result of replacement investments.	10.95%	10.20%
Distribution	• Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	7.74%	7.61%

The impairment test performed as at 30 June 2018 resulted in recognition of impairment of the carrying amount of goodwill in the Mining segment of PLN 13 973 thousand.

A sensitivity analysis performed for each CGU revealed that changes in the key factors, such as electricity prices, hard coal prices, the prices of greenhouse gas emission allowances as well as the weighted average cost of capital would have to be material to change the value in use of the tested assets to the extent necessary to recognize further impairment losses on goodwill.

19. Energy certificates and gas emission allowances

19.1. Long-term energy certificates and gas emission allowances

For the 9-month period ended 30 September 2018 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**95 795**	**207 335**	**303 130**
Direct purchase	143 604	420	**144 024**
Reclassification	(89 355)	(181 724)	**(271 079)**
Closing balance	**150 044**	**26 031**	**176 075**

For the 9-month period ended 30 September 2017 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**110 430**	**15 830**	**126 260**
Direct purchase	31 636	-	**31 636**
Reclassification	(98 725)	(15 830)	**(114 555)**
Closing balance	**43 341**	**-**	**43 341**

19.2. Short-term energy certificates and gas emission allowances

For the 9-month period ended 30 September 2018 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**327 324**	**324 936**	**652 260**
Direct purchase	266 315	80 299	**346 614**
Generated internally	47 396	-	**47 396**
Cancellation	(439 548)	(326 748)	**(766 296)**
Reclassification	89 091	181 724	**270 815**
Closing balance	**290 578**	**260 211**	**550 789**

(in PLN '000)

For the 9-month period ended 30 September 2017 *(restated, unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**543 536**	**423 847**	**967 383**
Direct purchase	248 328	-	**248 328**
Generated internally	38 217	-	**38 217**
Cancellation	(653 826)	(209 652)	**(863 478)**
Reclassification	97 654	15 830	**113 484**
Closing balance	**273 909**	**230 025**	**503 934**

20. Other intangible assets

For the 9-month period ended 30 September 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	-	3 926	-	-	65 667	**69 593**
Transfer of intangible assets not made available for use	-	1 328	55 204	16 580	(73 112)	**-**
Sale/ Liquidation	-	(406)	(19 839)	(313)	-	**(20 558)**
Other movements	-	(3 250)	(165)	2 078	1 778	**441**
Foreign exchange differences from translation of foreign entities	-	-	23	-	-	**23**
Closing balance	**6 403**	**774 885**	**679 703**	**254 893**	**142 835**	**1 858 719**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 265)**	**(25 371)**	**(439 639)**	**(84 861)**	**(7)**	**(555 143)**
Amortization for the period	(190)	-	(54 527)	(12 969)	-	**(67 686)**
Increase of impairment	-	(43)	(935)	(81)	-	**(1 059)**
Decrease of impairment	-	27	-	-	-	**27**
Sale/ Liquidation	-	-	19 784	310	-	**20 094**
Other movements	-	-	141	-	-	**141**
Foreign exchange differences from translation of foreign entities	-	-	(23)	-	-	**(23)**
Closing balance	**(5 455)**	**(25 387)**	**(475 199)**	**(97 601)**	**(7)**	**(603 649)**
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	**948**	**749 498**	**204 504**	**157 292**	**142 828**	**1 255 070**

Condensed interim consolidated financial statements for the 9-month period ended 30 September 2018 prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union (in PLN '000)

For the 9-month period ended 30 September 2017 *(unaudited)*

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**5 434**	**786 283**	**610 578**	**211 873**	**93 060**	**1 707 228**
Direct purchase	-	-	11	-	50 776	**50 787**
Transfer of intangible assets not made available for use	-	136	22 678	8 544	(31 358)	**-**
Sale / Liquidation	-	(1 271)	(1 194)	(101)	-	**(2 566)**
Transfers to/from assets held for sale	-	(12 949)	-	-	-	**(12 949)**
Other movements	15	(11)	(6 050)	6 795	-	**749**
Foreign exchange differences from translation of foreign entities	-	-	13	-	-	**13**
Closing balance	**5 449**	**772 188**	**626 036**	**227 111**	**112 478**	**1 743 262**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 120)**	**(25 617)**	**(387 075)**	**(64 982)**	**(7)**	**(482 801)**
Amortization for the period	(62)	-	(47 195)	(12 769)	-	**(60 026)**
Increase of impairment	(17)	(9 859)	(329)	(20)	-	**(10 225)**
Decrease of impairment	73	307	11	32	-	**423**
Sale/ Liquidation	-	-	1 170	39	-	**1 209**
Transfers to/from assets held for sale	-	9 859	-	-	-	**9 859**
Other movements	(15)	-	2 153	(2 114)	-	**24**
Foreign exchange differences from translation of foreign entities	-	-	(15)	-	-	**(15)**
Closing balance	**(5 141)**	**(25 310)**	**(431 280)**	**(79 814)**	**(7)**	**(541 552)**
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	**308**	**746 878**	**194 756**	**147 297**	**112 471**	**1 201 710**

21. Interests in joint ventures

Investments in joint-ventures measured using the equity method as at 30 September 2018 and for the 9-month period ended 30 September 2018 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 30 September 2018 or for the 9-month period ended 30 September 2018 *(unaudited)*
Non-current assets	1 339 084	1 912 785	**3 251 869**
Current assets, *including:*	22 436	610 204	**632 640**
cash and cash equivalents	*18 795*	*251 536*	***270 331***
Non-current liabilities (-), *including:*	(1 352 910)	(832 671)	**(2 185 581)**
debt	*(1 302 347)*	*(740 582)*	***(2 042 929)***
Current liabilities (-), *including:*	(72 078)	(551 149)	**(623 227)**
debt	*(3 715)*	*(50 139)*	***(53 854)***
Total net assets	(63 468)	1 139 169	**1 075 701**
Share in net assets	(31 734)	569 585	**537 851**
Investment in joint ventures	**-**	**528 767**	**528 767**
Share in revenue of joint ventures	44	541 748	**541 792**
Share in profit/(loss) of joint ventures	**-**	**40 663**	**40 663**
Share in other comprehensive income of joint ventures	**-**	**380**	**380**

** 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.*

(in PLN '000)

Investments in joint ventures measured using the equity method as at 31 December 2017 and for the 9-month period ended 30 September 2017 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2017 or for the 9-month period ended 30 September 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	9	470 603	**470 612**
Share in profit/(loss) of joint ventures	**-**	**69 435**	**69 435**
Share in other comprehensive income of joint ventures	**-**	**46**	**46**

** 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 450 MWe and the net heat capability of 240 MWt.

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

The conditions precedent were satisfied on 31 March 2017, which was followed by the entry into force of the aforesaid agreement and annexes. The issue has been discussed in more detail in Note 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 of 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 of 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 203 899 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 a shareholders' agreement was concluded by and between the TAURON Group and the ArcelorMittal Group regarding TAMEH HOLDING Sp. z o.o., which is responsible for investment and operational projects related to the industrial power sector. The duration of the agreement is 15 years and may be extended. 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., incorporated by the following entities contributed by the TAURON Group: Zakład Wytwarzania Nowa and Elektrownia Blachownia along with Kraków Heat and Power Plant contributed by the ArcelorMittal Group. Moreover, TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH Czech s.r.o., based on the Ostrava Heat and Power Plant.

(in PLN '000)

On 28 June 2018, the General Shareholders' Meeting of TAMEH HOLDING Sp. z o.o. decided to allocate PLN 32 520 thousand to pay dividends to the shareholders. The Group's interest in the joint venture TAMEH HOLDING Sp. z o.o. was reduced by the value of the dividend payable to the Group in the amount of PLN 16 260 thousand.

22. Loans to joint ventures

Loans to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 30 September 2018 and 31 December 2017 have been presented below.

	Agreement date	Loan amount	As at 30 September 2018 *(unaudited)*				Maturity date	Interest rate
			Principal*	Interest	Impairment allowance	Total		
Debt consolidation agreement	28.02.2018	609 951	195 567	-	-	**195 567**	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
Loan for financing current operations	30.03.2018	7 290	7 000	260	(161)	**7 099**	30.06.2033	fixed
VAT loan	11.04.2018	13 000	1 260	2	(29)	**1 233**	30.09.2020	floating/ WIBOR 1M+mark-up
Total			**203 827**	**262**	**(190)**	**203 899**		
Non-current			203 827	260	(190)	**203 897**		
Current			-	2	-	**2**		

**Including measurement of principal at amortized cost, except the subordinated loan, which is measured at fair value.*

	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 the European Investment Bank, the 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 a 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 and totalling PLN 53 944 thousand.

In accordance with the consolidation agreement in question, on 30 April 2018 a portion of the principal amount of the loan of PLN 299 100 thousand was repaid, while the remaining portion 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 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. It derecognized their carrying amount of PLN 511 952 thousand and disclosed a new asset measured at fair value at initial recognition of PLN 481 582 thousand, which has increased the financial expenses by PLN 30 370 thousand.

(in PLN '000)

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. provided a loan of up to PLN 450 000 thousand each to Elektrociepłownia Stalowa Wola S.A. The loan matures on 14 June 2030. The exposure of Bank Gospodarstwa Krajowego is secured with a bank guarantee issued upon request of the Company 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 S.A., PGNiG Termika S.A., TAURON Polska Energia S.A., TAURON Wytwarzanie S.A. as subordinated creditors and Bank Gospodarstwa Krajowego as the Agent, entered into a debt subordination agreement. Pursuant to the agreement, the debt of Elektrociepłownia Stalowa Wola S.A. owed to the Company under the debt consolidation agreement of 28 February 2018 for a total amount of PLN 609 951 thousand constitutes "subordinated debt". As at the date of approval of these condensed interim consolidated financial statements for publication, the nominal value of the loan, constituting subordinated debt owed to the Company, was PLN 310 851 thousand and its fair value was PLN 195 567 thousand.

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 30 September 2018, the loan with accrued interest measured at amortized cost totalled PLN 7 099 thousand.

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 up to 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. Under the agreement, the Company will grant a loan of up to PLN 6 500 thousand to Elektrociepłownia Stalowa Wola S.A. In accordance with the agreement the principal amount of the loan will be repaid by 30 September 2020 and interest accrued based on WIBOR 1M increased by a margin will be paid 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. As at 30 September 2018, the loan with accrued interest measured at amortized cost totalled PLN 1 233 thousand.

23. Other financial assets

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
Shares	127 880	141 698
Deposits and deposits for Mine Decommissioning Fund	47 113	39 756
Derivative instruments	508 708	81 698
Investment fund units	25 916	104 077
Loans granted	11 974	10 547
Bid bonds, deposits and collateral transferred	62 748	61 817
Initial margins	258 933	11 140
Other	6 747	7 554
Total	**1 050 019**	**458 287**
Non-current	260 532	238 354
Current	789 487	219 933

(in PLN '000)

As at 30 September 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 Sp. z o.o., in the amount of PLN 24 241 thousand;
- PGE EJ 1 Sp. z o.o., in the amount of PLN 18 651 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 14 817 thousand;
- Magenta Grupa TAURON Sp. z o.o. in the amount of PLN 9 500 thousand.

The value of the shares decreased in the 9-month period ended 30 September 2018 following fair value measurement of shares as at 1 January 2018 in line with IFRS 9 *Financial Instruments*, what resulted in decrease of the value of shares by PLN 26 031 thousand, which was 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 impairment losses.

An increase in the value of assets due to the gain on measurement of derivatives results from the fact that the Group recognizes measurement of forward transactions on an individual basis, i.e. on a single contract. As at 30 September 2018 the asset arising from the gain on measurement of derivatives amounted to PLN 508 708 thousand and the liability arising from the loss on measurement of derivatives presented in Note 39 hereto amounted to PLN 500 362 thousand.

24. Other non-financial assets

24.1. Other non-current non-financial assets

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Prepayments for assets under construction and intangible assets, *including:*	117 570	163 906
related to project realization: Construction of 910 MW Power Unit in Jaworzono III Power Plant	*113 214*	*162 589*
Costs of preparing production in hard coal mines	122 432	144 061
Prepayments for debt charges	12 711	12 252
Contract acquisition costs and costs of discounts	13 708	-
Other prepayments	27 176	26 627
Total	**293 597**	**346 846**

A decrease in production preparation costs incurred by coal mines was driven primarily by recognition of an impairment loss on the related assets as a result of impairment tests carried out as at 30 June 2018, which totalled PLN 61 570 thousand.

24.2. Other current non-financial assets

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Costs settled over time	**94 968**	**79 935**
Costs of preparing production in hard coal mines	31 463	52 123
Property and tort insurance	11 955	3 010
IT, telecom and postal services	16 236	15 074
Prepayments for debt charges	3 738	3 917
Contract acquisition costs and costs of discounts	12 796	-
Other prepayments	18 780	5 811
Other current non-financial assets	**34 691**	**7 120**
Advance payments for deliveries	7 397	4 858
Surplus of Social Benefit Fund's assets over its liabilities	3 143	-
Transfers made to the Social Benefit Fund	12 674	-
Other current assets	11 477	2 262
Total	**129 659**	**87 055**

A decrease in production preparation costs incurred by coal mines was driven primarily by recognition of an impairment loss on the related assets as a result of impairment tests carried out as at 30 June 2018, which totalled PLN 14 696 thousand.

(in PLN '000)

25. Inventories

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Gross value		
Coal, *of which:*	283 401	189 464
Raw materials	*136 707*	*33 260*
Semi-finished goods and work-in-progress	*146 694*	*155 180*
Emission allowances	45 954	382
Other inventories	125 797	114 450
Total	**455 152**	**304 296**
Measurement to fair value		
Emission allowances	(3 881)	8
Measurement to net realisable value		
Other inventories	(8 587)	(8 841)
Total	**(12 468)**	**(8 833)**
Fair value		
Gas emission allowances	42 073	390
Net realisable value		
Coal, *of which:*	283 401	189 464
Raw materials	*136 707*	*33 260*
Semi-finished goods and work-in-progress	*146 694*	*155 180*
Other inventories	117 210	105 609
Total	**442 684**	**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.

26. Receivables from buyers

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Value of items before allowance/write-down		
Receivables from buyers	1 424 796	1 521 554
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	581 819	499 601
Receivables claimed at court	211 190	205 025
Total	**2 217 805**	**2 226 180**
Allowance/write-down		
Receivables from buyers	(38 152)	(12 849)
Receivables claimed at court	(186 995)	(180 518)
Total	**(225 147)**	**(193 367)**
Value of item net of allowance (carrying amount)		
Receivables from buyers	1 386 644	1 508 705
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	581 819	499 601
Receivables claimed at court	24 195	24 507
Total	**1 992 658**	**2 032 813**

(in PLN '000)

27. Receivables arising from taxes and charges

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Corporate Income Tax receivables	741	2 128
VAT receivables	142 106	211 520
Excise duty receivables	18 097	29 718
Other	4 681	760
Total	**165 625**	**244 126**

28. Cash and cash equivalents

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Cash at bank and in hand	746 093	703 202
Short-term deposits (up to 3 months)	8 240	205 889
Other	20	158
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**754 353**	**909 249**
restricted cash	149 908	152 952
Bank overdraft	(745)	(93 503)
Cash pool	(9 545)	(13 676)
Foreign exchange	917	(717)
Total cash and cash equivalents presented in the statement of cash flows	**744 980**	**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 30 September 2018, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 83 065 thousand and cash on the accounts used for the settlement of electricity and emission allowances traded on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 57 482 thousand.

29. Equity

29.1. Issued capital

Issued capital as at 30 September 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 30 September 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.

(in PLN '000)

Shareholding structure as at 30 September 2018 *(unaudited, to the best of the Company's knowledge)*

Shareholder	Number of shares	Nominal 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%**

**The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Shareholders' Meeting of the Company. The limitation does not apply to the State Treasury and State Treasury owned companies in the period when the State Treasury and State Treasury owned companies hold shares in the Company entitling to more than 25% of the total votes in the Company.*

To the best of the Company's knowledge, the shareholding structure as at 30 September 2018 did not change as compared to 31 December 2017.

29.2. Reserve capital

On 16 April 2018, the Ordinary General Shareholders' Meeting 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 from valuation of hedging instruments

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Opening balance	**23 051**	**29 660**
Remeasurement of hedging instruments	(15 127)	(8 708)
Remeasurement of hedging instruments charged to profit or loss	213	381
Deferred income tax	2 834	1 582
Closing balance	**10 971**	**22 915**

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 30 September 2018, the Company recognized PLN 10 971 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 13 781 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 profit/loss for the period includes PLN 973 thousand, with PLN 760 thousand of the amount received in respect of hedges used in relation to closed interest periods and PLN 213 thousand resulting from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period.

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 30 September 2018 and as at the date of approval of these condensed interim consolidated financial statements for publication no other dividend restrictions existed.

(in PLN '000)

30. Debt

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Loans and borrowings	955 274	1 191 388
Bonds issued	8 797 549	8 637 435
Finance lease	26	23 973
Total	**9 752 849**	**9 852 796**
Non-current	9 459 494	9 501 414
Current	293 355	351 382

30.1. Loans and borrowings

Loans and borrowings taken out as at 30 September 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	36 273	36 273	19 052	3 918	4 181	4 122	5 000	-
	fixed	914 279	914 279	67 532	88 651	156 184	156 184	264 105	181 623
Total PLN		**950 552**	**950 552**	**86 584**	**92 569**	**160 365**	**160 306**	**269 105**	**181 623**
USD	floating	203	745	745	-	-	-	-	-
Total USD		**203**	**745**	**745**	**-**	**-**	**-**	**-**	**-**
Total			**951 297**	**87 329**	**92 569**	**160 365**	**160 306**	**269 105**	**181 623**
Interest increasing carrying amount			3 977						
Total			**955 274**						

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 that increases their carrying amount, in the 9-month period ended 30 September 2018 and in the comparative period have been presented below.

(in PLN '000)

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 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	**(96 793)**	**(19 300)**
Movement in loans and borrowings (excluding bank overdrafts and cash pool loans):	**(104 086)**	**(81 526)**
Repaid	(95 580)	(81 959)
Write-off	(11 138)	-
Change in valuation	2 632	433
Closing balance	**951 297**	**1 155 641**

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

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 30 September 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	79 934	84 039
		Construction and start-up of a co-generation unit at EC Bielsko Biała	Fixed	15.12.2021	114 385	120 061
		Modernization and extension of power grid	Fixed	15.06.2024	233 312	266 139
			Fixed	15.09.2024	106 281	128 711
			Fixed	15.09.2024	133 446	160 819
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	250 879	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	17 000	20 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	30.04.2019	1 568	13 881
Other loans and borrowings					18 469	23 349
Total					**955 274**	**1 191 388**

30.2. Bonds issued

Bonds issued as at 30 September 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	99 918	99 918	-	-
		20.12.2020	PLN	100 000	911	99 878	-	99 878	-
		20.12.2021	PLN	100 000	911	99 850	-	99 850	-
		20.12.2022	PLN	100 000	911	99 828	-	99 828	-
		20.12.2023	PLN	100 000	911	99 812	-	-	99 812
		20.12.2024	PLN	100 000	911	99 800	-	-	99 800
		20.12.2025	PLN	100 000	911	99 789	-	-	99 789
		20.12.2026	PLN	100 000	911	99 779	-	-	99 779
		20.12.2027	PLN	100 000	911	99 772	-	-	99 772
		20.12.2028	PLN	100 000	911	99 766	-	-	99 766
		20.12.2020	PLN	70 000	628	69 972	-	69 972	-
		20.12.2021	PLN	70 000	628	69 968	-	69 968	-
		20.12.2022	PLN	70 000	628	69 965	-	69 965	-
		20.12.2023	PLN	70 000	628	69 963	-	-	69 963
		20.12.2024	PLN	70 000	628	69 961	-	-	69 961
		20.12.2025	PLN	70 000	628	69 960	-	-	69 960
		20.12.2026	PLN	70 000	628	69 959	-	-	69 959
		20.12.2027	PLN	70 000	628	69 958	-	-	69 958
		20.12.2028	PLN	70 000	628	69 957	-	-	69 957
		20.12.2029	PLN	70 000	628	69 957	-	-	69 957
	Bond Issue Scheme of 24.11.2015	29.12.2020	PLN	1 600 000	12 079	1 597 869	-	1 597 869	-
	TPEA1119	4.11.2019	PLN	1 750 000	19 466	1 749 369	1 749 369	-	-
	European Investment Bank	16.12.2034	EUR	190 000	29 533	810 608	-	-	810 608
	Eurobonds EURBD050727	5.07.2027	EUR	500 000	12 229	2 120 225	-	-	2 120 225
TAURON Sweden Energy AB (publ)		3.12.2029	EUR	168 000	20 781	712 188	-	-	712 188
Total					**109 478**	**8 688 071**	**1 849 287**	**2 107 330**	**4 731 454**

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)

The Bond Issue Scheme of 24 November 2015 was extended on 9 March 2018. Under annexes to the agency and depositary agreement and to the guarantee agreement some banks extended the period of availability of the Bond Issue Scheme's funds. Therefore, the maximum Bond Issue Scheme value:

- until 31 December 2021 is PLN 6 070 000 thousand (before the annexes were signed it had been PLN 5 320 000 thousand);
- until 31 December 2022 is PLN 5 820 000 thousand (before the annexes were signed it had been 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 Group 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. Those are five-year unsecured bonds with floating interest based on WIBOR 6M increased by a 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 fixed margin.

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

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Opening balance	**8 599 655**	**7 666 081**
Issue*	-	2 707 005
Redemption	-	(700 000)
Change in valuation	88 416	(7 217)
Closing balance	**8 688 071**	**9 665 869**

**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 30 September 2018, none of these covenants were breached and the contractual provisions were complied with.

(in PLN '000)

31. Provisions for employee benefits

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Provision for post-employment benefits and jubilee bonuses	1 148 835	1 469 108
Provision for employment termination benefits	29 926	45 815
Total	**1 178 761**	**1 514 923**
Non-current	1 085 611	1 380 650
Current	93 150	134 273

31.1. Provisions for post-employment benefits and jubilee bonuses

For the 9-month period ended 30 September 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	12 207	6 951	2 056	16 812	**38 026**
Actuarial gains and losses	(6 637)	-	(58)	(700)	**(7 395)**
Benefits paid	(17 775)	(6 142)	(2 339)	(34 745)	**(61 001)**
Past service costs	218	(176 322)	(17 352)	(121 859)	**(315 315)**
Interest expense	6 593	8 545	2 017	8 257	**25 412**
Closing balance	**316 500**	**363 247**	**90 645**	**378 443**	**1 148 835**
Non-current	288 979	350 655	87 301	339 929	**1 066 864**
Current	27 521	12 592	3 344	38 514	**81 971**

Past service costs, which decreased the provisions in the 9-month period ended 30 September 2018 by PLN 315 315 thousand result mainly from the release of the following provisions in the company from Generation segment:

- provision for the employee tariff in the part related to pensioners, in the amount of PLN 127 051 thousand, and to employees as future pensioners, in the amount of PLN 49 270 thousand, based on the Management Board's agreement with the social side 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 Benefits Fund in the part related to pensioners, in the amount of PLN 12 419 thousand, and to employees as future pensioners, in the amount of PLN 5 469 thousand.

The reversal 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 reversal of the provisions for jubilee bonuses, the company paid out PLN 79 316 thousand in compensation to employees, which was charged to the Group's operating expenses.

For the 9-month period ended 30 September 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	11 046	8 701	1 763	-	21 146	**42 656**
Actuarial gains and losses	(9 167)	-	(500)	-	(365)	**(10 032)**
Benefits paid	(17 241)	(9 777)	(2 763)	-	(42 490)	**(72 271)**
Past service costs	(1 560)	(533)	(64)	-	(7 109)	**(9 266)**
Interest expense	6 121	11 500	2 429	-	10 518	**30 568**
Closing balance	**296 480**	**542 075**	**113 334**	**2 248**	**507 909**	**1 462 046**
Non-current	269 619	525 636	108 944	-	455 805	**1 360 004**
Current	26 861	16 439	4 390	2 248	52 104	**102 042**

(in PLN '000)

Measurement of provisions for employee benefits

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

The provisions for employee benefits were measured as at 30 September 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 9-month period ended 30 September 2018 *(unaudited)*

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	**29 567**	**10 542**	**5 706**	**45 815**
Recognition	6 756	-	-	**6 756**
Reversal	(2 245)	(7 917)	-	**(10 162)**
Utilization	(5 155)	(1 622)	(5 706)	**(12 483)**
Closing balance	**28 923**	**1 003**	**-**	**29 926**
Non-current	18 747	-	-	**18 747**
Current	10 176	1 003	-	**11 179**

For the 9-month period ended 30 September 2017 *(unaudited)*

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	**17 599**	**17 062**	**16 561**	**51 222**
Recognition	11 328	-	-	**11 328**
Reversal	-	(4 982)	-	**(4 982)**
Utilization	(5 659)	(8 701)	(9 538)	**(23 898)**
Closing balance	**23 268**	**3 379**	**7 023**	**33 670**
Non-current	11 765	-	-	**11 765**
Current	11 503	3 379	7 023	**21 905**

Condensed interim consolidated financial statements for the 9-month period ended 30 September 2018 prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union (in PLN '000)

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

For the 9-month period ended 30 September 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)	4 323	2 783	**7 106**
Recognition/(reversal), net	245	(184)	**61**
Utilisation	-	(1 030)	**(1 030)**
Closing balance	**196 543**	**125 660**	**322 203**
Non-current	196 543	114 401	**310 944**
Current	-	11 259	**11 259**
Other provisions, long-term portion			**59 148**
Total			**370 092**

For the 9-month period ended 30 September 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)	3 856	2 598	2 330	**8 784**
Recognition/(reversal), net	91	211	(201 174)	**(200 872)**
Closing balance	**150 832**	**118 111**	**-**	**268 943**
Non-current	150 832	101 112	-	**251 944**
Current	-	16 999	-	**16 999**
Other provisions, long-term portion				**46 669**
Total				**298 613**

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 30 September 2018, the balance of the provision was PLN 196 543 thousand, and the change concerned mainly the reversal of discount – PLN 4 323 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 41 780 thousand as at 30 September 2018 (versus PLN 40 990 thousand as at 31 December 2017);
- provision for wind farm dismantling costs, which totalled PLN 59 189 thousand as at 30 September 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 24 691 thousand as at 30 September 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 comparable 9-month period ended 30 September 2017, following the entry into force of the agreement to set out the 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 contract to sell electricity, concluded among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company was obliged to purchase half of the volume of electricity generated by Elektrociepłownia Stalowa Wola S.A. at a price 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 gaseous fuel supply contract 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;
- a provision for necessary additional costs which the Company may have been required to incur for the operation of Elektrociepłownia Stalowa Wola S.A. due to delays in project completion.

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 9-month period ended 30 September 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	402 241	460 732	**862 973**
Reversal	(58)	(8 601)	**(8 659)**
Utilisation	(326 748)	(612 949)	**(939 697)**
Closing balance	**400 372**	**463 191**	**863 563**

For the 9-month period ended 30 September 2017 *(restated, unaudited)*

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**209 736**	**742 120**	**951 856**
Recognition	238 331	501 475	**739 806**
Reversal	(84)	(10 471)	**(10 555)**
Utilisation	(209 652)	(761 436)	**(971 088)**
Closing balance	**238 331**	**471 688**	**710 019**

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 30 September 2018, the provision for gas emission liabilities amounted to PLN 400 372 thousand and concerned the obligation to surrender emission allowances for the 9-month period ended 30 September 2018 held by:

- TAURON Wytwarzanie S.A.: PLN 369 033 thousand;
- TAURON Ciepło Sp. z o.o.: PLN 31 339 thousand.

33.2. Provision for the obligation to surrender energy certificates

As at 30 September 2018, the Group's short-term provision for the obligation to surrender energy certificates totalled PLN 463 191 thousand and was related to the obligation for the 9-month period ended 30 September 2018.

The obligation in the amount of PLN 235 753 thousand was covered by certificates held as at the end of the reporting period, the amount of PLN 76 983 thousand is planned to be paid through the purchase of property rights and the amount of PLN 150 455 in the form of a substitution fee. The planned fulfillment of the obligation in the form of a substitution fee regards the partial fulfillment in the form of presenting co-generation certificates.

34. Other provisions

For the 9-month period ended 30 September 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)	-	2 384	**2 384**
Recognition/(reversal), net	1 780	8 388	**10 168**
Utilisation	(598)	(14 942)	**(15 540)**
Closing balance	**93 212**	**292 143**	**385 355**
Non-current	-	59 148	**59 148**
Current	93 212	232 995	**326 207**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**11 259**
Total			**337 466**

For the 9-month period ended 30 September 2017 *(unaudited)*

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**92 143**	**262 592**	**354 735**
Interest cost (discounting)	-	1 525	**1 525**
Recognition/(reversal), net	2 015	22 005	**24 020**
Utilisation	(348)	(13 093)	**(13 441)**
Other changes	(723)	720	**(3)**
Closing balance	**93 087**	**273 749**	**366 836**
Non-current	-	46 669	**46 669**
Current	93 087	227 080	**320 167**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**16 999**
Total			**337 166**

Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 30 September 2018, the relevant provision amounted to PLN 93 212 thousand and was related to the following segments:

- Generation: PLN 51 040 thousand;
- Distribution: PLN 42 172 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 30 September 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 30 September 2018 amounted to PLN 57 703 thousand.	57 703	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 his 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 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.	-	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 ("TIO Director") in relation to the value added tax. The duration of these proceedings was several times extended by the TIO Director and by the Head of Mazowiecki Customs and Tax Office. On 30 August 2018 the Company's attorney received a report on tax books inspection, carried out under the inspection proceedings and pertaining to the period from October 2013 to April 2014. On 13 September 2018 the attorney filed reservations concerning the report. The new inspection completion dates have been determined at 23 November, 22 and 28 December 2018. As at 30 September 2018, the provision was PLN 71 835 thousand. An increase in the provision by PLN 3 141 thousand is attributable to interest accrued for the 9-month period ended 30 September 2018.	71 835	68 694

(in PLN '000)

35. Accruals, deferred income and government grants

35.1. Deferred income and government grants

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Deferred income	**59 254**	**259 220**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	55 158	62 342
Connection fees	-	195 666
Other	4 096	1 212
Government grants	**331 011**	**333 556**
Subsidies obtained from EU funds	225 589	235 065
Forgiven loans from environmental funds	38 148	26 258
Measurement of preferential loans	34 422	36 251
Other	32 852	35 982
Total	**390 265**	**592 776**
Non-current	359 883	541 318
Current	30 382	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 before 1 July 2009 of PLN 195 666 thousand was recognized in the Group's equity.

35.2. Short-term accruals

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Unused holidays	40 203	54 679
Bonuses	202 567	105 072
Environmental protection charges	29 114	45 133
Other	20 744	40 234
Total	**292 628**	**245 118**

36. Liabilities to suppliers

Current liabilities to suppliers as at 30 September 2018 and 31 December 2017 are presented in the table below:

Operating segment	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Distribution	274 380	355 374
liability to Polskie Sieci Elektroenergetyczne S.A.	*223 450*	*231 973*
Sales	336 234	265 660
Mining	134 865	172 758
Generation	102 717	164 980
Other	41 483	83 655
Total	**889 679**	**1 042 427**

37. Capital commitments

Short-term capital commitments as at 30 September 2018 and 31 December 2017 are presented in the table below:

(in PLN '000)

Operating segment	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Distribution	183 045	438 492
Generation	116 000	227 084
Mining	69 821	74 682
Sales and Other	24 834	57 046
Total	**393 700**	**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, which totalled PLN 96 857 thousand as at 30 September 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 30 September 2018 and 31 December 2017, the related commitments totalled PLN 10 575 thousand and PLN 10 666 thousand, respectively.

Commitments to incur capital expenditure

As at 30 September 2018 and 31 December 2017, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 648 916 thousand and PLN 3 891 230 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Generation	Constructin new capacity in Jaworzno III Power Plant (910 MW)	1 674 896	2 277 479
Distribution	Construction of new electrical connections	544 504	594 627
	Modernization and reconstruction of existing networks	786 966	451 907
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	185 634	235 377
	Construction of the 800 m drift at Janina Mining Plant	109 015	112 065
	Investment Program in Brzeszcze Mining Plant	45 454	25 617

38. Liabilities arising from taxes and charges

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
Corporate Income Tax	169 582	38 446
Personal Income Tax	37 121	54 161
Excise	38 439	43 760
VAT	137 863	110 867
Social security	119 293	190 443
Other	9 788	14 071
Total	**512 086**	**451 748**

Tax Capital Group

On 30 October 2017 the agreement of the Tax Capital Group for the years 2018 – 2020 was registered. Under the previous agreement, 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.

As at 30 September 2018, the Tax Capital Group had an income tax liability of PLN 166 455 thousand. The entire amount pertains to the 9-month period ended 30 September 2018 and constitutes a surplus of the Tax Group's tax charge of PLN 339 208 thousand over the tax advance payments paid of PLN 172 753 thousand.

(in PLN '000)

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.

39. Other financial liabilities

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017 *(restated figures)*
Wages, salaries	114 107	203 544
Bid bonds, deposits and collateral received	80 980	86 233
Insurance contracts	11 173	3 246
Derivative instruments	500 362	62 466
Margin deposits	574 860	7 163
Other	76 185	71 389
Total	**1 357 667**	**434 041**
Non-current	123 328	91 879
Current	1 234 339	342 162

An increase in the value of liabilities due to the loss on measurement of derivatives results from the fact that the Group recognizes measurement of forward transactions on an individual basis, i.e. on a single contract. As at 30 September 2018 the liability arising from the loss on measurement of derivatives amounted to PLN 500 362 thousand and the asset arising from the gain on measurement of derivatives presented in Note 23 hereto amounted to PLN 508 708 thousand.

The value of margin deposits results mainly from forward transactions for the supply of greenhouse gas emission allowances on foreign stock markets.

40. Other current non-financial liabilities

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Payments from customers relating to future periods	**337 207**	**309 298**
Amounts overpaid by customers	277 115	253 182
Prepayments for connection fees	18 063	16 741
Excess of the Company's Social Benefits Fund's liabilities over assets	-	91
Other	42 029	39 284
Other current non-financial liabilities	**2 352**	**1 552**
Total	**339 559**	**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

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Change in receivables	**(237 037)**	**51 655**
Change in receivables from buyers in statement of financial position	40 155	111 191
Change in other financial receivables	(247 917)	(56 735)
Adjustment due to change in receivables due to disposal of property, plant and equipment and financial assets	(3 683)	(2 917)
Adjustment accounting for impairment allowances recognized in correspondence with retained earnings following the endorsement of IFRS 9 *Finanical Instruments*	(31 471)	-
Other adjustments	5 879	116
Change in inventories	**(153 852)**	**149 295**
Change in inventories in statement of financial position	(147 221)	151 443
Adjustment related to transfer of invetories to/from property, plant and equipment	(6 631)	(2 148)
Change in payables excluding loans and borrowings	**212 870**	**(147 670)**
Change in liabilities to suppliers in statement of financial position	(148 160)	(20 975)
Change in payroll, social security and other financial liabilities	481 233	18 435
Change in non-financial liabilities in statement of financial position	28 709	14 092
Change in liabilities due to taxes excluding income tax	(70 798)	(37 279)
Adjustment of VAT change related to capital commitments	(80 119)	(126 410)
Other adjustments	2 005	4 467
Change in other non-current and current assets	**216 943**	**526 898**
Change in other current and non-current non-financial assets in statement of financial position	10 645	127 606
Change in receivables arising from taxes excluding income tax	77 114	(65 868)
Change in non-current and current emission allowances	246 029	209 652
Change in non-current and current energy certificates	(17 503)	336 716
Change in advance payments for property, plant and equipment and intangible assets	(46 579)	(81 430)
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	-
Adjustment by impairment losses on other non-financial assets following impairment tests	(76 266)	-
Other adjustments	(2 852)	222
Change in deferred income, government grants and accruals	**17 163**	**14 417**
Change in deferred income, government grants and accruals in statement of financial position	(155 001)	25 838
Adjustment related to property, plant and equipment and intangible assets received free of charge	(10 866)	(5 998)
Adjustment due to received and refunded subsidies	(12 636)	(5 423)
Adjustment accounting for recognizing deferred income from connection fees in retained earnings following the endorsement of IFRS 15 *Revenue from Contracts with Customers*	195 666	-
Change in provisions	**(413 575)**	**(448 843)**
Change of short term and long term provisions in statement of financial position	(418 396)	(457 721)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	6 695	9 667
Other adjustments	(1 874)	(789)
Total	**(357 488)**	**145 752**

Income tax paid

Income tax paid in the amount of PLN 222 162 thousand is mainly related to income tax paid by the Tax Capital Group, which totalled PLN 219 088 thousand, where PLN 172 753 thousand was the advance income tax for the first quarter of 2018 and PLN 46 335 thousand was income tax paid for 2017.

(in PLN '000)

41.2. Cash from/used in investing activities

Purchase of property, plant and equipment and intangible assets

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Purchase of property, plant and equipment	(2 156 393)	(2 076 187)
Purchase of intangible assets	(69 593)	(50 787)
Change in the balance of VAT-adjusted capital commitments	(323 576)	(578 691)
Change in the balance of advance payments	46 579	81 430
Costs of overhaul and internal manufacturing	(74 180)	(86 520)
Other	7 532	1 333
Total	**(2 569 631)**	**(2 709 422)**

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 36 275 thousand; and
- a loan granted to PGE EJ 1 Sp. z o.o. of PLN 4 800 thousand.

Repayment of loans granted

This item includes mostly repayment of a portion of a loan of PLN 299 100 thousand granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 22 to these condensed interim consolidated financial statements.

41.3. Cash from/used in financing activities

Loans and borrowings repaid

Payments to repay loans and borrowings, as presented in the consolidated statement of cash flows in the amount of PLN 95 580 thousand, arise mainly from the Parent's repayment of loan instalments to the European Investment Bank, totalling PLN 90 864 thousand, during the 9-month period ended 30 September 2018.

Interest paid

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Interest paid in relation to debt securities	(22 283)	(19 658)
Interest paid in relation to borrowings	(24 333)	(32 578)
Interest paid in relation to the finance lease	(196)	(574)
Total	**(46 812)**	**(52 810)**

The Group's consolidated statement of cash flows presents incurred borrowing costs which were capitalized in the current period in the value of assets as payments to acquire property, plant and equipment and intangible assets in cash flows from investing activities. In the 9-month period ended 30 September 2018, interest representing borrowing costs capitalized in the value of property, plant and equipment and intangible assets amounted to PLN 100 082 thousand.

(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 30 September 2018 *(unaudited)*		Categories and classes of financial assets	As at 31 December 2017 *(restated figures)*	
	Carrying amount	Fair value		Carrying amount	Fair value
1 Financial assets measured at amortized cost	**2 120 316**		**1 Assets at fair value through profit or loss, held for trading**	**154 574**	
Receivables from buyers	1 992 658	1 992 658	Derivative instruments	53 216	53 216
Deposits	47 113	47 113	Investment fund units	101 358	101 358
Loans granted	20 306	20 306	**2 Financial assets available for sale**	**144 417**	
Other financial receivables	60 239	60 239	Shares (non-current)	141 656	
2 Financial assets measured at fair value through profit or loss (FVTPL)	**1 866 832**		Shares (current)	42	
Derivative instruments	494 927	494 927	Investment fund units	2 719	2 719
Shares (non-current)	127 838	127 838	**3 Loans and receivables**	**2 734 059**	
Shares (current)	42	42	Receivables from buyers	2 032 813	2 032 813
Loans granted	195 567	195 567	Deposits	39 756	39 756
Other financial receivables	268 189	268 189	Loans granted	580 979	491 171
Investment fund units	25 916	25 916	Other financial receivables	80 511	80 511
Cash and cash equivalents	754 353	754 353	**4 Financial assets excluded from the scope of IAS 39**	**499 204**	
3 Derivative hedging instruments	**13 781**	**13 781**	Investments in joint ventures	499 204	
4 Financial assets excluded from the scope of IFRS 9	**528 767**		**5 Derivative hedging instruments**	**28 482**	**28 482**
Investments in joint ventures	528 767		**6 Cash and cash equivalents**	**909 249**	**909 249**
Total financial assets, ***of which in the statement of financial position:***	**4 529 696**		**Total financial assets,** ***of which in the statement of financial position:***	**4 469 985**	
Non-current assets	**993 196**		**Non-current assets**	**978 325**	
Investments in joint ventures	528 767		Investments in joint ventures	499 204	
Loans granted to joint ventures	203 897		Loans granted to joint ventures	240 767	
Other financial assets	260 532		Other financial assets	238 354	
Current assets	**3 536 500**		**Current assets**	**3 491 660**	
Receivables from buyers	1 992 658		Receivables from buyers	2 032 813	
Loans granted to joint ventures	2		Loans granted to joint ventures	329 665	
Other financial assets	789 487		Other financial assets	219 933	
Cash and cash equivalents	754 353		Cash and cash equivalents	909 249	

Categories and classes of financial liabilities	As at 30 September 2018 *(unaudited)*		Categories and classes of financial liabilities	As at 31 December 2017 *(restated figures)*	
	Carrying amount	Fair value		Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**11 893 507**		**1 Financial liabilities measured at amortized cost**	**12 040 129**	
Preferential loans	19 057	19 057	Preferential loans	34 506	34 506
Arm's length loans	935 472	963 397	Arm's length loans	1 063 379	1 065 694
Bank overdrafts	745	745	Bank overdrafts	93 503	93 503
Bonds issued	8 797 549	8 893 649	Bonds issued	8 637 435	8 695 096
Liabilities to suppliers	894 267	894 267	Liabilities to suppliers	1 042 427	1 042 427
Other financial liabilities	716 862	716 862	Other financial liabilities	154 119	154 119
Capital commitments	404 275	404 275	Capital commitments	807 970	807 970
Salaries and wages	114 107	114 107	Salaries and wages	203 544	203 544
Insurance contracts	11 173	11 173	Insurance contracts	3 246	3 246
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**500 362**		**2 Financial liabilities at fair value through profit or loss, held for trading**	**62 466**	
Derivative instruments	500 362	500 362	Derivative instruments	62 466	62 466
3 Financial liabilities excluded from the scope of IFRS 9	**26**		**3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39**	**23 973**	
Liabilities under finance leases	26		Obligations under finance leases	23 973	
Total financial liabilities, ***of which in the statement of financial position:***	**12 393 895**		**Total financial liabilities,** ***of which in the statement of financial position:***	**12 126 568**	
Non-current liabilities	**9 582 822**		**Non-current liabilities**	**9 593 293**	
Debt	9 459 494		Debt	9 501 414	
Other financial liabilities	123 328		Other financial liabilities	91 879	
Current liabilities	**2 811 073**		**Current liabilities**	**2 533 275**	
Debt	293 355		Debt	351 382	
Liabilities to suppliers	889 679		Liabilities to suppliers	1 042 427	
Capital commitments	393 700		Capital commitments	797 304	
Other financial liabilities	1 234 339		Other financial liabilities	342 162	

Dividing financial instruments into classes and categories follows the accounting standards binding as at the balance sheet date (as at 30 September 2018, IFRS 9 *Financial Instruments;* as at 31 December 2017, IAS 39 *Financial Instruments: Recognition and Measurement*).

(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 equity interests in other entities be measured at fair value, also with respect to those interests which – due to limited availability of information – have so far been measured at cost less any impairment losses. Therefore, the Group estimated the fair value of interests held, which has been discussed in detail in Note 8 hereto. The measurement of the interests in question resulted in Level 3 classification in the fair value hierarchy. The measurement of other financial receivables measured at fair value was also classified to Level 3.
- The Group classifies a loan granted to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2018 to assets measured at fair value though profit or loss, as discussed in detail in Note 22 to these condensed interim consolidated financial statements. The measurement of the loan in question resulted in Level 3 classification in fair value hierarchy.

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 fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates. The measurement resulted in Level 2 classification in the fair value hierarchy.
- The fair value of other financial instruments as at 30 September 2018 and 31 December 2017 (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 30 September 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	(720)	-	**4 367**	**(5 087)**	(9 299)	-	**-**	**(9 299)**
IRS	236	13 545	**13 781**	**-**	23	28 459	**28 482**	**-**
Commodity forwards/futures	190	-	**490 560**	**(490 370)**	395	-	**53 216**	**(52 821)**
Currency forwards	(4 905)	-	**-**	**(4 905)**	(346)	-	**-**	**(346)**
Total			**508 708**	**(500 362)**			**81 698**	**(62 466)**
Non-current			52 300	(37 524)			26 704	(5 217)
Current			456 408	(462 838)			54 994	(57 249)

(in PLN '000)

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

Derivative instrument	Methodology of determining fair value
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 30 September 2018 *(unaudited)*		As at 31 December 2017 *(restated figures)*	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity - related derivatives	490 560	-	53 216	-
Derivative instruments - currency	-	-	-	-
Derivative instruments - IRS	-	13 781	-	28 482
Derivative instruments - CCIRS	-	4 367	-	-
Total	**490 560**	**18 148**	**53 216**	**28 482**
Liabilities				
Commodity - related derivatives	490 370	-	52 821	-
Derivative instruments - currency	-	4 905	-	346
Derivative instruments - CCIRS	-	5 087	-	9 299
Total	**490 370**	**9 992**	**52 821**	**9 645**

Hedging derivative instruments (subject to hedge accounting) – IRS

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 30 September 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 contract, 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 30 September 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 Appeals overruled the decision and remanded the case for re-examination by the Regional Court in Warsaw. The case is currently pending at the first-instance court. Counterparties, in addition to the demand by the court to declare the termination of contracts by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. void, they also make claims for compensation related to the termination of contracts. Starting from the year 2016, claims against the company are changed by including compensation claims related to the termination of contracts. As at the date of approval of these condensed interim consolidated financial statements for publication, the amount of damages claimed in the claims is: - companies from the in.ventus group - EUR 4 687 thousand (i.e. PLN 20 020 thousand according to the average exchange rate of the National Bank of Poland of 28 September 2018); - companies from Polenergia group - PLN 67 248 thousand; - companies from Wind Invest group - PLN 125 003 thousand. Taking into account the current state of court cases and accompanying circumstances, the Group estimates that the probability of materializing the risk of losing court cases related to claims of declaring ineffectiveness of termination declarations and securing non-pecuniary claims as well as claims for damages does not exceed 50%, and therefore does not create a provision for related costs. **Claims relating to termination of long-term contracts against the 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 the 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, according to the claimant, is the termination of the long-term contracts to sell electricity and property rights by the 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. The case is currently pending at the first-instance Regional Court in Katowice. 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) are concerned, the Court referred the case to be examined at a closed-door hearing and dismissed. On 12 April 2018, the Court issued a decision whereby it dismissed the entire case against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. The case against TAURON Polska Energia S.A. was partially dismissed with respect to obligating the Company to revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. Dobiesław Wind Invest Sp. z o.o. lodged a complaint against the decision in question to the Court. In its decision of 26 June 2018 the Court rejected a complaint of Dobiesław Wind Invest Sp. z o.o. As a result, the proceedings at the Regional Court in Kraków are currently pending at first instance, and its subject is only the request to submit to the court deposit PLN 183 391 thousand to prevent an imminent danger of loss. Taking into account the current state of affairs, it should be acknowledged that the Company's chances for a positive resolution of the dispute exceed 50%. **Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.** On 20 July 2017 the Company was served with a claim 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 any 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 claim requesting that it be dismissed in whole as unsubstantiated. On 1 December 2017, Gorzyca Wind Invest Sp. z o.o. responded by upholding its position in addition to questioning the position adopted by the Company and the arguments put forward in its response to the claim. Following a decision of the Regional Court in Katowice of 8 February 2018, the suit brought by Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, though the final ruling will be given in public. A claim dated 29 June 2017, filed by Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of 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 to the Company on 21 August 2017. On 5 October 2017, the Company responded to the claim requesting that it be dismissed in whole as unsubstantiated. On 1 December 2017, Pękanino Wind Invest Sp z o.o. responded by upholding its position in addition to questioning the position adopted by the Company and the arguments put forward in its response to the claim. Following a decision of the Regional Court in Katowice, the suit brought by Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, though the final ruling will be given in public.

(in PLN '000)

Item	Description
Claims relating to termination of long-term contracts - continued	On 16 October 2017 the Company was served with a claim 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 responded to the claim requesting that it be dismissed in whole as unsubstantiated. Following a decision of the Regional Court in Katowice, the suit brought by Nowy Jarosław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is heard in camera, though the final ruling will be given in public. The factual basis of all the claims, according to the claimants, is the termination of the long-term contracts to purchase electricity and property rights resulting from energy certificates by the 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 that the rulings will be favourable for the Company is high (70%). On 18 June 2018 the Company was served with a copy of a claim lodged against it by Amon Sp. z o.o. and Talia Sp. z o.o., which are members of the Capital Group of Polenergia S.A. In their claim Amon Sp. z o.o. and Talia Sp. z o.o. demand payment of damages: of PLN 47 556 thousand to Amon Sp. z o.o. and of PLN 31 299 thousand to Talia Sp. z o.o. and determination of the Company' s liability for any future damages which may result from torts: in the total amount of PLN 158 262 thousand to Amon Sp. z o.o. and in the total amount of PLN 106 965 thousand to Talia Sp. z o.o. According to the claim filed by Amon Sp. z o.o. and Talia Sp. z o.o., the grounds for the suit are the following torts: - entrusting a subsidiary, Polska Energia Pierwsza Kompania Handlowa w likwidacji Sp. z o.o. with making purchases of electricity and property rights resulting from certificates of origin confirming generation of energy from renewable sources and the purchase of property rights arising from certificates of origin, confirming the generation of energy from renewable energy sources (wind farm) for the needs of the Company (and its Capital Group), based on long-term contracts concluded by Polska Energia Pierwsza Kompania Handlowa Sp. o.o with Amon Sp. z o.o. and Talia Sp. z o.o. and then - in the absence of consent to amend the aforementioned contracts - putting Polska Energia Pierwsza Kompania Handlowa Sp. o.o in the state of liquidation and taking actions in the course of liquidation resulting in the termination of the said contracts; - intentionally taking advantage from the damage caused to Amon Sp. z o.o. and Talia Sp. z o.o. a tort committed by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and persons acting as liquidators of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., performing activities entrusted by the Company on its behalf, consisting in the breaking of long-term contracts and the cessation of purchase of electricity and property rights from the complainants. The court competent for hearing the claim is the Regional Court in Katowice. On 16 July 2018 the Company responded to the claim requesting among others that it be dismissed in whole as unsubstantiated and to examine the case in camera. As at the date of approval of these condensed interim consolidated financial statements for publication, the probability that the rulings will be favourable for the Company is high (70%). On 29 June 2018, the Company received a copy of the claim filed against it by In.Ventus Sp. z o.o. Mogilno I Sp. k. for payment of damages of EUR 12 286 thousand (i.e. PLN 53 587 thousand translated at the average exchange rate of the National Bank of Poland of 29 June 2018) and assessment of liability for any future damages resulting from torts, with a total estimated amount of EUR 35 706 thousand (i.e. PLN 155 735 thousand translated at the average exchange rate of the National Bank of Poland of 29 June 2018). In the claim in question In.Ventus Sp. z o.o. Mogilno I Sp. k. seeks redress for own claims and those transferred by: In.Ventus Sp. z o.o. Mogilno II Sp. k., In.Ventus Sp. z o.o. Mogilno III Sp. k., In.Ventus Sp. z o.o. Mogilno IV Sp. k., In.Ventus Sp. z o.o. Mogilno V Sp. k., In.Ventus Sp. z o.o. Mogilno VI Sp. k. As stated in the claim filed by In.Ventus Sp. z o.o. Mogilno I Sp. k., the claim is based on torts, which consist in entrusting a subsidiary, Polska Energia Pierwsza Kompania Handlowa with making purchases of electricity and property rights resulting from certificates of origin confirming generation of energy from renewable sources for the needs of the Company and its Capital Group, based on long-term contracts concluded and persuading Polska Energia Pierwsza Kompania Handlowa Sp. o.o and its liquidators to terminate and non to perform the contracts in question and intentionally benefiting from the damages resulting from contract termination. The court competent for hearing the claim is the Regional Court in Katowice. On 29 August 2018 the Company responded to the claim requesting among others that it be dismissed in whole as unsubstantiated and to examine the case in camera. As at the date of approval of these condensed interim consolidated financial statements for publication, the probability that the rulings will be favourable for the Company is high (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 resulting from certificates from renewable energy sources by the subsidiary. The party to the contracts concluded 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. PLN 417 000 thousand net. 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 93 212 thousand (Note 34).

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Item	Description
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 judgement of the Court of Appeals in Warsaw, which was dismissed by the judgement of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the 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 judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. Since 27 November 2012 the case has been heard by the court of first instance. Based on a legal analysis of claims the Company believes that they are unsubstantiated 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.
Claim filed by ENEA S.A.	The claim filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, regards the payment of PLN 17 086 thousand with statutory interest from 31 March 2015 until the payment date. The basis of the claim brought by ENEA is unjust enrichment of the Company due to potential errors in the calculation of aggregated measurement and billing data by ENEA Operator Sp. z o.o. (being the Distribution System Operator), which are the basis of ENEA and the Company's settlements with Polskie Sieci Elektroenergetyczne S.A., due to an imbalance in the Balancing Market between January and December 2012. During the proceedings, at the request of ENEA S.A. 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 issue, the case had been adjourned until the date specified by the court. The Company did not recognize any provision as, in the opinion of the Company, 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 5 421 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 3 857 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest accrued as at 30 September 2018 and the cost of the proceedings.
Amount	As at 30 September 2018, the value of the claim against the Company was 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. during the proceedings, the values of the claims against the Company and 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 letters 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 appealed to the Court of Competition and Consumer Protection through the President of the Energy Regulatory Office. On 30 January 2018 the company received a copy of the response of the President of the Energy Regulatory Office to the appeal sent to the Court of Competition and Consumer Protection. The Court has not set the date of the next hearing yet. On 12 December 2017 against the company from Generation segment the President of the Energy Regulatory Office instigated administrative proceedings regarding a fine to be imposed with respect to the alleged business activity consisting in generation of electricity in Elektrownia Wodna Dąbie and Elektrownia Wodna Przewóz without the necessary permits for special use of water of the Vistula river for energy generation, as required under the Water Law of 20 July 2017. On 12 January 2018 the company provided required explanations about the proceedings pending with relation to the permits in question. In a letter of 22 March 2018, the President of the Energy Regulatory Office enquired whether the company had obtained decisions regarding water law permits, indicating at the same time that the matter should be resolved by 22 May 2018. On 29 June 2018 the Company informed the President of the Energy Regulatory Office in writing that the Supreme Administrative Court passed judgements on 17 May 2018 and on 27 June 2018 overruling decisions of administrative authorities (which had been disadvantageous for the company) related to permits for special use of water of the Vistula river for energy generation in Elektrownia Wodna Dąbie and Elektrownia Wodna Przewóz. The company is of the opinion that the facts based on which the proceedings were instigated may not be the grounds for imposition of a fine. Therefore, it is unable to estimate the amount of such a fine reliably and recognize a provision on that basis.

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Item	Description
Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO) (continued)	The companies in the Sales segment have been subject to the following proceedings: - On 26 September 2017, proceedings were instigated over unjustified suspension of electricity supplies to an end user by TAURON Sprzedaż Sp. z o.o. with the involvement of TAURON Dystrybucja S.A. On 12 February 2018, the President of the Energy Regulatory Office issued a decision whereby the said suspension of electricity supplies to the end user was considered unjustified. - On 4 January 2018 and 14 May 2018 proceedings were instituted against companies from the Sales segment regarding a fine for unjustified suspension of electricity supplies to end users. As for proceedings instituted on 4 January 2018, TAURON Sprzedaż Sp. z o.o. was served with decisions dated 29 June 2018 imposing fines totalling to PLN 5 thousand. The fines were paid on 23 July 2018. TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. were served with notices informing of completion of evidence proceedings related to the proceedings instigated on 14 May 2018. - On 18 and 27 February 2018, proceedings were instituted against the subsidiary TAURON Sprzedaż GZE Sp. z o.o. over irregularities which consisted in a failure to offer end users the choice of a specific offer or tariff group. The company has provided adequate explanations. - On 12 March 2018, proceedings were instigated against the subsidiary TAURON Sprzedaż GZE Sp. z o.o. with respect to a failure to submit data to the Agency for Cooperation of Energy Regulators within the set deadlines, in line with Article 8.1. of Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency. The company has provided adequate explanations. By the final decision of 9 August 2018, the President of the Energy Regulatory Office declared a breach of the provisions of the regulation, while waiving the penalty. - On 25 June 2018 proceedings were instigated against TAURON Sprzedaż Sp. z o.o. related to the legitimacy of the decision to suspend electricity supplies to end buyers. The company was requested to provide explanations and documents. The company provides relevant responses on a regular basis. - On 23 July 2018 proceedings were instigated against TAURON Sprzedaż Sp. z o.o. regarding the adjustment of the terms of the electricity distribution licence to meet the requirements of the applicable law. The company provides relevant responses on a regular basis. 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 of the companies the risk of adverse rulings and fines is low.
Administrative and Explanatory proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	President of UOKiK instigated the following procedures against the Sales segment companies: - 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 the Office for Competition and Consumer Protection closing the evidentiary proceedings. On 14 December 2015 the President of the Office for Competition and Consumer Protection 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. On 22 February 2018 the President of the Office for Competition and Consumer Protection issued a decision stating that the company had used practices violating collective consumers' interests and it had discontinued such practices on 1 February 2016. The President of the Office for Competition and Consumer Protection did not impose any fine on the company, but obliged the entity to issue a statement with the content specified in the decision. The company appealed against the decision to the Court of Competition and Consumer Protection. On 2 July 2018 the President of the Office for Competition and Consumer Protection changed his previous decision of 22 February 2018 (under the self-auditing procedure) and the company was requested to publish appropriate statements with the content and within deadlines specified in the decision. The commitment resulting from the decision is implemented by the company. - Explanatory proceedings instigated on 11 May 2017 against TAURON Sprzedaż Sp. z o.o. with respect to the mechanism of automatic extension of the period of settling fees for the sale of electricity in line with the pricing list if a consumer does not respond to the new offer presented (renewal offer). The company was requested to provide explanations by the President of the Office for Competition and Consumer Protection. The explanations were advanced by the company on 16 October 2017. - On 13 July 2017 the explanatory proceedings were instigated against TAURON Sprzedaż GZE Sp. o.o. with respect to violation of the provisions of Article 6b.3 of the Energy Law Act in respect of determining additional deadlines for payment of overdue amounts specified in demands for payment. The company took remedial action, which consisted in changing the communication distributed to consumers. The draft reminder message sent to consumers in writing was approved by President of the Office for Competition and Consumer Protection on 19 May 2018. Notwithstanding the above, the company was requested to provide three sample reminders sent to consumers after 1 July 2018. The company provided the documents requested on 23 July 2018. - Proceedings instituted on 13 October and 8 November 2017 with regard to the alleged violation of collective interests of consumers by entities from the Sales segment, which consisted in hindering a change of the electricity supplier. The said entities were requested under Article 49a of the Act on Competition and Consumer Protection to answer the allegation levelled by the President of the Office of Competition and Consumer Protection about their hindering a change of the seller and misinforming consumers about the possibility to terminate their contracts with another seller without costs. They responded on 3 November and 29 December 2017. - Explanatory proceedings instigated on 27 April 2018 with relation to the alleged infringement of collective interest of consumers by sending out letters regarding personal data updates. TAURON Sprzedaż Sp. z o.o. provided appropriate explanations in this respect. 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 of the companies the risk of adverse rulings and fines is low. Companies in the Sales segment are also subject to explanatory proceedings instigated by the Office for Competition and Consumer Protection in order to determine whether the activities taken by the companies breached the provisions of the Act on competition and consumer protection. The companies provide requested documents and explanations and respond to the statements included in the letters of the Office for Competition and Consumer Protection. The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavourable outcome of the cases is low; hence no provision has been recognized for these events.

(in PLN '000)

Item	Description
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 excavations may change in future. The legal status of taxation of electricity generation and transmission facilities has changed in 2018. The amended Act on renewable energy sources and certain other acts was signed on 29 June 2018, changing the definition of construction facilities which had been defined in the Act on investments in wind farms. The Act entered into force on 14 July 2018 and the amended regulations on wind farms apply as of 1 January 2018. The taxable amount used in taxation of wind farms in 2017 was the subject of a decision made by the Supreme Administrative Court on 22 October 2018. The Supreme Administrative Court dismissed the cassation complaint regarding the taxation of wind farms for 2017. The company from the Generation segment at the beginning of 2018 adjusted the tax returns for 2017 and paid real estate tax with interest.
Amount	As at 30 September 2018, the provisions recognized for disputed real estate tax and the related business risk totalled PLN 39 356 thousand. Additionally, accruals of PLN 2 314 thousand were recognized for the tax on wind farms for 2017.
Claim for reimbursement of expenses incurred to protect a facility against the effects of mining operations	In December 2017, a claim was filed against the subsidiary TAURON Wydobycie S.A. by Galeria Galena Sp. z o.o. with its registered office in Gliwice for the payment of PLN 22 785 thousand as reimbursement of expenses incurred to protect a facility located in Jaworzno against the effects of mining operations. The company filed its response with the Regional Court in Katowice on 7 March 2018. On 5 April 2018, the company received a claim for payment, lodged by Galeria Galena Sp. z o.o. against the legal successors of Kompania Węglowa S.A., along with a request to examine the case together with the one against TAURON Wydobycie S.A. The claims against the State Treasury – the Director of the Regional Mining Authority in Katowice and legal successors of Kompania Węglowa S.A. in Katowice instituted by Galeria Galena Sp. z o.o. were combined for joint consideration. The parties file relevant pleadings. The case is pending. No provision has been recognized for the event. The company is of the opinion that it is too early to recognize a provision, considering the early stage of the case, the broadening of the scope of the claim to include other defendants, i.e. the legal successors of Kompania Węglowa S.A. and doubts over the facts and legal uncertainties, which make it impossible to decide on the final outcome of the case heard by the Regional Court in Katowice or to estimate the amount that may be awarded by the Court.
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 by PGE EJ 1 Sp. z o.o. PGE EJ 1 Sp. z o.o. did not accept the claims, considering them to be unsubstantiated. 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. No provision was recognised by PGE EJ1 Sp. z o.o. as of 31 December 2017 for the aforementioned claims.

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 30 September 2018 *(unaudited)*	As at 31 December 2017
Real estate	38 720	68 251
Other financial receivables	258 868	11 139
Cash	45	9
Total	**297 633**	**79 399**

(in PLN '000)

Other forms of collateral

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 30 September 2018 regard the following contracts concluded by the Parent:

Agreement	Collateral form	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement dated 25 October 2016 with MUFG Bank, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Bank guarantee agreement dated 4 April 2018 with MUFG Bank, Ltd.	declaration of submission to enforcement	up to PLN 621 000 thousand, valid until 31 July 2019
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 Santander Bank Polska S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by Santander Bank Polska S.A.	up to PLN 150 000 thousand
Overdraft agreements and an intraday limit agreement 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 192 213 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 102 514 thousand (EUR 24 000 thousand) valid until 31 December 2019
	declaration of submission to enforcement	up to PLN 213 570 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 11 026 thousand (USD 3 000 thousand) valid until 31 March 2019

Other forms of collateral against liabilities of the Group

As at 30 September 2018, other material forms of collateral regarding liabilities of the TAURON Capital 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 on 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 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 on shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge on 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 on 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 PLN 840 000 thousand to PLN 1 370 000 thousand.

(in PLN '000)

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.

As at 30 September 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 528 767 thousand.

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Issuer of a blank promissory note	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
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	70 000
Performance bonds to include co-funding of engagements carried out.	TAURON Dystrybucja S.A.	244 201	242 090
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	228 605
Performance bonds under the co-funding agreements concluded with Centrum Projektów Polska Cyfrowa.	TAURON Obsługa Klienta Sp. z o.o.	187 841	-
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	76 214

- 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 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 14 213 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.
- Liabilities to banks

On 11 April 2018, a bank guarantee of PLN 444 000 thousand was issued for the benefit of 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., Bank Gospodarstwa Krajowego and 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. The exposure of MUFG Bank, Ltd. to the Company under a guarantee agreement dated 4 April 2018 is secured with a declaration of submission to enforcement up to PLN 621 000 thousand, valid until 31 July 2019.

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

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.

(in PLN '000)

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

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Revenue	35 538	41 547
Costs	(22 084)	(25 987)

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., and a bank guarantee agreement issued at the request of the Company to secure loan liabilities of Elektrociepłownia Stalowa Wola S.A., 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 expenses

	9-month period ended 30 September 2018 *(unaudited)*	9-month period ended 30 September 2017 *(unaudited)*
Revenue	1 531 182	1 337 681
Costs	(2 502 893)	(2 208 987)

Receivables and liabilities

	As at 30 September 2018 *(unaudited)*	As at 31 December 2017
Receivables	261 138	253 834
Payables	387 223	322 002

As at 30 September 2018 and 31 December 2017, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 12 196 thousand and PLN 9 757 thousand, respectively.

In the 9-month period ended 30 September 2018, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A. and Polska Grupa Górnicza 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 contracting parties accounted for 88% of revenue generated on transactions with State Treasury companies. The Group concluded the largest purchase transactions with PSE S.A. and Polska Grupa Górnicza S.A. They accounted for 84% of the total value of purchases from State Treasury companies in the 9-month period ended 30 September 2018.

In the 9-month period ended 30 September 2017, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Polska Grupa Górnicza Sp. z o.o. (at present Polska Grupa Górnicza S.A.) and Energa-Obrót 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 87% of revenue generated on 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.). Purchases from these counterparties accounted for 89% of the value of purchases from State Treasury companies during the 9-month period ended 30 September 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.

(in PLN '000)

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. Compensation of the executives

The amount of compensation and other benefits granted or due to the Management Boards, Supervisory Boards and other key executives of the Parent and subsidiaries in the 9-month period ended 30 September 2018 and in the comparative period has been presented in the table below.

	9-month period ended 30 September 2018 *(unaudited)*		9-month period ended 30 September 2017 *(unaudited)*	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	**4 796**	**10 300**	**5 633**	**16 901**
Short-term benefits (with surcharges)	4 145	9 724	3 759	13 826
Employment termination benefits	620	309	1 624	2 684
Other	31	267	250	391
Supervisory Board	**617**	**636**	**559**	**501**
Short-term employee benefits (salaries and surcharges)	617	636	559	498
Other	-	-	-	3
Other key management personnel	**13 250**	**31 588**	**10 852**	**31 172**
Short-term employee benefits (salaries and surcharges)	11 460	28 621	9 411	29 578
Jubilee bonuses	-	2 240	-	979
Employment termination benefits	898	350	756	340
Other	892	377	685	275
Total	**18 663**	**42 524**	**17 044**	**48 574**

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 amount paid or payable until 30 September 2018 have been presented above.

48. Other material information

Signing transaction documentation related to the investment in a subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. made by Closed-end Investment Funds managed by Polski Fundusz Rozwoju S.A.

On 28 March 2018, the Company, its subsidiary, i.e. Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Infrastructure Investment Fund - Closed-End Investment Fund (Private Equity) and Infrastructure Investment Fund (Private Equity) Closed-End Debt Fund (Private Equity) ("Funds"), with a portion of the investment portfolio managed by Polski Fundusz Rozwoju S.A., signed transaction documentation specifying the terms of the Fund's equity investment in Nowe Jaworzno Grupa TAURON Sp. z o.o.

Transaction documentation included an investment agreement and a shareholders' agreement together with appendices, comprising draft long-term electricity sales contracts and a long-term coal sale contract, concluded by the Company and its subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. by the balance sheet date.

The shareholders' agreement sets out the principles of corporate governance in Nowe Jaworzno Grupa TAURON Sp. z o.o. This agreement grants the Funds a personal right to appoint, suspend and dismiss one member of the Management Board and one member of the Supervisory Board of Nowe Jaworzno Grupa TAURON Sp. z o.o. It also specifies the matters for which a unanimous resolution of the Management Board, Supervisory Board or General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. will be required. The shareholders' agreement will enter into force as soon as the Funds become members of Nowe Jaworzno Grupa TAURON Sp. z o.o.

The investment agreement specifies the terms and conditions of the equity investment of the Funds in Nowe Jaworzno Grupa TAURON Sp. z o.o. This investment project assumes the Funds' becoming members of Nowe Jaworzno Grupa TAURON Sp. z o.o. and their participation in subsequent capital contributions to Nowe Jaworzno Grupa TAURON Sp. z o.o., by taking up new shares in exchange for cash contributions up to a total maximum amount of PLN 880 000 thousand, i.e. PLN 440 000 thousand by each of the Funds. As at the date when the 910 MW power unit in Jaworzno is put into operation, the interests of the Funds in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. should be approx. 14% and the interests of the Company should never fall below 50%+1 share. The Company will be obliged to make a capital contribution to its subsidiary – Nowe Jaworzno Grupa TAURON Sp. z o.o. – sufficient to build a 910 MW power unit in Jaworzno, after the Funds have reached their maximum equity interest.

Under the investment agreement, the Funds will become members of Nowe Jaworzno Grupa TAURON Sp. z o.o. after specified conditions precedent have been met. The conditions precedent include obtaining the consent of the President of the Office for Competition and Consumer Protection for concentration, obtaining a decision of the Head of the National Revenue Administration approving the terms of the contract for the sale of electricity as an advance pricing agreement ("APA Decision"), conclusion by the Company and its subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. of specified contracts, including a contract for the sale of electricity and a contract for the sale of coal, and performance (or the Company ensuring the performance) of certain activities by the governing bodies of Nowe Jaworzno Grupa TAURON Sp. z o.o. Conditions precedent were to be met within four months of the investment agreement, except for the condition related to the APA Decision, which should be satisfied within seven months.

On 17 July 2018, the Company was served with a decision of the President of the Office for Competition and Consumer Protection of 13 July 2018 granting unconditional consent for concentration consisting in the creation of a joint venture Nowe Jaworzno Grupa Tauron Sp. o.o. by the Company and Polski Fundusz Rozwoju S.A., acting through the Funds, on the terms set out in the application filed by the Company and Polski Fundusz Rozwoju S.A.

After the balance sheet date, on 19 October 2018, the Company received the APA Decision. The decision shall be binding for five years effective as of 1 November 2019 and is the last document the Company was obliged to obtain in order to satisfy the conditions precedent necessary for the Funds to become members of Nowe Jaworzno Grupa TAURON Sp. z o.o. In view of the foregoing, the Company believes that as at the date of approval of these condensed interim consolidated financial statements for publication, all conditions precedent which had to be satisfied for the Funds to become members of Nowe Jaworzno Grupa TAURON Sp. z o.o. had been met.

The Company and the Funds shall undertake measures aimed at the Funds becoming minority shareholders of Nowe Jaworzno Grupa TAURON Sp. z o.o. once the fulfillment of all conditions precedent determined in the investment agreement have been confirmed.

Conclusion of investment agreements to establish corporate venture capital funds

On 13 June 2018, the Company concluded two investment agreements to establish corporate venture capital funds. The agreements are conditional and their entry into force requires the satisfaction of a condition precedent in the form of an approval of the President of the Office for Competition and Consumer Protection, which was fulfilled on 8 August 2018.

Under the above-mentioned agreements, the Company will participate in two funds established as part of the PFR Starter FIZ and PFR NCBR CVC programs. Creation of the funds will allow the Company to provide multi-stage support to innovative businesses, including by enabling them to participate in acceleration programs, investing in start-ups under the PFR Starter FIZ program, and ensuring further financing rounds under the PFR NCBR CVC program. Ultimately, the capitalization of the fund established under the PFR Starter FIZ program is expected to be PLN 50 000 thousand, and of the one created under the PFR NCBR CVC program: PLN 160 000 thousand. The Company's interests in the funds will not exceed 25% and 49%, respectively.

49. Events after the end of the reporting period

Commencing negotiations regarding the purchase of wind farms

On 2 October 2018 the Company was invited to commence negotiations regarding the purchase of wind farms located in northern Poland, owned by the in.ventus Group ("Transaction"). The objective of the negotiations is to determine opportunities, principles, terms and financial parameters of the Transaction.

The total installed capacity of the wind farms referred to above approximates 200 MW.

The Transaction may take the form of the purchase of the German and Polish partnerships that operate the farms ("Project Entities") by the Company. In such a case, the Company would assume all rights and obligations of the former partners in Project Entities, at the same time acquiring their bank debt. According to the Company, another option is possible, i.e. the acquisition of enterprises of the Polish project entities.

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 9-month period ended 30 September 2018 in accordance with International Accounting Standard 34 have been presented on 75 consecutive pages.

Katowice, 6 November 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 …………………………………..

Additional information to TAURON Polska Energia Capital Group's extended and consolidated Q3 2018 report

6 November 2018

tauron.pl

Additional information to TAURON Polska Energia Capital Group's extended and consolidated Q3 2018 report

November 6, 2018

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1. TAURON Capital Group's organization

1.1 Basic information on TAURON Capital Group

As of September 30, 2018, the key subsidiaries of TAURON Capital Group, besides the parent company, TAURON Polska Energia S.A. (“Company”, “Issuer”, “TAURON”), included 19 subsidiaries subject to consolidation. Furthermore, the Company held, directly or indirectly, shares in the other 37 companies.

The main companies subject to consolidation, apart from TAURON Polska Energia S.A., included: TAURON Wydobycie S.A. dealing with hard coal mining, TAURON Wytwarzanie S.A. dealing with the generation of electricity from conventional sources and biomass co-firing, TAURON Ekoenergia sp. z o.o. dealing with the generation of electricity from renewable sources, TAURON Dystrybucja S.A. providing electricity distribution services, TAURON Sprzedaż sp. z o.o. and TAURON Sprzedaż GZE sp. z o.o. dealing with the supply of electricity to retail customers, TAURON Obsługa Klienta sp. z o.o. dealing with customer service as well as providing intra-group accounting, HR and IT services and TAURON Ciepło sp. z o.o. dealing with the generation, distribution and supply of heat.

Furthermore, TAURON Capital Group included 11 other subsidiaries subject to consolidation, dealing with, inter alia, electricity trading, the extraction of limestone and stone (rocks) for construction purposes, as well as providing personal and property security services..

TAURON Capital Group has put into place a Business and Operational Model that defines the Group’s operational (management) assumptions and outlines the split of tasks and responsibilities among the defined units:

Corporate Center – the superior organizational unit responsible for managing TAURON Capital Group’s operations and taking the most important decisions affecting TAURON Capital Group, Lines of Business, Shared Services Centers and TAURON Capital Group’s subsidiaries;

Lines of Business (segments) – TAURON Capital Group’s seven core lines of business defined in accordance with the electricity and heat production value chain links, i.e.: Trading, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply;

Shared Services Centers – units responsible for the provision of specific support services (e.g. accounting, IT, HR and payroll, insurance, customer service, technical support of vehicles as well as personal and property security services) for the benefit of TAURON Capital Group’s other units.

The Business Model’s structure is underpinned by five defined process streams that TAURON Capital Group’s operations are to focus on, i.e.: Strategy, Finance, Asset Management and Development, Customer and Corporate Support, Trading. The objective of defining such process streams is to place more emphasis on cross-sectional issues, relating to more than one Line of Business.

TAURON Group’s primary normative act is TAURON Group’s Code, adopted by the Company’s Management Board, that governs its operations, ensuring the accomplishment of its goals based on specially designed solutions with respect to managing TAURON Group’s entities, including in particular, defining the objectives of the individual companies' operations that would enable achieving the results assumed.

The companies listed below obtained a TAURON Group member status as of the date of adopting the resolutions on joining TAURON Group by their general meetings/ shareholder meetings.

As of September 30, 2018, the following companies were included in TAURON Group:

List of companies included in TAURON Group

#	Company name	Date of joining TAURON Group
1.	TAURON Polska Energia S.A.	12.10.2010
2.	TAURON Sprzedaż sp. z o.o.	26.10.2010
3.	TAURON Obsługa Klienta sp. z o.o.	26.10.2010
4.	TAURON EKOENERGIA sp. z o.o.	26.10.2010
5.	TAURON Wytwarzanie S.A.	28.10.2010
6.	TAURON Czech Energy s.r.o.	10.11.2010
7.	TAURON Dystrybucja S.A.	06.12.2010
8.	Kopalnia Wapienia „Czatkowice" sp. z o.o.	05.01.2011
9.	TAURON Wydobycie S.A.	13.01.2011
10.	TAURON Sprzedaż GZE sp. z o.o.	24.01.2012
11.	TAURON Ubezpieczenia sp. z o.o.	17.09.2013
12.	TAURON Ciepło sp. z o.o.	16.10.2013
13.	TAURON Dystrybucja Pomiary sp. z o.o.	19.11.2013
14.	TAURON Ekoserwis sp. z o.o.	19.11.2013
15.	Spółka Usług Górniczych sp. z o.o.	04.12.2013
16.	TAURON Dystrybucja Serwis S.A.	17.12.2013
17.	SCE Jaworzno III sp. z o.o.	19.12.2014
18.	Biomasa Grupa TAURON sp. z o.o.*	01.07.2015
19.	TAURON Serwis sp. z o.o.	22.12.2016
20.	Nowe Jaworzno Grupa TAURON sp. z o.o.	06.10.2017
21.	Marselwind sp. z o.o.	06.10.2017
22.	Wsparcie Grupa TAURON sp. z o.o.	16.10.2017

** since 8.10.2018 the company has been operating under the name of Bioeko Grupa TAURON sp. z o.o.*

1.2 Units subject to consolidation

As of September 30, 2018, the parent company - TAURON Polska Energia - and the following subsidiaries were subject to consolidation:

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

10. TAURON Sprzedaż sp. z o.o.
11. TAURON Sprzedaż GZE sp. z o.o.
12. TAURON Czech Energy s.r.o.
13. TAURON Obsługa Klienta sp. z o.o.
14. Kopalnia Wapienia „Czatkowice” sp. z o.o.
15. Polska Energia – Pierwsza Kompania Handlowa sp. z o.o.
16. TAURON Sweden Energy AB (publ)
17. Biomasa Grupa TAURON sp. z o.o. (since 8.10.2018 r. Bioeko Grupa TAURON sp. z o.o.)
18. TAURON Serwis sp. z o.o.
19. Wsparcie Grupa TAURON sp. z o.o.

TAURON Polska Energia S.A. Capital Group also holds stakes in the below listed joint ventures that are valued using the equity method in the consolidated financial statements.

1. Elektrociepłownia Stalowa Wola S.A.,

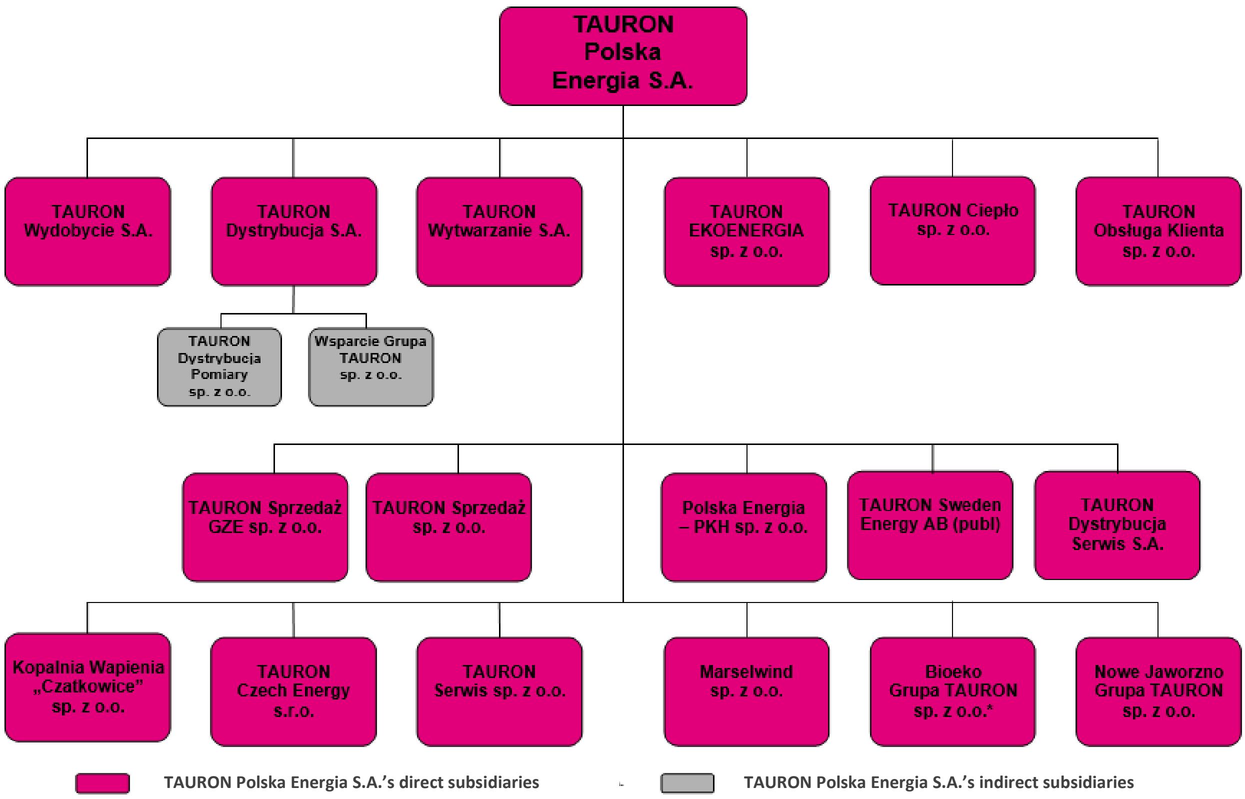
2, TAMEH HOLDING sp. z o.o. Capital Group (composed of TAMEH HOLDING sp. z o.o., holding a 100% stake in the capital and the governing (overseeing) body of the subsidiaries: TAMEH POLSKA sp. z o.o. and TAMEH Czech s.r.o.).

1.3 TAURON Capital Group and material changes to its structure

The below figure presents TAURON Capital Group’s structure, including the subsidiaries subject to consolidation, as of September 30, 2018.

TAURON Capital Group’s structure, including the subsidiaries subject to consolidation

(as of September 30, 2018)



** since 8.10.2018 the company has been operating under the name of Bioeko Grupa TAURON sp. z o.o.*

Equity changes to TAURON Capital Group's related entities in Q3 2018 and as of the day of publishing this report

Increase of the share capital of TAURON Wytwarzanie S.A.

On August 9, 2018, the Extraordinary General Meeting of the Shareholders of TAURON Wytwarzanie S.A. passed a resolution on increasing the company's share capital from PLN 1 494 459 310.00 to PLN 1 502 259 310.00, i.e. by PLN 7 800 000.00, by way of issuance of 780 000 common registered shares, with the nominal value of PLN 10.00 each, i.e. with the total value of PLN 7 800 000.00. All of the shares were taken up by TAURON Polska Energia S.A. at the price of PLN 1 000 per share. The surplus of the issue price above their nominal value of the shares in the total amount of PLN 772 200 000 was allocated to the company's spare capital.

On October 19, 2018, the increase of the company's share capital was registered in the National Court Register.

Increase of the share capital of TAURON Dystrybucja Serwis S.A.

On August 22, 2018, the District Court for Wrocław – Fabryczna in Wrocław registered in the National Court Register an increase in the share capital of TAURON Dystrybucja Serwis S.A., passed by the Extraordinary General Meeting of the company's shareholders on June 18, 2018. The subsidiary's share capital was increased from PLN 5 101 003 to PLN 9 494 173, i.e. by PLN 4 393 170, by way of issuance of 4 393 170 registered shares, with the nominal value of PLN 1 each. The share's issue price was PLN 100. All of the new shares were taken up by the sole shareholder of the company - TAURON Polska Energia S.A. The surplus of the issue price above the nominal value of the shares in the total amount of PLN 434 923 830 was allocated to the company's spare capital.

Increase of the share capital of PGE EJ 1 sp. z o.o.

On September 11, 2018, the District Court for the Capital City of Warsaw in Warsaw registered in the National Court Register an increase in the share capital of PGE EJ 1 sp. z o.o., passed by the Extraordinary General Meeting of the company's shareholders on August 9, 2018. The subsidiary's share capital was increased from PLN 310 858 470 to PLN 370 858 200, i.e. by PLN 259 999 730, by way of establishing 425 530 shares with the nominal value of PLN 141 per share and the total nominal value of PLN 59 999 730.

All of the new shares were taken up and paid for by the company's shareholders in proportion to the contributions made, where TAURON Polska Energia S.A. took up and paid for 10% of the new shares, i.e. 42 553 shares for PLN 5 999 973.

Changes to the level (balance) of investments in bonds and loans, that had taken place during the period of 9 months ended on September 30, 2018, stemmed from the following transactions:

- Granting by TAURON Polska Energia S.A., as a parent company, of loans to a co-subsidiary, Elektrociepłownia Stalowa Wola S.A., in the total amount of PLN 36 275 000, and to PGE EJ 1 Sp. z o.o. in the amount of PLN 4 800 000.
- Purchasing by TAURON Polska Energia S.A., as a parent company, of the bonds of a subsidiary, TAURON Ekoenergia Sp. z o.o., in the amount of PLN 160 000 000.

Increase of the share capital of ElectroMobility Poland S.A.

On October 4, 2018, the Extraordinary General Meeting of the Shareholders of ElectroMobility Poland S.A. passed a resolution on increasing the company's share capital from PLN 30 000 000 to PLN 70 000 000, i.e. by PLN 40 000 000, by way of increasing the nominal value of a single share by PLN 4 000, i.e. from PLN 3 000 to PLN 7 000. TAURON Polska Energia S.A. took up, in proportion to the shares held, the increased nominal value of 2 500 of the shares held, from the total amount of PLN 7 500 000 to the total amount of PLN 17 500 000, i.e. in the total amount of PLN 10 000 000, in exchange for the cash contribution in the amount of PLN 10 000 000.

As of the day of drawing up this report the increase of the company's share capital had not yet been registered in the National Court Register.

Change of the name of Biomasa Grupa TAURON sp. z o.o. to Bioeko Grupa TAURON sp. z o.o.

On October 8, 2018, the District Court in Rzeszów registered a change of the name of Biomasa Grupa TAURON sp. z o.o. to Bioeko Grupa TAURON sp. z o.o., passed by the Extraordinary General Meeting of the company's shareholders on August 9, 2018.

Increase of the share capital of Nowe Jaworzno Grupa TAURON sp. z o.o.

On October 11, 2018, the Extraordinary General Meeting of the Shareholders of Nowe Jaworzno Grupa TAURON sp. z o.o. passed a resolution on increasing the company's share capital by PLN 3 500 000, by way of establishing 70 000 shares with the nominal value of PLN 50 per share that were taken up in full by the sole shareholder of the company - TAURON Polska Energia S.A. at the price of PLN 5 000 per share, i.e. for the total price of PLN 350 000 000 and fully covered with a cash contribution.

On October 23, 2018, the increase of the company's share capital was registered in the National Court Register.

2. Basic information on TAURON Polska Energia

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

Composition of the Management Board as of September 30, 2018 and as of the day of publishing this information:

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

Changes to the Management Board's composition in Q3 2018 and as of the day of publishing this information

No changes to the Management Board's composition had taken place in Q3 2018 and as of the day of publishing this information.

Composition of the Supervisory Board as of September 30, 2018 and as of the day of publishing this information:

1. Beata Chłodzińska - Chair of the Supervisory Board
2. Teresa Famulska - Deputy Chair of the Supervisory Board
3. Jacek Szyke - Secretary of the Supervisory Board
4. Radosław Domagalski-Łabędzki - Member of the Supervisory Board
5. Barbara Łasak-Jarszak - Member of the Supervisory Board
6. Paweł Pampuszko - Member of the Supervisory Board
7. Jan Płudowski - Member of the Supervisory Board
8. Marcin Szlenk - Member of the Supervisory Board
9. Agnieszka Woźniak - Member of the Supervisory Board

Changes to the Supervisory Board's composition in Q3 2018 and as of the day of publishing this information

No changes to the Supervisory Board's composition had taken place in Q3 2018 and as of the day of publishing this information.

2.2 Structure of the share capital

As of September 30, 2018, the share capital of TAURON Polska Energia S.A. amounted to PLN 8 762 746 970 and it was divided into 1 752 549 394 shares with the nominal value of PLN 5 per share, including 1 589 438 762 common bearer shares of AA series and 163 110 632 common registered shares of BB series.

2.3 Shareholders holding at least 5% of the total number of votes

As of the date of publishing this interim report, i.e. as of November 6, 2018, the structure of shareholders holding at least 5 per cent of the total number of votes at the General Meeting of the Company, either directly or indirectly, through subsidiaries, is as follows:

Structure of the shareholders of TAURON Polska Energia

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

From the day of publishing the previous interim report, i.e. since August 22, 2018, until the day of publishing this report there had been no changes to the ownership structure of substantial blocks of the Company's shares.

2.4 List of shareholdings by the members of the Management Board and the Supervisory Board

Members of the Management Board

As of the day of publishing this quarterly report i.e. as of November 6, 2018, the members of TAURON Polska Energia's Management Board did not hold any shares or rights to the Company's shares. Since the day of publishing the previous interim report, i.e. since August 22, 2018, until the day of publishing this report there had been no changes to the number of shares or rights to the Company's shares held by the members of the Management Board.

Members of the Supervisory Board

As of the day of publishing this quarterly report i.e. as of November 6, 2018, the members of TAURON Polska Energia's Supervisory Board did not hold any shares or rights to the Company's shares. Since the day of publishing the previous periodical report, i.e. since August 22, 2018, until the day of publishing this report there had been no changes to the number of shares or rights to the Company's shares held by the members of the Supervisory Board.

2.5 Subject of TAURON Polska Energia's operations

TAURON Polska Energia's core business operations include:

1) operations of head offices and holding companies, excluding financial holding companies (PKD 70.10 Z),
2) electricity trading (PKD 35.14 Z),
3) fuels and derivative products wholesale trading (coal and biomass trading) (PKD 46.71 Z),
4) gas fuel trading in a network system (PKD 35.23 Z).

As a parent entity TAURON is performing the consolidation and management function within TAURON Capital Group.

The Company's core operations, besides managing TAURON Capital Group, include wholesale trading of electricity, energy related products, gas, CO2 emission allowances and production fuels in order to maximize the financial results derived from the operations conducted in this area.

As a result of implementing its business model and centralizing of the functions TAURON concentrated many competences related to TAURON Capital Group's subsidiaries' operations and it currently carries out operations, among others, in the following areas:

1) wholesale trading in electricity and energy related products, in particular, with respect to trading services provided to the subsidiaries, securing the needs with regard to fuels, including gas fuel, CO_2 emission allowances and certificates of origin of electricity,
2) procurement management,
3) finance management,
4) corporate risk management,
5) IT operations model management,
6) coordinating research and development works carried out by TAURON Capital Group,
7) advisory services with respect to accounting and taxes,
8) legal services,
9) audit.

The above functions are gradually downsized at TAURON Capital Group's subsidiaries. The centralization is aimed at improving TAURON Capital Group's efficiency.

The Company is focusing on purchasing and selling of electricity for the needs of hedging the buy and sell positions of TAURON Capital Group's subsidiaries and on proprietary wholesale electricity trading. Electricity sales carried out by the Company during the first three quarters of 2018 were mainly directed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE.

Electricity trading, both for the needs of TAURON Capital Group's entities, as well as those of its proprietary trading operations is carried out mainly on Towarowa Giełda Energii S.A. (Polish Power Exchange) and on broker platforms operating on the Polish market. Additionally, the Company is trading electricity contracts on the European Energy Exchange (EEX) and it is present on the most important European wholesale spot and intraday markets – EPEX spot and NordPool spot, carrying out electricity trading on available international connections. The Company is also actively operating on the OTC market in Poland. The counterparties in this respect are large electric utilities with power generating assets in their groups, as well as most trading companies and also electricity generators from renewable energy sources (hydroelectric power plants, wind farms, photovoltaics, biogas plants), combined heat and power plants as well associations grouping generators operating on that market. The Company is also conducting electricity trading using the Platforma WITH-Handel IT system that is dedicated for this purpose.

The competences of TAURON also include management, for the needs of TAURON Capital Group, of certificates of origin that represent a confirmation of electricity generation from renewable sources, including from the sources using agricultural biogas, high efficiency co-generation, gas-fired co-generation, mining methane-fired or biomass gas-fired co-generation.

As part of its competences the Company is managing electricity supply portfolios for the needs of TAURON Sprzedaż and TAURON Sprzedaż GZE as well as gas fuel portfolios for the needs of TAURON Sprzedaż. Additionally, TAURON is responsible for developing electricity and gas fuel demand forecasts in the medium term horizon.

TAURON is the competence center with respect to management and trading in CO_2 emission allowances for TAURON Capital Group's subsidiaries. Due to the centralization of trading in emission allowances a synergy effect has been achieved that involves optimizing the costs of using the resources of the entities that are a part of TAURON Capital Group. As part of the centralization of this function at TAURON the Company is responsible for settling (redeeming) the CO_2 emission allowances on behalf of its subsidiaries, securing the emission needs of the subsidiaries taking into account the allowances allocated and providing support in the process of acquiring the emission allowances quotas for the subsequent periods. While accomplishing the above mentioned goals the Company is an active participant of the trading in CO_2 emission allowances.

Furthermore, as part of its competences the Company is conducting active operations with respect to selling emission allowances to counterparties on the OTC market. In addition, TAURON also acts as the Market Operator (maker) and the entity responsible for trade balancing for TAURON Capital Group's subsidiaries and for external customers with respect to electricity. The function of the Market Operator and the entity responsible for trade balancing is carried out pursuant to the Transmission Agreement concluded with the TSO (Transmission System Operator) – Polskie Sieci Elektroenergetyczne (PSE). The Company currently controls, on the exclusive basis, generation capacity with respect to meeting the trading and technical requirements, is responsible for optimizing generation, i.e. selecting generating units to be put into operation, as well as for the relevant distribution of loads in order to perform the contracts concluded, taking into account the technical conditions of the generating units, as well as the grid constraints and other factors, under various time horizons. As part of the services provided for the Generation segment the Company participates in preparing the overhaul schedules, available (dispatchable) capacity schedules, as well as production plans for the generating units, under various time horizons, as well as in agreeing them with the relevant grid operator.

In accordance with the adopted business model TAURON is performing the management function with respect to the production fuel procurement management for the needs of TAURON Capital Group's generation entities.

The Company is expanding its operations with respect to trading in gas fuel. Since obtaining its license in 2012 TAURON has been an active participant of the gas market with respect to gas wholesale trading. It is actively conducting trading operations on the domestic market, i.e. on the Polish Power Exchange (Towarowa Giełda Energii S.A.) and on the OTC market. The Company is also conducting trading operations on the European natural gas market. Moreover, as part of the competences held, the Company is commencing cooperation with the OTC counterparties that own a virtual trading point (the so-called VTP) with respect to selling gas fuel.

Furthermore, the Company is conducting trading operations on Gasoil Futures contracts based on the valuations of the diesel oil. The product is available on the ICE Futures Europe platform that TAURON has been a member of since 2012. Gasoil contracts can be used by market participants, both as a hedging instrument, as well as a trading tool. Gasoil products are characterized by high liquidity and their contract prices are a price reference for all the trade distillates in Europe and beyond.

Besides, the Company is trading in crude oil market products: Brent Crude, WTI Crude, the pricing of which is tied to oil prices and Heating Oil – a product priced based on the heating oil quotations. With respect to the above mentioned products the trading is focused not only on trading individual contracts (outright) but also on trading in spreads, created both between the given products, as well as the calendar spreads that correspond to the dates of settling the individual contracts.

The Company is present on the most important European wholesale gas markets within the areas of the Gaspool, New Connect Germany and Tittle Transfer Facility hubs' operations. Through the PRISMA and GSA auction platforms the Company is purchasing interconnector capacity enabling cross-border trading in gas. TAURON Capital Group's competences with respect to the selling of gas are split: TAURON is carrying out wholesale gas trading on the domestic and European markets using its access to exchanges, wholesale consumers, trading companies and sources of gas, while TAURON Sprzedaż is conducting comprehensive gas sales, including providing the transportation (transmission) service to the final consumers.

In June 2018 the Company signed another agreement with the TSO to provide demand side response services. Based on TAURON Capital Group's areas of competence and assets, including the applicable roles and responsibilities with respect to coordinating and implementing processes related to demand side response at the TSO's instruction, the split of responsibilities among TAURON Capital Group's subsidiaries was agreed upon and made in this respect. The tasks and competences related to acquiring and concluding agreements with consumers providing the electricity demand side response service are performed by TAURON Sprzedaż. TAURON fulfilled TAURON Capital Group's obligations related to performing the DSR service Aggregator's role for PSE.

As the new Strategy is being implemented the mass market has become an important area of the Company's operations. The Company is expanding its competences in the area of planning the retail market sales, developing a range of products and services, as well as tools to support the sales process on this market. An important element associated with this area includes also activities related to research and development.

3. TAURON Capital Group's operations

3.1 TAURON Capital Group's lines of business (segments)

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

TAURON Capital Group

TAURON POLSKA ENERGIA S.A.
TAURON Capital Group's holding company
Oversees corporate functions: management, strategic investments, regulations, HR, finance, controlling, internal audit, PR, investor relations, procurement

MINING

29% of Poland's thermal hard coal resources

- 3 hard coal mines
- commercial coal production: 3.6 million Mg, including 73% consumed by TAURON Capital Group, and 27% sold to external customers
- Mining segment's Q1-3 2018 EBITDA: PLN (94) million

GENERATION

one of the largest electricity producers in Poland

- 8 conventional power plants and CHP plants with achievable electrical capacity of 4.6 GW_e and thermal capacity of 2.4 GW_t
- 4 wind farms with the total capacity of 201 MW_e
- 34 hydroelectric power plants with the total capacity of 138 MW_e
- 844 km of district heating networks
- 11.9 TWh of electricity production, including 0.15 TWh from biomass
- 0.5 TWh of electricity production from wind and hydroelectric sources
- 7.4 PJ of heat production
- Generation segment's Q1-3 2018 EBITDA: PLN 649 million

DISTRIBUTION

largest electricity distributor in Poland

- 5.6 million customers
- distribution in the area covering 57.1 thousand km^2, i.e. 18.3% of Poland's territory
- 38.8 TWh of electricity distributed
- Distribution segment's Q1-3 2018 EBITDA: PLN 1 957 million

SUPPLY

second largest electricity supplier in Poland

- 5.4 million customers
- 25.4 TWh of retail electricity supply
- Supply segment's Q1-3 2018 EBITDA: PLN 451 million

OTHER

- provision of services to consumers of electricity and distribution services for TAURON Capital Group's subsidiaries
- provision of support services for TAURON Capital Group's subsidiaries in the following areas: Accounting, IT and HR
- limestone mining for the needs of power generation, steel, construction and road building industries
- acquiring, transporting and processing of biomass for the needs of utility scale power generation
- vehicles' technical support services
- real estate administration
- property security
- financial activities
- Other segment's Q1-3 2018 EBITDA: PLN 130 million

For the needs of reporting TAURON Capital Group's results from operations TAURON Group's operations are split into the following five Segments, hereinafter also referred to as Lines of Business:

Mining segment comprising mainly hard coal mining, enriching and selling in Poland with such operations conducted by TAURON Wydobycie S.A. (TAURON Wydobycie).

Generation segment comprising mainly electricity generation using conventional sources, including co-generation, as well as electricity generation from renewable energy sources, including biomass burning and co-firing, as well as hydroelectric power plants and wind farms. The segment also includes heat generation, distribution and supply. This segment's operations are conducted by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie), TAURON Ciepło sp. z o.o. (TAURON Ciepło) and TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA). The segment also includes TAURON Serwis sp. z o.o. (TAURON Serwis) subsidiary, dealing primarily with the generation equipment's overhauls, and Nowe Jaworzno Grupa TAURON Sp. z o.o. (Nowe Jaworzno GT) company responsible for the construction of the new power generation unit at Jaworzno.

Distribution segment comprising electricity distribution using the distribution grids located in the south of Poland. The operations are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). This segment also includes the following subsidiaries: TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) and TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary).

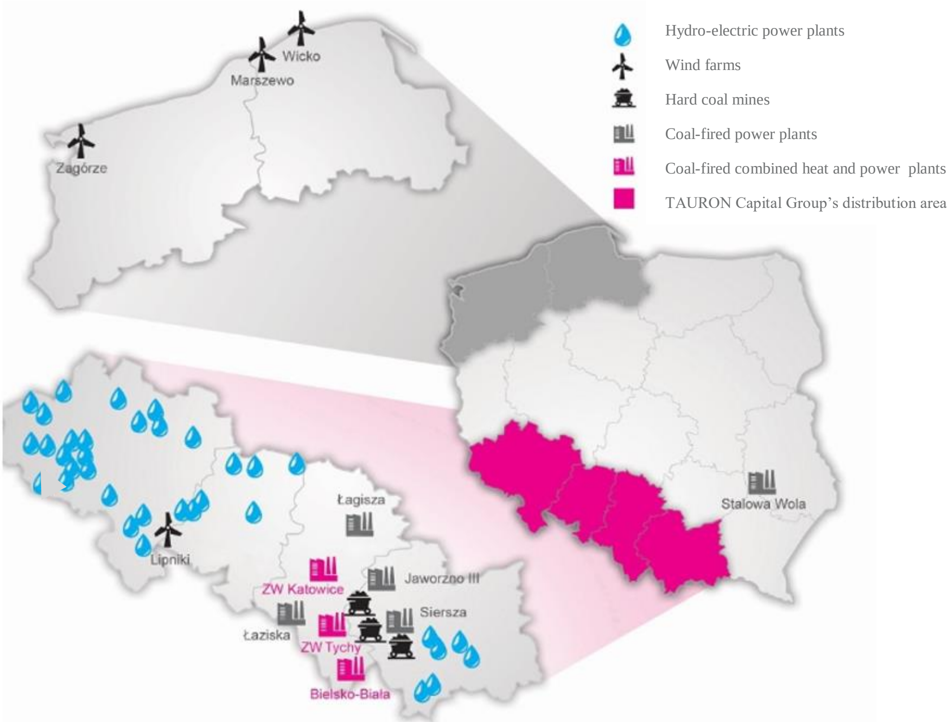
Supply segment comprising electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of CO_2 emission allowances and property rights arising from certificates of origin that confirm electricity generation from renewable sources, in cogeneration and property rights arising from energy efficiency certificates as well as fuels. The operations in this segment are conducted by the following subsidiaries: TAURON Polska Energia S.A., TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) and TAURON Czech Energy s.r.o. (TAURON Czech Energy).

Other operations comprising, among others, customer service for TAURON Capital Group's customers, provision of support services for TAURON Capital Group's subsidiaries with respect to accounting, HR and ICT, conducted by TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) subsidiary, as well as operations related to extraction of stone, including limestone, for the needs of power generation, steel, construction and road building industries as well as production of sorbing agents for wet flue gas desulphurization installations and for use in fluidized bed boilers, carried out by Kopalnia Wapienia "Czatkowice" sp. z o.o. (KW Czatkowice) subsidiary. This segment also includes the following subsidiaries: TAURON Sweden Energy AB (publ) (TAURON Sweden Energy), dealing with financial operations, Bioeko Grupa TAURON sp. z o. (Bioeko Grupa TAURON, formerly: Biomasa Grupa TAURON), dealing mainly with biomass acquisition, transportation and processing, Wsparcie Grupa TAURON sp. z o.o. (Wsparcie Grupa TAURON), dealing primarily with real estate administration, property security as well as the technical support of vehicles and Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (PE-PKH).

TAURON Capital Group is conducting its operations and generating its revenue mainly from electricity and heat supply and distribution, electricity and heat generation, as well as from hard coal sales.

The below figure presents the location of TAURON Capital Group's key assets, as well as the distribution area where TAURON Dystrybucja is conducting its operations as the Distribution System Operator (DSO).

Location of TAURON Capital Group's key assets



3.2 Implementation of TAURON Capital Group's capital expenditures program

Key strategic investment projects underway

The below table below presents the activities carried out by TAURON Capital Group in the third quarter of 2018 in connection with the implementation of the key strategic investment projects.

Key strategic investment projects' work progress

#	Investment project	Work progress
1.	Construction of a 910 MW_e power generation unit with supercritical parameters at Jaworzno Power Plant **Contractor:** RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. Consortium **Planned project completion date:** 2019 **Work progress:** 80% **Expenditures incurred:** PLN 4 023 million	On March 28, 2018 TAURON signed with the Investment Funds managed by the Polish Development Fund (Polski Fundusz Rozwoju – PFR) an investment agreement and a shareholders' agreement defining the terms of engagement in the implementation of the construction of a 910 MW power generation unit at Jaworzno. As a result PFR will invest up to PLN 880 million in the construction of the 910 MW unit. On October 19, 2018, the Issuer received the decision of the Head of the National Revenue Administration approving the terms of the electricity sale agreement concluded by TAURON and Nowe Jaworzno Grupa Tauron sp. z o.o. ("Special Purpose Vehicle") as an advance pricing agreement ("APA Decision"). It was the final document that the Issuer was obligated to obtain as part of implementing the conditions suspending PFR joining the Special Purpose Vehicle. In the third quarter of 2018 the project's work progress allowed for commencing the commissioning (start-up) works. The first phase, i.e.

#	Investment project	Work progress
		the cold commissioning, was commenced by energizing the coupling transformer connecting the Jaworzno II Power Plant's household needs power supply systems with the new 910 MW generating unit. The back-up start-up transformer was also energized, providing power supply to the unit's systems via the 220 kV overhead line from the Byczyna switchgear. The SAT (site) tests of the distributed control system, completed with a positive result, allowed for commencing the connecting operations with the unit's systems and devices, as well as the tests thereof. Following the completion of the pressure tests operations and after the rinsing of the entire primary water pipeline the stage of installing the water connection was completed and the operation of rinsing the pipelines and systems (installations) at the site (facility) was begun.
2.	Construction of a 449 MW_e CCGT unit, including a 240 MW_t heat generation component at Stalowa Wola (project implemented jointly with a strategic partner - Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)) **Contractor:** the contract with Abener Energia S.A. was terminated. The project's completion is envisaged under the EPCM formula (contract manager). **Planned project completion date:** 2019 **Work progress:** 86% **Expenditures incurred:** PLN 1 055.1 million	In the third quarter of 2018 the works related to the micro-tunneling drilling connected with the installation of the cooling water ducting were completed and the negotiations with the suppliers and sub-suppliers of the main devices were conducted. ECSW announced, with the EPCM support, all of the proceedings aimed at selecting the contractors to complete the CCGT unit, including, inter alia, ones required to carry out: the works related to completing the installation of the gas turbine set, installing the steam turbines set; general civil works in order to complete the construction of the unit. As a result of the proceedings announced 5 implementation agreements were concluded.
3.	Construction of the "Grzegorz" shaft including the infrastructure and the accompanying headings (TAURON Wydobycie). **Contractor:** KOPEX Przedsiębiorstwo Budowy Szybów S.A. FAMUR Pemug Sp. z o.o. Consortium (main task – Stage I), LINTER S.A. **Planned project completion date:** 2023 **Work progress:** 29% **Expenditures incurred:** PLN 160.5 million	In the third quarter of 2018 LINTER commenced the drilling of the horizontal headings to the "Grzegorz" shaft on the 800 m level. As part of the works conducted by the general contractor performing the shaft drilling the ground freezing plate was prepared, all (42) of the freezing holes were drilled to the ultimate depth of 485 m and the construction of the above the ground facilities, required to commence the deepening of the shaft, was commenced. The construction of the freezing installation, including the drain pipes, was completed.
4.	Construction of the 800 m level at Janina Coal Mine (TAURON Wydobycie). **Contractor: Mostostal Zabrze - SIEMAG Tecberg Consortium** – contractors constructing the ultimate above the ground and underground infrastructure including the Mine Shaft Elevator (GWSZ), KOPEX **Planned project completion date:** 2021 **Work progress:** 62% **Expenditures incurred:** PLN 318.7 million	In the third quarter of 2018 the works related to the drilling of the headings on the 800 m level were continued. As part of the works related to the construction of the ultimate above the ground and underground infrastructure, including the Mine Shaft Elevator, the construction site was handed over to the General Contractor (Mostostal Zabrze SIEMAG Tecberg consortium) on April 15, 2018. Excavations, piling and the foundations of the ultimate shaft collar and the headframe core structure were completed, the furnishing of the ultimate shaft collar was commenced.
5.	Brzeszcze CAPEX Program **Contractors:** TRANS-JAN, FAMUR and KOPEX Machinery Consortium, FAMUR and KPRGiBSz Consortium, MAS and Carbospec Consortium, Elektrometal Cieszyn **Planned Program completion date:** 2025 **Work progress:** 36% **Expenditures incurred:** PLN 191.5 million	In the third quarter of 2018 the works related to the alteration of the ventilation excavations on the 900 m level and as part of providing access to the 405/1 deposit were continued. The primary compressor station and the water and ash mixture dumping station as well as the mine's upgraded Mining Rescue Station were commissioned, and also the mine dewatering system was upgraded. The reactive power compensation was also completed. The drilling of the horizontal headings on the 800 m level were continued. The works related to the construction of the small sales facility are underway.
6 .	Implementing heat production at unit no. 10 and the construction of the peaking and backup (auxiliary) boilers at Łagisza Power Plant **Contractor:** **GE Power –** turbine set upgrade contractor **Mostostal Warszawa** – implementing heat production	In June and September of 2018 agreements covering the entire scope of the project's implementation were signed with contractors, related to: upgrading the turbine set, implementing heat production including adapting the heating station and the construction of the peaking and backup (auxiliary) boilers.

#	Investment project	Work progress
	at the unit including upgrading the heat production part **SBB Energy** – the construction of the peaking and backup (auxiliary) boilers **Planned project completion date:** 2020 **Work progress:** 21% **Expenditures incurred:** PLN 2.57 million	
7.	Low Emission Elimination Program (PLNE – Program Likwidacji Niskiej Emisji) on the territory of the Silesia and Dąbrowa conurbation **Contractor:** Contractors are being selected to carry out specific work stages. **Planned project completion date:** 2023 **Work progress:** 11% **Expenditures incurred:** PLN 7.71 million	The program's goal is to reduce smog in the Silesia and Dąbrowa conurbation. The scope of the project includes the construction and alteration of the district heating networks: transmission ones, housing estate ones and connections, as well as the construction of heating nodes to the extent required to connect heat consumers. Connecting of 183 MW_t of thermal capacity to the district heating network as well as an expansion of heat supply and distribution is planned. The program is carried out on the territory of the following cities: Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec, Świętochłowice. Up to now TAURON Ciepło has signed a funding agreement for the amount of approximately PLN 141 million. The total funds envisaged to carry out the program amount to approximately PLN 250 million. As part of the Program the connections of new heat consumers are implemented on an ongoing basis.

Nuclear power plant construction project

In the third quarter of 2018 PGE EJ 1 was carrying out the design works related to the nuclear power plant construction project in accordance with the scope of works including mainly conducting environmental and siting research at Żarnowiec and Lubiatowo-Kopalino sites.

The above actions were taken as a result of the Partners' (Shareholders') Agreement concluded on September 3, 2014 by TAURON, ENEA S.A. (ENEA) and KGHM Polska Miedź S.A.(KGHM) (Business Partners) with PGE. The Partners' Agreement governs the rules of cooperation in the implementation of Poland's first nuclear power plant construction project. On April 15, 2015 the above entities concluded the agreement on the acquisition of shares in PGE EJ 1 – a special purpose vehicle responsible for preparing and implementing an investment project involving the construction and operation of a nuclear power plant with the capacity of approximately 3 000 MW_e (Project). Each Business Partner acquired from PGE a 10% stake (30% of shares in total) in the PGE EJ 1 special purpose vehicle. TAURON paid PLN 16 044 000.00 for the acquired stake. This way one of the commitments stemming from the Partners' Agreement, according to which the parties undertook to jointly, in proportion to the stakes held, finance the operations as part of a project development milestone, was fulfilled.

The Partners' Agreement envisages that the further decisions related to the project, including the decision on the declaration to further continue participation in a subsequent project stage by the individual parties (including TAURON), will be taken following the completion of the preliminary stage.

413 MW_e CCGT unit construction project including an approx. 250 MW_t, heat production unit at Łagisza Power Plant's site

In the third quarter of 2018 analyses related to the possibility of resuming the CCGT unit construction project at the Łagisza Power Plant site in connection with the coming into force of the act of December 8, 2017 on capacity market (Journal of Laws of 2018, item 9) and the publishing of the draft act on promoting electricity generated using high efficiency cogeneration were continued.

In accordance with TAURON Group's 2016-2025 Strategy, as part of the priority to ensure TAURON Capital Group's financial stability, the CCGT unit construction project at Łagisza Power Plant was halted by TAURON Wytwarzanie due to the loss of its business justification. The project continues to maintain the halted project status and it will be possible to resume it, in case the regulatory and market environment turns favorable.

Project related to adapting TAURON Wytwarzanie S.A.'s generating units to comply with the operational conditions in force beyond 2021.

On August 17, 2017 the Commission's (EU) Executive Decision no. 2017/1442 of July 31, 2017, establishing conclusions related to the Best Available Technologies (BAT), was published.

TAURON Group's investment plans related to adapting TAURON Wytwarzanie S.A.'s generating units to comply with the operational conditions in force beyond 2021 (BAT Conclusions) are implemented as part of the investment activities dedicated to 12 generating units. The implementation of the above projects will allow for achieving compliance with the requirements related to the emissions to the atmosphere, wastewater and monitoring of the pollutants (emissions of SO_2, NOx, dust and HCl to the atmosphere). Currently a tender procedure is underway to select General Contractors for the individual projects. The results of the Capacity Market auctions will have a significant impact on the investment decisions related to the refurbishments of specific generating units.

Capital expenditures

In the first three quarters of 2018 TAURON Capital Group's capital expenditures reached PLN 2 325 million and were approx. 5% higher than the expenditures incurred in the same period of last year that stood at PLN 2 217 million. This is primarily due to the higher outlays in the Distribution and Mining lines of business, while lower capital expenditures were reported in the Generation segment.

The below table presents selected capital expenditures, the highest outlays by value, incurred by TAURON Capital Group's Lines of Business in the third quarter of 2018.

Selected capital expenditures incurred in Q3 2018 by Lines of Business

Item	Capital expenditures (PLN m)
Distribution	
Existing grid assets' upgrades (refurbishments) and replacements	637
Construction of new connections	466
Generation	
Construction of new capacity at Jaworzno III Power Plant (910 MW)	693
CAPEX on upgrades (refurbishments) and replacements as well as components at TAURON Wytwarzanie	49
Connecting facilities heated using low emission sources to the district heating networks	5
Investment projects related to the expansion and maintenance of district heating networks	10
New facility (site) connections	17
Mining	
Brzeszcze Coal Mine's CAPEX Program	53
Construction of the 800 m level at Janina Coal Mine	25
Construction of the "Grzegorz" shaft, including the infrastructure and the accompanying headings	63

4. Analysis of TAURON Capital Group's financial position and assets

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

Selected financial data of TAURON Polska Energia and TAURON Capital Group

Selected consolidated financial data of TAURON Polska Energia S.A. Capital Group				
SELECTED FINANCIAL DATA	**In PLN '000**		**In EUR '000**	
	2018 period from 01.01.2018 to 30.09.2018	**2017 period from 01.01.2017 to 30.09.2017 (converted data)**	**2018 period from 01.01.2018 to 30.09.2018**	**2017 period from 01.01.2017 to 30.09.2017 (converted data)**
Sales revenue	13 301 802	12 873 989	3 127 260	3 024 477
Operating profit (loss)	1 305 602	1 649 275	306 948	387 463
Pre-tax profit (loss)	1 088 195	1 481 655	255 835	348 084
Net profit (loss)	854 880	1 194 230	200 983	280 560
Net profit (loss) attributable to shareholders of the parent company	852 859	1 192 197	200 508	280 082
Net profit (loss) attributable to non-controlling shares	2 021	2 033	475	478
Other total income	(621)	3 278	(146)	770
Total aggregate income	854 259	1 197 508	200 837	281 330
Total aggregate income attributable to shareholders of the parent company	852 228	1 195 466	200 359	280 850
Total aggregate income attributable to non-controlling shares	2 031	2 042	477	480
Profit per share (in PLN/EUR) (basic and diluted)	0.49	0.68	0.11	0.16
Weighted average number of shares (in pcs) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from operating activities	2 326 293	2 921 491	546 913	686 344
Net cash flows from investing activities	(2 203 979)	(2 990 224)	(518 157)	(702 491)
Net cash flows from financing activities	(178 687)	1 851 827	(42 009)	435 048
Increase/(decrease) in net cash and equivalents	(56 373)	1 783 094	(13 253)	418 901
	As of 30.09.2018	**As of 31.12.2017** (converted data)	**As of 30.09.2018**	**As of 31.12.2017** (converted data)
Fixed assets	31 616 847	31 048 542	7 401 987	7 444 087
Current assets	4 838 179	4 786 474	1 132 692	1 147 588
Total assets	36 455 026	35 835 016	8 534 679	8 591 675
Share capital	8 762 747	8 762 747	2 051 493	2 100 925
Equity attributable to shareholders of the parent company	18 967 636	18 036 446	4 440 613	4 324 354
Equity attributable to non-controlling shares	32 649	31 367	7 644	7 520
Total equity	19 000 285	18 067 813	4 448 257	4 331 874
Long term liabilities	12 174 834	12 738 264	2 850 315	3 054 081
Short term liabilities	5 279 907	5 028 939	1 236 107	1 205 720
Total liabilities	17 454 741	17 767 203	4 086 422	4 259 801

Selected financial data of TAURON Polska Energia S.A. on a standalone basis				
	in PLN '000		**in EUR '000**	
	2018 period from 01.01.2018 to 30.09.2018	**2017 period from 01.01.2017 to 30.09.2017**	**2018 period from 01.01.2018 to 30.09.2018**	**2017 period from 01.01.2017 to 30.09.2017**
Sales revenue	5 812 583	5 394 681	1 366 541	1 267 369
Operating profit (loss)	46 783	227 348	10 999	53 411
Gross profit (loss)	(86 024)	913 354	(20 224)	214 574
Net profit (loss)	(110 219)	859 815	(25 913)	201 996
Other total income	(11 977)	(6 663)	(2 816)	(1 565)
Total aggregate income	(122 196)	853 152	(28 728)	200 430
Profit per share (in PLN/EUR) (basic and diluted)	(0.06)	0.49	(0.01)	0.12
Weighted average number of shares (in pcs) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from operating activities	228 443	285 687	53 707	67 116
Net cash flows from investing activities	471 111	(920 065)	110 758	(216 150)
Net cash flows from financing activities	(299 789)	1 757 575	(70 481)	412 906
Increase/(decrease) in net cash and equivalents	399 765	1 123 197	93 985	263 872
	As of 30.09.2018	**As of 31.12.2017** (converted data)	**As of 30.09.2018**	**As of 31.12.2017** (converted data)
Fixed assets	27 560 052	27 371 684	6 452 229	6 562 537
Current assets	2 914 093	2 949 690	682 234	707 207
Total assets	30 474 145	30 321 374	7 134 463	7 269 744
Share capital	8 762 747	8 762 747	2 051 493	2 100 925
Equity	16 867 159	17 377 906	3 948 860	4 166 465
Long term liabilities	9 503 491	9 530 787	2 224 912	2 285 067
Short term liabilities	4 103 495	3 412 681	960 691	818 212
Total liabilities	13 606 986	12 943 468	3 185 603	3 103 279

The above cumulative Q3 2018 and Q3 2017 financial data was converted into EUR according to the following principles:

- individual items of the statement of financial position - at the average NBP exchange rate announced on September 28, 2018 - PLN/EUR 4.2714 (as of December 29, 2017 - PLN/EUR 4.1709),
- individual items of the statement of comprehensive income and the cash flow statement - at the exchange rate representing the arithmetic mean of average NBP exchange rates announced on the last day of each month of the financial period from January 1, 2018 to September 30, 2018 - PLN/EUR 4.2535 (for the period from January 1, 2017 to September 30, 2017: PLN/EUR 4.2566).

4.2 Key operating data of TAURON Capital Group

In the first three quarters of 2018 and in the third quarter of 2018 TAURON Capital Group posted the following key operating data:

Key operating data of TAURON Capital Group

Key operating data	Unit	Q1-3 2018	Q1-3 2017	2018/2017 change	Q3 2018	Q3 2017	2018/2017 change
Commercial coal production	m Mg	**3.61**	4.68	77%	**1.09**	1.36	80%
Electricity generation (gross production)	TWh	**11.90**	14.03	85%	**4.35**	4.57	95%
Generation of electricity from renewable sources	TWh	**0.69**	0.94	73%	**0.18**	0.28	64%
Production from biomass	*TWh*	***0.15***	*0.29*	*52%*	***0.04***	*0.11*	*36%*
Production from hydroelectric power plants and wind farms	*TWh*	***0.54***	*0.65*	*83%*	***0.15***	*0.17*	*88%*
Heat generation	PJ	**7.42**	7.91	94%	**0.70**	0.82	85%
Electricity distribution	TWh	**38.84**	38.31	101%	**12.83**	12.61	102%
Electricity supply (by the Supply and Generation Segments)	TWh	**33.87**	33.44	101%	**11.37**	10.88	104%
- retail	*TWh*	**25.37**	25.56	99%	**8.17**	8.35	98%
- wholesale	*TWh*	**8.50**	7.89	108%	**3.20**	2.53	126%
Number of customers - Distribution	'000	**5 579**	5 517	101%	**5 579**	5 517	101%

4.3 Sales structure by lines of business

The below table presents TAURON Capital Group's Q1-3 2018 and Q3 2018 sales volumes and structure broken down into individual lines of business (segments).

TAURON Capital Group's sales volumes and structure broken down into individual lines of business (segments)

Item	Unit	Q1-3 2018	Q1-3 2017	2018/2017 change	Q3 2018	Q3 2017	2018/2017 change
Mining segment's hard coal sales	m Mg	**3.54**	5.01	71%	**1.04**	1.45	72%
Generation segment's electricity and heat sales	TWh	**11.35**	14.58	78%	**4.10**	4.99	82%
	PJ	**9.69**	10.66	91%	**0.75**	0.86	87%
Distribution segment's distribution services sales	TWh	**38.84**	38.31	101%	**12.83**	12.61	102%
Supply segment's retail electricity sales	TWh	**25.36**	25.54	99%	**8.16**	8.34	98%

Mining segment

Core business operations conducted by TAURON Capital Group's Mining segment comprise mining, enrichment and sales of hard coal as well as sales of methane as accompanying fossil from the Brzeszcze deposit.

TAURON Capital Group operates three coal mines: ZG Sobieski, ZG Janina and ZG Brzeszcze. The above coal mines are the producers of the hard coal offered for sale on the market as large size lump coal, medium size lump coal and thermal coal dust.

Q1-3 2018 hard coal sales volume reached 3.54 million Mg, which was a 29% decline, as compared to the same period of 2017, as a consequence of a lower production output.

45% of TAURON Capital Group's current demand for coal required to produce electricity and heat was met by the hard coal coming from its own coal mines in the first three quarters of 2018. The balance of the demand was covered from external sources.

Commercial coal production was 23% lower in the reported period than in the same period of last year as a result of the occurrence of adverse geological and mining conditions that disrupted achieving expected production levels, first of all by the Janina Coal Mine.

Generation segment

Core operations conducted by TAURON Capital Group's Generation segment comprise electricity and heat generation using:

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

Total achievable capacity of the Generation segment's generating units reached 5.0 GW of electric capacity and 2.4 GW of thermal capacity at the end of September 2018. The Generation segment is also conducting heat transmission and distribution operations.

In the first three quarters of 2018 the Generation segment produced 11.9 TWh of electricity, i.e. 15% less than last year (14.0 TWh), which was due to lower sales of electricity from own production year on year and the adopted trading strategy. The production from RES came in at 0.69 TWh, i.e. 27% less as compared to last year (0.94 TWh) which was due to the reduction of biomass burning and less favorable hydrological and wind conditions.

Sales of electricity from own production plus electricity purchased for trading reached 11.4 TWh in the first three quarters of 2018, i.e. a 22% decline in relation to the same period of 2017. Purchased electricity resale volume was lower than in 2017 (0.7 TWh in the first three quarters of 2018; 2.0 TWh in the same period of 2017).

Heat sales came in at 9.7 PJ in the first three quarters of 2018, i.e. 9% less as compared to the same period of 2017, which was due to higher outside temperatures year on year and a lower consumer demand.

Distribution segment

TAURON Capital Group is Poland's largest electricity distributor, both in terms of electricity volume delivered, as well as revenue from distribution operations. The Distribution segment is operating large area distribution grids, located in the south of Poland.

In the first three quarters of 2018 the Distribution segment delivered, in total, approximately 38.8 TWh of electricity, including 37.3 TWh to the final consumers. During this period the Distribution segment provided distribution services to 5.58 million consumers. In the same period of last year the Distribution segment delivered, in total, 38.3 TWh of electricity to 5.52 million consumers, including 36.5 TWh to the final consumers. The increase in the volume delivered to the final consumers year on year is the consequence of the GDP growth and the rising electricity consumption by the industrial consumers.

Supply segment

The Supply segment comprises electricity supply operations as well as electricity and other energy market products wholesale trading. The electricity supply operations include electricity supply to the final consumers, including also to the key customers. Meanwhile wholesale operations include mainly electricity wholesale trading, as well as trading and management of CO_2 emission allowances, property rights arising from certificates of origin of electricity, as well as fuels.

In the first three quarters of 2018 the Supply segment's subsidiaries supplied, in total, 29.4 TWh of electricity, including 25.4 TWh of retail electricity to 5.4 million customers, both households, as well as businesses, i.e. 0.2 TWh less than in the same period of last year. The lower retail electricity supply is a consequence of the lower supply to business customers and of operating on the competitive market.

4.4 TAURON Capital Group's financial position after Q3 2018

4.4.1 Analysis of the financial position

The below table presents an analysis of TAURON Capital Group's financial position as of the end of the third quarter of 2018 as compared to the position as of the end of 2017.

Structure of the interim abbreviated consolidated statement of the financial position

Consolidated statement of the financial position	As of September 30, 2018	As of December 31, 2017	2018/2017 change
ASSETS			
Fixed assets	86.7%	86.6%	100%
Current assets	13.3%	13.4%	99%
TOTAL ASSETS	**100.0%**	**100.0%**	
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company	52.0%	50.3%	103%
Non-controlling shares	0.1%	0.1%	100%
Total equity	**52.1%**	**50.4%**	103%
Long term liabilities	33.4%	35.5%	94%
Short term liabilities	14.5%	14.0%	103%
Total liabilities	**47.9%**	**49.6%**	97%
TOTAL EQUITY AND LIABILITIES	**100.0%**	**100.0%**	
Financial liabilities	9 403 078	9 059 844	104%
Net financial liabilities	8 166 359	8 042 225	102%
Net debt/EBITDA ratio	2.24	2.27	99%
Current liquidity ratio	0.91	0.95	96%

As of September 30, 2018, fixed assets represent 87% of total assets, i.e. flat as compared to their share as of the end of 2017.

Similarly, the share of current assets did not change as of September 30, 2018, as compared to their share as of the end of 2017.

In the structure of equity and liabilities as of September 30, 2018, liabilities represent 47.9% of total liabilities, with long-term liabilities representing 33.4% and short-term liabilities accounting for 14.5% of the balance sheet total, which means a change of the debt structure as compared to the end of 2017 when such shares were, respectively: 35.5% and 14.0%.

Net financial liabilities rose 1.5% in the first three quarters of 2018 as compared to 2017. Due to the improved EBITDA the net debt to EBITDA ratio dropped to 2.24x (the ratio expressed in relation to EBITDA for the last twelve months).

TAURON Capital Group's financial liquidity position is stable and TAURON Capital Group has guaranteed financing up to PLN 5 370 million.

Consolidated statement of comprehensive income

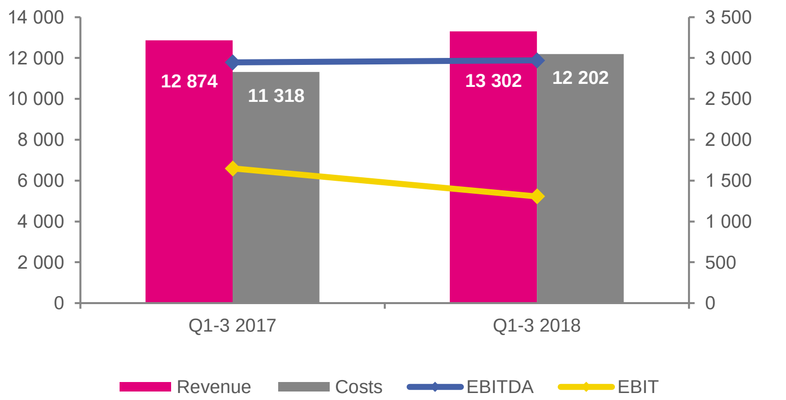
The below table presents selected items of the consolidated statement of comprehensive income of TAURON Capital Group for the period of 9 months ended on September 30, 2018, as well as the comparative data for the period of 9 months ended on September 30, 2017. These items are provided in accordance with the interim abbreviated consolidated financial statement of TAURON Capital Group, drawn up in compliance with the International Financial Reporting Standards, for the period of 9 months ended on September 30, 2018.

Interim abbreviated consolidated statement of comprehensive income

Item (PLN '000)	Q1-3 2018 (unaudited)	Q1-3 2017 (unaudited)	2018/2017 change
Sales revenue	**13 301 802**	12 873 989	103%
Cost of goods sold	(12 201 831)	(11 318 288)	108%
Other operating revenues and costs	164 968	24 049	686%
including write-downs on non-financial fixed assets	*(339 267)*	*(42 183)*	-
Share in joint ventures' profits (losses)	40 663	69 535	58%
Operating profit (loss)	**1 305 602**	**1 649 275**	79%
Operating profit margin (%)	*9.8%*	*12.8%*	*77%*
Cost of interest on debt	(122 146)	(156 202)	78%
Other financial revenue and costs	(95 261)	(11 418)	834%
Gross profit (loss)	**1 088 195**	1 481 655	73%
Gross profit margin (%)	*8.2%*	*11.5%*	71%
Income tax	(233 315)	(287 425)	81%
Net profit (loss) for the period	**854 880**	**1 194 230**	72%
Net profit margin (%)	*6.4%*	*9.3%*	69%
Total income for the period	**854 259**	1 197 508	71%
Profit attributable to:			
Shareholders of the parent entity	852 859	1 192 197	72%
Non-controlling shares	2 021	2 033	99%
EBIT and EBITDA			
EBIT	**1 305 602**	1 649 275	79%
EBITDA	**2 971 595**	2 946 720	101%

The below figure presents TAURON Capital Group's Q1-3 2018 financial results as compared to the same period of 2017.

TAURON Capital Group's Q1-3 2017 and Q1-3 2018 financial results



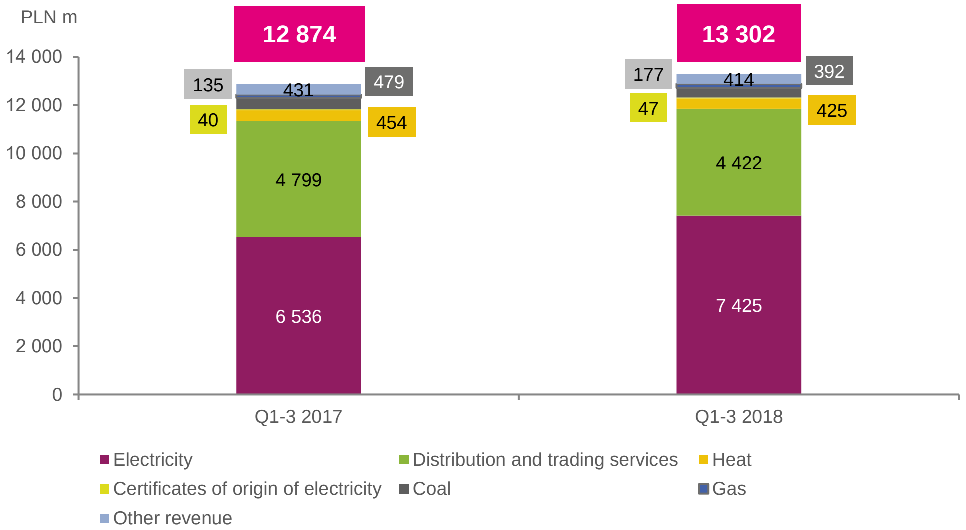
In the first three quarters of 2018 TAURON Capital Group generated 3% higher revenue than the revenue reported in the first three quarters of 2017, which was the result of the following factors:

1. higher electricity sales revenue primarily due to the higher electricity sales prices and a higher volume of electricity supplied,

2. lower distribution services sales revenue, mainly due to including the transition fee, along with the costs, in connection with the introduction of the IFRS 15 provisions to be applied as of January 1, 2018. Excluding the above reclassifying the comparable distribution service revenue would have been higher due to an increase of the distribution service sales volume,
3. higher gas sales revenue due to the higher sales prices achieved,
4. decreased coal sales revenue due to the lower volume of coal sold at a higher average sales price.

The below figure presents TAURON Capital Group's Q1-3 2018 revenue structure as compared to Q1-3 2017.

TAURON Capital Group's Q1-3 2017 and Q1-3 2018 revenue structure



In the first three quarters of 2018 the costs of TAURON Capital Group's operations came in at PLN 12.2 billion, i.e. they were 8% higher than the costs incurred in the first three quarters of 2017.

The main cause of the increase is the write-down, booked as of June 30, 2018, related to the loss of the Mining and Generation segments' assets carrying amount on the balance sheet.

The need to write down the Mining segment's CGU assets as of June 30, 2018 was mainly due to the following circumstances:

1. high volatility of the mining and geological conditions at TAURON Group's coal mines, which has an adverse impact on the volumes of commercial coal production achieved in the current period and forecast for the subsequent years,
2. adverse configuration of coal faces (short longwall lengths) which generates additional costs of longwall retooling,
3. limited competition on the mining materials and services market resulting in a significant increase of their prices in the first half of 2018 and in the subsequent years.

On the other hand, the possibility to reverse the write-down related to the Generation segment's Wind Farms CGU assets impairment as of 30 June 2018 stems, in particular, from the changes to the RES related regulations with respect to the substitution fee calculation method and the taxation of wind farms, as well as from the increase of the prices of electricity and certificates of origin of electricity from renewable sources.

Impairment tests conducted as of June 30, 2018, also demonstrated the need to:

1. book an impairment charge related to the Mining segment's mining assets carrying value in the net amount of PLN 719 million,

2. reverse an impairment charge related to the Generation segment's generating assets carrying value with respect to the wind farms in the net amount of PLN 345 million.

Additionally, the impairment test conducted as of June 30, 2018, with respect to net assets increased by goodwill for individual operational segments indicated the loss of goodwill's carrying value (goodwill impairment) on the balance sheet in the Mining segment in the amount of PLN 14 million.

Excluding the above mentioned one-off events TAURON Capital Group's costs would have been 5% higher in the first three quarters of 2018 due to the following factors:

1) higher costs of electricity purchased for resale, mainly due to the higher purchase price,
2) higher costs of fuel consumption as a result of increased prices of coal purchased outside TAURON Capital Group and the purchase of the semi-product for processing by the Mining segment's subsidiary,
3) lower costs of the distribution service due to including the costs of the transition fee, along with the revenues, as a consequence of the introduction of IFRS 15 to be applied as of January 1, 2018. Excluding the above reclassifying the comparable distribution service costs would have been higher due to the increased distribution service volume,
4) higher costs of redeeming CO_2 emission allowances as a result of a smaller quantity of free CO_2 emission allowances (1.7 million free electricity related allowances were settled (redeemed) in the first 9 months of 2017), lower CO_2 emission volume (lower electricity production year on year) and higher prices of CO_2 emission allowances year on year,
5) lower labor costs primarily as a consequence of dissolving the provision related to the employee tariff in the Generation segment as a result of the agreement between the management board of the subsidiary and the workforce, and registering of the changes to the Company's Collective Bargaining Agreement. Furthermore, as a result of signing agreements with the workforce amending labor contracts, pursuant to which anniversary bonuses will not be paid out, the actuarial provision set up in the previous years was dissolved. Due to the dissolving of the provision related to the anniversary bonuses the subsidiary paid the workforce the applicable damages which were charged to TAURON Capital Group's operating expenses,
6) lower costs of the property tax related to wind farms as result of the amendment to the act on RES,
7) increased scope of works carried out using in-house resources which led to the higher cost of providing services for the entity's own needs.

The EBITDA margin generated in the first three quarters of 2018 came in at 22.3% and was 0.6 pp lower as compared to the same period of last year.

The EBIT margin and the net profit margin realized in the first three quarters of 2018 were significantly lower than in the same period of 2017 as a result of the write-downs which were significantly higher in the reporting period of 2018 than the write-downs booked in the same period of 2017.

Excluding the effects of the impairment charges the EBIT margin and the net profit margin realized by TAURON Group were slightly lower than the applicable margins generated in 2017, as shown in the below table:

EBIT margin and net profit margin

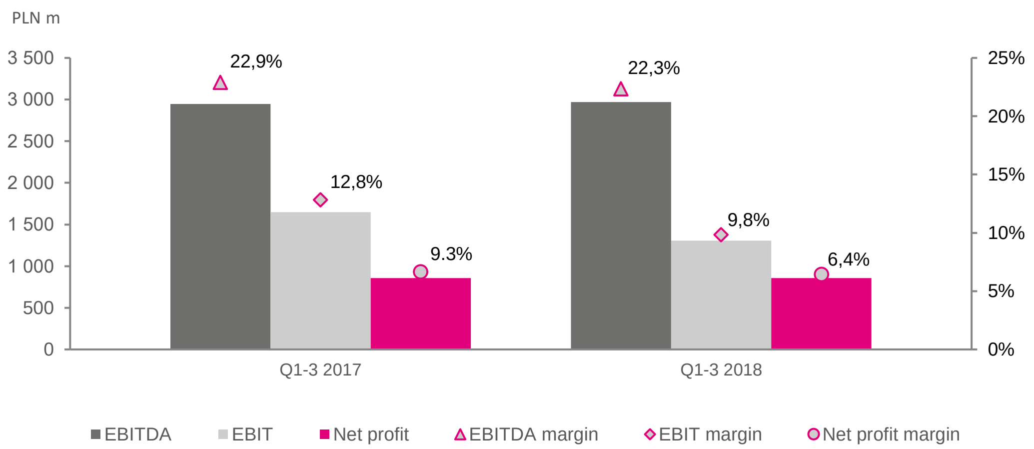
Item	Q1-3 2018 (unaudited)	Q1-3 2017 (unaudited)
EBIT margin	9.8%	12.8%
Net profit margin	6.4%	9.3%
EBIT margin adjusted for impairment charge	11.1%	11.8%
Net profit margin adjusted for impairment charge	8.8%	9.5%

In accordance with the consolidated statement of comprehensive income presented, the total income of TAURON Capital Group, taking into account the net profit increased or decreased by the change in the value of the hedging instruments, FX differences arising from the conversion of a foreign unit and the other revenues, after tax, reached PLN 854,3 million in the first three quarters of 2018, as compared to PLN 1 197.5 million generated in the same period of 2017.

The total income attributable to the shareholders of the parent company came in at approx. PLN 852.2 million, as compared to PLN 1 195.5 million posted in the first three quarters of 2017, while the profit attributable to the shareholders of the parent company stood at PLN 852.9 million, as compared to PLN 1 192.2 million reported in the same period of last year.

The below figure presents TAURON Capital Group's financial results and the margins generated in the first three quarters of 2018 as compared to the first three quarters of 2017.

TAURON Capital Group's financial results and the margins generated



4.4.2 Financial results by lines of business

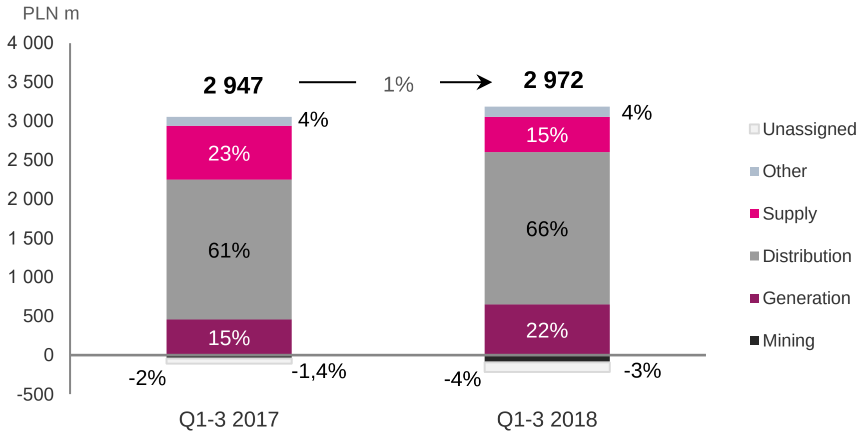
The below table presents TAURON Capital Group's EBITDA by individual lines of business (business segments) in the first three quarters and in the third quarter of 2018, as compared to the same periods of 2017. The data for the individual segments do not include consolidation related exclusions.

TAURON Capital Group's EBITDA by individual lines of business (business segments)

EBITDA (PLN '000)	Q1-3 2018	Q1-3 2017	2018/2017 change	Q3 2018	Q3 2017	2018/2017 change
Mining	**(94 456)**	(41 684)	-	**(28 789)**	(36 968)	-
Generation	**648 940**	455 929	142%	**57 190**	91 128	63%
Distribution	**1 956 544**	1 794 598	109%	**620 731**	591 288	105%
Supply	**451 046**	690 978	65%	**124 688**	145 582	86%
Other	**130 248**	114 612	114%	**41 536**	37 977	109%
Unassigned items and exclusions	**(120 727)**	(67 713)	-	**(37 645)**	(34 597)	-
Total EBITDA	**2 971 595**	2 946 720	**101%**	**777 711**	794 410	**98%**

The below figure presents TAURON Capital Group's Q1-3 2017 and Q1-3 2018 EBITDA structure.

TAURON Capital Group's EBITDA structure



The Distribution segment, as well as the Generation and Supply segments make the biggest contributions to TAURON Capital Group's EBITDA.

4.4.2.1 Mining segment

The below table presents the Mining segment's results.

Mining segment's results

Item (PLN '000)	Q1-3 2018	Q1-3 2017	2018/2017 change	Q3 2018	Q3 2017	2018/2017 change
Mining						
Sales revenue	**951 375**	1 118 467	85%	**272 589**	336 783	81%
coal – large and medium size lump coal	*300 878*	*362 830*	*83%*	*102 684*	*118 249*	*87%*
thermal coal	*596 095*	*714 154*	*83%*	*155 963*	*203 285*	*77%*
other products, materials and services	*54 402*	*41 483*	*131%*	*13 942*	*15 249*	*91%*
EBIT	**(916 681)**	(135 236)	-	**(50 515)**	(69 420)	-
Depreciation and write-offs	822 225	93 552	879%	21 726	32 452	67%
EBITDA	**(94 456)**	**(41 684)**	**-**	**(28 789)**	**(36 968)**	**-**

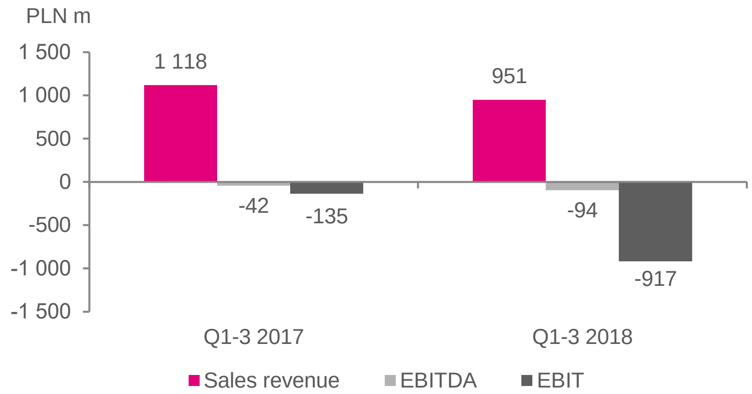
The Mining segment's EBITDA and EBIT were lower in the first three quarters of 2018 than in the same period of 2017. The results posted were impacted by the following factors:

1) lower commercial coal production output (by 23%) that led to the coal sales volume decline by 29%,
2) higher coal unit average sales price (by 18%) which partly offset the decreased revenue due to the lower coal sales volume,
3) higher commercial coal unit production costs as a result of higher costs of: consumption of materials, renting of machines and devices (higher daily rent rates), labor (higher costs of the provision related to unused vacations and lower rate of utilization of in-house personnel during the preparatory works), demethanization, in conjunction with the implementation of coal extraction on two coal faces by Brzeszcze Coal Mine and the other services,

4) sales of coal from the current production (low inventory level at the end of 2017), with the commercial coal production and sales realized at the same level. In the same period of 2017 a substantial part of coal sold came from the inventory which led to recognizing then the value of inventory as the cost of goods sold.

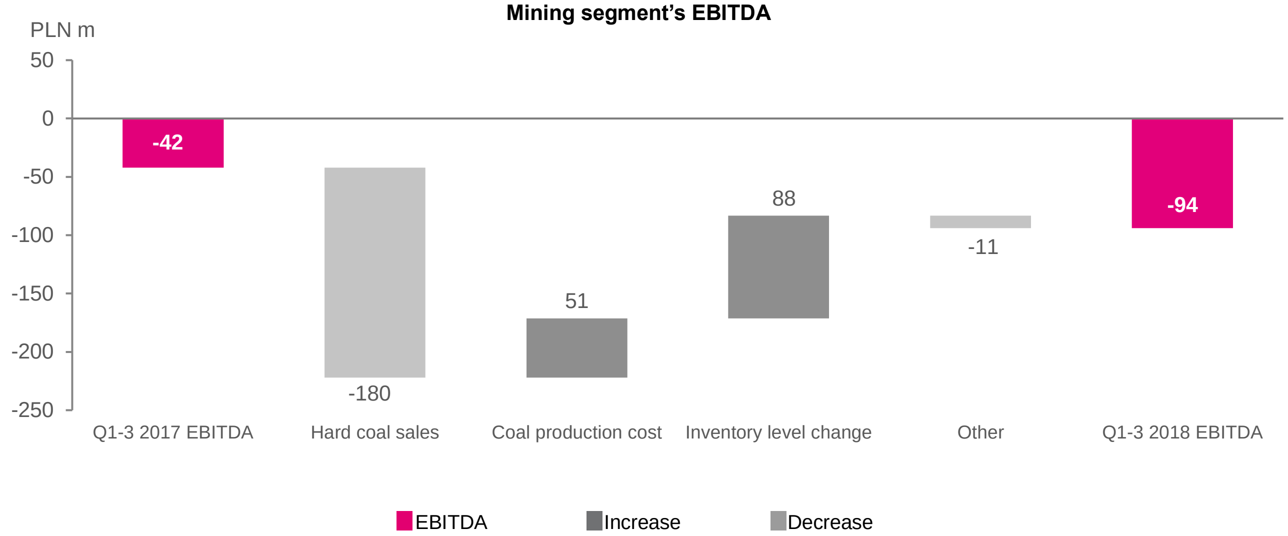
The below figure presents the Mining segment's Q1-3 2018 financial data as compared to Q1-3 2017.

Mining segment's Q1-3 2017 and Q1-3 2018 financial data



The below figure presents the Mining segment's EBITDA, including the significant factors impacting the change year on year.

Mining segment's EBITDA



4.4.2.2 Generation segment

The below table presents the Generation segment's results.

Generation segment's results

Item (PLN '000)	Q1-3 2018	Q1-3 2017	2018/2017 change	Q3 2018	Q3 2017	2018/2017 change
Generation						
Sales revenue	**3 268 749**	3 327 501	**98%**	**1 149 397**	1 042 672	**110%**
electricity	*2 578 941*	*2 592 256*	*99%*	*1 011 506*	*900 816*	*112%*
heat (incl. heat transmission)	*567 169*	*601 855*	*94%*	*107 731*	*113 025*	*95%*
property rights related to certificates of origin of electricity	*85 954*	*90 295*	*95%*	*17 702*	*20 062*	*88%*

Item (PLN '000)	Q1-3 2018	Q1-3 2017	2018/2017 change	Q3 2018	Q3 2017	2018/2017 change
other	*36 685*	*43 095*	*85%*	*12 458*	*8 769*	*142%*
EBIT	**691 129**	**113 719**	**608%**	**(49 720)**	**(25 053)**	**-**
Depreciation and write-offs	(42 189)	342 210	-	106 910	116 181	92%
EBITDA	**648 940**	**455 929**	**142%**	**57 190**	**91 128**	**63%**

In the first three quarters of 2018 the Generation segment's sales revenue was 2% lower as compared to the same period of last year due to the lower revenue from the sales of electricity, heat and property rights related to the certificates of origin of electricity (as a result of the lower sales volumes year on year).

The Generation segment's EBITDA in the first three quarters of 2018 was 42% higher than in the same period of last year.

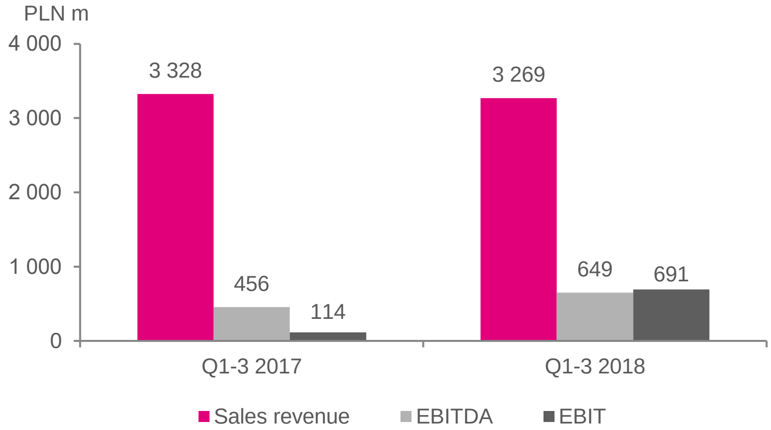
The results posted were affected by the following factors:

1) higher margin on electricity – primarily due to a higher electricity sales price year on year,
2) lower margin on heat – lower heat and transmission services sales volume (due to the higher outdoor temperature (mainly in April and May) and the higher heat production unit costs (rising coal and biomass prices year on year),
3) higher costs of redeeming CO_2 emission allowances as a result of:
   - a smaller quantity of free CO_2 emission allowances (1.7 million free CO_2 emission allowances were settled (redeemed) in the first three quarters of 2017, while there were no free CO_2 emission allowances in the first three quarters of 2018),
   - lower CO_2 emission volume (lower electricity and heat production year on year),
   - higher prices of CO_2 emission allowances year on year.
4) dissolving of the provision related to employee benefits (cash equivalent for discounted use of electricity (employee tariff), service anniversary awards and the Company's Social Benefits Fund) at TAURON Wytwarzanie – a one-off event,
5) other (mainly lower costs of the property tax related to wind farms as well as lower costs related to the employee bonuses and the Voluntary Redundancy Program year on year).

TAURON Capital Group recognized in the Q1-3 2018 results the reversal of the impairment charges related to the loss of the Generation segment's generation units carrying amount on the balance sheet (Wind Farms CGU): PLN 345 million.

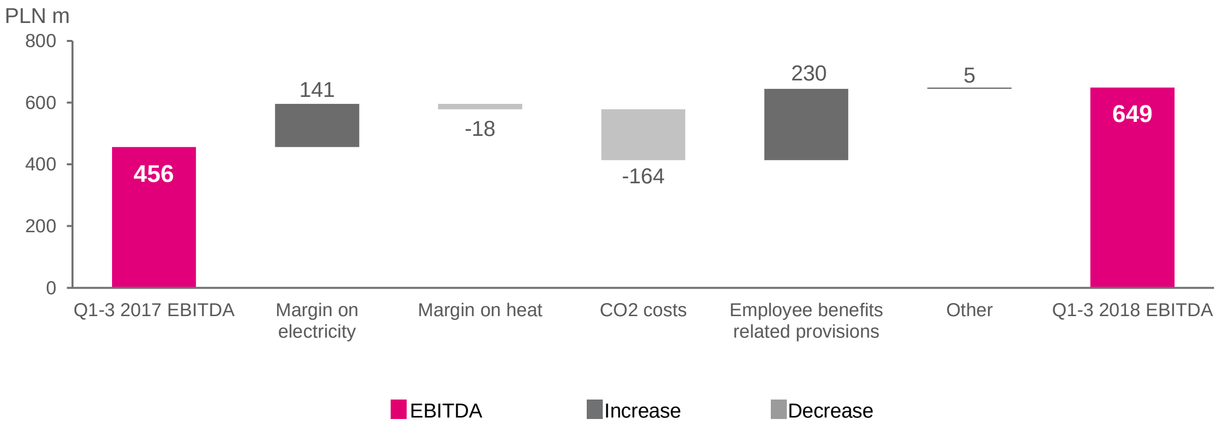
The below figure presents the Generation segment's Q1-3 2018 financial data as compared to Q1-3 2017.

Generation segment's Q1-3 2017 and Q1-3 2018 financial data



The below figure presents the Generation segment's EBITDA, including the significant factors impacting the change year on year.

Generation segment's EBITDA



4.4.2.3 Distribution segment

The below table presents the Distribution segment's results.

Distribution segment's results

Item (PLN '000)	Q1-3 2018	Q1-3 2017	2018/2017 change	Q3 2018	Q3 2017	2018/2017 change
Distribution						
Sales revenue	**4 568 581**	4 986 910	**92%**	**1 481 610**	1 618 916	**92%**
distribution services	*4 315 010*	*4 694 558*	*92%*	*1 400 423*	*1 525 868*	*92%*
connection fees	*56 327*	*88 313*	*64%*	*20 123*	*25 349*	*79%*
street lighting maintenance	*89 465*	*85 044*	*105%*	*29 699*	*30 935*	*96%*
other services	*107 779*	*118 995*	*91%*	*31 365*	*36 764*	*85%*
EBIT	**1 143 359**	998 769	**114%**	**346 908**	321 449	**108%**
Depreciation and write-offs	813 185	795 829	102%	273 823	269 839	101%
EBITDA	**1 956 544**	**1 794 598**	**109%**	**620 731**	**591 288**	**105%**

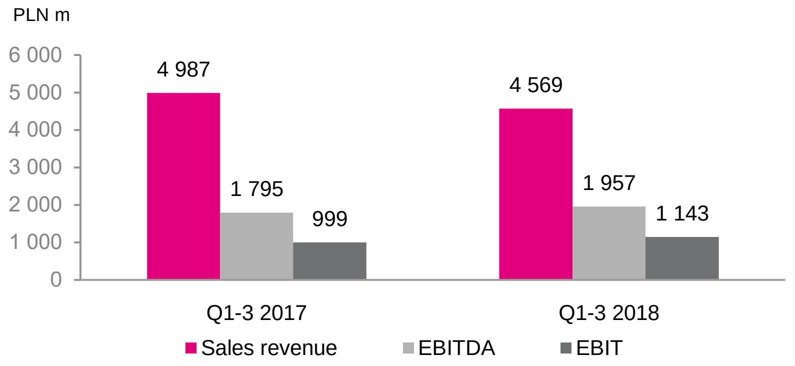
In the first three quarters of 2018 the Distribution segment reported an 8% sales revenue decline as compared to the same period of 2017, while EBIT and EBITDA rose 14% and 9%, respectively. The results posted were affected by the following factors:

1) decrease of the average rate for the distribution service sales to the final consumers (the data after excluding the transition fee in 2018 as a consequence of the introduction of IFRS 15 to be applied),
2) increase of supplies to the industrial consumers, as a result of the GDP growth and increased production output,
3) increase of electricity distribution volume to households as a result of the rising demand for electricity for heating and air conditioning purposes as well as a faster growth of the number of consumers in this market segment,
4) decrease of revenue from connection fees as a result of completing some investment projects ahead of the assumed schedule and the IFRS 15 change,
5) increase of the charges for the above contracted consumption of reactive power capacity and the charges for exceeding capacity (capacity overruns),

6) grid losses indicator staying at a comparable level year on year, as a result of TAURON Capital Group's electricity purchase and resale prices and the lower volume to cover the balancing difference,
7) decrease of the costs of purchasing transmission services (after excluding the transition fee in 2018 in accordance with IFRS 15),
8) decrease of the labor costs as a result of the lower headcount, making indirect costs (overhead) on investment projects carried out using in-house resources realistic, effects of the voluntary redundancy programs and the efficiency improvement program,
9) increase of the costs of tax on grid assets stemming from the growth of the assets value as a result of the investment projects underway.

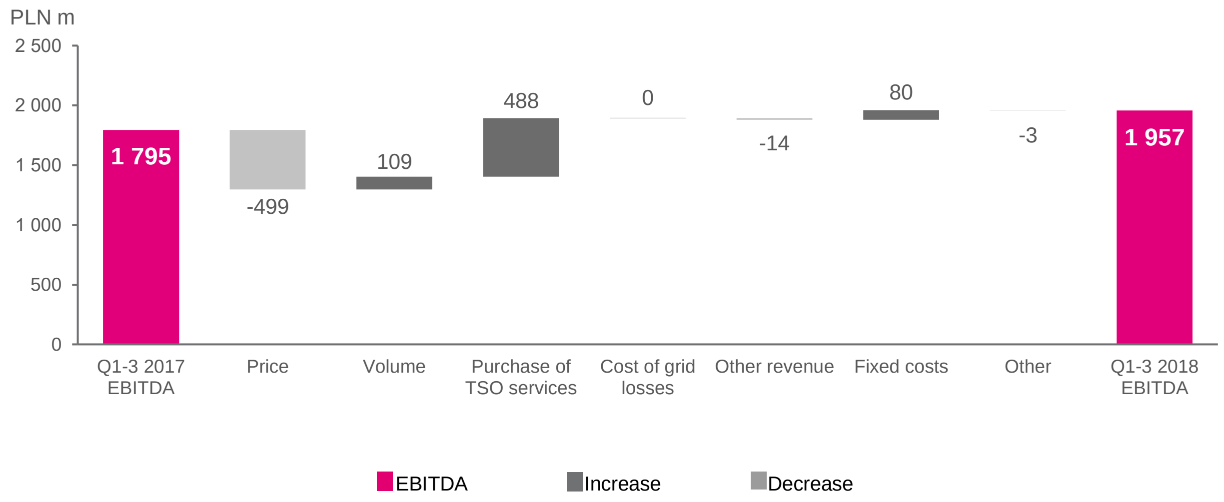
The below figure presents the Distribution segment's Q1-3 2018 financial data as compared to Q1-3 2017.

Distribution segment's Q1-3 2017 and Q1-3 2018 financial data



The below figure presents the Distribution segment's EBITDA including the significant factors impacting the change year on year .

Distribution segment's EBITDA



4.4.2.4 Supply segment

The below table presents the Supply segment's results.

Supply segment's results

Item (PLN '000)	Q1-3 2018	Q1-3 2017	2018/2017 change	Q3 2018	Q3 2017	2018/2017 change
Supply						
Sales revenue	**9 827 971**	**9 807 209**	**100%**	**3 415 412**	**3 130 213**	**109%**
electricity, including:	*6 576 411*	*6 391 553*	*103%*	*2 256 644*	*2 087 019*	*108%*
retail electricity supply revenue	*5 776 911*	*5 541 550*	*104%*	*1 927 189*	*1 799 249*	*107%*
fuels	*932 396*	*837 436*	*111%*	*372 727*	*215 448*	*173%*
distribution service (transferred)	*2 205 940*	*2 531 511*	*87%*	*706 274*	*810 106*	*87%*
other goods and services, incl. trading services	*113 223*	*46 710*	*242%*	*79 769*	*17 641*	*452%*
EBIT	**445 628**	**683 919**	65%	**123 068**	**143 502**	86%
Depreciation and write-offs	5 418	7 059	77%	1 620	2 080	78%
EBITDA	**451 046**	**690 978**	**65%**	**124 688**	**145 582**	**86%**

In the first three quarters of 2018 the Supply segment's sales revenue was flat as compared to the same period of last year, mainly due to the 3% higher electricity supply revenue as a result of the higher sales prices. The fuels sales revenue was also higher as a result of higher gas fuel sales prices, with the other goods and services sales revenue rising as well due to the higher emission allowances sales turnover as a consequence of increased CO_2 market prices. Meanwhile the lower distribution service revenue is the result of applying IFRS 15 and the netting of the transition fee related thereto.

Supply segment's EBITDA and EBIT were lower in the third quarter of 2018 than in the same period of 2017, which was primarily due to the dissolving of the ECSW provision in 2017.

The results posted were affected by the following factors:

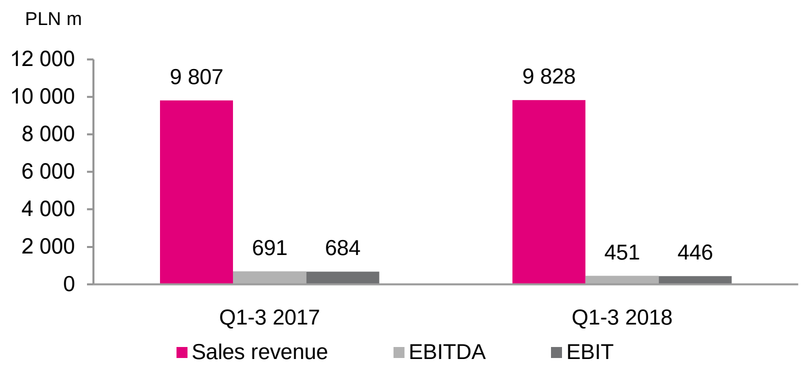
1) electricity volume and prices – a negative impact on the result is mainly due to an increase of electricity market prices. In spite of a simultaneous rise of average electricity sales prices (a large share of exchange traded products, G tariff hikes, price hikes in the ABC group and sales based on the last resort tariff), as a consequence of a faster pace of purchase price increases versus sales prices increases the unit margin was much lower than last year. This situation had a direct impact on the margin decline in the mass customers segment where there is a large share of customers with a fixed electricity sales price (product customers),
2) property rights prices – a positive impact on the result due to taking advantage of the favorable market situation, mainly with respect to the "green" certificates (contracting and purchasing of PMOZEs to meet the redemption obligation at lower prices) and, at the same time, introducing a change of the model used to set up provisions related to the property rights hedging (FIFO model),
3) obligation to redeem (retire) property rights – a negative impact on the result as a consequence of an increase of the obligation for the "green" certificates from 15.4% to 17.5%, for the "violet" certificates from 1.8% to 2.3%, for the "yellow" certificates from 7.0% to 8.0%, a reduction of the obligation for the "blue" certificates from 0.60% to 0.50%, and maintaining of the obligation to redeem certificates from co-generation for the "red" certificates at 23.2%,
4) dissolving of the provision related to the agreements that gave rise to charges stemming from the joint venture (ECSW) took place in the first quarter of 2017 which led to increasing the Supply segment's financial result by PLN 203 million as a consequence of the agreement concluded between TAURON and PGNiG with respect to the gas and electricity agreements and amendments to the multi-year gas

and electricity agreements related to the CCGT unit's construction project at Stalowa Wola coming into force,

5) other market products – margins achieved on the other market products, mainly an increase of the margin on the trading of the CO_2 emission allowances.

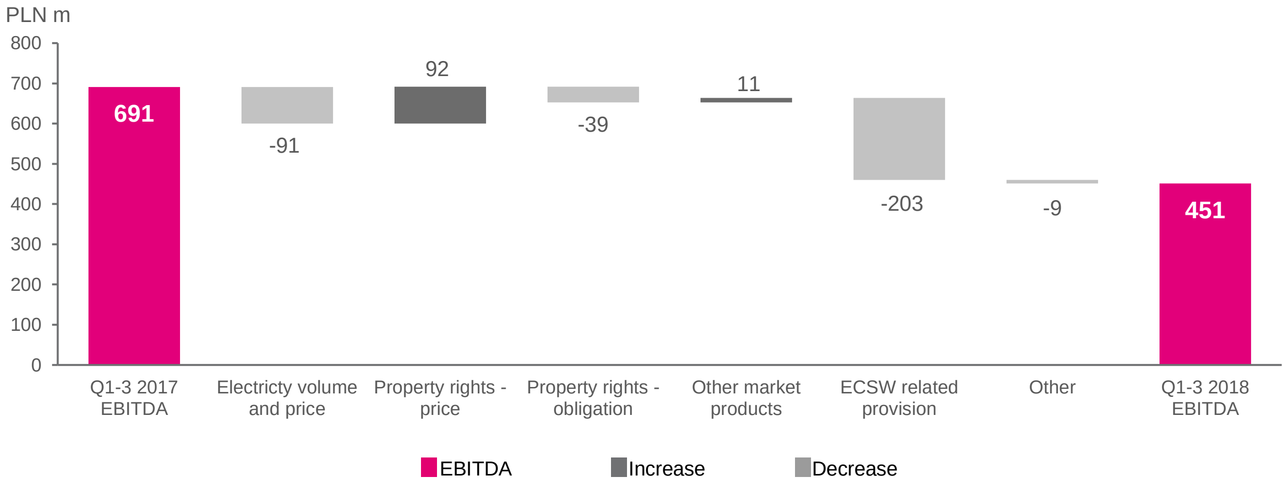
The below figure presents the Supply segment's Q1-3 2018 financial data as compared to Q1-3 2017.

Supply segment's Q1-3 2017 and Q1-3 2018 financial data



The below figure presents the Supply segment's EBITDA, including the significant factors impacting the change year on year

Supply segment's EBITDA



4.4.2.5 Other operations

The below table presents the results of the subsidiaries assigned to the Other operations.

Other operations subsidiaries' results

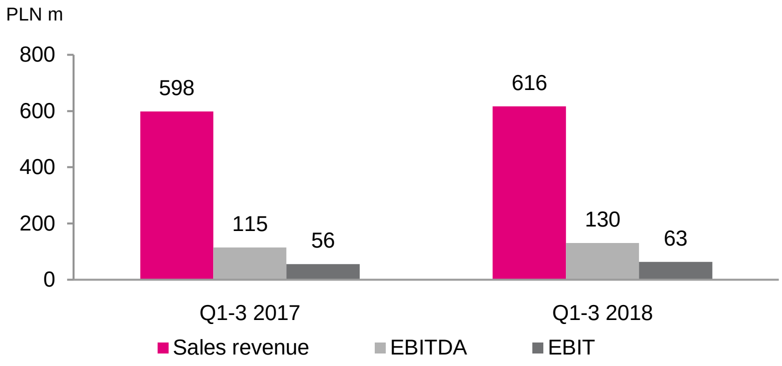
Item (PLN '000)	Q1-3 2018	Q1-3 2017	2018/2017 change	Q3 2018	Q3 2017	2018/2017 change
Other						
Sales revenue	**616 483**	**598 362**	**103%**	**201 877**	**205 774**	**98%**
customer service services	*147 063*	*143 197*	*103%*	*48 771*	*47 593*	*102%*
support services	*319 855*	*294 130*	*109%*	*107 056*	*99 580*	*108%*

Item (PLN '000)	Q1-3 2018	Q1-3 2017	2018/2017 change	Q3 2018	Q3 2017	2018/2017 change
biomass	*43 637*	*59 822*	*73%*	*14 061*	*22 589*	*62%*
aggregates	*74 807*	*74 359*	*101%*	*27 204*	*27 163*	*100%*
other revenue	*31 121*	*26 855*	*116%*	*4 785*	*8 850*	*54%*
EBIT	**62 894**	55 817	**113%**	**18 622**	17 870	**104%**
Depreciation and write-offs	67 354	58 795	115%	22 914	20 107	114%
EBITDA	**130 248**	114 612	114%	**41 536**	37 977	109%

Other operations' subsidiaries' Q1-3 2018 sales revenue was 3% higher than in the same period of last year, which was primarily due to the higher support services sales revenue (+9%) (i.e. the provision of additional services for TAURON Capital Group, among others, property management services, property security services, support services), along with the simultaneous drop of biomass sales revenue (lower sales volume).

The below figure presents the Other segment's Q1-3 2017 financial data as compared to Q1-3 2017.

Other segment's Q1-3 2017 and Q1-3 2018 financial data



4.4.3 Assets

The below table presents the consolidated statement of financial position as of September 30, 2018, as compared to December 31, 2017.

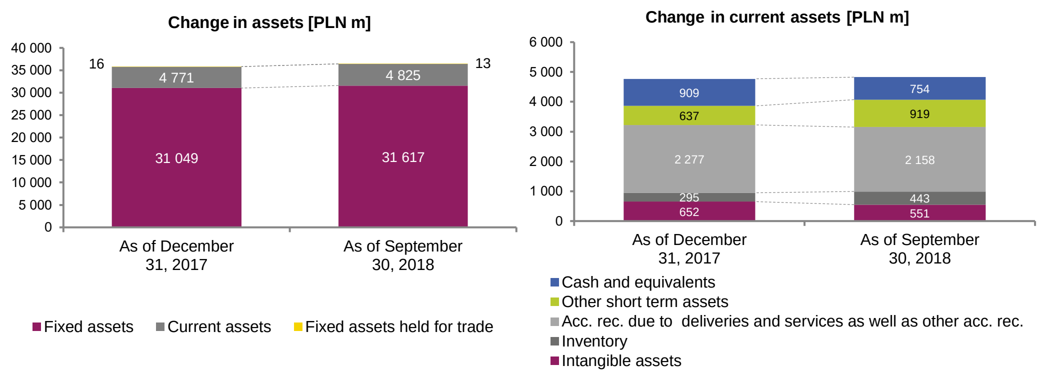
Interim abbreviated consolidated statement of financial position – assets (material items)

Statement of financial position (PLN '000)	As of September 30, 2018	As of December 31, 2017	2018/2017 change
ASSETS			
Fixed assets	**31 616 847**	31 048 542	**102%**
Tangible fixed assets	28 820 594	28 079 886	103%
Current assets	**4 838 179**	4 786 474	**101%**
Cash and equivalents	754 353	909 249	83%
Fixed assets and the group's assets for disposal, classified as held for trade	12 922	15 910	81%
TOTAL ASSETS	**36 455 026**	**35 835 016**	**102%**

As of September 30, 2018, TAURON Capital Group's statement of financial position shows the balance sheet total that is 2% higher as compared to that of December 31, 2017.

The below figure presents the change in assets and current assets as of September 30, 2018, as compared to December 31, 2017.

Change in assets and current assets



Fixed assets are the biggest item of the assets as of the end of September 2018, representing 87% of the balance sheet total. As compared to the end of last year the value of fixed assets is higher by PLN 568 million (2%) as a consequence of changes in the below analytical fixed asset items which was due to the following factors:

1) tangible fixed assets – an increase by 3% is the result of the investment projects implemented by TAURON Capital Group's subsidiaries and the booked write-down related to the loss on the Generation segments' assets carrying amount on the balance sheet,
2) goodwill impairment – a 35% drop as a consequence of the completed impairment test that demonstrated the loss of goodwill's carrying value on the balance sheet in the Mining segment,
3) certificates of origin of electricity and gas emission allowances to be redeemed (retired) – a decline by 42% due to the reclassifying of the certificates of origin of electricity and CO_2 emission allowances as current assets in order to fulfill the obligation related to the redemption (retirement) of the above mentioned assets in 2017,
4) value of stocks and shares in the joint ventures – an increase by 6% due to the change in the net asset value of the investment shares in the joint ventures,
5) other long-term non-financial assets - a decline by 15% due to the settling of the advance payment towards fixed assets under construction and the intangible assets related to the implementation of the 910 MW unit construction task at Jaworzno.

The following factors had an impact on the rise in the value of current assets by PLN 52 million (1%):

1) intangible fixed assets – a decline by 16% which is due to the settlement of the 2016 obligation to redeem (retire) certificates of origin of electricity and CO_2 emission allowances and the increase of their balance in connection with the production and purchasing of the property rights in order to fulfill this year's obligation,
2) inventory – an increase by 50% mainly as a result of the higher net value of hard coal to be used by the Generation segment as a consequence of higher prices and volume,
3) accounts receivable due to taxes – a decrease by 32%, mainly due to VAT,
4) other financial assets – an increase by 259% as a result of a rise in the value of the financial instruments and the initial deposits which is a consequence of an increase in the number of contracts concluded, higher market prices and the fluctuations of the EURO exchange rate,

5) other non-financial assets – an increase by 49% due to the settling of the advance payments related to deliveries and setting up of the contribution towards the Company's Social Benefits Fund (Zakładowy Fundusz Świadczeń Socjalnych),
6) balance of cash on hand and equivalents – a decline by 17%. The reasons for the change are described in section 4.4.4 of this document related to the cash flow statement.

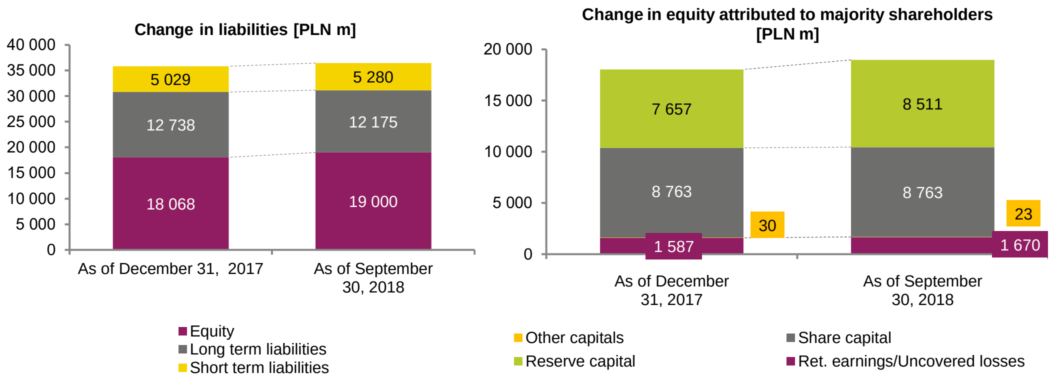
The below table presents the consolidated statement of financial position – equity and liabilities.

Interim abbreviated consolidated statement of financial position – equity and liabilities (material items)

Statement of financial position (PLN '000)	As of September 30, 2018	As of December 31, 2017	2018/2017 change
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent entity	**18 967 636**	**18 036 446**	**105%**
Non-controlling stakes	32 649	31 367	104%
Total equity	**19 000 285**	**18 067 813**	**105%**
Long-term liabilities	**12 174 834**	**12 738 264**	**96%**
Liabilities due to debt	9 459 494	9 501 414	100%
Short-term liabilities	**5 279 907**	**5 028 939**	**105%**
Liabilities due to debt	293 355	351 382	83%
Total liabilities	**17 454 741**	**17 767 203**	**98%**
TOTAL EQUITY AND LIABILITIES	**36 455 026**	**35 835 016**	**102%**

The below figure presents a change in the liabilities and equity as of September 30, 2018 and December 31, 2017.

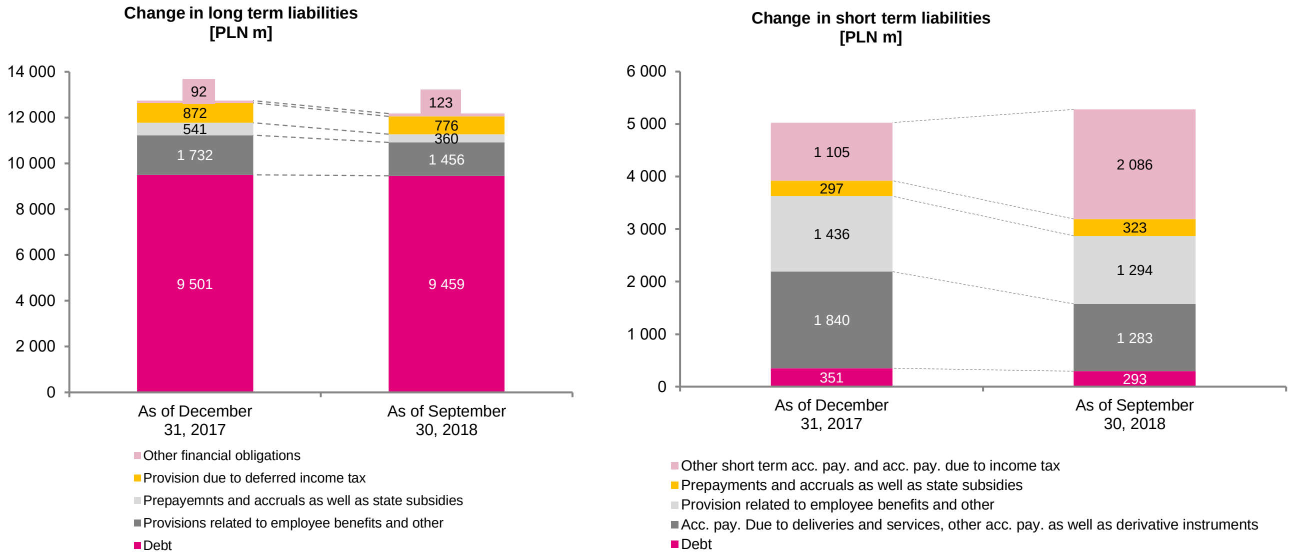
Change in liabilities and equity



Similar as in previous years equity is still a significant source of financing the assets and its share in the balance sheet total rose to 52.1%.

The below figure presents the change in liabilities as of September 30, 2018 and December 31, 2017.

Change in liabilities



The value of TAURON Capital Group's long term liabilities as of September 30, 2018, was 4% lower than the value of the long term liabilities reported as of December 31, 2017, and the decline thereof was a consequence of dissolving:

1. of the provision related to the employee tariff in the part pertinent to retirees and employees as future retirees pursuant to the agreement between the management board of the subsidiary and the workforce, and the registered changes to the Company's Collective Bargaining Agreement,
2. of the provision related to the anniversary bonuses as a result of signing agreements with the workforce amending labor contracts, pursuant to which anniversary bonuses will not be paid out,
3. of the provision related to the Company's Social Benefits Fund in the part pertinent to retirees and employees as future retirees.

Furthermore, prepayments and accruals as well as state subsidies were reduced as a consequence of transferring the connection fees to the equity items which was related to the coming into force of IFRS 15 *Revenue from contracts with customers.*

The value of TAURON Capital Group's short-term liabilities went up by 5% due to the following factors:

1) liabilities due to debt – a drop by 17%,
2) accounts payable towards suppliers – a drop by 15% and investment related commitments – a drop by 51%,
3) provisions related to employee benefits – a drop by 31% as a result of dissolving:
   a) of the provision related to the employee tariff in the part pertinent to retirees and employees as future retirees pursuant to the agreement between the management board of the subsidiary and the workforce, and the registered changes to the Company's Collective Bargaining Agreement,
   b) of the provision related to the anniversary bonuses as a result of signing agreements with the workforce amending labor contracts, pursuant to which anniversary bonuses will not be paid out,
   c) of the provision related to the Company's Social Benefits Fund in the part pertinent to retirees and employees as future retirees,
4) provisions related to the liabilities due to the certificates of origin of electricity and gas emissions – a decline by 9% which is the result of having used up the provision set up in 2016 towards the fulfillment

of the obligation to submit the certificates of origin of electricity for redemption, pursuant to the provisions of the Act of April 10, 1997, the Energy Law, and the CO2 emission allowances and setting up the provision towards the fulfillment of the obligations for the first three quarters of 2018,

5) prepayments and accruals as well as state subsidies – an increase by 9%, mainly as a consequence of setting up a settlement to pay out bonuses in accordance with the regulations in force at TAURON Group,
6) liabilities due to taxes and fees – an increase by 13% as a result of an increased account payable due to the corporate income tax and VAT as well as the lower accounts payables due to personal income tax and social security,
7) financial liabilities – an increase by 261% as a result of the higher accounts payable mainly due to the margin (hedging) deposits and derivative instruments, as well as the lower accounts payable primarily due to wages and withholdings from wages,
8) other non-financial liabilities – an increase by 9% as a consequence of the higher accounts payable due to overpayments from TAURON Group's customers.

4.4.4 Cash flows

Consolidated cash flow statement

The below table presents the interim abbreviated cash flow statement for the period of the first 9 months of 2018 as compared to the same period of 2017.

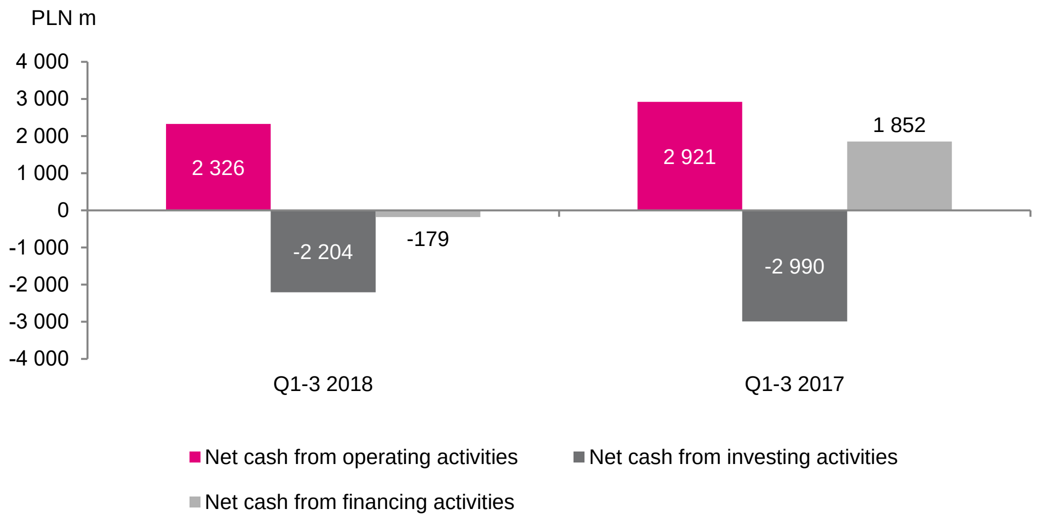
Interim abbreviated cash flow statement (material items)

Cash flow statement (PLN '000)	Q1-3 2018	Q1-3 2017	2018/2017 change
Cash flows from operating activities			
Gross profit / (loss)	1 088 195	1 481 655	73%
Adjustments	1 238 098	1 439 836	86%
Net cash from operating activities	**2 326 293**	**2 921 491**	**80%**
Cash flows from investing activities			
Sale of tangible fixed assets and intangible assets	23 283	27 669	84%
Purchase of tangible fixed assets and intangible assets	(2 569 631)	(2 709 422)	95%
Granting of loans	(41 075)	(301 542)	14%
Repayment of loans granted	300 115	0	-
Net cash from investing activities	**(2 203 979)**	**(2 990 224)**	**74%**
Cash flows from financing activities			
Issuance of debt securities	0	2 707 462	0%
Redemption of debt securities	0	(700 000)	0%
Repayment of loans/credits	(95 580)	(81 959)	117%
Interest paid	(46 812)	(52 810)	89%
Net cash from financing activities	**(178 687)**	**1 851 827**	**-**
Increase/(decrease) in net cash and equivalents	**(56 373)**	**1 783 094**	**-**
Cash opening balance	**801 353**	**354 733**	**226%**
Cash closing balance	**744 980**	**2 137 827**	**35%**

The total amount of all net cash flows of cash from operating, investing and financing activities in the first three quarters of 2018 reached PLN (56.4) million.

The below figure presents cash flows in Q1-3 2018 and in Q1-3 2017.

Cash flows in Q1-3 2018 and in Q1-3 2017



Cash flows from operating activities in the reporting period were lower by 20% than the cash flows generated in the same period of last year. The following factors had the biggest impact on the change in this item of the cash flow statement:

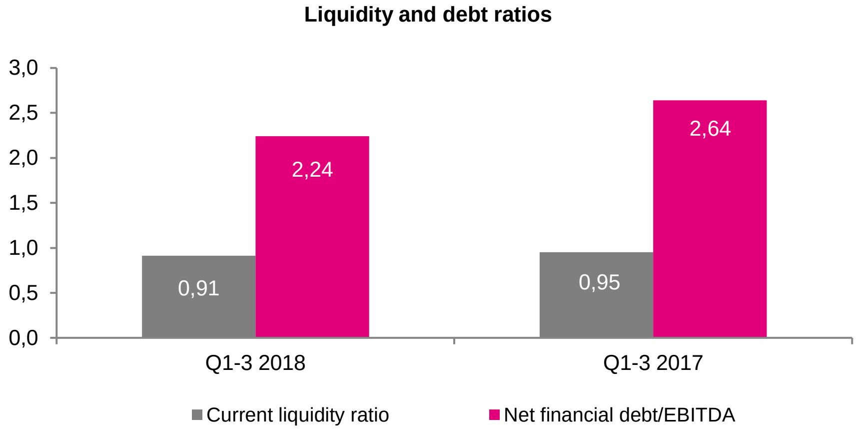
1) increase in the value of inventory, mainly coal, at one of the Generation segment's subsidiaries in the first three quarters of 2018 and the sale, by the Mining segment's subsidiary, of coal from the stock in the same period of 2017 resulted in a negative cash flow, year on year, in the amount of PLN 154 million,
2) payment of income tax in the amount higher by PLN 140 million, which was the result of:
   a. payment by the Tax Capital Group of a tax in the amount of PLN 219.1 million, out of which PLN 172.8 million represented an advance payment on account of the Q1 2018 income tax, while PLN 46.3 million was related to the settlement of the 2017 income tax,
   b. payment by the Tax Capital Group of advance payments on account of income tax in the amount of PLN 157 million in the first three quarters of 2018,
   c. refund in 2017 of overpaid advance payments related to 2016 in the amount of PLN 79 million,
3) purchase of certificates of origin of electricity and payment of the substitution fee in the first three quarters of 2018 for the amounts higher by, respectively, PLN 130 million and PLN 66 million than in the same period of 2017,
4) purchase of CO_2 emission allowances in the first three quarters of 2018 for the amount higher by PLN 81 million than in the same period of 2017,
5) positive change to the accounts receivable and accounts payable balance in the amount of PLN 72 million.

Expenditures for the purchase of tangible fixed assets made the biggest impact on the cash flows from investing activities and they were lower by 5% in the reporting period than the expenditures incurred in the same period of 2017. In the current period the highest expenditures were incurred by the Distribution and Generation segments.

The negative balance of cash from financing activities is mainly due to the repayment of loans and credits in the amount of PLN 95.6 million and the interest payment in the amount of PLN 46.8 million.

It should be noted that the balance of cash flows from operating activities is positive, and therefore it enables TAURON Capital Group to finance its ongoing operations on its own, while the investment projects carried out by TAURON Capital Group's subsidiaries are financed using the funds acquired from external sources. The current liquidity ratio and the net debt to EBITDA ratio continue to stand at a safe level.

The below figure presents the liquidity and net debt to EBITDA ratios in Q1-3 2018 and Q1-3 2017.



TAURON Capital Group is effectively managing its financial liquidity using a central financing model put in place and the central financial risk management policy. The *cash pooling* mechanism is used in order to minimize potential cash flow disruptions and the risk of liquidity loss.

TAURON Capital Group is using various sources of funding, such as, for example, overdrafts, bank loans, loans from environmental funds, bond issues, financial lease agreements, as well as lease agreements with a purchase option. In accordance with the agreements signed with the financial institutions TAURON Capital Group has guaranteed financing up to the amount of PLN 5 370 million.

4.5 Factors and events, including non-typical ones, that have a significant impact on the abbreviated financial statements

No factors and events, including non-typical ones, that would have a significant impact on the financial results achieved, other than the ones indicated in section 4.4 of this document, had taken place in the first three quarters of 2018.

4.6 Factors that, according to the Issuer, may impact its earnings over at least the next quarter

External factors

The following external factors will, first of all, impact the results from TAURON Capital Group's operations:

1) macroeconomic situation, in particular in Poland, as well as the economic situation of the area where TAURON Capital Group is conducting its operations and at the European Union and global economy level, including changes of interest rates, FX rates, etc., impacting the valuation of assets and liabilities recognized by the Company in the statement of financial position,
2) political environment, in particular in Poland as well as in the European Union, including positions and decisions taken by the public administration institutions and authorities, for example: Office for Competition and Consumer Protection (UOKiK), Energy Regulatory Office (ERO) and the European Commission,

3) changes to the regulations related to the energy sector as well as changes to the legal environment, including: tax law, commercial law, environmental protection law,
4) introduction of the generation capacity remuneration mechanism (the so-called capacity market), in particular the results of the main auctions for the delivery of electricity in 2021-2023 as well as the decisions on the future shape of the operational capacity reserve (ORM) and the cold intervention reserve (IRZ) mechanisms,
5) support system for electricity generation by high efficiency co-generation plants, leading, on one hand, to the costs of redeeming the “red” and “yellow” certificates for electricity suppliers to the final consumers, and, on the other hand, to the revenue from the sales of the “red” and “yellow” certificates for electricity generators using co-generation plants. The current support system is in force until the end of 2018; legislative work is underway on the new law governing the support system for the cogeneration beyond 2018 the effect of which is to be, among others, an improvement of the quality of the environment, including the quality of the air in Poland, due to increasing the efficiency of the use of fuels for electricity and heat production,
6) new RES support system, the so-called RES auctions,
7) modification of the regulatory model for the DSO operations the goal of which is to make electricity distribution qualitative indicators (SAIDI, SAIFI) independent of the weather conditions, including natural disasters,
8) situation in the power sector, including the operations and measures undertaken by the competition on the power market,
9) number of CO_2 emission allowances allocated free of charge, as well as the prices of emission allowances purchased – in case of a deficit of free emission allowances,
10) electricity prices on the wholesale market,
11) level of the tariff related to the electricity supply to households (G tariff group) for 2019 to be approved by the President of the Energy Regulatory Office,
12) electricity and hard coal sales prices, as well as the distribution tariffs under the DSO regulatory model adopted, as factors impacting the level of revenues,
13) prices of certificates of origin of electricity from renewable sources and from co-generation,
14) energy related commodity prices,
15) high probability of the occurrence of a deficit of appropriate quality fuels for the generating units on the domestic market,
16) environment protection requirements as a consequence of changes to the Natural Environment Law act (Journal of Laws of 2001 no. 62, item 627, as amended), the so-called anti-smog resolutions,
17) planned changes to the regulations related to the act of August 25, 2006 on the fuel quality monitoring and inspection system (Journal of Laws of 2006 no. 169, item 1200), among others the quality requirements for the solid fuels,
18) science (research) and technical progress,
19) demand for electricity and the other energy market products, including changes due to seasonal factors and weather conditions.

Internal factors

The following internal factors impacting the results from TAURON Capital Group’s operations are most significant:

1) steadfast implementation of the Strategy and achieving of the assumed financial and non-financial effects,
2) actions with respect to optimizing processes taken by all of TAURON Capital Group’s subsidiaries,
3) decisions with respect to the implementation of the key investment projects,
4) developing and implementing the *2018-2015 Strategic Asset Management Plan* – one of the fundamental documents constituting the core of the integrated asset management system at TAURON Capital Group,
5) resolution of the tenders related to the investment projects with respect to adapting TAURON Capital Group’s power plants to the so-called BAT conclusions by reducing, starting from 2021, the emissions of sulphur and nitrogen compounds, as well as chlorine and mercury compounds,
6) geological and mining conditions of hard coal extraction,
7) potential failures of TAURON Capital Group’s equipment, installations and grids.

TAURON Capital Group's operations are characterized by seasonality that is applicable, in particular, to heat production, distribution and supply, electricity distribution and supply to individual consumers, as well as hard coal sales to individual consumers for heating purposes. Heat sales depend on weather conditions, in particular on outdoor temperature, and are higher in the autumn and winter season. Volume of electricity supply to individual consumers depends on the length of day which usually makes electricity supply to this group of consumers lower in the spring and summer season and higher in the autumn and winter season.

Hard coal sales to individual consumers are higher in the autumn and winter season. The seasonality of TAURON Capital Group's other lines of business is low.

The impact of the above mentioned factors on the financial result achieved in the first three quarters of 2018 is described in section 4 of this document. The effects of this impact are visible both in the short term perspective, as well as in the long term outlook.

4.7 Management Board's position on the ability to perform in line with the earlier published forecasts of results for the given year

TAURON Capital Group did not publish any forecasts of financial results for 2018. TAURON Capital Group's financial position is stable and no negative events which could pose any threat to the continuity of its business operations or cause a material deterioration of its financial position have occurred.

The detailed description of the financial position, understood as ensuring the provision of funds for both the operating, as well as the investing activities, is provided in section 4 of this document.

5. Other information and events that occurred in Q3 2018

5.1 Significant achievements or failures of the Issuer that occurred in Q3 2018

910 MW power generating unit construction project in Jaworzno

The following events occurred as part of the transaction related to the investment of the Closed-end Investment Funds, managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund), in the company carrying out the 910 MW power generating unit construction project in Jaworzno:

- On July 13, 2018, TAURON received an unconditional approval of the Chairman of the Office of Competition and Consumer Protection (UOKIK) for the concentration involving establishing a joint undertaking under the name of Nowe Jaworzno Grupa Tauron sp. z o.o. ("NJGT") by TAURON and Polski Fundusz Rozwoju S.A. (Polish Development Fund) acting via 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) ("Funds"). The joint undertaking will be a special purpose vehicle Nowe Jaworzno Grupa Tauron sp. z o.o., the company implementing the 910 MW power generating unit construction project in Jaworzno.

- On October 19, 2018, the Head of the National Revenue Administration approved the terms of the Electricity Sale Agreement concluded by TAURON and NJGT as an advance pricing agreement ("APA Decision"). Thus, the tax authorities confirmed that the method selected to calculate the remuneration in the transaction covered by this agreement was correct and determined that the conditions agreed upon by the parties to the agreement were comparable to the conditions that would have been agreed upon by independent entities. The APA Decision shall be in force for the period of five years running from November 1, 2019.

The APA Decision is the final document that the Issuer was obligated to obtain as part of implementing the conditions suspending the Funds joining the Special Purpose Vehicle NJGT.

5.2 Market and regulatory environment

Market environment

Situation on the energy market

Electricity consumption reached 41 504 GWh in the third quarter of 2018 and it was 2.3% higher as compared to the same period of last year. This was mainly due to high outdoor temperatures observed in the third quarter of 2018. The average temperature during that period came in at 19.2°C, versus 17.3°C a year ago.

Domestic power plants produced 40 603 GWh of electricity in the period under review, i.e. 2.5% more than in the third quarter of 2017. The balance of the domestic electricity consumption, amounting to 901 GWh, was covered by electricity imports. Hard coal-fired power plants increased their electricity production by 5.7%, year on year, to 20 536 GWh in the third quarter of 2018 (in the third quarter of 2017: 19 432 GWh). On the other hand, lignite-fired power plants reported a production output decline by 490 GWh (by 3.7%) versus the third quarter of last year. This was due to the permanent shutdown – as of the end of 2017 – of the Adamów Power Plant (600 MW of installed capacity). Gas-fired power plants' electricity production rose significantly from 1 609 GWh in the third quarter of 2017 to 2 423 GWh in the third quarter of 2018 (an increase by 51%). This was possible thanks to the commissioning of the Combined Cycle Gas Turbine (CCHT) units in Włocławek and Płock. The wind farms reported a drop of the production output by 378 GWh (i.e. by 14.9% year on year), while their capacity stood at 5.80 GW at the end of September 2018 versus 5.77 GW a year ago. The production output from wind sources covered 5.2% of domestic electricity consumption in the third quarter of 2018 (in the third quarter of 2017: 6.2%).

Electricity prices on the wholesale market

The average electricity price on the SPOT market in Poland came in at 252.35 PLN/MWh (58.62 EUR/MWh) in the third quarter of 2018 and it rose by 89.2 PLN/MWh (20.3 EUR/MWh) year on year. Significant increases of electricity prices on the SPOT market were also reported on the power exchanges in the neighboring countries. In Germany on the EPEX SPOT power exchange the average electricity price reached 53.52 EUR/MWh in the third quarter of 2018, i.e. it was higher by 20.79 EUR/MWh than in the same quarter of last year. The fundamental factors that are bringing about rising electricity prices in Poland and in Europe have remained unchanged and they include: rising CO_2 emission allowances prices and high commodity prices. Additionally, the meteorological situation was adverse in the third quarter of 2018. High outdoor temperatures and very low precipitation led to a hydrological drought in the majority of countries in Europe.

The forward contracts market was characterized by a high price volatility in the third quarter of 2018, especially in September. The average price of the reference BASE_Y-19 forward contract reached 241.43 PLN/MWh, while the lowest price, reported on July 2, came in at 207.22 PLN/MWh and the highest price of 311.56 PLN/MWh was observed on September 20. In July and August the BASE_Y-19 contract prices were in a stable upward trend. Between September 5 and 10 the said contract prices increased significantly (+40.5 PLN during four sessions). It was a consequence of rising CO_2 emission allowances prices (a multi-year high of 25.97 EUR/MgCO_2 was reached on September 10), and also of publishing the news of an emergency shutdown of the new Combined Cycle Gas Turbine (CCHT) unit with the installed capacity of 485 MW at the Włocławek CHP.

Furthermore, the maximum price reached during the quarter under review coincided with the disclosure of the information on the planned completion of the Włocławek CHP's overhaul at the end of March 2019, i.e. 4 months later than originally scheduled. A growth driving factor was also the PSCMI1 coal price index, rising month after month, reflecting growing prices of coal sold to the power sector.

The increase of the base contract price had an impact on the rising prices of all electricity futures contracts. The PEAK_Y-19 contract prices reached maximum levels on almost the same dates as the BASE_Y-19 contract prices did, 405.20 PLN/MWh (September 11) and 429.5 PLN/MWh (September 20). During the period under review the average PEAK_Y-19 contract price came in at 336.3 PLN/MWh. The monthly and quarterly contracts were also characterized by similar volatility. The average price of the BASE_Q4-18 contract stood at 262,45 PLN/MWh in the third quarter of 2018, while the BASE_Q1-19 contract price reached 233.44 PLN/MWh. The prices of the CO_2 emission allowances, having reached a multi-year high, began to decline at the end of September which also led to the drop of the annual contracts with the delivery in 2019.

Prices of CO_2 emission allowances

A strong upward trend that had commenced in June 2017 was continued in the third quarter of 2018. During the period under review the EUA prices moved within the 14.82 – 25.79 EUR/MgCO_2 range. The average price came in at 18.85 EUR/MgCO_2 versus 5.94 EUR/MgCO_2 a year ago (i.e. it was 12.91 EUR/MgCO_2 higher year on year).

An event affecting the EUA prices was the July announcement of Miguel Canete, the European Commissioner for Energy and Climate, related to a potential raising of the greenhouse gases emission reduction target that the European Commission is working on. In accordance with the subsequent proposal the target was to have been raised by 5% versus the one currently in force. Finally, the increase of the reduction target was not accepted by the European Parliament. Another significant factor was the publishing of the EUA prices forecast by Carbon Tracker. It assumes a price increase to 25 EUR/MgCO_2 by the end of 2018. As a consequence of strong price increases the market commentaries began, ever more often, bringing up the issue of applying art. 29a of the EU ETS directive that is related to taking applicable measures in case of an excessive rise of the EUA prices. Finally, the prices declined in the second half of September as a result of which the average price in September came in at 21.47 EUR/MgCO_2.

Prices of property rights

The renewable energy sources market was characterized by a high volatility of the green certificates prices in the third quarter of 2018. During that period the OZEX_A index rose from the low of 76.36 PLN/MWh in July to the high of 153.36 PLN/MWh in September. The average weighted index price came in at 114.77 PLN/MWh in Q3 and it was higher by 170% than in the same period of 2017 (versus the substitution fee of 48.53 PLN/MWh). The trading volume stood at 4 439 GWh. The green certificates register balance reached a surplus of 31.81 TWh as of the end of September 2018, while taking into account the certificates blocked to be redeemed: 23.71 TWh.

In contrast to the green certificates market the blue property rights market was stable in the third quarter of 2018, with prices moving within the 306.62 PLN/MWh to 317.50 PLN/MWh range, while the average weighted price came in at 312.05 PLN/MWh (an increase by 2% year on year). It was 4% higher than the substitution fee (300.03 PLN/MWh) in force. The trading volume stood at 134.71 GWh, while the PMOZE-BIO register balance reached 275.2 GWh as of the end of September 2018. Taking into account the certificates blocked to be redeemed this register is falling to 227.8 GWh.

The only subject of the cogeneration certificates trading in the third quarter of 2018 were the 2018 settlements, as, in accordance with the amendment to the Energy Law Act, it was possible to redeem property rights for the units that had generated electricity in 2017 only until June 30, 2018. In the third quarter of 2018 the average weighted price of the property rights confirming electricity production using high efficiency gas cogeneration in 2018 (yellow certificates – PMGM-2018) reached 110.27 PLN/MWh, with the substitution fee in force of 115 PLN/MWh. For the PMEC-2018 coal co-generation (red certificates) the average weighted price came in at 8.79 PLN/MWh with the substitution fee in force of 9 PLN/MWh, and for the PMMET-2018 property rights related to electricity production by burning methane (violet certificates) the price stood at 55.09 PLN/MWh, with the substitution fee of 56 PLN/MWh.

The white property rights market was in an upward trend in the third quarter of 2018. The value of the PMEF index confirming the fulfillment of the obligation to implement projects aimed at improving energy efficiency rose to the high of 700 PLN/toe from the low of 492.91 PLN/MWh. The average weighted price reached 625.08 PLN/toe for which the substitution fee is 1 575 PLN/toe in 2018.

Gas prices on the wholesale market

The average price of gas on the Next Day Market of the Polish Power Exchange (TGE - Towarowa Giełda Energii S.A.) came in at PLN 112.98 PLN/MWh in the third quarter of 2018. It was 50.1% higher than in the same period of 2017, primarily as result of strong increases of the carbon dioxide emission allowances prices. The highest monthly average gas price in the third quarter was reported in September (124.86 PLN/MWh). In July and August it was, respectively: 104.00 PLN/MWh and 110.62 PLN/MWh. The trading volume reached 1 033 296 MWh which meant a drop by 51.2% (from 2 118 864 MWh) on an annual basis.

On the forward market the average price of the reference annual contract came in at 109.32 PLN/MWh in the third quarter of 2018. The lowest price was reached in July (average: 100.67 PLN/MWh), with the highest coming in September (average: 118.12 PLN/MWh). During the period under review volume on the reference annual contract in comparison to the same period of the preceding year went up from 16 206 000 MWh to 23 599 440 MWh, i.e. by 45.6%.

According to the data of GIE (Gas Infrastructure Europe), as of September 30, 2018, the Polish storage facilities, with the total capacity close to 3 billion m^3, were 98.3% filled, while a year ago they were 98% filled (0.3 pp). In Europe this indicator came in at 82.8% (as of September 30, 2018) and at 84.6% (as of September 30, 2017).

<u>Regulatory environment</u>

Ordinance of the Minister of Energy

Three ordinances of the Minister of Energy, as the secondary legislation (executive acts) to the act of December 8, 2018, on capacity market (Journal of Laws of 2018, item 9), were published in the third quarter of 2018.

1. ***Ordinance of the Minister of Energy of July 18, 2018, on fulfilling the capacity obligation, its settling and demonstrating, as well as on concluding transactions on the secondary market (Journal of Laws of 2018, item 1455)***

The ordinance defines the minimum generation capacity reserve in the system, the procedure to be used to announce the stress periods and the manner of demonstrating the ability to fulfill the capacity obligation. Furthermore, the ordinance includes information on how to calculate the unit penalty rates for failing to fulfill the capacity obligation.

2. ***Ordinance of the Minister of Energy of August 22, 2018, on the parameters of the main auctions for the delivery periods falling in 2021-2023 (Journal of Laws of 2018, item 1632)***

The auction parameters defined in the ordinance represent the most important element of the capacity market mechanism, including: capacity demand value, market entry price for a new generating unit and parameters setting the capacity below and above the capacity demand are defined.

The price increasing parameter (factor) that sets the auction opening prices for 2021-2023 at the following levels will have the biggest impact on the course of the auction:

- 327.8 thousand PLN/MW in the auction with the delivery year of 2021,
- 366 thousand PLN/MW in the auction with the delivery year of 2022,
- 406.9 thousand PLN/MW in the auction with the delivery year of 2023.

3. ***Ordinance of the Minister of Energy of September 3, 2018, on a financial security to be submitted by capacity providers and participants of the preliminary auctions (Journal of Laws of 2018, item 1730)***

The ordinance defines forms and methods of fulfilling the obligation to provide a financial security of actions taken on the capacity market.

The certification process for the main auctions for 2021-2023

The certification process for the main auctions taking place in 2018 commenced on September 5, 2018, aimed at certifying the generating and demand side response units as Capacity Market Units. Obtaining of a certificate is a precondition for participating in capacity auctions.

Draft act on the amendment to the Energy Law act and some other acts

The draft act on the amendment to the Energy Law act was published on the Government Legislation Center's website and submitted to public consultations on August 14, 2018. This draft introduces, among others, an increase of the extent of the obligation to sell generated electricity on power exchanges or organized trading platforms from 30 percent to 100 percent. This change will contribute to improving the transparency of the energy market operations. The increase of the obligation is aimed at improving the liquidity and predictability on the electricity market.

The electricity delivered via a direct line from an enterprise to the final consumer, the electricity from RES, the electricity produced in co-generation with the average annual efficiency rate of more than 52.5 percent, the electricity used for own needs, the electricity generated by an installation with a capacity of less than 50 MW_e and the electricity required by the power system operators to carry out their tasks will be exempted from the obligation.

The President of ERO may exempt from the obligation those installations that commenced generating electricity after July 1, 2017, and guaranteed their electricity sales under long term agreements concluded in order to carry out investments in generation capacity, secure revenue, as well as under long term commitments. The exemption is also to be applicable with respect to the electricity generated for the needs of the transmission system operator to be used for the needs of the correct operation of the National Power System (KSE).

The draft was submitted to be processed by the Parliament on October 11, 2018.

RES auctions

On September 13 and October 2, 2018, the President of ERO announced RES auctions scheduled to be conducted in Q4 2018, in accordance with the below specification:

Basket	Electricity source type	Type	Capacity criterion	Volume [MWh]	Value [PLN]	Date of conducting the auction
I.	Biogas other than agricultural biogas, dedicated biomass burning installations, dedicated biomass co-firing installations, thermal waste processing installations	existing	up to 1 MW	915 336	512 588 160	October 25, 2018
		existing	> 1 MW	33 864 470	14 203 623 881	October 17, 2018.
		new	up to 1 MW	13 311 000	5 507 985 000	November 7, 2018
		new	> 1 MW	57 699 309	24 929 301 412	November 6, 2018
II.	Hydroelectricity, bioliquids, geothermal electricity, off-shore wind farms	existing	up to 1 MW	1 475 211	767 716 880	October 19, 2018
		new	up to 1 MW	3 750 000	1 895 250 000	November 13, 2018
		new	> 1 MW	5 400 000	2 592 000 000	November 19, 2018
III.	Agricultural biogas	existing	up to 1 MW	1 149 296	655 098 834	October 24, 2018
		existing	> 1 MW	1 467 617	807 189 350	October 18, 2018
		new	up to 1 MW	11 700 000	7 160 400 000	November 14, 2018
		new	> 1 MW	3 510 000	1 930 500 000	November 20, 2018
IV.	On-shore wind farms, photovoltaics	new	up to 1 MW	16 065 000	6 240 300 000	November 12, 2018
		new	> 1 MW	45 000 000	15 750 000 000	November 5, 2018

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

Material events after the balance sheet day

Commencement of the negotiations related to the acquisition of wind farms

On October 2, 2018 the Management Board of TAURON Polska Energia S.A. received an invitation to commence negotiations related to the acquisition of the wind farms owned by the in.ventus group, located in the north of Poland. The total installed capacity of the wind farms mentioned above is approximately 200 MW.

The transaction can be carried out by way of TAURON acquiring the German and Polish partnerships operating the farms (”Project Partnerships (Vehicles)”). In such case TAURON will take over all of the rights and obligations of the existing partners (shareholders) of the Project Partnerships (Vehicles), while at the same time acquiring the bank liability towards the Project Partnerships (Vehicles). TAURON also allows for conducting the transaction by acquiring the enterprises of the Polish project partnerships (vehicles).

The goal of the negotiations will be to define the options, principles, terms and financial parameters of the Transaction. Concluding of the Transaction will be dependent on achieving the results of the Negotiations that will be satisfactory for all of the parties.

Disclosure of TAURON Group’s Q1-3 2018 and Q3 2018 estimated (flash) financial results

On October 25, 2018, TAURON disclosed TAURON Polska Energia S.A. Capital Group’s selected estimated Q1-3 2018 and Q3 2018 consolidated financial data and operating data.

Other events after the balance sheet day

Signing of the letter of intent by TAURON and PKN Orlen

On October 10, 2018 TAURON and PKN Orlen signed the letter of intent on cooperation. Under the signed letter the companies declared setting up a working group whose task would include, among others, an analysis of the terms of cooperation under which a subsidiary of ORLEN Capital Group will provide to TAURON a site for a potential construction of a modern generation source at Neratovice in the Czech Republic. The group will be made up of representatives of each of the companies, while TAURON will be the leader and coordinator of its works.

The investment project that the analyses are applicable to is to be a high efficiency source of electricity and heat in the form of steam for, among others, a member of ORLEN Capital Group, one of the largest chemical companies in the Czech industry – Spolana.

As a result of completing the investment project under consideration it will also be possible to generate electricity for TAURON Czech s.r.o. trading company, to be supplied to the Czech or Polish energy market.

Signing of the letter of intent by TAURON and KGHM

On October 18, 2018 TAURON and KGHM signed the letter of intent on cooperation under which the parties would commission fast charging stations at locations that will be strategic for KGHM and TAURON. The joint operations of TAURON and KGHM will also be related to the development of carsharing and improving the electricity consumption efficiency.

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

No material proceedings were initiated at TAURON Capital Group before the court, competent arbitration authority or public administration authority, related to the accounts payable and accounts receivable of the Company or its subsidiary, in the third quarter of 2018.

The below table presents material proceedings pending before the court, related to the Company's and TAURON Capital Group's subsidiaries' accounts payable and accounts receivable.

Material court proceedings

Proceedings involving TAURON		
#	**Parties to the proceeding**	**Description of the proceedings including the value of the object of litigation and the Company's position**
1.	Huta Łaziska S.A. (plaintiff) TAURON (as a legal successor to Górnośląski Zakład Elektroenergetyczny S.A.) and the State Treasury represented by the President of ERO (defendants)	Object of litigation: a lawsuit for the payment of compensation for alleged damage caused by non-performance of Górnośląski Zakład Elektroenergetyczny S.A. of the decision of the President of ERO of October 12, 2001 related to the resumption of electricity supply to the plaintiff.
		Value of the object of litigation: PLN 182 060 000.00
		Initiation of the proceeding: the lawsuit of March 12, 2007
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
2.	ENEA S.A. (plaintiff) TAURON (defendant)	Object of litigation: a lawsuit for the payment due to the Company's alleged unjust enrichment in connection with the settlements related to the non balancing of the Balancing Market with Polskie Sieci Elektroenergetyczne S.A. between January and December 2012.
		Value of the object of litigation: PLN 17 085 846.49
		Initiation of the proceeding: the lawsuit of December 10, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
3.	Head of the Mazovian Customs and Tax Office (authority conducting investigation) TAURON (party)	Object of litigation: examining the accuracy of the tax base amounts declared by TAURON and the correctness of calculations and payments of the VAT tax for the period from October 2013 until September 2014. The main subject of the three investigations carried out by the Head of the Mazovian Customs and Tax Office are TAURON's deductions of the VAT assessed due to the purchase of electricity by TAURON on the German and Austrian electricity market from the following entities: Castor Energy sp. z o.o. and Virtuse Energy sp. z o.o.
		Value of the object of litigation (deducted VAT amount): PLN 54 371 306.92, out of which: Castor Energy sp. z o.o. – PLN 52 494 671.92, Virtuse Energy sp. z o.o. – PLN 1 876 635.00
		Date of initiating the proceeding: the first proceeding (related to the period from October 2013 until April 2014) – initiated in October 2014, the second proceeding (related to the second quarter of 2014) - initiated in August 2016; the third proceeding (related to the period from April until September 2013) - initiated in December 2016

		Company's position: in the Company's opinion, taking into account all the circumstances of the matter and the rulings of the Court of Justice of the European Union (CJEU), as well as the rulings, positive for the taxpayers, of WSA and NSA, surfacing since the end of 2016, in cases related to the right to deduct VAT in the event of unwitting participation in the missing trader fraud if, during the verification of both counterparties, due diligence was adhered to, the Company acted in good faith and should have the right to deduct the tax assessed on the invoices documenting the electricity purchase from the counterparties Castor and Virtuse..

Lawsuits pertaining to the termination, by the PE-PKH subsidiary, of the agreements related to the sale of electricity and property rights arising from the certificates of origin

#	Parties to the proceeding	Description of the proceedings including the value of the object of litigation and the Company's position
4.	Dobiesław Wind Invest Sp. z o.o. (plaintiff) PE-PKH and TAURON (defendants)	Object of litigation: lawsuit for payment of damages and determination of liability for the future.
		Value of the object of litigation: PLN: 34 746 692.31
		Initiation of the proceeding: the lawsuit of June 30, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
5	Dobiesław Wind Invest Sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for submitting a security (collateral) by establishing an escrow deposit (set aside for a separate consideration outside the proceeding under section 4).
		Value of the object of litigation: PLN 183 391 495.00
		Date of initiating the proceeding: June 30, 2017
		Company's position: the Company considers the claims as being without merit.
6.	Gorzyca Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: PLN 39 718 323.00
		Initiation of the proceeding: the lawsuit of June 29, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
7.	Pękanino Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: PLN 28 469 073.00
		Initiation of the proceeding: the lawsuit of June 29, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
8.	Nowy Jarosław Wind Invest sp. z o.o.	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.

#	Parties to the proceeding	Description of the proceedings including the value of the object of litigation and the Company's position
	(plaintiff) TAURON (defendant)	Value of the object of litigation: PLN 27 008 100.00
		Initiation of the proceeding: the lawsuit of June 29, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
9.	in.ventus sp. z o.o. Mogilno I sp. k. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: EUR 12 286 229.70 (i.e. PLN 53 587 619.46 at NBP's average exchange rate of June 29, 2018)
		Initiation of the proceeding: the lawsuit of June 29, 2018
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
10.	Amon Sp. z o.o. and Talia Sp. z o.o. (formal co-participation on the plaintiff's side) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: Amon – PLN 47 556 025.51; Talia – PLN 31 299 182.52
		Initiation of the proceeding: the lawsuit of April 30, 2018
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.

Proceedings involving TAURON Capital Group's subsidiaries

#	Parties to the proceeding	Description of the proceedings including the value of the object of litigation and the Company's position
1.	Gorzyca Wind Invest sp. z o.o. Pękanino Wind Invest sp. z o.o. Dobiesław Wind Invest sp. z o.o. (plaintiff) PE-PKH (defendant)	Object of litigation: plea to declare the termination, by PE-PKH, of the long term agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.
		Value of the object of litigation: Gorzyca – PLN 1 141 991.61; Pękanino – PLN 39 266 111.02
		Date of initiating the proceeding: Gorzyca – May 18, 2015, Pękanino – May 20, 2018, DWI – May 18, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
2.	Dobiesław Wind Invest sp. z o.o. (plaintiff) PE-PKH (defendant)	Object of litigation: plea to award damages
		Value of the object of litigation: PLN 42 095 462,00
		Initiation of the proceeding: the lawsuit of June 14, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.

3.	Nowy Jarosław Wind Invest sp. z o.o. (plaintiff) PE-PKH (defendant)	Object of litigation: plea to declare the termination, by PE-PKH, of the long term agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.
		Value of the object of litigation: PLN 42 499 627.97
		Initiation of the proceeding: the lawsuit of June 3, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
4.	Amon sp. z o.o. (plaintiff) PE-PKH (defendant)	Object of litigation: plea to declare the termination, by PE-PKH, of the long term agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.
		Value of the object of litigation: PLN 40 478 983.22
		Initiation of the proceeding: the lawsuit of May 22, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
5.	Talia sp. z o.o. (plaintiff) PE-PKH (defendant)	Object of litigation: plea to declare the termination, by PE-PKH, of the long term agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.
		Value of the object of litigation: PLN 26 769 159.48
		Initiation of the proceeding: the lawsuit of May 21, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
6.	Mogilno III Mogilno IV Mogilno V Mogilno VI (plaintiff) PE-PKH (defendant)	Object of litigation: plea to declare the termination, by PE-PKH, of the long term agreements related to the purchase of electricity null and void, and to award damages
		Value of the object of litigation: Mogilno III – equivalent of EUR 835 763.25; Mogilno IV – equivalent of EUR 930 395.46; Mogilno V – equivalent of EUR 777 607.28; Mogilno VI – equivalent of EUR 677 738.23
		Initiation of the proceeding: the lawsuit of May 25, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
7.	Mogilno I Mogilno II (plaintiff) PE-PKH (defendant)	Object of litigation: lawsuit for payment of damages
		Value of the object of litigation: Mogilno I – equivalent of EUR 712 000.75; Mogilno II – equivalent of EUR 753 462.78
		Initiation of the proceeding: the lawsuits of November 7, 2018
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.

8. Information on transactions with related entities

All transactions with related entities are concluded at arm's length. Detailed information on the transactions with related entities is provided in note 38 of the interim abbreviated consolidated financial statements for the period of 9 months ended on September 30, 2018.

9. Information on granted guarantees, loan or credit co-signings (sureties, endorsements)

In the third quarter of 2018 neither TAURON Polska Energia, nor its subsidiaries granted any loan or credit co-signings (sureties, endorsements) or guaranties – jointly to a single entity or such entity's subsidiary, where the total value of existing co-signings (sureties, endorsements) or guaranties would be significant for TAURON Capital Group.

10. Other information that, according to the Issuer, could be material for the evaluation of the staffing, assets, financial position, financial result and changes thereof, as well as information that is material to evaluate the ability of the Issuer's Capital Group to meet its obligations

Besides the reported events indicated above in this document no other events had occurred in the third quarter of 2018, that could be material for the evaluation of TAURON Capital Group's ability to meet its obligations.

TAURON's Management Board's position is that the information presented in this report describes TAURON Capital Group's staffing, assets and financial position, as well as its financial results and changes thereof in a comprehensive manner and that no other events occurred, undisclosed by the Company, that could be relevant for the evaluation of the situation with regard to the above factors.