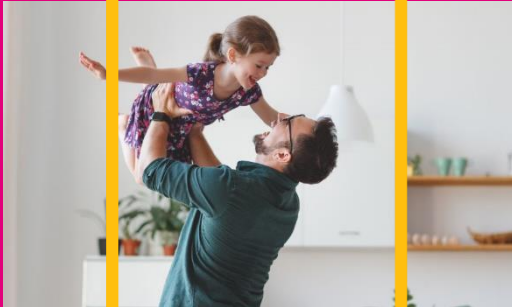




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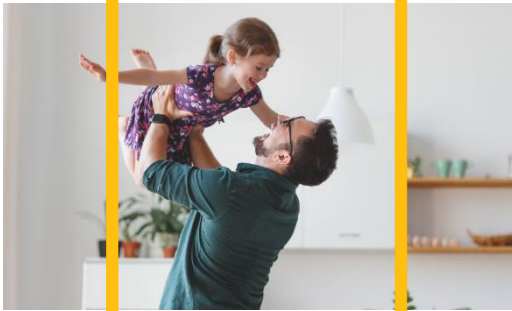


EXTENDED CONSOLIDATED INTERIM REPORT

of TAURON Polska Energia S.A.
Capital Group
for Q1 2019

May 2019

TAURON.PL



CONDENSED INTERIM FINANCIAL STATEMENTS

prepared in accordance with
the International Financial Reporting Standards,
as endorsed by the European Union
for the 3-month period ended 31 March 2019

TAURON Polska Energia S.A.

Condensed interim financial statements

prepared in accordance with the International Financial Reporting Standards,

as endorsed by the European Union

for the 3-month period ended 31 March 2019

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CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Sales revenue	11	2 516 047	1 924 505
Cost of sales	12	(2 495 084)	(1 918 532)
Profit on sale		20 963	5 973
Selling and distribution expenses	12	(4 298)	(4 570)
Administrative expenses	12	(34 234)	(29 582)
Other operating income and expenses		(1 915)	(1 903)
Operating loss		(19 484)	(30 082)
Interest income on bonds and loans	13	86 317	102 047
Interest expense on debt	13	(94 214)	(73 733)
Revaluation of bonds and loans	13	(143 417)	(5 654)
Other finance income and costs	13	(9 581)	(33 381)
Loss before tax		(180 379)	(40 803)
Income tax expense	14.1	24 662	(1 699)
Net loss		(155 717)	(42 502)
Measurement of hedging instruments	27.4	(2 771)	(13 108)
Income tax expense	14.1	527	2 490
Other comprehensive income subject to reclassification to profit or loss		(2 244)	(10 618)
Actuarial gains		58	80
Income tax expense	14.1	(12)	(15)
Other comprehensive income not subject to reclassification to profit or loss		46	65
Other comprehensive income, net of tax		(2 198)	(10 553)
Total comprehensive income		(157 915)	(53 055)
Earnings (loss) per share (in PLN):			
- basic and diluted, for net profit		(0.09)	(0.02)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2019 (unaudited)	As at 31 December 2018
ASSETS			
Non-current assets			
Investment property	16	22 613	22 010
Right-of-use assets	17	38 158	-
Shares	18	21 081 896	21 076 056
Bonds	19	4 906 264	5 043 981
Loans granted	20	858 111	808 760
Derivative instruments	21	6 871	43 844
Deferred tax assets	14.2	188 305	148 180
Other financial assets	22	2 805	2 804
Other non-financial assets	25	19 262	20 865
		27 124 285	27 166 500
Current assets			
Inventories	23	635 941	409 587
Receivables from buyers	24	733 415	819 563
Income tax receivables	14.3	9 507	13 921
Bonds	19	365 976	192 311
Loans granted	20	104 675	13 117
Derivative instruments	21	108 733	176 499
Other financial assets	22	240 055	245 721
Other non-financial assets	25	27 645	9 846
Cash and cash equivalents	26	463 242	465 925
		2 689 189	2 346 490
TOTAL ASSETS		29 813 474	29 512 990

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION — CONTINUED

	Note	As at 31 March 2019 (unaudited)	As at 31 December 2018
EQUITY AND LIABILITIES			
Equity			
Issued capital	27.1	8 762 747	8 762 747
Reserve capital	27.3	8 511 437	8 511 437
Revaluation reserve from valuation of hedging instruments	27.4	1 127	3 371
Retained earnings / (Accumulated losses)	27.3	(2 173 390)	(2 017 719)
		15 101 921	15 259 836
Non-current liabilities			
Debt	28	9 597 637	8 474 344
Other financial liabilities	29	15 126	17 626
Derivative instruments	21	10 922	37 930
Provisions for employee benefits		3 925	3 787
Accruals, deferred income and government grants		125	103
		9 627 735	8 533 790
Current liabilities			
Debt	28	4 326 139	4 504 374
Liabilities to suppliers	31	307 296	525 986
Other financial liabilities	29	174 957	371 646
Derivative instruments	21	146 979	202 992
Other non-financial liabilities	32	31 611	24 626
Provisions for employee benefits		251	245
Other provisions	30	73 929	72 894
Accruals, deferred income and government grants		22 656	16 601
		5 083 818	5 719 364
Total liabilities		14 711 553	14 253 154
TOTAL EQUITY AND LIABILITIES		29 813 474	29 512 990

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2019 (unaudited)

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2019	8 762 747	8 511 437	3 371	(2 017 719)	15 259 836
Net loss	-	-	-	(155 717)	(155 717)
Other comprehensive income	-	-	(2 244)	46	(2 198)
Total comprehensive income	-	-	(2 244)	(155 671)	(157 915)
As at 31 March 2019 (unaudited)	8 762 747	8 511 437	1 127	(2 173 390)	15 101 921

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

	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	-	-	-	(388 551)	(388 551)
As at 1 January 2018	8 762 747	7 657 086	23 051	546 471	16 989 355
Net loss	-	-	-	(42 502)	(42 502)
Other comprehensive income	-	-	(10 618)	65	(10 553)
Total comprehensive income	-	-	(10 618)	(42 437)	(53 055)
As at 31 March 2018 (unaudited)	8 762 747	7 657 086	12 433	504 034	16 936 300

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Cash flows from operating activities			
Loss before tax		(180 379)	(40 803)
Depreciation and amortization		3 243	1 314
Interest and dividends, net		23 456	(11 068)
Impairment losses on bonds and loans		143 417	5 654
Exchange differences		2 079	29 601
Other adjustments of profit before tax		22 427	(60 196)
Change in working capital	33.1	(532 476)	47 384
Income tax paid		(26 066)	86
Net cash from operating activities	33.1	(544 299)	(28 028)
Cash flows from investing activities			
Loans granted	33.2	(206 366)	(31 800)
Purchase of shares	33.2	(5 840)	(11 000)
Other		(844)	(304)
Total payments		(213 050)	(43 104)
Redemption of bonds		-	910 000
Repayment of loans granted		2 230	120 000
Interest received	33.2	39 905	79 810
Other		207	-
Total proceeds		42 342	1 109 810
Net cash from investing activities		(170 708)	1 066 706
Cash flows from financing activities			
Payment of lease liabilities		(2 342)	(899)
Repayment of loans	33.3	(35 205)	(35 205)
Redemption of debt securities	33.3	(400 000)	-
Interest paid	33.3	(23 361)	(9 659)
Commission paid		(8 801)	(5 931)
Total payments		(469 709)	(51 694)
Issue of debt securities	33.3	500 000	-
Contracted loans	33.3	730 000	-
Total proceeds		1 230 000	-
Net cash from financing activities		760 291	(51 694)
Net increase / (decrease) in cash and cash equivalents		45 284	986 984
Net foreign exchange difference		(700)	3 175
Cash and cash equivalents at the beginning of the period	26	(1 560 034)	(1 559 232)
Cash and cash equivalents at the end of the period, of which:	26	(1 514 750)	(572 248)
restricted cash	26	72 089	54 484

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 in Katowice in ul. ks. Piotra Ściegiennego 3, whose shares are publicly traded.

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

The Company has been 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:

- activities of head offices and holdings, 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 in the TAURON Polska Energia S.A. Capital Group (the "Group", the "TAURON Group").

The Company's condensed interim financial statements cover the 3-month period ended 31 March 2019 and present comparative information for the 3-month period ended 31 March 2018 as well as figures as at 31 December 2018. The data for the 3-month period ended 31 March 2019 and the comparative information for the 3-month period ended 31 March 2018, as contained herein, has not been audited or reviewed by a certified auditor. The comparative information as at 31 December 2018 was audited by a certified auditor.

These condensed interim financial statements for the 3-month period ended 31 March 2019 were approved for publication on 24 May 2019.

The Company also prepared condensed interim consolidated financial statements for the 3-month period ended 31 March 2019, which were approved for publication by the Management Board on 24 May 2019.

These condensed interim financial statements are part of the consolidated report, which also includes the condensed interim consolidated financial statements for the 3-month period ended 31 March 2019.

2. Shares in related parties

As at 31 March 2019, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

TAURON Polska Energia S.A.
Condensed interim financial statements for the 3-month period ended 31 March 2019
prepared in accordance with the IFRS, as endorsed by the EU
(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 Wydobywanie 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 of electricity	92.86%	92.86%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Generation 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 Pomiary Sp. z o.o. ¹	Tarnów	Services	99.74%	99.75%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%	100.00%
12	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%	100.00%
13	TAURON Dystrybucja Serwis S.A.	Wrocław	Services	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.	Krzyszowice	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	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	Wholesale of fuel and derivative products	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o. ¹	Tarnów	Services	99.74%	99.75%

¹TAURON 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.

Changes in the share of TAURON Polska Energia S.A. in the capital and the governing body of Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 15 January 2019 an increase in the capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered, pursuant to a resolution of the Extraordinary General Shareholders' Meeting of 20 December 2018. The new shares were subscribed for by Fundusz Inwestycji Infrastrukturalnych — Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych for the total amount of PLN 100 000 thousand.

On 25 February 2019, 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 2 569 thousand, through the issue of 51 385 new shares with the nominal value of PLN 50 each. The new shares in the increased issued capital were subscribed for by Fundusz Inwestycji Infrastrukturalnych — Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with the registered office in Warsaw for the total issue price of PLN 256 925 thousand. The share premium totalling PLN 254 356 thousand was transferred to the reserve capital of Nowe Jaworzno Grupa TAURON sp. z o.o. As a result of the transaction, the Company's interest in the capital went down to 92.86%. As at 31 March 2019 there were no changes in the interest of TAURON Polska Energia S.A. in the issued capital and decision-making bodies of other material subsidiaries and jointly-controlled entities as compared to 31 December 2018. After the end of the reporting period, on 18 April 2019 the aforesaid increase in the issued capital was registered.

As at 31 March 2019 there were no changes in interest of TAURON Polska Energia S.A. in the issued capital and in the governing bodies of other key subsidiaries and jointly-controlled entities as compared to 31 December 2018.

TAURON Polska Energia S.A.
Condensed interim financial statements for the 3-month period ended 31 March 2019
prepared in accordance with the IFRS, as endorsed by the EU
(in PLN '000)

As at 31 March 2019, 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%
2	TAMEH HOLDING Sp. z o.o. ²	Dąbrowa Górnicza	Head office and holding operations	50.00%
3	TAMEH POLSKA Sp. z o.o. ²	Dąbrowa Górnicza	Generation, transmission, distribution and sale of electricity and heat	50.00%
4	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").

These 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 2018.

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 these condensed interim financial statements were approved for publication, there were no circumstances that would indicate a risk to the Company's ability to continue as a going concern.

5. Functional and presentation currency

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 had an impact on the figures disclosed in these 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.

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

TAURON Polska Energia S.A.
Condensed interim financial statements for the 3-month period ended 31 March 2019
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Item	Note	Estimates and assumptions
Shares	Note 18	<p>As at the end of each reporting period, 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 is obliged to test the shares for impairment and to recognize an impairment loss or to reverse an earlier impairment loss.</p> <p>The Company properly classifies shares in entities other than subsidiaries and jointly-controlled entities and measures them at fair value. The method of calculating the fair value has been presented in Note 34 hereto</p>
Intra-group bonds	Note 19	<p>As at the end of each reporting period, the Company assesses the classification of intra-group bonds to current or non-current assets. Intra-group bonds maturing within one year of the end of the reporting period, intended for rollover, are classified to long-term instruments. Such classification reflects the type of financing as part of an intra-group bond issue scheme whereby cash is managed over a mid and long term.</p> <p>The Company estimates the value of a loss allowance for expected credit losses of intra-group bonds. The Company estimates the risk of insolvency of the bond issuers based on the ratings assigned to the counterparties using an internal scoring model, adjusted accordingly to account for the probability of default. The expected credit loss is calculated accounting for the time value of money.</p>
Loans granted	Note 20	<p>The Company properly classifies and measures the loans it has granted.</p> <p>For loans classified to assets measured at amortized cost the Company estimates the value of their impairment losses. The risk of insolvency of the borrowers is estimated based on the ratings assigned to the counterparties using an internal scoring model, adjusted accordingly to account for the probability of default and the time value of money.</p> <p>Measurement of a loan classified to assets measured at fair value is estimated as the present value of future cash flows considering the borrower's credit risk.</p>
Derivative instruments	Note 21	<p>As at the end of each reporting period, the Company values derivatives at fair value.</p> <p>Financial instruments acquired and held for internal purposes are not measured as at the end of the reporting period.</p>
Receivables from buyers	Note 24	<p>As far as receivables from buyers are concerned, the Company estimates the value of loss allowance for expected credit losses based on the probability-weighted credit loss to be incurred, if any of the following events takes place:</p> <ul style="list-style-type: none"> • a significant (material) delay in payment, • liquidation, bankruptcy or other form of restructuring of the debtor, • administrative enforcement, court action or court enforcement is instigated to recover the receivables. <p>Receivables from buyers are divided into the portfolios of strategic and other counterparties. The risk of insolvency on the part of strategic counterparties is assessed based on ratings assigned to the counterparties using an internal scoring model, adjusted accordingly to account for the probability of default, considering estimated recoveries of security that was put up.</p> <p>It is expected that the historical performance information concerning the receivables from other counterparties may reflect the credit risk that will be faced in future periods. Therefore, the expected credit losses are estimated using the ageing analysis matrix.</p>
Deferred tax assets	Note 14.2	<p>As at the end of each reporting period, the Company assesses the realisation of deferred tax assets and verifies deferred tax assets which were not recognized.</p>
Provisions	Note 30	<p>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%.</p>

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 36 hereto.

7. Standards and amendments to standards which have been published but are not yet effective

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

- **Standards issued by the International Accounting Standards Board and amendments to standards 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 have a material impact on 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 <i>Regulatory Deferral Accounts</i>	1 January 2016*
IFRS 17 <i>Insurance contracts</i>	1 January 2021
Revised IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture</i> with subsequent amendments	the effective date has been postponed
Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material</i>	1 January 2020
Amendments to IFRS 3 <i>Business Combinations</i>	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 *Regulatory Deferral Accounts*.

8. Changes in the accounting principles

The accounting principles (policy) underlying the preparation of these condensed interim financial statements are consistent with those underlying the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2018, except for the following new standards, amendments to standards and interpretations:

According to the Management Board, IFRS 16 *Leases* has a material impact on 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 a right-of-use asset and a 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 using the rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the lessee uses the incremental borrowing rate.

Lessors classify leases as either operating lease 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 lease payments from operating leases as income on either 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

The Company has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 16 *Leases*, i.e. with the cumulative effect of initially applying this standard recognized as at 1 January 2019. The Company decided not to restate the comparative information, as permitted by the Standard. The information as at 31 December 2018 and for the 3-month period ended 31 March 2018 has been prepared based on IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease* and SIC-15 *Operating Leases — Incentives*.

As at 1 January 2019 the Company recognized the right-of-use assets at an amount equal to the lease liability at the present value of the remaining lease payments, discounted using the incremental borrowing rate, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

An analysis of the impact of IFRS 16 *Leases* on the accounting principles (policy) has shown a change material for the Company, i.e. the need to recognize the right-of-use assets and lease liabilities for leases currently classified as operating leases. The Company analysed all concluded contracts to identify those affected by IFRS 16 *Leases*. The analysis included in particular developing a method to determine the incremental borrowing rate, identify assets, verify the control of its use and determine the lease term.

The Company decided to present the right-of-use assets separately from other assets in the statement of financial position, except for the right-of-use assets that meet the definition of investment property, which are presented as investment property as at 31 December 2018 in the amount of PLN 3 926 thousand and refer exclusively to the perpetual usufruct of land. The perpetual usufruct of land presented under the investment property has been increased by the value of discounted lease payments of PLN 1 526 thousand.

Impact of the adoption of IFRS 16 Leases as at 1 January 2019

	As at 31 December 2018 <i>(authorised figures)</i>	Recognition of right-of- use assets and lease liabilities	As at 1 January 2019 <i>(unaudited)</i>
ASSETS			
Non-current assets	27 166 500	41 496	27 207 996
Investment property	22 010	1 526	23 536
Right-of-use assets	-	39 970	39 970
TOTAL ASSETS	29 512 990	41 496	29 554 486
EQUITY AND LIABILITIES			
Equity	15 259 836	-	15 259 836
Non-current liabilities	8 533 790	34 404	8 568 194
Debt	8 474 344	34 404	8 508 748
Current liabilities	5 719 364	7 092	5 726 456
Debt	4 504 374	7 092	4 511 466
TOTAL EQUITY AND LIABILITIES	29 512 990	41 496	29 554 486

Distribution of right-of-use assets as at 1 January 2019

Right-of-use assets	As at 1 January 2019
Lease of office and warehouse space	35 345
Lease of parking spaces	3 123
Lease of cars	1 502
Total	39 970

Reconciliation between future minimum operating lease payments in line with IAS 17 *Leases* as at 31 December 2018 and lease liabilities in line with IFRS 16 *Leases* as at 1 January 2019:

Reconciliation IAS 17 <i>Leases</i> to IFRS 16 <i>Leases</i>	
Future minimum operating lease payments as at 31 December 2018 in line with IAS 17 <i>Leases</i>	49 164
Discount using the incremental interest rate	(7 668)
Lease liabilities under IFRS 16 <i>Leases</i> as at 1 January 2019	41 496

The Company applied a weighted-average incremental borrowing rate at 4.18% to calculate lease liabilities recognized in the statement of financial position as at the date it first applied IFRS 16 *Leases*.

The Company applied the following practical expedients as at the date it first applied IFRS 16 *Leases*:

- a single discount rate was applied to a portfolio of leases with reasonably similar characteristics;
- the requirements of IFRS 16 *Leases* were not applied to leases for which the lease term ends within 12 months of the date of initial application;
- hindsight was used as regards valid leases, specifically with respect to exercising an option to extend or terminate the lease;
- if a non-lease component cannot be separated for a class of underlying asset, both the lease and non-lease components were recognized as a single lease component.

The data presented above, which according to the Company, comply with the requirements of IFRS 16 *Leases* in all material respects, as part of condensed interim financial statements for three month period ended 31 march 2019, were not audited or reviewed by a certified auditor. Consequently, the final figures disclosed in the financial statements for 2019 may differ from those presented in these condensed interim financial statements.

According to the Management Board, the introduction of the following amendments to standards and interpretations had no material impact on the accounting principles (policy) applied thus far:

Standard/ Interpretation	Effective in the EU as of (annual periods beginning on or after the date provided)
Revised IFRS 9 <i>Financial Instruments</i>	1 January 2019
Revised IAS 28 <i>Investments in Associates and Joint Ventures</i>	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Revised IAS 19 <i>Employee Benefits</i>	1 January 2019
<i>Annual Improvements to IFRS (Cycle 2015-2017):</i>	
IAS 12 <i>Income Taxes</i>	1 January 2019
IAS 23 <i>Borrowing Costs</i>	1 January 2019
IFRS 3 <i>Business Combinations</i>	1 January 2019
IFRS 11 <i>Joint Arrangements</i>	1 January 2019

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. In the three month period ended 31 March 2019 and the comparative period, the Company did not recognize any dividend income.

OPERATING SEGMENTS

10. Information on operating segments

The Company carries out its business in two operating segments, i.e. "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 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 and received loans (except overdrafts);
- 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, net interest income and expense earned/incurred by the Company in relation to the central financing model adopted by the Group as well as impairment losses on shares, bonds and loans classified to the assets of the "Holding activity" segment.

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.

TAURON Polska Energia S.A.
Condensed interim financial statements for the 3-month period ended 31 March 2019
prepared in accordance with the IFRS, as endorsed by the EU
(in PLN '000)

For the 3-month period ended 31 March 2019 or as at 31 March 2019 (unaudited)

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	234 399	-	-	234 399
Sales within the Group	2 281 643	5	-	2 281 648
Segment revenue	2 516 042	5	-	2 516 047
Profit/(loss) of the segment				
Unallocated expenses	-	-	(34 234)	(34 234)
EBIT	14 745	5	(34 234)	(19 484)
Net finance income/(costs)	-	(158 291)	(2 604)	(160 895)
Profit/(loss) before income tax	14 745	(158 286)	(36 838)	(180 379)
Income tax expense	-	-	24 662	24 662
Net profit/(loss) for the period	14 745	(158 286)	(12 176)	(155 717)
Assets and liabilities				
Segment assets	2 218 964	27 370 495	-	29 589 459
Unallocated assets	-	-	224 015	224 015
Total assets	2 218 964	27 370 495	224 015	29 813 474
Segment liabilities	586 749	13 799 270	-	14 386 019
Unallocated liabilities	-	-	325 534	325 534
Total liabilities	586 749	13 799 270	325 534	14 711 553
EBIT	14 745	5	(34 234)	(19 484)
Depreciation/amortization	(3 243)	-	-	(3 243)
Impairment	(4)	-	-	(4)
EBITDA	17 992	5	(34 234)	(16 237)
Other segment information				
Capital expenditure *	839	-	-	839

* 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 31 March 2018 (unaudited) or as at 31 December 2018

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	186 651	-	-	186 651
Sales within the Group	1 737 849	5	-	1 737 854
Segment revenue	1 924 500	5	-	1 924 505
Profit/(loss) of the segment				
Unallocated expenses	-	-	(29 582)	(29 582)
EBIT	(505)	5	(29 582)	(30 082)
Net finance income (costs)	-	(11 910)	1 189	(10 721)
Profit/(loss) before income tax	(505)	(11 905)	(28 393)	(40 803)
Income tax expense	-	-	(1 699)	(1 699)
Net profit/(loss) for the period	(505)	(11 905)	(30 092)	(42 502)
Assets and liabilities				
Segment assets	2 131 713	27 193 114	-	29 324 827
Unallocated assets	-	-	188 163	188 163
Total assets	2 131 713	27 193 114	188 163	29 512 990
Segment liabilities	884 862	13 073 580	-	13 958 442
Unallocated liabilities	-	-	294 712	294 712
Total liabilities	884 862	13 073 580	294 712	14 253 154
EBIT	(505)	5	(29 582)	(30 082)
Depreciation/amortization	(1 314)	-	-	(1 314)
Impairment	58	-	-	58
EBITDA	751	5	(29 582)	(28 826)
Other segment information				
Capital expenditure *	198	-	-	198

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

In the three month period ended 31 March 2019, revenue from sales to two major clients, being members of the TAURON Group, accounted for 78% and 11% of the Company's total revenue in the "Sales" segment, i.e. PLN 1 961 932 thousand and PLN 277 720 thousand, respectively. In the three month period ended 31 March 2018, revenue from sales to two major clients, being members of the TAURON Group, accounted for 75% and 10% of the Company's total revenue in the "Sales" segment, i.e. PLN 1 447 159 thousand and PLN 201 775 thousand, respectively.

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Revenue from sales of goods for resale and materials	2 483 569	1 912 228
Electricity	2 366 122	1 833 836
Gas	108 218	77 064
Emission allowances	6 996	107
Other	2 233	1 221
Rendering of services	32 478	12 277
Trading income	26 979	13 282
Other	5 499	(1 005)
Total	2 516 047	1 924 505

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 are subsequently sold to related parties. It recognizes revenue from agency services (supply management).

In the three month period ended 31 March 2019, the value of raw materials purchased and subsequently resold in such transactions was PLN 274 147 thousand. The Company recognized revenue from agency services of PLN 7 853 thousand.

The increase in revenue from sales of electricity versus the comparative period is mainly the effect of an increase in prices of electricity in the current reporting period accompanied by a slight decrease in the volume of trading. The increase in revenue from sales of gas versus the comparative period is the effect of an increase in the volumes sold and prices.

12. Expenses by type

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(3 243)	(1 314)
Materials and energy	(426)	(296)
External services	(9 860)	(11 452)
Taxes and charges	210	(1 163)
Employee benefits expense	(25 759)	(23 192)
Advertising expenses	(3 224)	(4 675)
Other	(142)	(108)
Total costs by type	(42 444)	(42 200)
Costs of performances intended for internal purposes	38	-
Selling and distribution expenses	4 298	4 570
Administrative expenses	34 234	29 582
Cost of goods for resale and materials sold	(2 491 210)	(1 910 484)
Cost of sales	(2 495 084)	(1 918 532)

The increase in the value of goods and materials sold in the three month period ended 31 March 2019 versus the comparative period is mainly the effect of an increase in the prices of electricity in the current reporting period accompanied by a slight decrease in the volume of trading and an increase in the volumes and prices of gas sold.

13. Finance income and costs

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Income and costs from financial instruments	(161 174)	(10 018)
Interest income on bonds and loans	86 317	102 047
Other interest income	606	1 846
Interest expense	(94 214)	(73 733)
Revaluation of bonds and loans	(143 417)	(5 654)
Gain/(loss) on derivative instruments	(7 129)	(703)
Commissions due to external financing	(2 150)	(1 982)
Exchange differences	(1 239)	(32 509)
Other	52	670
Other finance income and costs	279	(703)
Total, including recognized in the statement of comprehensive income:	(160 895)	(10 721)
Interest income on bonds and loans	86 317	102 047
Interest expense on debt	(94 214)	(73 733)
Revaluation of bonds and loans	(143 417)	(5 654)
Other finance income and costs	(9 581)	(33 381)

In the three month period ended 31 March 2019, the Company recognized a cost of net impairment loss on bonds and loans totalling PLN 143 417 thousand (in the comparable period revaluation of loans and bonds was PLN 5 654 thousand). The increase is mainly an effect of the increase in the impairment loss on cash pool loan receivables of PLN 159 564 thousand following an increase in the balance of loans granted.

The increase in interest cost in the three month period ended 31 March 2019 versus the three month period ended 31 March 2018 is mainly the effect of recognizing in profit or loss new borrowing costs arising from loans taken out in December 2018 and in Q1 2019:

- hybrid securities subscribed by the European Investment Bank, issued in December 2018 — cost of PLN 11 672 thousand in the three month period ended 31 March 2019;
- loans from Bank Gospodarstwa Krajowego in the aggregate amount of PLN 730 000 thousand, taken out in January and February 2019 — resulting cost of PLN 2 983 thousand in the three month period ended 31 March 2019.

In the three month period ended 31 March 2019, exchange losses exceeded exchange gains by PLN 1 239 thousand (PLN 32 509 thousand in the comparable period). The exchange losses are mainly the exchange difference related to the Company's debt in the euro, i.e. loan obtained from a subsidiary, subordinated bonds and eurobonds. In the three month period ended 31 March 2019, related exchange losses exceeded exchange gains by PLN 1 376 thousand (PLN 32 775 thousand in the comparable period).

14. Income tax

14.1. Tax expense in the statement of comprehensive income

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Current income tax	(14 948)	(26 214)
Current income tax expense	(24 319)	(19 433)
Adjustments of current income tax from prior years	9 371	(6 781)
Deferred tax	39 610	24 515
Income tax expense in profit or loss	24 662	(1 699)
Income tax expense in other comprehensive income	515	2 475

14.2. Deferred income tax

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
difference between tax base and carrying amount of financial assets	22 262	41 547
difference between tax base and carrying amount of fixed and intangible assets and right-of-use assets	8 810	1 422
valuation of hedging instruments	319	794
other	7 167	4 427
Deferred tax liabilities	38 558	48 190
difference between tax base and carrying amount of financial assets	98 668	76 519
difference between tax base and carrying amount of financial liabilities	60 140	60 110
different timing of recognition of revenue and cost of sales for tax purposes	60 272	53 580
provisions and accruals	3 685	3 199
difference between tax base and carrying amount of fixed and intangible assets	2 603	2 666
other	1 495	296
Deferred tax assets	226 863	196 370
Deferred tax assets/(liabilities), net	188 305	148 180

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 9 144 984 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 2019 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 on all deductible differences, except those described above, has been recognized in these financial statements in the full amount.

14.3. Tax Capital Group

On 30 October 2017 the agreement of the Tax Capital Group for the years 2018–2020 was 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 Wydobywanie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

As at 31 March 2019, the Tax Capital Group had income tax receivables of PLN 9 489 thousand, comprising:

- receivables for the year ended 31 December 2018 of PLN 72 064 thousand being the excess of advance tax payments of PLN 385 496 thousand over the tax expense of the Group of PLN 313 432 thousand;
- liability for the three month period ended 31 March 2019 of PLN 62 575 thousand being the excess of the Group's tax expense of PLN 203 885 thousand over the tax advance payments of PLN 141 310 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 72 296 thousand, which has been presented in the interim condensed statement of financial position as "Other financial liabilities", as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 51 795 thousand, which have been presented in the interim condensed statement of financial position as "Other financial assets".

Regulations concerning VAT, corporate income tax and social insurance charges are frequently amended. The regulations in force may also contain ambiguous provisions, which lead to differences in opinion 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 bear 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.

15. Dividends paid and proposed

In the three month period ended 31 March 2019 and in the comparative period the Company neither proposed nor paid out dividends to the Company's shareholders.

On 29 March 2019, 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 2018 financial year of PLN 1 709 853 thousand against the Company's reserve capital. On 8 May 2019, the Ordinary General Shareholders' Meeting of the Company adopted a resolution following the recommendation of the Management Board.

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.

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

16. Investment property

	3-month period ended 31 March 2019	3-month period ended 31 March 2018
	<i>(unaudited)</i>	<i>(unaudited)</i>
COST		
Opening balance	40 095	36 169
Impact of IFRS 16	1 526	-
Restarted opening balance	41 621	36 169
Closing balance	41 621	36 169
ACCUMULATED DEPRECIATION		
Opening balance	(18 085)	(14 468)
Depreciation for the period	(923)	(904)
Closing balance	(19 008)	(15 372)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	22 010	21 701
NET CARRYING AMOUNT AT THE END OF THE PERIOD, of which:	22 613	20 797
Buildings	17 180	20 797
Perpetual usufruct of land	5 433	-

The investment property is a perpetual usufruct right to land and buildings located in Katowice Szopienice, in ul. Lwowska 23. The Company entered into an agreement to rent the property with a subsidiary. In the three month period ended 31 March 2019 the revenue from the rent was PLN 1 343 thousand.

The Company decided that the right-of-use assets which qualify as investment property and which refer to the perpetual usufruct right to land are presented under investment property. Therefore, as at 1 January 2019, the perpetual usufruct right to land being an investment property was increased by the value of discounted lease payments of PLN 1 526 thousand.

17. Right-of-use assets

For the 3-month period ended 31 March 2019 (unaudited)

	Buildings, premises and civil engineering structures	Motor vehicles	Total right-of-use assets
COST			
Opening balance	-	-	-
Impact of IFRS 16	38 468	1 502	39 970
Restarted opening balance	38 468	1 502	39 970
Increase(decrease) due to lease changes	77	53	130
Closing balance	38 545	1 555	40 100
ACCUMULATED DEPRECIATION			
Opening balance	-	-	-
Depreciation for the period	(1 791)	(151)	(1 942)
Closing balance	(1 791)	(151)	(1 942)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	-	-	-
NET CARRYING AMOUNT AT THE END OF THE PERIOD	36 754	1 404	38 158

Following the entry into force of IFRS 16 *Leases*, as at 1 January 2019 the Company recognized a right-of-use assets of PLN 39 970 thousand. The impact of the standard on the financial statements has been described in note 8 hereto.

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18. Shares

Changes in shares from 1 January 2019 to 31 March 2019 (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 Wydobywanie S.A.	1 341 755	-	1 341 755	(1 242 697)	-	(1 242 697)	99 058	99 058
2	TAURON Wytwarzanie S.A.	7 865 701	-	7 865 701	(7 635 126)	-	(7 635 126)	230 575	230 575
3	TAURON Ciepło Sp. z o.o.	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	(185 172)	-	(185 172)	1 754 593	1 754 593
5	Marselwind Sp. z o.o.	307	-	307	-	-	-	307	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.	4 611 026	-	4 611 026	-	-	-	4 611 026	4 611 026
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Dystrybucja Serwis S.A.	640 362	-	640 362	-	-	-	640 362	640 362
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.	61 056	-	61 056	(61 056)	-	(61 056)	-	-
15	TAURON Sweden Energy AB (publ)	28 382	-	28 382	(20 933)	-	(20 933)	7 449	7 449
16	Bioeko Grupa TAURON Sp. z o.o.	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.	18 651	-	18 651	-	-	-	18 651	18 651
20	Magenta Grupa TAURON Sp. z o.o.	9 500	-	9 500	-	-	-	9 500	9 500
21	ElectroMobility Poland S.A.	17 500	-	17 500	-	-	-	17 500	17 500
22	Other	415	5 840	6 255	-	-	-	415	6 255
	Total	30 221 040	5 840	30 226 880	(9 144 984)	-	(9 144 984)	21 076 056	21 081 896

Changes in long-term investments in the three month period ended 31 March 2019 resulted from the increase in the capitals of the following companies:

- EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna — PLN 4 775 thousand;
- EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna — PLN 890 thousand;
- Finanse Grupa TAURON Sp. z o.o. — PLN 100 thousand;
- TEC 1 Sp. z o.o., TEC 2 Sp. z o.o., TEC 3 Sp. z o.o. w organizacji —in total amount of PLN 75 thousand.

Impairment tests

Considering the Company's prolonged capitalization below the carrying amount and ongoing changes in the prices of electricity, raw materials and emission allowances as well as changes to the Act on renewable energy sources and the introduction of the Act on the change of the act on the excise duty and certain other acts, the effects of the changes in the market conditions in Q1 this year was analysed.

It was revealed that over the analysed period market prices of electricity and natural gas dropped. The same applied to the prices of emissions allowances which rose rapidly over the last year and dropped in Q1 2019. Following an analysis of the market and regulatory events, it was concluded that they are not factors that would necessitate changes to long-term prognoses formulated based on the information available as at 31 December 2018.

Therefore, it was assumed that the most recent results of impairment tests focusing on shares, intra-group loans and bonds recognized in non-current assets, which were performed as at 31 December 2018, were up-to-date.

Shares, intra-group loans and bonds accounted for about 92% of the balance sheet total as at 31 March 2019.

The recoverable amount is the value in use.

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

Impairment tests carried out as at 31 December 2018, and the key assumptions underlying the tests, have been described in note 10 to the financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2018.

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Test results

The impairment loss and its reversal recognized in the results of the tests carried out in 2018 refers to the shares of the following subsidiaries:

Company	WACC* assumed in tests as at		Recoverable amount of shares, intra-group loans and bonds as at 31 December 2018	Impairment loss (recognized)/reversal in year ended 31 December 2018 Shares
	31 December 2018	30 June 2018 (unaudited)		
TAURON Wytwarzanie S.A.	8.59%	8.36%	426 915	(2 287 830)
TAURON Ekoenergia Sp. z o.o.	9.60%	9.51%	1 914 172	940 521
TAURON Wydobycie S.A.	11.58%	10.95%	548 316	(1 094 827)

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

Loans granted to Elektrociepłownia Stalowa Wola S.A. were also tested for impairment. The results of the test showed that there is no need for an impairment loss provided that the assumptions are the same as those for the impairment tests on shares.

Changes in shares from 1 January 2018 to 31 March 2018 (unaudited)

No.	Company	Gross value			Impairment losses			Net value	
		Restated opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Restated opening balance	Closing balance
1	TAURON Wydobycie S.A.	1 001 755	-	1 001 755	(147 870)	-	(147 870)	853 885	853 885
2	TAURON Wytwarzanie S.A.	7 085 701	-	7 085 701	(5 347 296)	-	(5 347 296)	1 738 405	1 738 405
3	TAURON Ciepło Sp. z o.o.	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	(1 125 693)	-	(1 125 693)	814 072	814 072
5	Marselwind Sp. z o.o.	307	-	307	-	-	-	307	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	3 551 026
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Dystrybucja Serwis S.A.	201 045	-	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	6 000	61 056	(55 056)	-	(55 056)	-	6 000
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.	12 651	-	12 651	-	-	-	12 651	12 651
20	Magenta Grupa TAURON Sp. z o.o.	9 500	-	9 500	-	-	-	9 500	9 500
21	ElectroMobility Poland S.A.	2 500	5 000	7 500	-	-	-	2 500	7 500
22	Pozostałe	391	-	391	-	-	-	391	391
Total		27 574 699	11 000	27 585 699	(6 675 915)	-	(6 675 915)	20 898 784	20 909 784

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.*

19. 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, interest accrued and impairment loss recognised as at 31 March 2019 and as at 31 December 2018, broken down by individual companies issuing the bonds.

Company	As at 31 March 2019 (unaudited)				As at 31 December 2018			
	Par value of purchased bonds	Accrued interest	Impairment loss	Total	Par value of purchased bonds	Accrued interest	Impairment loss	Total
TAURON Wytwarzanie S.A.	200 000	262	(3 829)	196 433	200 000	262	(3 829)	196 433
TAURON Dystrybucja S.A.	3 300 000	78 071	(10 299)	3 367 772	3 300 000	60 026	(10 241)	3 349 785
TAURON Ciepło Sp. z o.o.	1 075 000	21 060	(6 989)	1 089 071	1 075 000	15 169	(8 931)	1 081 238
TAURON Wydobycie S.A.	570 000	22 739	(133 354)	459 385	570 000	22 836	(143 578)	449 258
TAURON Ekoenergia Sp. z o.o.	160 000	417	(838)	159 579	160 000	416	(838)	159 578
Total	5 305 000	122 549	(155 309)	5 272 240	5 305 000	98 709	(167 417)	5 236 292
Non-current	5 055 000	-	(148 736)	4 906 264	5 205 000	-	(161 019)	5 043 981
Current	250 000	122 549	(6 573)	365 976	100 000	98 709	(6 398)	192 311

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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 of a bond rollover. As at 31 March 2019, the par value of bonds maturing within one year, which were classified as long-term bonds, was PLN 790 000 thousand.

20. Loans granted

	As at 31 March 2019 (unaudited)				As at 31 December 2018			
	Principal/ Measurement	Interest	Impairment loss	Total	Principal/ Measurement	Interest	Impairment loss	Total
Loans measured at amortized cost								
Loans granted to EC Stalowa Wola S.A.	22 330	733	(569)	22 494	18 185	426	(460)	18 151
Loans granted to PGE EJ 1 Sp. z o.o.	7 740	314	(52)	8 002	7 740	249	(52)	7 937
Granted cash pool loans including accrued interest	1 091 695	9 156	(371 964)	728 887	803 677	5 256	(212 400)	596 533
Loans measured at fair value								
Loans granted to EC Stalowa Wola S.A.	203 403			203 403	199 256			199 256
Total	1 325 168	10 203	(372 585)	962 786	1 028 858	5 931	(212 912)	821 877
Non-current	1 228 796	1 043	(371 728)	858 111	1 020 513	670	(212 423)	808 760
Current	96 372	9 160	(857)	104 675	8 345	5 261	(489)	13 117

Loans to joint ventures

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 31 March 2019 and 31 December 2018 have been presented in tables below:

	Agreement date	Loan amount according to agreement	As at 31 March 2019 (unaudited)				Maturity date	Interest rate
			Principal/ Measurement	Interest	Impairment allowance	Total		
Loans measured at fair value								
Debt consolidation agreement of borrower	28.02.2018	609 951	203 403			203 403	30.06.2033	fixed
Loans measured at amortized cost								
VAT loan	11.04.2018	6 500	1 620	4	(41)	1 583	30.09.2020	WIBOR 1M+mark-up
	30.03.2018	7 290	7 000	537	(185)	7 352		
Other loans	19.12.2018	9 500	8 535	179	(215)	8 499	30.06.2033	fixed
	12.03.2019	5 175	5 175	13	(128)	5 060		
Total			225 733	733	(569)	225 897		
Non-current			225 733	729	(569)	225 893		
Current			-	4	-	4		

	Agreement date	Loan amount according to agreement	As at 31 December 2018				Maturity date	Interest rate
			Principal/ Measurement	Interest	Impairment allowance	Total		
Loans measured at fair value								
Debt consolidation agreement of borrower	28.02.2018	609 951	199 256	-	-	199 256	30.06.2033	fixed
Loans measured at amortized cost								
VAT loan	11.04.2018	6 500	2 650	5	(68)	2 587	30.09.2020	WIBOR 1M+mark-up
	30.03.2018	7 290	7 000	400	(182)	7 218		
Other loans	19.12.2018	9 500	8 535	21	(210)	8 346	30.06.2033	fixed
Total			217 441	426	(460)	217 407		
Non-current			217 441	421	(460)	217 402		
Current			-	5	-	5		

The key item among the above loans is the agreement to consolidate the borrower's debt of 28 February 2018 to the aggregate amount of PLN 609 951 thousand, whereby all the existing liabilities of Elektrociepłownia Stalowa Wola S.A. to the Company arising from loans granted and unpaid by 28 February 2018 were renewed. The debt is a subordinated debt. As at the date these condensed interim financial statements were approved for publication the nominal value of the subordinated debt to the Company was PLN 310 851 thousand. The principal of PLN 299 100 thousand was repaid on 30 April 2018. As at 31 March 2019 the loan was measured at fair value of PLN 203 403 thousand.

Loans under cash pool agreement

Detailed information on the cash pool service has been presented in Note 28.6 to these condensed interim financial statements.

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21. Derivative instruments

	As at 31 March 2019 (unaudited)				As at 31 December 2018			
	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	(9 599)	-	-	(9 599)	(5 140)	-	-	(5 140)
IRS	287	1 391	1 678	-	16	4 162	4 178	-
Commodity future/forward	(29 161)	-	113 926	(143 087)	(17 138)	-	216 165	(233 303)
Currency forward	(5 215)	-	-	(5 215)	(2 479)	-	-	(2 479)
Total			115 604	(157 901)			220 343	(240 922)
Non-current			6 871	(10 922)			43 844	(37 930)
Current			108 733	(146 979)			176 499	(202 992)

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.

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

	As at 31 March 2019 (unaudited)		As at 31 December 2018	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments - commodity	113 926	-	216 165	-
Derivative instruments - IRS	-	1 678	-	4 178
Total	113 926	1 678	216 165	4 178
Liabilities				
Derivative instruments - commodity	143 087	-	233 303	-
Derivative instruments - currency	-	5 215	-	2 479
Derivative instruments - CCIRS	-	9 599	-	5 140
Total	143 087	14 814	233 303	7 619

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. Such transactions are subject to hedge accounting.

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

As at 31 March 2019, 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.

22. Other financial assets

	As at 31 March 2019 (unaudited)	As at 31 December 2018
Initial margin deposits	147 507	163 495
Receivables arising from income tax settlements of the TCG companies	51 795	54 458
Units in investment funds	26 203	26 063
Bid bonds, deposits, collateral transferred	17 145	4 213
Other	210	296
Total	242 860	248 525
Non-current	2 805	2 804
Current	240 055	245 721

23. Inventories

	As at 31 March 2019 (unaudited)	As at 31 December 2018
Gross Value		
Greenhouse gas emission allowances	629 417	409 489
Energy certificates	250	250
Total	629 667	409 739
Measurement to net realisable value		
Greenhouse gas emission allowances	(137)	(146)
Energy certificates	(65)	(52)
Measurement to fair value		
Greenhouse gas emission allowances	6 476	46
Total	6 274	(152)
Net value		
Greenhouse gas emission allowances	635 756	409 389
Energy certificates	185	198
Total	635 941	409 587

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.

24. Receivables from buyers

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
Gross Value		
Receivables from buyers	733 993	820 463
Receivables claimed at court	969	961
Total	734 962	821 424
Allowance/write-down		
Receivables from buyers	(578)	(900)
Receivables claimed at court	(969)	(961)
Total	(1 547)	(1 861)
Net Value		
Receivables from buyers	733 415	819 563
Receivables claimed at court	-	-
Total	733 415	819 563

As at 31 March 2019 and 31 December 2018, the largest item of receivables from buyers were the receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 533 964 thousand and PLN 521 286 thousand, respectively. Related-party transactions as well as related-party receivables and liabilities have been presented in Note 39.1 to these condensed interim financial statements.

25. Other non-financial assets

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
Receivables arising from taxes and charges	22 742	4 736
Prepaid expenses, <i>including:</i>	16 614	19 168
<i>Prepaid fee on debt</i>	14 483	17 721
Advance payments for deliveries	3 126	2 845
Other	4 425	3 962
Total	46 907	30 711
Non-current	19 262	20 865
Current	27 645	9 846

26. Cash and cash equivalents

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
Cash at bank and in hand	463 234	252 834
Short-term deposits (up to 3 months)	8	170 091
Other	-	43 000
Total cash and cash equivalents presented in the statement of financial position, including:	463 242	465 925
restricted cash	72 089	58 374
Cash pool	(1 821 486)	(2 024 919)
Overdraft	(156 933)	(767)
Foreign exchange	427	(273)
Total cash and cash equivalents presented in the statement of cash flows	(1 514 750)	(1 560 034)

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.

The balance of restricted cash includes mostly the amount securing the settlements with Izba Rozliczeniowa Giełd Towarowych S.A. totalling PLN 71 528 thousand.

Information on cash pool balances has been presented in Note 28.6 to these condensed interim financial statements.

27. Equity

27.1. Issued capital

Issued capital as at 31 March 2019 (unaudited)

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

As at 31 March 2019, the value of the issued capital, the number of shares and the nominal value of shares did not change as compared to 31 December 2018.

27.2. Major shareholders

Shareholding structure as at 31 March 2019 (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 Otworthy 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 31 March 2019 had not changed since 31 December 2018.

27.3. Reserve capital, retained earnings and dividend limitation

Reserve capital — dividend limitation

	As at 31 March 2019 (unaudited)	As at 31 December 2018
Amounts subject to distribution	4 886 520	4 886 520
Amounts from distribution of prior years profits	4 886 520	4 886 520
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	8 511 437

On 8 May 2019, the Ordinary General Shareholders' Meeting adopted a resolution to offset the Company's net loss for the 2018 financial year, totalling PLN 1 709 853 thousand, against the reserve capital.

Retained earnings — dividend limitation

As at 31 March 2019 only PLN 13 thousand out of retained earnings was distributed among the shareholders.

27.4. Revaluation reserve from valuation of hedging instruments

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Opening balance	3 371	23 051
Remeasurement of hedging instruments	(3 042)	(13 483)
Remeasurement of hedging instruments charged to profit or loss	271	375
Deferred income tax	527	2 490
Closing balance	1 127	12 433

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 21 to these condensed interim financial statements.

The Company applies hedge accounting to hedging transactions covered by financial risk management policy.

As at 31 March 2019, the Company recognized PLN 1 127 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 1 678 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The amount of PLN 271 thousand constituting a change in valuation of instruments related to interest accrued on bonds as at the end of the reporting period was recognized in the profit for the period.

28. Debt

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
Long-term portion of debt		
Subordinated hybrid bonds	1 932 047	1 537 848
Other issued bonds	5 532 062	5 530 671
Loans received from the European Investment Bank	657 010	690 129
Loan from Bank Gospodardstwa Krajowego	728 071	-
Loans from the subsidiary	715 923	715 696
Lease	32 524	-
Total	9 597 637	8 474 344
Short-term portion of debt		
Subordinated hybrid bonds	27 105	3 811
Other issued bonds	2 035 981	2 285 678
Cash pool loans received, including accrued interest	1 927 014	2 038 520
Loans from the European Investment Bank	159 916	160 547
Loan from Bank Gospodardstwa Krajowego	3 015	-
Loans from the subsidiary	8 830	15 051
Overdraft	156 933	767
Lease	7 345	-
Total	4 326 139	4 504 374

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28.1. Bonds issued

Bonds as at 31 March 2019 (unaudited)

Investor	Interest rate	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date		Of which maturing within (after the balance sheet date)			
					Accrued interest	Principal at amortized cost	up to 1 year	1-2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	100 000	20.12.2019	905	99 951	99 951	-	-	-
			100 000	20.12.2020	905	99 905	-	99 905	-	-
			100 000	20.12.2021	905	99 872	-	-	99 872	-
			100 000	20.12.2022	905	99 847	-	-	99 847	-
			100 000	20.12.2023	905	99 828	-	-	99 828	-
			100 000	20.12.2024	905	99 815	-	-	-	99 815
			100 000	20.12.2025	905	99 802	-	-	-	99 802
			100 000	20.12.2026	905	99 791	-	-	-	99 791
			100 000	20.12.2027	905	99 782	-	-	-	99 782
			100 000	20.12.2028	905	99 776	-	-	-	99 776
			70 000	20.12.2020	624	69 978	-	69 978	-	-
			70 000	20.12.2021	624	69 973	-	-	69 973	-
			70 000	20.12.2022	624	69 969	-	-	69 969	-
			70 000	20.12.2023	624	69 966	-	-	69 966	-
			70 000	20.12.2024	624	69 964	-	-	-	69 964
			70 000	20.12.2025	624	69 962	-	-	-	69 962
			70 000	20.12.2026	624	69 961	-	-	-	69 961
			70 000	20.12.2027	624	69 960	-	-	-	69 960
			70 000	20.12.2028	624	69 959	-	-	-	69 959
			70 000	20.12.2029	624	69 959	-	-	-	69 959
Banks (issue scheme underwriters) ¹	floating, based on WIBOR 6M	PLN	100 000	25.03.2020	56	99 899	99 899	-	-	
			200 000	9.11.2020	2 304	199 795	-	199 795	-	
			1 600 000	29.12.2020	11 986	1 598 331	-	1 598 331	-	
Domestic investors TPEA1119	floating, based on WIBOR 6M	PLN	1 750 000	4.11.2019	19 278	1 749 429	1 749 429	-	-	
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031 ³	190	399 350	-	-	399 350	
European Investment Bank	fixed ²	EUR	190 000	16.12.2034 ³	10 908	787 085	-	-	787 085	
		PLN	400 000	17.12.2030 ³	8 699	397 658	-	-	397 658	
		PLN	350 000	19.12.2030 ³	7 308	347 954	-	-	347 954	
Eurobonds	fixed	EUR	500 000	5.07.2027	37 788	2 135 867	-	-	2 135 867	
Total					113 807	9 413 388	1 949 279	1 968 009	509 455	4 986 645

¹ Bond issue scheme of 24.11.2015.

² There are two periods for hybrid financing (subordinated) — bonds subscribed by the European Investment Bank: in the first period, the interest rate is fixed, while in the second period, it is floating and linked to the base rate (EURIBOR/WIBOR) increased by an agreed margin.

³ The redemption date of subordinated bonds accounts for two financing periods referred to below.

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Bonds as at 31 December 2018

Investor	Interest rate	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date		Of which maturing within (after the balance sheet date)				
					Accrued interest	Principal at amortized cost	up to 1 year	1-2 years	2 - 5 years	over 5 years	
			100 000	20.12.2019	107	99 935	99 935	-	-	-	-
			100 000	20.12.2020	107	99 891	-	99 891	-	-	-
			100 000	20.12.2021	107	99 861	-	-	-	99 861	-
			100 000	20.12.2022	107	99 838	-	-	-	99 838	-
			100 000	20.12.2023	107	99 820	-	-	-	99 820	-
			100 000	20.12.2024	107	99 807	-	-	-	-	99 807
			100 000	20.12.2025	107	99 796	-	-	-	-	99 796
			100 000	20.12.2026	107	99 785	-	-	-	-	99 785
			100 000	20.12.2027	107	99 777	-	-	-	-	99 777
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	100 000	20.12.2028	107	99 771	-	-	-	-	99 771
			70 000	20.12.2020	73	69 975	-	69 975	-	-	-
			70 000	20.12.2021	73	69 970	-	-	-	69 970	-
			70 000	20.12.2022	73	69 967	-	-	-	69 967	-
			70 000	20.12.2023	73	69 964	-	-	-	69 964	-
			70 000	20.12.2024	73	69 963	-	-	-	-	69 963
			70 000	20.12.2025	73	69 961	-	-	-	-	69 961
			70 000	20.12.2026	73	69 960	-	-	-	-	69 960
			70 000	20.12.2027	73	69 959	-	-	-	-	69 959
			70 000	20.12.2028	73	69 958	-	-	-	-	69 958
			70 000	20.12.2029	73	69 958	-	-	-	-	69 958
			400 000	14.03.2019	566	400 000	400 000	-	-	-	-
Banks (issue scheme underwriters) ¹	floating, based on WIBOR 6M	PLN	200 000	9.11.2020	854	199 764	-	199 764	-	-	-
			1 600 000	29.12.2020	387	1 598 100	-	1 598 100	-	-	-
Domestic investors TPEA1119	floating, based on WIBOR 6M	PLN	1 750 000	4.11.2019	7 555	1 749 400	1 749 400	-	-	-	-
European Investment Bank	fixed ²	EUR	190 000	16.12.2034 ³	1 646	790 136	-	-	-	-	790 136
		PLN	400 000	17.12.2030 ³	1 243	398 781	-	-	-	-	398 781
		PLN	350 000	19.12.2030 ³	922	348 931	-	-	-	-	348 931
Eurobonds	fixed	EUR	500 000	5.07.2027	25 181	2 134 826	-	-	-	-	2 134 826
Total					40 154	9 317 854	2 249 335	1 967 730	509 420	4 591 369	

¹ Bond issue scheme of 24.11.2015.

² There are two periods for hybrid financing (subordinated) — bonds subscribed for by the European Investment Bank: in the first period, the interest rate is fixed, while in the second period, it is floating and linked to the base rate (EURIBOR/WIBOR) increased by an agreed margin.

³ The redemption date of subordinated bonds accounts for two financing periods referred to below.

The bonds issued by the Company are unsecured, coupon bonds. They were issued at the nominal value, except for eurobonds which were issued at the issue price accounting for 99.438% of the nominal value.

The eurobonds have been admitted to trading on the London Stock Exchange. They were rated “BBB” by the Fitch rating agency.

Bonds subscribed for by the European Investment Bank (“EIB”) are subordinated, which means that they have priority of satisfaction only before the amounts due to the Company’s shareholders in the event of its bankruptcy or liquidation. This in turn positively effects Company’s financial stability, since the bonds are excluded from the net debt / EBITDA calculation, a covenant underlying domestic bond issue schemes concluded by the Company (except for TPEA1119 series bonds quoted in the Catalyst Multilateral Trading Facility). Additionally, 50% of the subordinated bond amount has been classified by the rating agency as equity in the rating model, which has had a positive effect on the rating of the TAURON Group.

Two financing periods for bonds subscribed for by the European Investment Bank occur. In the first period early redemption of bonds by the Company (non-call) and early sales of bonds by EIB to third parties are not possible (in both cases, unless so provided in the subscription agreement). In this period, the interest rate is fixed, while after the non-call period, it is floating and is linked to the base rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by an agreed margin. The redemption date for bonds issued in PLN is 12 years of the issue date, i.e. 17 and 19 December 2030 and, pursuant to the rules of hybrid financing, the first financing period is seven years and the next — five years. The redemption date for bonds issued in EUR is 18 years of the issue date, i.e. 16 December 2034 and, pursuant to the rules of hybrid financing, the first financing period is eight years and the next — ten years.

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In the three month period ended 31 March 2019, the Company issued subordinated bonds under an agreement dated 6 September 2017 with Bank Gospodarstwa Krajowego of the nominal value of PLN 400 000 thousand. The bonds are subordinated. In this case also two period are distinguished. In the first period of seven years early redemption of bonds by the Company (non-call) and early sales of bonds by BGK to third parties are not possible (in both cases, unless so provided in the documentation). The interest rate is floating and is linked to 6M WIBOR increased by an agreed margin and in the second period of seven years financing, the margin is additionally increased.

The change in the balance of bonds excluding interest increasing the carrying amount in the three month period ended 31 March 2019 and in the comparative period has been presented in table below.

	3-month period ended 31 March 2019	3-month period ended 31 March 2018
	<i>(unaudited)</i>	<i>(unaudited)</i>
Opening balance	9 317 854	7 904 516
Issue*	499 312	-
Redemption	(400 000)	-
Measurement change	(3 778)	26 532
Closing balance	9 413 388	7 931 048

*Costs of issue have been included.

In the three month period ended 31 March 2019, the Company carried out the following transactions:

Date of issue/ Date of redemption	Agreement/ Scheme	Description	3-month period ended 31 March 2019 <i>(unaudited)</i>	
			Par value of issue	Redemption
14.03.2019	Bond Issue Scheme dated 24 November 2015	Redemption of bonds at the maturity date		(400 000)
25.03.2019		Issue of bonds maturing on 25 March 2020	100 000	
29.03.2019	Subordinated bonds with BGK, agreement dated 6 September 2017	Issue of bonds maturing on 29 March 2031	400 000	
Razem			500 000	(400 000)

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, as further discussed in Note 21 hereto.

28.2. Debt agreement covenants

The agreements signed by the Company with 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 debt less cash in relation to generated EBITDA. The maximum permissible value of net debt/EBITDA allowed is 3.5, except for TPEA1119 series bonds, for which it is 3.0. Unlike the definitions in other financing agreements, the definition of the ratio for the bonds series TPEA1119 includes the liabilities arising from the issued subordinated bonds in the Group's borrowings.

As at 31 December 2018 (i.e. the last reporting period for which The Company was obligated to calculate the covenant), net debt/EBITDA ratio calculated in line with the definition included in the issue terms regarding TPEA1119 series bearer bonds issued on 4 November 2014 for the total amount of PLN 1 750 000 thousand reached the level of 3.04, thus exceeding the maximum level allowed of 3.0 as determined in the issue terms for the TPEA1119 series. This event may provide the basis to demand early redemption of the bonds, the bondholders' meeting approves such an action. The approval may take the form of a resolution passed by a majority of 66 and 2/3 percent of votes cast by bondholders present at the meeting. In March 2016 the Company signed an agreement with a group of bondholders who as at 31 March 2019 were entitled to exercise 41.93% of votes at the bondholders' meeting. Pursuant to the agreements, the bondholders are obliged to maintain the number of bonds held, to participate in each bondholders' meeting and to vote against a resolution approving the early redemption demand due to the net debt/EBITDA ratio having exceeded the 3.0 level. Such obligations remain valid provided that the net debt/EBITDA ratio does not exceed 3.5 (the ratio definition included in the agreement does not account for liabilities arising from subordinated bonds, i.e. it complies with the definitions included in other financing agreements concluded by the issuer). Until the date these condensed interim financial statements were approved for publication, the Company did not learn about any bondholders that would had taken steps aimed at earlier redemption of the bonds series TPEA1119.

The fact that the net debt/EBITDA ratio (calculated in line with the definition included in the TPEA1119 series issue terms) exceeded 3.0 does not result in a breach of other financing agreements concluded by the Company, nor does it bring any other adverse effects related to these agreements.

The net debt/EBITDA ratio, being a covenant in other domestic bond issue schemes, has not been exceeded since the defined maximum value allowed was higher (3.5) and the debt definition was different, i.e. for the purpose of the net debt/EBITDA ratio calculation it did not include the value of subordinated bonds which had been issued.

28.3. Loans from the European Investment Bank

As at 31 March 2019, the balance of loans from the European Investment Bank was PLN 816 926 thousand, including accrued interest of PLN 3 490 thousand. As at 31 December 2018, the balance of loans from the European Investment Bank was PLN 850 676 thousand, with accrued interest of PLN 4 692 thousand.

In the three month period ended 31 March 2019, the Company repaid PLN 35 205 thousand of principal amounts and PLN 7 227 thousand of interest.

28.4. Loan from Bank Gospodarstwa Krajowego

On 19 December 2018 the Company and Bank Gospodarstwa Krajowego ("BGK") concluded a PLN 1 000 000 thousand loan agreement. Under the agreement, the funds are available until 31 December 2020, and will be repaid in equal instalments from 2024 to 2033. The interest shall be linked to a floating rate (6M WIBOR) increased by a BGK's margin.

In the three month period ended 31 March 2019 the aggregate value of released loan was PLN 730 000 thousand.

As at 31 March 2019, the balance of loans from Bank Gospodarstwa Krajowego was PLN 731 086 thousand, including accrued interest of PLN 3 015 thousand.

28.5. Loans from a subsidiary

As at 31 March 2019, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 724 753 thousand (EUR 168 496 thousand), including interest of PLN 8 830 thousand (EUR 2 053 thousand) accrued as at the end of the reporting period. As at 31 December 2018, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 730 747 thousand (EUR 169 941 thousand), including interest of PLN 15 051 thousand (EUR 3 500 thousand) accrued as at the end of the reporting period.

In the three month period ended 31 March 2019, the Company paid interest of EUR 3 000 thousand (PLN 12 866 thousand) under and annex dated 28 November 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 subsidiary - TAURON Sweden Energy AB (publ). The loan bears interest at a fixed rate and the interest is paid annually, in December each year, until the loan has been fully repaid i.e. until 29 November 2029.

28.6. 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 9 October 2017, the Company concluded a new zero balancing cash pooling agreement with PKO Bank Polski S.A. which terminates on 17 December 2020 with TAURON Polska Energia S.A. acting as an agent. The interest rate is set at arm's length.

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

	As at 31 March 2019 (unaudited)	As at 31 December 2018
Receivables from cash pool loans granted	1 091 695	803 677
Interest receivable on loans granted under cash pool agreement	9 156	5 256
Impairment loss	(371 964)	(212 400)
Total Receivables	728 887	596 533
Liabilities from cash pool loans received	1 925 226	2 036 679
Interest payable on loans received under cash pool agreement	1 788	1 841
Total Liabilities	1 927 014	2 038 520

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

As at 31 March 2019 the Company recognized a impairment loss for expected credit losses arising from loans granted to subsidiaries from the Mining and Generation segments under the cash pooling agreement as at the end of the reporting period, due to fact it intends to continue providing the entities with long-term financial support other than a cash pooling loan.

28.7. Overdraft facilities

The Company has been provided with overdraft facilities. Funds available as at the end of mentioned reporting periods and balances have been presented in the table below.

	Bank	Purpose	Currency	Currency financing available	Repayment date	As at 31 March 2019 (unaudited)		As at 31 December 2018	
						currency	PLN	currency	PLN
intraday limit	PKO BP	intraday limit	PLN	500 000	17.12.2020		-		-
	PKO BP	financing of ongoing operations	PLN	300 000	29.12.2020		-		-
overdraft facility	BGK	financing of emission allowance, electricity and gas transactions on EU stock exchanges	EUR	45 000	31.12.2019	36 308	156 172	-	-
	mBank	financing of security deposits and commodity transactions	USD	200	31.03.2020	198	761	204	767
Total							156 933		767

28.8. Lease liability

Following the entry into force of IFRS 16 *Leases*, as at 1 January 2019 the Company recognized a lease liability of PLN 41 496 thousand, which has been further described in note 8 hereto.

As at 31 March 2019, the lease liability was PLN 39 869 thousand. The liability refers to the perpetual usufruct right to land, rental of office and warehousing space, parking spaces and cars.

Ageing analysis of lease liability as at 31 March 2019

Maturity within <i>(after the balance sheet date)</i>	As at 31 March 2019 <i>(unaudited)</i>
Within 1 year	7 345
Within 1 to 2 years	7 466
Within 2 to 3 years	7 341
Within 3 to 5 years	14 998
More than 5 years	2 719
Total	39 869
Non-current	32 524
Current	7 345

As at 31 December 2018, under IAS 17 *Leases*, the Company did not have any finance lease liabilities.

29. Other financial liabilities

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
Margin deposits arising from stock exchange transactions	80 564	248 480
Liabilities arising from income tax settlements of the TCG companies	72 296	90 490
Wages and salaries, deductions on wages and salaries as well as other employee related liabilities	4 058	7 325
Commissions related to securities	384	9 758
Bid bonds, deposits and collateral received	173	464
Other	32 608	32 755
Total	190 083	389 272
Non-current	15 126	17 626
Current	174 957	371 646

Variation margins are funds received by the Company arising from current stock-exchange settlements in connection with a change in the valuation of open futures contracts as at the end of the reporting period. The decrease in the value of variation margins of PLN 167 916 thousand results mainly from transactions regarding the supplies of greenhouse gas emission allowances carried out in foreign stock exchange markets and arises mainly from the drop in the prices of the emission allowances.

30. Other provisions

As at 31 March 2019 other provisions included mainly the provisions for tax risks due to the ongoing inspection proceedings. As at 31 March 2019 the Company recognized such a provision of PLN 73 929 thousand. As at 31 December 2018, it was PLN 72 894 thousand. An increase in the provision by PLN 1 035 thousand is attributable to the interest accrued for the three month period ended 31 March 2019. The Company is 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 extended a number of time by the Director of the TIO and by the Head of the Mazowiecki Customs and Tax Office. Currently, the new inspection completion dates are 23 July 2019 and 22 and 28 June 2019.

31. Liabilities to suppliers

As at 31 March 2019, the largest item within the liabilities to suppliers were the liabilities towards subsidiary TAURON Wytwarzanie S.A., Izba Rozliczeniowa Giełd Towarowych S.A. and the state-owned Polska Grupa Górnicza S.A. totalling PLN 48 592 thousand, PLN 39 211 thousand and PLN 38 981 thousand, respectively.

As at 31 December 2018, these were the liabilities to subsidiary TAURON Wytwarzanie S.A. and the state-owned Węglukoks S.A. totalling PLN 113 292 thousand and PLN 100 711 thousand, respectively.

32. Other non-financial liabilities

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
VAT	24 026	17 756
Personal Income Tax	1 583	1 860
Social security	5 323	4 973
Net liabilities of the Company's Social Benefits Fund	635	-
Other	44	37
Total	31 611	24 626

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF CASH FLOWS

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

33.1. Cash from/used in operating activities

The following events had a material impact on the negative cash used in operating activities in the three month period ended 31 March 2019 totalling PLN 544 299 thousand:

- sales of and the receipt of payment for the greenhouse gas emission allowances in the trading portfolio after the end of the reporting period — these were acquired as part of the settlement of futures contracts and the payment due of PLN 226 878 thousand was received in March 2019;
- a decrease in liabilities arising from margin deposits to secure futures transactions of PLN 167 916 thousand arising mainly from cash payments to replenish the balance of the deposits following the change in the valuation of futures transactions.

Changes in working capital

	3-month period ended 31 March 2019	3-month period ended 31 March 2018
	<i>(unaudited)</i>	<i>(unaudited)</i>
Change in receivables	89 192	48 963
Change in inventories	(226 354)	(3 912)
Change in payables excluding loans	(383 627)	(10 575)
Change in other non-current and current assets	(19 002)	8 448
Change in deferred income, government grants and accruals	6 076	3 180
Change in provisions	1 239	1 280
Change in working capital	(532 476)	47 384

33.2. Cash from/used in investing activities

Loans granted

Under loans granted, the Company presents change of loans to subsidiaries under a long-term cash pooling agreement in the amount of PLN 199 991 thousand.

Payments related to grant loans result also from the loan disbursed by the Company to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in total amount of PLN 6 375 thousand.

Acquisition of shares

Payments to acquire shares of PLN 5 840 thousand were related to the Company's transfer of funds to increase the capital of the following companies:

- EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna — PLN 4 775 thousand;
- EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna — PLN 890 thousand;
- Finanse Grupa TAURON sp. z o.o. — PLN 100 thousand;
- TEC 1 Sp. z o.o., TEC 2 Sp. z o.o., TEC 3 Sp. z o.o. w organizacji — totalling PLN 75 thousand.

Interest received

	3-month period ended 31 March 2019	3-month period ended 31 March 2018
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest received in relation to debt securities	39 881	59 697
Interest received in relation to loans granted	24	20 113
Total	39 905	79 810

33.3. Cash from/used in financing activities

Redemption of debt securities

Expenditures due to repayment of debt securities of PLN 400 000 thousand were made to redeem bonds issued under the scheme dated 24 November 2015, on a timely basis, which has been further described in note 28.1 hereto.

Loan repayment

Expenditures due to repayment of loans arise from the Company's repayments on a loan granted by the European Investment Bank of PLN 35 205 thousand in the three month period ended 31 March 2019.

Interest paid

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Interest paid in relation to debt securities	(2 831)	-
Interest paid in relation to loans	(20 093)	(9 511)
Interest paid in relation to the lease	(421)	(148)
Other interest	(16)	-
Total	(23 361)	(9 659)

Loans taken

Proceeds arising from contracted loans totalling PLN 730 000 thousand were instalments of the loan from Bank Gospodarstwa Krajowego, which has been further described in note 28.4 hereto.

Issue of debt securities

Proceeds from issues of debt securities totalling PLN 500 000 thousand, which has been further described in note 28.1 hereto, were:

- issues of subordinated bonds subscribed by BGK totalling PLN 400 000 thousand;
- issues of bonds totalling PLN 100 000 thousand under the scheme dated 24 November 2015.

OTHER INFORMATION

34. Financial instruments

Categories and classes of financial assets	As at 31 March 2019 (unaudited)		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	6 817 319	6 907 329	6 733 497	6 828 930
Receivables from buyers	733 415	733 415	819 563	819 563
Bonds	5 272 240	5 362 250	5 236 292	5 331 725
Loans granted under cash pool agreement	728 887	728 887	596 533	596 533
Other loans granted	30 496	30 496	26 088	26 088
Other financial receivables	52 281	52 281	55 021	55 021
2 Financial assets measured at fair value through profit or loss (FVTPL)	1 023 056	1 023 056	1 120 916	1 120 916
Derivative instruments	113 926	113 926	216 165	216 165
Long-term shares	51 906	51 906	46 066	46 066
Loans granted	203 403	203 403	199 256	199 256
Other financial receivables	164 376	164 376	167 441	167 441
Investment fund units	26 203	26 203	26 063	26 063
Cash and cash equivalents	463 242	463 242	465 925	465 925
3 Derivative hedging instruments	1 678	1 678	4 178	4 178
4 Financial assets excluded from the scope of IFRS 9	21 029 990		21 029 990	
Shares in subsidiaries	20 614 138		20 614 138	
Shares in jointly-controlled entities	415 852		415 852	
Total financial assets, of which in the statement of financial position:	28 872 043		28 888 581	
Non-current assets	26 855 947		26 975 445	
Shares	21 081 896		21 076 056	
Bonds	4 906 264		5 043 981	
Loans granted	858 111		808 760	
Derivative instruments	6 871		43 844	
Other financial assets	2 805		2 804	
Current assets	2 016 096		1 913 136	
Receivables from buyers	733 415		819 563	
Bonds	365 976		192 311	
Loans granted	104 675		13 117	
Derivative instruments	108 733		176 499	
Other financial assets	240 055		245 721	
Cash and cash equivalents	463 242		465 925	

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Categories and classes of financial liabilities	As at 31 March 2019 (unaudited)		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	14 381 286	14 622 276	13 893 976	14 028 032
Arm's length loans, of which:	4 199 779	4 276 184	3 619 943	3 662 092
Liability under the cash pool loan	1 927 014	1 927 014	2 038 520	2 038 520
Bank loans	1 548 012	1 570 523	850 676	875 511
Loans from the subsidiary	724 753	778 647	730 747	748 061
Overdraft	156 933	156 933	767	767
Bonds issued	9 527 195	9 691 780	9 358 008	9 449 915
Liabilities to suppliers	307 296	307 296	525 986	525 986
Other financial liabilities	190 083	190 083	389 272	389 272
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	157 901	157 901	240 922	240 922
Derivative instruments	157 901	157 901	240 922	240 922
3 Financial liabilities excluded from the scope of IFRS 9	39 869		-	
Liabilities under leases	39 869		-	
Total financial liabilities, of which in the statement of financial position:	14 579 056		14 134 898	
Non-current liabilities	9 623 685		8 529 900	
Debt	9 597 637		8 474 344	
Other financial liabilities	15 126		17 626	
Derivative instruments	10 922		37 930	
Current liabilities	4 955 371		5 604 998	
Debt	4 326 139		4 504 374	
Liabilities to suppliers	307 296		525 986	
Derivative instruments	146 979		202 992	
Other financial liabilities	174 957		371 646	

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

- Derivatives, also those subject to hedge accounting, have been measured in line with the method described in Note 21 hereto. Disclosures regarding the fair value hierarchy have been presented in Note 21 hereto.
- The Company measures the loan granted to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2018 at fair value through profit or loss, as further discussed in Note 20 hereto. The loan was measured at the present value of future cash flows, accounting for the borrower's credit risk, and has been classified to Level 3 of the fair value measurement hierarchy.
- As far as shares in other entities is concerned, the Company estimates the fair value of the interest using the adjusted net assets method accounting for such factors as non-controlling interest discount or discount for the lack of liquidity. When appropriate, the Company adopts the historical costs as the acceptable approximate fair value. The measurement of the above shares has been classified to Level 3 of the fair value hierarchy, just as the measurement of other financial receivables at fair value.
- The measurement of investment fund units accounting for current quotations has been classified to Level 1 in the fair value hierarchy.

Financial instruments with the fair value being disclosed:

- Fixed rate financial instruments — bonds purchased by the Company, loans from the European Investment Bank, a loan from a subsidiary, issued subordinated bonds and eurobonds — were measured at fair value. The fair value was measured at the present value of future cash flows, discounted using the interest rate applicable to given bonds, loans or borrowings, i.e. applying market interest rates. The measurement was classified to Level 2 in the fair value measurement hierarchy.

As at 31 March 2019 and 31 December 2018, the fair value of other financial instruments (except for those excluded from the scope of IFRS 9 *Financial Instruments*) did not differ considerably from the amounts presented in the financial statements for specific periods for the following reasons:

- the potential discounting effect relating to short-term instruments is not significant;
- the instruments are related to arm's length transactions.

Shares in subsidiaries and jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured at cost minus any reduction for impairment loss.

35. Finance and financial risk management

35.1. Financial risk management

The TAURON Group has adopted a *Financial risk management policy at the TAURON Group* which defines the strategy for management of the currency and interest rate risks. 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 and the hedge accounting principles are applicable to the cash flow risk.

Hedge accounting

As at 31 March 2019, the Company was a party to hedging transactions covered by the policy for financial risk management 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 further discussed in Note 21 hereto.

35.2. 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.

36. Contingent liabilities

As at 31 March 2019 and 31 December 2018 the Company's contingent liabilities were mainly the effect of securities and guarantees given to related parties and were as follows:

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Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	Validity	As at 31 March 2019 (unaudited)		As at 31 December 2018	
				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	722 618	168 000	722 400
	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.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028*		415 852		415 852
	TAMEH POLSKA Sp. z o.o.						
surety contract	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	15.06.2021		914		914
			31.12.2023		293		293
	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Fund Advisors	28.09.2025		2 500		2 500
			31.12.2020		33 024		33 024
	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.	30.11.2019		20 000		20 000
	Elektrociepłownia Stalowa Wola S.A.	Operator Gazociągów Przemysłowych GAZ-SYSTEM S.A.	30.07.2020		1 667		1 667
Bank Gospodarstwa Krajowego			30.01.2021		9 959		9 959
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	TAURON Ciepło Sp. z o.o.	Elektrobudowa S.A.	-		-		12 300
	other subsidiaries	various entities	15.06.2019-30.03.2020		1 548		1 791
liability towards MUFG Bank, Ltd. under guarantees issued by the bank for jointly-controlled entity	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2019		444 000		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 collateral period or until release by the pledgee, however, not later than until 31 December 2028.

Key contingent liabilities are:

- Corporate guarantee of EUR 168 000 thousand

The corporate guarantee was given in 2014 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 722 618 thousand). The beneficiaries of the guarantee are the bondholders who purchased the bonds issued by TAURON Sweden Energy AB (publ).

- 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 shares in the issued capital of TAMEH HOLDING Sp. z o.o., accounting for ca. 50% of the issued capital. The beneficiary is RAIFFEISEN BANK INTERNATIONAL AG. The pledges 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 to PLN 1 370 000 thousand. The Company also agreed to establish a financial pledge and registered pledges on new shares to be acquired or subscribed. 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 collateral period or until release by the pledgee, however, not later than until 31 December 2028.

As at 31 March 2019, the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand.

- Blank promissory notes and promissory note agreements

The Company issued two 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. As at the end of the reporting period, the outstanding amount of loans secured with the notes was PLN 15 010 thousand.

- Liability to MUFG Bank, Ltd.

On 11 April 2018, at the request of the Company, a bank guarantee of PLN 444 000 thousand was issued for the benefit of Bank Gospodarstwa Krajowego. The guarantee secures the bank exposure arising from a loan agreement concluded on 8 March 2018 by the borrower, Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A. The guarantee was issued by MUFG Bank, Ltd., and is valid until 11 April 2019. 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. In relation to the guarantee issued, the Company recognized a liability equal to the expected credit losses, measured for the guarantee period and amounting to PLN 12 074 thousand as at 31 March 2019. The rating applied by the Company for Elektrociepłownia Stalowa Wola S.A. ranges from BB- to B.

On 7 February 2019, on the instruction of the Company, an annex was issued to the above bank guarantee, whereby as of 12 April 2019, the guarantee amount was increased to PLN 517 500 thousand and the term of the guarantee was extended to 11 April 2020. The annex to the bank guarantee was issued based on the guarantee limit agreement of 5 February 2019 concluded with MUFG Bank, Ltd. and secured with a declaration of submission to enforcement up to PLN 621 000 thousand valid until 31 July 2020.

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

- **Claims relating 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.

In 2015 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed a case against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. to declare notices of termination submitted by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. with regard to power purchase and ownership titles concluded with these companies ineffective. In the course of court proceedings, plaintiffs extend their scope raising new contract termination related claims.

As at the date these condensed interim financial statements were approved for publication, the amounts claimed were as follows: in.ventus companies — EUR 13 367 thousand, Polenergia companies — PLN 67 248 thousand and Wind Invest companies — PLN 125 003 thousand.

All cases are heard at first instance courts (including one remanded for re-examination by a second-instance court).

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 is less than 50%. Therefore, no provision for the related costs has been recognized.

Claims relating to termination of long-term contracts against subsidiary 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 to purchase property rights arising from green certificates by the subsidiary. The party to the contracts in 2008 are companies from the in.ventus group. The contracts were terminated after the parties were unable to reach an agreement during 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.

On 7 March 2019, Hamburg Commercial Bank AG (formerly, HSH Nordbank AG) filed a case against TAURON Sprzedaż Sp. z o.o. seeking compensation for failure to deliver on contracts on sales of property rights arising from green certificates and liquidated damages charged in relation to termination of the above contracts. The plaintiff demands that TAURON Sprzedaż Sp. z o.o. pay PLN 232 879 thousand with statutory interest for the delay, calculated from the date of filing the case to the date of payment, and including the compensation totalling PLN 36 252 thousand and liquidated damages totalling PLN 196 627 thousand.

The claims brought by the bank arise from the assignment of claims, allegedly, initially held by the in.ventus companies: in.ventus Sp. z o.o. EW Dobrzyń sp.k., in.ventus Sp. z o.o. INO 1 sp.k., in.ventus Sp. z o.o. EW Gołdap sp.k.

The court competent for hearing the claims is the Regional Court for Kraków. TAURON Sprzedaż Sp. z o.o. has started analysing the claim and it will respond to it in due time. Based on the preliminary analysis of the demands and the rationale, according to TAURON Sprzedaż Sp. z o.o., the claim has been found entirely unsubstantiated. In the company's view, the probability of losing the case, both in relation to the compensation and liquidated damages, is lower than the chance to win the case. Therefore, no provisions for the costs of the case is recognized.

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

In 2017 and 2018 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed cases against TAURON Polska Energia S.A. regarding damages and liability for potential future losses resulting from tort, including unfair competition. According to the plaintiffs notices of termination submitted by Polska Energia Pierwsza Kompania Handlowa S.A. regarding long-term contracts for the purchase of power and property titles related to energy certificates allegedly directed by TAURON Polska Energia S.A., provided the factual basis for these claims.

As at the date these condensed interim financial statements were approved for publication, the amounts claimed were as follows: in.ventus companies — EUR 12 286 thousand, Polenergia companies — PLN 78 855 thousand and Wind Invest companies — PLN 129 947 thousand.

Moreover, the plaintiffs set out in their statements of claim the following estimated amounts which may arise in future: in.ventus companies — EUR 35 706 thousand, Polenergia companies — PLN 265 227 thousand, Wind Invest companies — PLN 1 119 363 thousand.

The court competent for hearing the claims is the Regional Court for Katowice. All cases are heard in courts of first instance. Those filed by Wind Invest companies are heard in camera. As at the date of approval these condensed interim financial statements for publication, the probability that the rulings would be favourable for the Company is high (70%).

TAURON Polska Energia S.A. is also a party to an action brought by Dobiesław Wind Invest Sp. z o.o. and heard in a court of first instance, the Regional Court for Kraków. The case centres around a demand for PLN 183 391 thousand to be paid into court to reverse the threat of a loss. 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%.

- **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 PGE EJ 1 Sp. z o.o.'s investment project to build a nuclear power plant (the "agreement") demanded that PGE EJ 1 Sp. z o.o. pay the aggregate amount of PLN 92 315 thousand. As a result, on 15 April 2015 the Company (as a holder of a 10% interest in the issued capital of PGE EJ 1 Sp. z o.o.) concluded an agreement with PGE EJ 1 Sp. z o.o. and its other shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) which regulated mutual relations of the parties to the agreement as regards the claims, including the rules of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders.

In the Company's view, its potential additional exposure to PGE EJ 1 Sp. z o.o. arising from the agreement shall not exceed its percentage capital exposure to that entity.

In November 2015, the District Court in Warsaw served PGE EJ 1 Sp. z o.o. with a claim made by the WorleyParsons consortium for the amount approximating PLN 59 million, was increased in 2017 by PLN 45 million, to approx. PLN 104 million.

PGE EJ 1 Sp. z o.o. did not accept the claims and believed that the probability that the court will decide in favour of the plaintiffs was remote. No provisions were recognized in relation to the above events.

- **Claims filed by Huta Łaziska S.A.**

Following the business combination of the Company and 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 the 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 decision of 14 November 2001 issued by the President of the Energy Regulatory Office and due to the growing indebtedness of Huta to GZE due to electricity supplies) GZE again suspended the supplies. 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 accrued 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 judgement of the Regional Court and remanded the case for re-examination by the latter. The case has been heard by the court of first instance since 27 November 2012. After the end of the reporting period, on 16 May 2018, the Regional Court in Warsaw closed the case and defer publishing of judgement till 28 May 2019.

Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, the Company did not recognize any provision in connection with the 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's 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. Two subsidiaries have been sued along with 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 plaintiff in case the claim against TAURON Polska Energia S.A. is dismissed. The case is pending by the court of first instance.

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 5 544 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 3 943 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest reviewed as at 31 March 2019 and the cost of the proceedings.

As at 31 March 2019, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator sp. z o.o. during the proceedings, the values of the claims against the Company and the Group companies may be expected to change.

Recognition of the exposure of Closed-End Funds managed by the Polski Fundusz Rozwoju in subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

In the investment agreement signed by the Company and the Closed-End Funds managed by the Polski Fundusz Rozwoju a number of situations were mentioned, the occurrence of which indicates a potential significant infringement of the agreement. The potential significant infringement of the agreement by the Group may lead to the potential necessity of recognizing in financial statements the liability to buy out from Closed-end Investment Funds shares in subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. owned by these funds. As at the balance sheet date, the Closed-End Funds hold shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. totalling PLN 356 925 thousand.

37. Security for liabilities

Key types of security for the Company's liabilities as at 31 March 2019 have been presented in the table below:

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Collateral	Collateral amount		Due date	Agreement/transaction	
	Currency	PLN			
Declarations of submission to enforcement		2 550 000	20.12.2032	Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013	
		7 524 000	31.12.2023	Bond Issue Scheme dated 24 November 2015	
		600 000	30.06.2034	Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017	
		621 000	31.07.2019	Bank guarantee agreement dated 4 April 2018 with MUFG Bank, Ltd. ¹	
		621 000	31.07.2020	Bank guarantee agreement dated 5 February 2019 with MUFG Bank, Ltd. ²	
		120 000	11.07.2021	Framework bank guarantee agreement concluded with CaixaBank S.A.	
		600 000	17.12.2021	Bank account agreement (intra-day limit) with PKO Bank Polski S.A.	
		360 000	29.12.2021	Overdraft agreement with PKO Bank Polski S.A.	
	EUR	24 000	103 231	31.12.2020	Overdraft agreement with Bank Gospodarstwa Krajowego
	EUR	50 000	215 065		
	USD	750	2 877	29.03.2020	Overdraft agreement with mBank S.A.
			1 500 000	31.12.2036	Bank loan agreement with Bank Gospodarstwa Krajowego
			100 000	11.07.2020	Framework bank guarantee agreement concluded with CaixaBank S.A.
Bank account madates		150 000	07.06.2019	Agreement with Santander Bank Polska S.A. on bank guarantees for Izba Rozliczeniowa Gield Towarowych S.A.	
		500 000	17.12.2020	Bank account agreement (intra-day limit) with PKO Bank Polski S.A.	
		300 000	29.12.2020	Overdraft agreement with PKO Bank Polski S.A.	
	EUR	45 000	193 559	31.12.2019	Overdraft agreement with Bank Gospodarstwa Krajowego
Bank guarantees		20 000	31.05.2019	Bank guarantee issued by Santander Bank Polska S.A. for the benefit of Izba Rozliczeniowa Gield Towarowych S.A. - as security of transactions concluded on the Polish Power Exchange	
		6 100	30.11.2019	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	
Blank promissory notes to secure the payment of the Company's liabilities		7 560	-	Performance bonds related to concluded financing contracts	

¹The security in the form of a declaration of submission to enforcement submitted to the guarantee limit agreement dated 4 April 2018 with MUFG Bank, Ltd. refers to a bank guarantee for the benefit of BGK which expired on 11 April 2019, further described in Note 36 hereto.

²The security in the form of a declaration of submission to enforcement submitted to the guarantee limit agreement dated 5 February 2019 with MUFG Bank, Ltd. refers to a bank guarantee for the benefit of BGK which is binding from 12 April 2019, further described in Note 36 hereto.

On 31 March 2019 the declaration of submission to enforcement to the amount of PLN 11 509 thousand (USD 3 000 thousand), which the Company had signed in connection with the overdraft agreement of 15 April 2015 with mBank S.A., expired.

After the end of the reporting period, on 5 and 8 April 2019, under the bank guarantee agreement made with Santander Bank Polska S.A. per Company's order, issued two bank guarantees to secure the liabilities of the Company against Izba Rozliczeniowa Gield Towarowych S.A., totalling PLN 80 000 thousand, valid until 31 May 2019.

38. Capital commitments

As at 31 March 2019 and 31 December 2018, the Company did not have any material capital commitments.

39. Related-party disclosures

39.1. Transactions with related parties and State Treasury companies

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

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

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Revenue and expenses

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Revenue from subsidiaries	2 643 162	2 029 233
Revenue from operating activities	2 555 795	1 941 220
Other operating income	1 298	1 611
Finance income	86 069	86 402
Revenue from jointly-controlled entities	30 689	8 580
Revenue from State Treasury companies	57 664	32 885
Costs from subsidiaries	(490 589)	(474 955)
Costs of operating activities	(479 350)	(462 578)
Finance costs	(11 239)	(12 377)
Costs incurred with relation to transactions with jointly-controlled entities	(2 215)	(1 153)
Costs from State Treasury companies	(224 511)	(188 466)

Receivables and liabilities

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
Loans granted to subsidiaries and receivables from subsidiaries	7 270 044	7 045 063
Receivables from buyers	688 998	777 825
Loans granted under cash pool agreement with interest accrued	1 098 597	806 301
Receivables arising from the TCG	51 795	54 454
Bonds	5 427 549	5 403 709
Other financial receivables	92	178
Other non-financial receivables	3 013	2 596
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	364 909	354 744
Receivables from State Treasury companies	21 226	21 346
Liabilities to subsidiaries	2 841 509	3 078 690
Liabilities to suppliers	137 418	236 030
Loans received under cash pool agreement with interest accrued	1 906 989	2 021 198
Other loans received	724 753	730 747
Liabilities arising from the TCG	72 199	90 490
Other financial liabilities	-	18
Other non-financial liabilities	150	207
Liabilities to jointly-controlled entities	836	225
Liabilities to State Treasury companies	64 830	166 901

Revenue from subsidiaries includes revenue from sales of coal to TAURON Wytwarzanie S.A., TAURON Ciepło Sp. z o.o. and Nowe Jaworzno Grupa TAURON 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 hereto.

In the three month period ended 31 March 2019, 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 98% of the total revenue from State Treasury companies.

In the three month period ended 31 March 2019, 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 95% of total costs incurred in purchase transactions entered into with State Treasury companies.

The Company enters into material transactions in the energy market through Izba Rozliczeniowa Gield 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.

39.2. 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 three month period ended 31 March 2019 and in the comparative period has been presented in the table below.

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Management Board	793	1 210
Short-term benefits (with surcharges)	793	789
Termination benefits	-	395
Other	-	26
Supervisory Board	246	204
Short-term employee benefits (salaries and surcharges)	246	204
Other members of key management personnel	3 891	3 307
Short-term employee benefits (salaries and surcharges)	3 266	2 922
Termination benefits	356	124
Other	269	261
Total	4 930	4 721

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 amounts paid or payable until 31 March 2019 have been presented in above table.

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

40. Events after the end of the reporting period

Ruling of the Court of Arbitration of the National Chamber of Commerce regarding claims of Abener Energia S.A. to Elektrociepłownia Stalowa Wola S.A.

On 25 April 2019 the Court of Arbitration of the National Chamber of Commerce in Warsaw issued a ruling in a case filed by Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A., a joint venture of the Tauron Group, in which the Company holds indirectly, through subsidiary TAURON Wytwarzanie S.A., 50% of shares in the issued capital.

The proceedings related to the claim for payment, declaration as to the legal relationship and the obligation to submit a declaration of will in connection with the terminated contract between Abener Energia S.A. (general contractor) and Elektrociepłownia Stalowa Wola S.A. (ordering party) to construct a gas and steam unit in Stalowa Wola. Under the ruling of the Court of Arbitration Elektrociepłownia Stalowa Wola S.A. was ordered to pay to Abener Energia S.A. PLN 333 793 thousand with statutory interests for the delay and the court fees. The ruling of the Court of Arbitration may be appealed against — an action may be brought before a common court of law for the ruling of the court of arbitration to be overturned. Elektrociepłownia Stalowa Wola S.A. commenced analyses of the ruling and the reasoning behind it to bring an action demanding that the ruling be overturned.

As at the date these condensed interim financial statements were approved for publication, following the ruling, the Company was carrying out legal and economic analyses to determine the impact of the event on the financial position of the Company.

Cross-border merger of Finanse Grupa TAURON Sp. z o.o. with TAURON Sweden Energy AB (publ)

On 6 May 2019, the Extraordinary General Meeting of Shareholders of Finanse Grupa TAURON Sp. z o.o. with its registered office in Katowice and on 17 May 2019, the Extraordinary General Meeting of Shareholders of TAURON Sweden Energy AB (publ) with its registered office in Stockholm adopted resolutions regarding the cross-border merger of Finanse Grupa TAURON Sp. z o.o. (acquiring company) with TAURON Sweden Energy AB (publ) (the company being acquired).

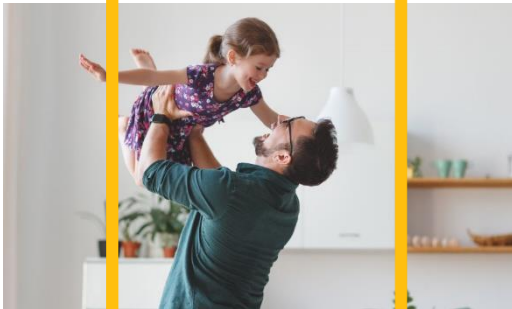
These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the three month period ended 31 March 2019 in accordance with International Accounting Standard 34 have been presented on 51 pages.

Katowice, 24 May 2019

Filip Grzegorzczak — 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 3-month period ended 31 March 2019

TAURON Polska Energia S.A. Capital Group

Condensed interim consolidated financial statements

prepared in accordance with the International Financial Reporting Standards,

as endorsed by the European Union

for the 3-month period ended 31 March 2019

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited restated figures)</i>
Sales revenue	11	5 312 809	4 636 886
Cost of sales	12	(4 377 720)	(3 691 505)
Profit on sale		935 089	945 381
Selling and distribution expenses	12	(106 695)	(112 269)
Administrative expenses	12	(154 874)	(122 903)
Other operating income and expenses	13	11 624	140 035
Share in profit/(loss) of joint ventures	21	42 823	25 242
Operating profit		727 967	875 486
Interest expense on debt	14	(54 882)	(38 403)
Other finance income and costs	14	(18 873)	(45 985)
Profit before tax		654 212	791 098
Income tax expense	15.1	(129 520)	(154 429)
Net profit		524 692	636 669
Measurement of hedging instruments	31.5	(2 771)	(13 108)
Foreign exchange differences from translation of foreign entity		(1 151)	4 538
Income tax	15.1	527	2 490
Other comprehensive income subject to reclassification to profit or loss		(3 395)	(6 080)
Actuarial gains/(losses)	33.1	2 788	(1 206)
Income tax	15.1	(531)	231
Share in other comprehensive income of joint ventures	22	122	160
Other comprehensive income not subject to reclassification to profit or loss		2 379	(815)
Other comprehensive income, net of tax		(1 016)	(6 895)
Total comprehensive income		523 676	629 774
Net profit:			
Attributable to equity holders of the Parent		524 194	636 153
Attributable to non-controlling interests		498	516
Total comprehensive income:			
Attributable to equity holders of the Parent		523 170	629 256
Attributable to non-controlling interests		506	518
Basic and diluted earnings per share (in PLN):		0.30	0.36

TAURON Polska Energia S.A. Capital Group
Condensed interim consolidated financial statements for the 3-month period ended 31 March 2019
prepared in accordance with IFRS, as endorsed by the EU
(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2019 (unaudited)	As at 31 December 2018 (restated figures)	As at 1 January 2018 (restated figures)
ASSETS				
Non-current assets				
Property, plant and equipment	17	29 676 465	29 406 667	28 276 071
Right-of-use assets	18	1 368 218	-	-
Goodwill	19	26 183	26 183	40 156
Energy certificates and emission allowances for surrender	20.1	67 662	661 603	303 130
Other intangible assets	21	530 531	1 287 703	1 254 077
Investments in joint ventures	22	585 778	543 913	499 204
Loans granted to joint ventures	23	225 893	217 402	240 767
Other financial assets	24	224 361	254 677	238 354
Other non-financial assets	25.1	156 183	168 051	202 785
Deferred tax assets	15.2	30 755	30 105	46 122
		32 892 029	32 596 304	31 100 666
Current assets				
Energy certificates and emission allowances for surrender	20.2	823 777	201 663	652 260
Inventories	26	791 208	509 801	295 463
Receivables from buyers	27	2 312 931	2 229 363	2 032 813
Income tax receivables	28	9 806	14 497	2 128
Receivables arising from other taxes and charges	29	144 638	209 746	241 998
Loans granted to joint ventures	23	4	5	329 665
Other financial assets	24	357 862	443 033	219 933
Other non-financial assets	25.2	136 555	55 629	34 931
Cash and cash equivalents	30	789 352	823 724	909 249
Non-current assets classified as held for sale		25 259	13 712	15 910
		5 391 392	4 501 173	4 734 350
TOTAL ASSETS		38 283 421	37 097 477	35 835 016

The notes to these condensed interim consolidated financial statements constitute an integral part hereof.

TAURON Polska Energia S.A. Capital Group
Condensed interim consolidated financial statements for the 3-month period ended 31 March 2019
prepared in accordance with IFRS, as endorsed by the EU
(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION — continued

	Note	As at 31 March 2019 (unaudited)	As at 31 December 2018	As at 1 January 2018 (restated figures)
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Parent				
Issued capital	31.1	8 762 747	8 762 747	8 762 747
Reserve capital	31.3	8 511 437	8 511 437	7 657 086
Revaluation reserve from valuation of hedging instruments	31.5	1 127	3 371	23 051
Foreign exchange differences from translation of foreign entities		12 865	14 016	6 776
Retained earnings/(Accumulated losses)	31.4	1 534 959	1 004 253	1 586 786
		18 823 135	18 295 824	18 036 446
Non-controlling interests	31.6	385 947	132 657	31 367
Total equity		19 209 082	18 428 481	18 067 813
Non-current liabilities				
Debt	32	10 169 436	8 488 210	9 501 414
Provisions for employee benefits	33	1 117 086	1 114 191	1 380 650
Provisions for disassembly of fixed assets, land restoration and other provisions	34	395 540	396 513	351 138
Accruals, deferred income and government grants	37	441 085	440 309	541 318
Deferred tax liabilities	15.2	761 750	823 754	871 865
Other financial liabilities	41	78 288	107 770	91 879
Other non-financial liabilities		8 977	11 507	1 588
		12 972 162	11 382 254	12 739 852
Current liabilities				
Debt	32	2 458 675	2 475 167	351 382
Liabilities to suppliers	38	813 723	1 127 738	1 042 427
Capital commitments	39	340 748	794 917	797 304
Provisions for employee benefits	33	105 792	117 287	134 273
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	35	432 136	495 472	948 946
Other provisions	36	499 569	559 365	353 271
Accruals, deferred income and government grants	37	249 494	200 097	296 576
Income tax liabilities		2 011	426	38 446
Liabilities arising from other taxes and charges	40	370 404	405 654	411 714
Other financial liabilities	41	431 679	773 571	342 162
Other non-financial liabilities	42	397 946	337 048	310 850
		6 102 177	7 286 742	5 027 351
Total liabilities		19 074 339	18 668 996	17 767 203
TOTAL EQUITY AND LIABILITIES		38 283 421	37 097 477	35 835 016

The notes to these condensed interim consolidated financial statements constitute an integral part hereof.

TAURON Polska Energia S.A. Capital Group
Condensed interim consolidated financial statements for the 3-month period ended 31 March 2019
prepared in accordance with IFRS, as endorsed by the EU
(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2019 (unaudited)

	Note	Equity attributable to the equity holders of the Parent					Total	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)			
As at 1 January 2019		8 762 747	8 511 437	3 371	14 016	1 004 253	18 295 824	132 657	18 428 481
Shares subscribed for by non-controlling shareholders	31.6	-	-	-	-	4 141	4 141	252 784	256 925
Transactions with shareholders		-	-	-	-	4 141	4 141	252 784	256 925
Net profit		-	-	-	-	524 194	524 194	498	524 692
Other comprehensive income		-	-	(2 244)	(1 151)	2 371	(1 024)	8	(1 016)
Total comprehensive income		-	-	(2 244)	(1 151)	526 565	523 170	506	523 676
As at 31 March 2019 (unaudited)		8 762 747	8 511 437	1 127	12 865	1 534 959	18 823 135	385 947	19 209 082

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

	Equity attributable to the equity holders of the Parent					Total	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)			
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	-	-	-	-	(100 422)	(100 422)	(14)	(100 436)
Impact of IFRS 15	-	-	-	-	179 426	179 426	411	179 837
As at 1 January 2018	8 762 747	7 657 086	23 051	6 776	1 665 790	18 115 450	31 764	18 147 214
Net profit	-	-	-	-	636 153	636 153	516	636 669
Other comprehensive income	-	-	(10 618)	4 538	(817)	(6 897)	2	(6 895)
Total comprehensive income	-	-	(10 618)	4 538	635 336	629 256	518	629 774
As at 31 March 2018 (unaudited)	8 762 747	7 657 086	12 433	11 314	2 301 126	18 744 706	32 282	18 776 988

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited restated figures)</i>
Cash flows from operating activities			
Profit before taxation		654 212	791 098
Share in (profit)/loss of joint ventures		(42 823)	(25 242)
Depreciation and amortization		483 972	456 351
Impairment losses on non-financial non-current assets		(249)	(5 911)
Exchange differences		1 373	19 585
Interest and commissions		53 470	36 397
Other adjustments of profit before tax		15 381	19 659
Change in working capital	43.1	(1 147 864)	(568 830)
Income tax paid	43.1	(185 801)	(22 064)
Net cash from operating activities	43.1	(168 329)	701 043
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	43.2	(1 036 440)	(983 453)
Loans granted	43.2	(6 375)	(31 800)
Purchase of financial assets		(10 109)	(9 134)
Total payments		(1 052 924)	(1 024 387)
Proceeds from sale of property, plant and equipment and intangible assets		5 503	3 584
Repayment of loans granted		2 230	-
Other proceeds		368	850
Total proceeds		8 101	4 434
Net cash used in investing activities		(1 044 823)	(1 019 953)
Cash flows from financing activities			
Redemption of debt securities	43.3	(400 000)	-
Repayment of loans and borrowings	43.3	(37 054)	(36 251)
Interest paid	43.3	(17 574)	(10 030)
Other payments		(19 728)	(6 922)
Total payments		(474 356)	(53 203)
Issue of debt securities	43.3	500 000	-
Proceeds from non-controlling interests	43.3	256 925	-
Proceeds from contracted loans/borrowings	43.3	730 000	-
Subsidies and amends received		7 666	1 257
Total proceeds		1 494 591	1 257
Net cash from financing activities		1 020 235	(51 946)
Net increase/(decrease) in cash and cash equivalents		(192 917)	(370 856)
Net foreign exchange difference		(702)	3 188
Cash and cash equivalents at the beginning of the period	30	807 972	801 353
Cash and cash equivalents at the end of the period, of which:	30	615 055	430 497
restricted cash	30	229 418	67 674

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

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

The TAURON Polska Energia S.A. Capital Group (the "Group", the "Capital Group", the "TAURON Group") is composed of TAURON Polska Energia S.A. (the "Parent", the "Company") and its subsidiaries. TAURON Polska Energia S.A. is located in Katowice in ul. ks. Piotra Ściegiennego 3. The Company operates as a joint-stock company incorporated by a notarized deed on 6 December 2006. Until 16 November 2007 it 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 in 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, Sales and other operations, including customer service, which has been further discussed in Note 10 hereto.

The Group's condensed interim consolidated financial statements cover the 3-month period ended 31 March 2019 and present comparative information for the 3-month period ended 31 March 2018 as well as figures as at 31 December 2018. The information for the 3-month period ended 31 March 2019 and the comparative information for the 3-month period ended 31 March 2018, as contained herein, has not been audited or reviewed by a certified auditor. The comparative information as at 31 December 2018 was audited by a certified auditor.

These condensed interim consolidated financial statements for the 3-month period ended 31 March 2019 were authorized for issue on 24 May 2019.

2. Composition of the TAURON Capital Group and joint ventures

As at 31 March 2019, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

TAURON Polska Energia S.A. Capital Group
Condensed interim consolidated financial statements for the 3-month period ended 31 March 2019
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(in PLN '000)

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	92.86%	92.86%
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 Pomiarów Sp. z o.o. ¹	Tarnów	Distribution	99.74%	99.75%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%	100.00%
12	TAURON Dystrybucja Serwis S.A.	Wrocław	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.	Krzyszowice	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	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o. ¹	Tarnów	Other	99.74%	99.75%

¹TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiarów 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 Pomiarów Sp. z o.o.

Changes in the share of TAURON Polska Energia S.A. in the capital and the decision-making body of Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 15 January 2019 an increase in the capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered, pursuant to a resolution of the Extraordinary General Shareholders' Meeting of 20 December 2018. The new shares in the increased issued capital were subscribed for by Fundusz Inwestycji Infrastrukturalnych — Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych for the total amount of PLN 100 000 thousand.

On 25 February 2019, 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 2 569 thousand, through the issue of 51 385 new shares with the nominal value of PLN 50 each. The new shares in the increased issued capital were subscribed for by Fundusz Inwestycji Infrastrukturalnych — Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with the registered office in Warsaw for the total issue price of PLN 256 925 thousand. The share premium totalling PLN 254 356 thousand was transferred to the reserve capital of Nowe Jaworzno Grupa TAURON sp. z o.o. As a result of the transaction, the Company's interest in the capital went down to 92.86%. After the reporting date, on 18 April 2019, the increase in the capital was registered.

As at 31 March 2019 there were no changes in the interest of TAURON Polska Energia S.A. in the issued capital and decision-making bodies of other material subsidiaries and jointly-controlled entities as compared to 31 December 2018.

As at 31 March 2019, TAURON Polska Energia S.A. held direct and indirect interest in the following jointly-controlled entities:

Item	Company name	Registered office	Operating segment	Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A.
1	Elektrociepłownia Stalowa Wola S.A. ¹	Stalowa Wola	Generation	50.00%
2	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%

¹TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. through a subsidiary, TAURON Wytwarzanie S.A.

²TAURON 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").

These 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 2018.

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 these condensed interim consolidated financial statements were authorized for issue, there were no circumstances that would indicate a risk to the Group's companies ability to continue as a going concern.

5. Functional and presentation currency

Polish zloty is 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) and the presentation currency of these condensed interim consolidated financial statements. 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 at 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 had an impact on the figures disclosed in these 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.

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

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Item	Note	Estimates and assumptions
Property, plant and equipment	Note 17	<p>As at the end of each reporting period, the Group estimates whether there are objective indications of impairment of a given item of property, plant and equipment. If such indications occur, the Group is obliged to test the property, plant and equipment for impairment. Impairment tests include estimation of the recoverable amount of an asset or the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount of an asset or CGU is the higher of the fair value less cost to sell and the value in use. The value in use of CGUs is estimated based on their future cash flows discounted subsequently to the present value using a discount rate.</p> <p>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.</p>
Right-of-use assets	Note 18	<p>At the commencement date of the lease, the Group measures the right-of-use assets, inter alia, using the present value of lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate, in line with the adopted method, depending on the ratings of individual companies in the TAURON Group.</p> <p>The Group applies a portfolio approach to leases with similar characteristics (same assets used in a similar way). When accounting for leases under the portfolio approach, the Group uses estimates and assumptions that reflect the size and composition of the portfolio, including estimates of the weighted average lease term.</p>
Goodwill	Note 19	<p>Goodwill is tested for impairment on an annual basis and as at the end of each reporting period, if appropriate indications occur. In order to test the goodwill for impairment, the goodwill acquired under a business combination or M&A transaction is assigned to individual CGUs or CGU groups upon acquisition.</p>
Loans granted	Note 23	<p>The Group properly classifies and measures the loans it has granted.</p> <p>For loans classified to assets measured at amortized cost the Group estimates the value of their impairment losses. The risk of insolvency of the borrowers is estimated based on the ratings assigned to the counterparties using an internal scoring model, adjusted accordingly to account for the probability of default and the time value of money.</p> <p>Measurement of a loan classified to assets measured at fair value is estimated as the present value of future cash flows considering the borrower's credit risk.</p>
Receivables from buyers	Note 27	<p>As far as receivables from buyers are concerned, the Group estimates the value of loss allowance for expected credit losses based on the probability-weighted credit loss to be incurred, if any of the following events takes place:</p> <ul style="list-style-type: none"> • a significant (material) delay in payment, • liquidation, bankruptcy or other form of restructuring of the debtor, • administrative enforcement, court action or court enforcement is instigated to recover the receivables. <p>Receivables from buyers are divided into the portfolios of strategic and other counterparties. The risk of insolvency on the part of strategic counterparties is assessed based on ratings assigned to the counterparties using an internal scoring model, adjusted accordingly to account for the probability of default, considering estimated recoveries of security that was put up.</p> <p>It is expected that the historical performance information concerning the receivables from other counterparties may reflect the credit risk that will be faced in future periods. Therefore, the expected credit losses are estimated using the ageing analysis matrix.</p>
Derivative instruments	Note 44.2	<p>As at the end of each reporting period, derivatives are measured at fair value. Derivative instruments acquired and held for internal purposes are not measured at the end of the reporting period.</p>
Deferred tax assets	Note 15.2	<p>At the end of each reporting period, the Group verifies whether or not the deferred tax assets may be realized.</p>
Provisions	Note 33 Note 34 Note 35 Note 36	<p>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%.</p>

Apart from the above, the Group makes significant estimates as regards the contingent liabilities it discloses, and in particular as regards court cases the Group's companies are party to. Contingent liabilities have been presented in detail in Note 47 hereto.

7. Standards and amendments to standards which have been published but are not yet effective

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

- **Standards issued by the International Accounting Standards Board and amendments to standards 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 have a material impact on the accounting policies applied thus far:

Standard	Effective date specified in the Standard, not endorsed by the EU (<i>annual periods beginning on or after the date provided</i>)
IFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016*
IFRS 17 <i>Insurance contracts</i>	1 January 2021
Revised IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture</i> with subsequent amendments	the effective date has been postponed
Revised IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material</i>	1 January 2020
Revised IFRS 3 <i>Business Combinations</i>	1 January 2020
Amendments to <i>References to the Conceptual Framework in IFRS</i>	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 *Regulatory Deferral Accounts*.

8. Changes in the accounting principles

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 2018, except for the application of the following new standards, amendments to standards, interpretation mentioned below 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, IFRS 16 *Leases* has a material impact on 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 a right-of-use asset and a 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 using the rate implicit in the lease if that rate 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* requires an assessment which was not needed before for operating leases as it did not affect the recognition of expenditure in the financial statements. Variable lease payments should be considered when lease payments are being determined, if they depend on an index or a rate or in substance are fixed payments.

Lessors classify leases as either operating lease 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 lease payments from operating leases as income on either 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 condensed interim consolidated financial statements

The Group has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 16 *Leases*, i.e. with the cumulative effect of initially applying this standard recognized as at 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard. The information as at 31 December 2018 and for the 3-month period ended 31 March 2018 has been prepared based on IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease* and SIC 15 *Operating Leases – Incentives*.

As at 1 January 2019 the Group recognized the right-of-use assets at an amount equal to the lease liability at the present value of the remaining lease payments, discounted using the incremental borrowing rate, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The Group applies a portfolio approach to leases with similar characteristics (same assets used in a similar way). When accounting for leases under the portfolio approach, the Group uses estimates and assumptions that reflect the size and composition of the portfolio, including estimates of the weighted average lease term. The Group applies the portfolio approach specifically to rental and other contracts regarding premises and land to be used for the purpose of assembling heat and power infrastructure, that qualify as a lease.

An analysis of the impact of IFRS 16 *Leases* on the accounting principles (policy) has shown a change material for the Group, i.e. the need to recognize the right-of-use assets and lease liabilities for leases currently classified as operating leases. The key items are the right of perpetual usufruct to land and contracts to rent premises to be used for the purposes of heat distribution centres and transformer stations. The analysis included in particular developing a method to determine the incremental borrowing rate, identify assets, verify the control of its use and determine the lease term.

The Group decided to recognize the right-of-use assets in the statement of financial position separately from other assets. The Group decided to reclassify the rights of perpetual usufruct to land and easement, which as at 1 January 2019 amounted to PLN 744 956 thousand and which are covered by IFRS 16 *Leases*, from other intangible assets to the right-of-use assets.

Impact of the adoption of IFRS 16 *Leases* as at 1 January 2019

	As at 31 December 2018 <i>(restated figures)</i>	Reclassification from other intangible assets to right-of-use assets	Recognition of right-of- use assets and lease liabilities	As at 1 January 2019 <i>(unaudited)</i>
ASSETS				
Non-current assets	32 596 304	-	615 239	33 211 543
Right-of-use assets	-	744 956	615 239	1 360 195
Other intangible assets	1 287 703	(744 956)	-	542 747
Current assets	4 501 173	-	12 282	4 513 455
Non-current assets classified as held for sale	13 712	-	12 282	25 994
TOTAL ASSETS	37 097 477	-	627 521	37 724 998
EQUITY AND LIABILITIES				
Total equity	18 428 481	-	-	18 428 481
Non-current liabilities	11 382 254	-	595 366	11 977 620
Debt	8 488 210	-	595 366	9 083 576
Current liabilities	7 286 742	-	32 155	7 318 897
Debt	2 475 167	-	32 155	2 507 322
TOTAL EQUITY AND LIABILITIES	37 097 477	-	627 521	37 724 998

Reconciliation between future minimum operating lease payments in line with IAS 17 *Leases* as at 31 December 2018 and lease liabilities in line with IFRS 16 *Leases* as at 1 January 2019:

Reconciliation IAS 17 <i>Leases</i> to IFRS 16 <i>Leases</i>	
Future minimum operating lease payments as at 31 December 2018 in line with IAS 17 <i>Leases</i>	1 434 437
Discount using the incremental borrowing rate	(806 916)
Lease liabilities under IFRS 16 <i>Leases</i> as at 1 January 2019	627 521

Lease liabilities as at 1 January 2019 by maturity

	Mature in the period <i>(after 1 January 2019):</i>				
	up to 5 years	5-10 years	10-20 years	over 20 years	
Value as at 1 January 2019	627 521	39 500	60 361	56 295	471 365

The Group applied incremental borrowing rates, ranging from 4.18% to 10.22%, to calculated lease liabilities recognized in the consolidated statement of financial position as at the date of the first application of IFRS 16 *Leases*.

The Group applied the following practical expedients as at the date it first applied IFRS 16 *Leases*, i.e. as at 1 January 2019:

- IFRS 16 *Leases* was applied only to contracts which were in force as at the date of its initial application;
- a single discount rate was applied to a portfolio of leases with reasonably similar characteristics;
- the requirements of IFRS 16 *Leases* were not applied to leases for which the lease term ends within 12 months of the date of initial application;
- initial direct costs were not included in the measurement of right-of-use assets;
- hindsight was used as regards valid leases, specifically with respect to exercising an option to extend or terminate the lease;
- if a non-lease component cannot be separated for a class of underlying asset, both the lease and non-lease components were recognized as a single lease component;
- the requirements of IFRS 16 *Leases* would be applied to the leases of intangible assets other than those arising from licensing agreements within the scope of IAS 38 *Intangible Assets*;
- IFRS 16 *Leases* would not be applied to leases for which the value of the underlying asset does not exceed PLN 20 thousand and does not apply to the right of perpetual usufruct of land.

The data presented above, which, according to the Group, comply with the requirements of IFRS 16 *Leases* in all material respects, as a part of condensed interim consolidated financial statements for the 3-month period ended 31 March 2019, were not audited or reviewed by a certified auditor. Consequently, the final figures disclosed in the consolidated financial statements for 2019 may differ from those presented in these condensed interim consolidated financial statements.

According to the Management Board, the introduction of the following amendments to standards and interpretation had no material impact on the accounting principles (policy) applied thus far:

Standard/Interpretation	Effective in the EU as of (annual periods beginning on or after the date provided)
Revised IFRS 9 <i>Financial Instruments</i>	1 January 2019
Revised IAS 28 <i>Investments in Associates and Joint Ventures</i>	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Revised IAS 19 <i>Employee Benefits</i>	1 January 2019
<i>Annual Improvements to IFRS (Cycle 2015-2017):</i>	
IAS 12 <i>Income Taxes</i>	1 January 2019
IAS 23 <i>Borrowing Costs</i>	1 January 2019
IFRS 3 <i>Business Combinations</i>	1 January 2019
IFRS 11 <i>Joint Arrangements</i>	1 January 2019

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

The Group has analysed the methods of presentation of mining assets that are permitted and applied by the competition, i.e.:

- assets used in the mining of production roadway workings and wall reinforcement in hard coal mines including the expenditures incurred on the works to mine the production roadway workings, less the value of the marketable coal extracted during the mining and the expenditures incurred on the works to reinforce the walls,
- overburden removal assets in surface mines including the expenditures incurred on the works to remove the overburden so as to access an identified part of calcareous stone, increased by general costs directly related to such works.

Following an analysis, the Group changed its accounting principles (policy) with respect to the recognition of the mining assets.

Mining assets used in the mining of production roadway workings and wall reinforcement.

Under the changed accounting principles (policy), the cumulative cost of works to mine the production roadway workings and cumulative cost of works to reinforce the walls, entered into the deferrals account, are recognized under property, plant and equipment. The expenditures on such assets are recognized in monthly instalments over the period of the walls' useful life and in the proportions in which the marketable coal is produced, and are included under depreciation in profit or loss. Generally, upon recognition, the mine workings are in fact liquidated. Before the change in the accounting principles (policy), the cost of mining of production roadway workings and the cumulative cost of wall reinforcement were presented under other non-financial assets.

Overburden removal assets

Under the changed accounting principles (policy), the cumulative cost of overburden removal in surface mines, entered into the deferrals account, is recognized under property, plant and equipment. The expenditures incurred on such assets are accounted for using the method based on the expected period of exploitation of the deposit and recognized under depreciation in profit or loss. Generally, upon recognition, the mine workings are in fact liquidated. Before the change in the accounting principles (policy), the cost of overburden removed at the production stage in surface mines was presented under other non-financial assets.

The Group believes that the new method of presentation better reflects the specifics of the assets, which arise and are maintained to be used in the production process. The expenditures are deferred and allocated over the period of use in proportion to generated revenue. This way the accounting for the expenditures under depreciation reflects the specifics and the use of the assets. Furthermore, the analysis has revealed that the changed method of presentation is the method most commonly used by the competition, by the companies listed on the stock exchange operating in the coal mining area.

The change has not had any effect on the Group's profit or loss. Charging the expenditure to the depreciation cost, had an impact on EBITDA, i.e. the earnings before depreciation and the write-downs on non-financial assets.

The Group has restated comparative information accordingly. The table below presents the impact of the above change of the consolidated statement of financial position as at 31 December 2018.

	As at 31 December 2018 <i>(authorised figures)</i>	Changed presentation of mining assets	As at 31 December 2018 <i>(restated figures)</i>
ASSETS			
Non-current assets	32 541 865	54 439	32 596 304
Property, plant and equipment	29 238 051	168 616	29 406 667
Other non-financial assets	282 228	(114 177)	168 051
Current assets	4 555 612	(54 439)	4 501 173
Other non-financial assets	110 068	(54 439)	55 629
TOTAL ASSETS	37 097 477	-	37 097 477

The table below presents the impact of the above change of the consolidated statement of financial position as at 1 January 2018.

	As at 1 January 2018	Changed presentation of mining assets	As at 1 January 2018 <i>(restated figures)</i>
ASSETS			
Non-current assets	31 048 542	52 124	31 100 666
Property, plant and equipment	28 079 886	196 185	28 276 071
Other non-financial assets	346 846	(144 061)	202 785
Current assets	4 786 474	(52 124)	4 734 350
Other non-financial assets	87 055	(52 124)	34 931
TOTAL ASSETS	35 835 016	-	35 835 016

Impact on EBITDA for the 3-month period ended 31 March 2018:

	3-month period ended 31 March 2018 <i>(authorised figures unaudited)</i>	Changed presentation of mining assets	3-month period ended 31 March 2018 <i>(restated figures unaudited)</i>
EBIT	875 486	-	875 486
Depreciation/amortization	(422 938)	(33 413)	(456 351)
Impairment	6 181	-	6 181
EBITDA	1 292 243	(33 413)	1 325 656

9. Seasonality of operations

The Group's operations are seasonal.

Sales of heat depend on atmospheric conditions, in particular air temperature, and are higher in autumn and winter. Sales of electricity to individual customers depend on the length of the day, i.e. it is usually lower in spring and summer and higher in autumn and winter. Sales of coal to individual customers are higher in autumn and winter. The seasonality of other areas of the Group's operations is insignificant.

OPERATING SEGMENTS

10. Information on operating segments

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

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

The Group applies the same accounting principles (policy) 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 intragroup transactions, general and administrative expenses of the Parent are presented under unallocated expenses. General and administrative expenses of the Parent are incurred for the Group as a whole and are not directly attributable 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 derivatives 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 the loss on measurement of commodity derivatives, 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 write-downs on 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 2019 to 31 March 2019 was based on the operating segments, which have been presented in the table below. As of 1 January 2019 TAURON Dystrybucja Serwis S.A. has been assigned to the Sales segment (before: the Distribution segment). The change was the effect of organizational changes and restructuring within the company which led to the change in its business profile. At present the company's main business is to deliver lighting and power products and services and therefore its profile is aligned with the operations of the Group's sales companies. Comparative information, i.e. information for the 3-month period ended 31 March 2018 and as at 31 December 2018, was restated accordingly.

Operating segments	Core business	Subsidiaries/ Entities recognized with the equity method
<p style="color: #e91e63; font-weight: bold;">Mining</p> 	<p><i>Hard coal mining</i></p>	<p>TAURON Wydobycie S.A.</p>
<p style="color: #e91e63; font-weight: bold;">Generation</p>		
	<p><i>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.</i></p>	<p>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.</p>
	<p><i>Generation of electricity using renewable sources</i></p>	<p>TAMEH HOLDING Sp. z o.o.* TAMEH POLSKA Sp. z o.o.* TAMEH Czech s.r.o.*</p>
	<p><i>Generation, distribution and sales of heat</i></p>	<p>Elektrociepłownia Stalowa Wola S.A.*</p>
<p style="color: #e91e63; font-weight: bold;">Distribution</p>		
	<p><i>Distribution of electricity</i></p>	<p>TAURON Dystrybucja S.A. TAURON Dystrybucja Pomiary Sp. z o.o.</p>
<p style="color: #e91e63; font-weight: bold;">Sales</p>		
	<p><i>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</i></p>	<p>TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o. TAURON Dystrybucja Serwis S.A.</p>

* 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), 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.

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(in PLN '000)

10.1. Operating segments

For the 3-month period ended 31 March 2019 or as at 31 March 2019 (unaudited)

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	107 745	1 027 149	783 772	3 368 780	25 363	-	5 312 809
Inter-segment sales	184 121	361 799	897 449	542 642	223 153	(2 209 164)	-
Segment revenue	291 866	1 388 948	1 681 221	3 911 422	248 516	(2 209 164)	5 312 809
Profit/(loss) of the segment							
Share in profit/(loss) of joint ventures	-	42 823	-	-	-	-	42 823
Unallocated expenses	-	-	-	-	-	(31 082)	(31 082)
EBIT	(95 919)	280 328	387 062	155 224	22 026	(20 754)	727 967
Net finance income (costs)	-	-	-	-	-	(73 755)	(73 755)
Profit/(loss) before income tax	(95 919)	280 328	387 062	155 224	22 026	(94 509)	654 212
Income tax expense	-	-	-	-	-	(129 520)	(129 520)
Net profit/(loss) for the period	(95 919)	280 328	387 062	155 224	22 026	(224 029)	524 692
Assets and liabilities							
Segment assets	1 743 682	12 427 156	18 267 535	4 159 845	599 593	-	37 197 811
Investments in joint ventures	-	585 778	-	-	-	-	585 778
Unallocated assets	-	-	-	-	-	499 832	499 832
Total assets	1 743 682	13 012 934	18 267 535	4 159 845	599 593	499 832	38 283 421
Segment liabilities	768 442	1 157 552	1 803 776	1 328 087	384 651	-	5 442 508
Unallocated liabilities	-	-	-	-	-	13 631 831	13 631 831
Total liabilities	768 442	1 157 552	1 803 776	1 328 087	384 651	13 631 831	19 074 339
EBIT	(95 919)	280 328	387 062	155 224	22 026	(20 754)	727 967
Depreciation/amortization	(51 633)	(106 115)	(294 222)	(9 707)	(22 295)	-	(483 972)
Impairment	-	(224)	89	-	(123)	-	(258)
EBITDA	(44 286)	386 667	681 195	164 931	44 444	(20 754)	1 212 197
Other segment information							
Capital expenditure *	118 858	235 938	350 763	4 395	16 590	-	726 544

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

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

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	175 097	756 842	780 946	2 903 190	20 811	-	4 636 886
Inter-segment sales	210 146	415 341	789 921	481 134	174 742	(2 071 284)	-
Segment revenue	385 243	1 172 183	1 570 867	3 384 324	195 553	(2 071 284)	4 636 886
Profit/(loss) of the segment							
Share in profit/(loss) of joint ventures	-	25 242	-	-	-	-	25 242
Unallocated expenses	-	-	-	-	-	(26 279)	(26 279)
EBIT	(23 376)	371 666	368 650	178 697	18 860	(39 011)	875 486
Net finance income (costs)	-	-	-	-	-	(84 388)	(84 388)
Profit/(loss) before income tax	(23 376)	371 666	368 650	178 697	18 860	(123 399)	791 098
Income tax expense	-	-	-	-	-	(154 429)	(154 429)
Net profit/(loss) for the period	(23 376)	371 666	368 650	178 697	18 860	(277 828)	636 669
Assets and liabilities							
Segment assets	1 589 823	12 168 948	17 923 661	3 801 630	581 497	-	36 065 559
Investments in joint ventures	-	543 913	-	-	-	-	543 913
Unallocated assets	-	-	-	-	-	488 005	488 005
Total assets	1 589 823	12 712 861	17 923 661	3 801 630	581 497	488 005	37 097 477
Segment liabilities	851 497	1 299 850	2 133 237	1 772 534	410 567	-	6 467 685
Unallocated liabilities	-	-	-	-	-	12 201 311	12 201 311
Total liabilities	851 497	1 299 850	2 133 237	1 772 534	410 567	12 201 311	18 668 996
EBIT	(23 376)	371 666	368 650	178 697	18 860	(39 011)	875 486
Depreciation/amortization	(67 125)	(100 380)	(258 973)	(9 351)	(20 522)	-	(456 351)
Impairment	(2)	6 734	(230)	-	(321)	-	6 181
EBITDA	43 751	465 312	627 853	188 048	39 703	(39 011)	1 325 656
Other segment information							
Capital expenditure *	77 165	242 911	269 145	4 505	12 757	-	606 483

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

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited restated figures)</i>
Sale of goods for resale, finished goods and materials without elimination of excise	3 667 234	3 072 539
Excise	(30 981)	(108 666)
Sale of goods for resale, finished goods and materials	3 636 253	2 963 873
Electricity	3 114 413	2 417 431
Heat energy	236 411	258 390
Gas	100 790	70 110
Coal	96 052	154 773
Energy certificates	35 066	15 571
Other goods for resale, finished goods and materials	53 521	47 598
Rendering of services	1 660 441	1 657 830
Distribution and trade services	1 592 640	1 588 692
Maintenance of road lighting	29 438	29 374
Connection fees	18 858	15 425
Other services	19 505	24 339
Other revenue	16 115	15 183
Total	5 312 809	4 636 886

The increase in revenue from sales of electricity versus the comparative period arises mainly from the increase in the prices of electricity in the current reporting period as well as higher volumes of electricity sold to companies from outside the TAURON Group which results e.g. from the obligation imposed by the legislator that as of 1 January 2019 all tradings of electricity producers (100%) must be made via the power exchange (30% in the comparative period).

The decrease in the revenue from sales of coal results from lower sales volumes arising from lower mining production in the Group.

Sales revenue by operating segment has been presented below.

For the 3-month period ended 31 March 2019 (unaudited)

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	101 694	950 949	614	2 562 436	20 560	3 636 253
Electricity	-	678 329	-	2 436 084	-	3 114 413
Heat energy	-	236 411	-	-	-	236 411
Gas	-	-	-	100 790	-	100 790
Coal	96 052	-	-	-	-	96 052
Energy certificates	-	35 066	-	-	-	35 066
Other goods for resale, finished goods and materials	5 642	1 143	614	25 562	20 560	53 521
Rendering of services	5 707	72 333	774 943	805 559	1 899	1 660 441
Distribution and trade services	-	70 733	747 930	773 977	-	1 592 640
Maintenance of road lighting	-	-	-	29 438	-	29 438
Connection fees	-	63	18 795	-	-	18 858
Other services	5 707	1 537	8 218	2 144	1 899	19 505
Other revenue	344	3 867	8 215	785	2 904	16 115
Total	107 745	1 027 149	783 772	3 368 780	25 363	5 312 809

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

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	164 169	671 903	1 164	2 110 296	16 341	2 963 873
Electricity	135	397 207	-	2 020 089	-	2 417 431
Heat energy	-	258 390	-	-	-	258 390
Gas	-	-	-	70 110	-	70 110
Coal	154 773	-	-	-	-	154 773
Energy certificates	-	15 329	-	242	-	15 571
Other goods for resale, finished goods and materials	9 261	977	1 164	19 855	16 341	47 598
Rendering of services	10 569	81 350	771 507	792 840	1 564	1 657 830
Distribution and trade services	40	76 968	748 715	762 969	-	1 588 692
Maintenance of road lighting	-	-	-	29 374	-	29 374
Connection fees	-	51	15 374	-	-	15 425
Other services	10 529	4 331	7 418	497	1 564	24 339
Other revenue	359	3 589	8 275	54	2 906	15 183
Total	175 097	756 842	780 946	2 903 190	20 811	4 636 886

Sales revenue of electricity by sales market has been presented below.

	3-month period ended 31 March 2019 (unaudited)	3-month period ended 31 March 2018 (unaudited)
Revenue from sales of electricity	3 114 413	2 417 431
Retail sale	2 132 083	1 740 445
Strategic clients	324 498	303 445
Business clients	989 933	769 513
Mass clients, including:	830 272	765 587
G group	620 978	610 448
Other	18 361	10 566
Excise duty	(30 981)	(108 666)
Wholesale	214 784	207 013
Commodity exchange	390 568	140 281
Balancing market	205 089	171 240
Operational capacity reserve	48 814	56 282
Other	123 075	102 170

12. Expenses by type

	3-month period ended 31 March 2019 (unaudited)	3-month period ended 31 March 2018 (unaudited restated figures)
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(483 972)	(456 351)
Impairment of property, plant and equipment, right-of-use assets and intangible assets	249	5 911
Materials and energy	(447 401)	(300 821)
Maintenance and repair services	(42 184)	(41 098)
Distribution services	(370 503)	(362 641)
Other external services	(166 822)	(200 155)
Cost of obligation to remit the emission allowances	(120 435)	(84 176)
Other taxes and charges	(175 290)	(190 373)
Employee benefits expense	(706 742)	(569 722)
Allowance for trade receivables expected credit losses	(5 266)	(2 975)
Other	(16 239)	(18 225)
Total costs by type	(2 534 605)	(2 220 626)
Change in inventories, prepayments, accruals and deferred income	42 250	(46 085)
Cost of goods produced for internal purposes	162 222	146 080
Selling and distribution expenses	106 695	112 269
Administrative expenses	154 874	122 903
Cost of goods for resale and materials sold	(2 309 156)	(1 806 046)
Cost of sales	(4 377 720)	(3 691 505)

The increase in the consumption of materials and energy is mainly the effect of higher cost of fuel used in the production and the need to purchase higher volumes of fuel due to lower production in the Group's mines.

The increase in the cost of the obligation to cancel emission allowances in the 3-month period 31 March 2019 versus the comparative period is mainly the effect of an increase in the prices of the emission allowances. At the same time, the cost of fulfilling the obligation to cancel emission allowances and thus the provision include the Certified Emission Reduction (CER) units of 883 000, the price of which is much lower than that of European Union Allowance (EUA). If the entire provision was recognized with respect to EUA, the cost of the provision for Q1 2019 would be higher by approximately PLN 60 000 thousand.

An increase in employee benefit costs in the 3-month period ended 31 March 2019 versus the comparative period results mainly from the recognition in the comparative period 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 in the Generation segment and the reversal of provisions for jubilee bonuses in the aggregate amount of PLN 175 911 thousand. Due to the release of the provision for jubilee benefits employees were paid compensation totalling PLN 79 316 thousand which was charged to the costs of employee benefits.

The release of provisions in the comparative period also led to a decrease in the general and administrative expenses in the period (in the 3-month period ended 31 March 2018 down by PLN 13 232 thousand).

The increase in the value of goods and materials sold in the 3-month period ended 31 March 2019 versus the comparative period is mainly the effect of an increase in the electricity prices in the current period as well as higher volumes of electricity bought from counterparties from outside the TAURON Group, following the obligation imposed by the legislator that as of 1 January 2019 all tradings of electricity producers (100%) must be made via the power exchange (30% in the comparative period).

13. Other operating revenue and expenses

The drop in other operating revenue is the effect of transactions carried out in the comparative period. In the 3-month period ended 31 March 2019, a company in the Generation segment released a provision for employee tariff and the Company's Social Benefit Fund in the portion related to pensioners. This increased the Group's other operating revenue by PLN 139 470 thousand.

14. Finance income and costs

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Income and costs from financial instruments	(54 716)	(70 947)
Interest income	5 952	22 005
Interest costs	(54 882)	(38 403)
Commission relating to borrowings and debt securities	(2 138)	(1 970)
Gain/loss on derivative instruments	(7 129)	(703)
Exchange differences	(797)	(23 394)
Remeasurement of loans granted	4 099	(30 470)
Other	179	1 988
Other finance income and costs	(19 039)	(13 441)
Interest on employee benefits	(8 170)	(9 431)
Interest on discount of other provisions	(3 030)	(3 139)
Other	(7 839)	(871)
Total, including recognized in the statement of comprehensive income:	(73 755)	(84 388)
Interest expense on debt	(54 882)	(38 403)
Other finance income and costs	(18 873)	(45 985)

The increase in interest costs in the 3-month period ended 31 March 2019 versus the comparative 3-month period ended 31 March 2018 results mainly from:

- recognizing the interest cost of leases as at 1 January 2019 in accordance with IFRS 16 *Leases* – in the 3-month period ended 31 March 2019 such costs totalled PLN 8 298 thousand, and
- recognizing new borrowing costs (related to financing in December 2018 and Q1 2019) in profit or loss:
 - hybrid securities subscribed by the European Investment Bank, issued in December 2018 – cost of PLN 11 672 thousand in the 3-month period ended 31 March 2019;
 - loans from Bank Gospodarstwa Krajowego in the aggregate amount of PLN 730 000 thousand, taken out in January and February 2019 – cost of PLN 2 983 thousand in the 3-month period ended 31 March 2019.

In the same time, in the 3-month period ended 31 March 2019, the Group capitalized interest cost of PLN 41 603 thousand to investments (in the 3-month period ended 31 March 2018 it was PLN 29 056 thousand).

In the 3-month period ended 31 March 2019, net exchange losses totalled PLN 797 thousand (PLN 23 394 thousand in the comparable period). The exchange losses are mainly the exchange difference related to the Company's debt in the euro, i.e. loan obtained from a subsidiary, subordinated bonds and eurobonds. In the 3-month period ended 31 March 2019, related net exchange losses totalled PLN 1 376 thousand (PLN 32 775 thousand in the comparable period). In the same time, in the 3-month period ended 31 March 2019, the Group capitalized exchange differences in the amount of PLN 430 thousand in connection with investment projects (PLN 10 298 thousand in the comparative period).

15. Income tax

15.1. Tax expense in the statement of comprehensive income

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Current income tax	(192 186)	(181 144)
Current income tax expense	(207 517)	(172 371)
Adjustments to current income tax from previous years	15 331	(8 773)
Deferred tax	62 666	26 715
Income tax expense in profit/(loss)	(129 520)	(154 429)
Income tax expense relating to other comprehensive income	(4)	2 721

15.2. Deferred income tax

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
difference between tax base and carrying amount of fixed and intangible assets and right-of-use assets	1 694 037	1 503 445
difference between tax base and carrying amount of financial assets	44 879	65 366
different timing of recognition of sales revenue for tax purposes	339 243	360 507
difference between tax base and carrying amount of energy certificates	12 757	10 227
other	57 289	52 929
Deferred tax liabilities	2 148 205	1 992 474
provisions	514 215	490 191
difference between tax base and carrying amount of fixed and intangible assets and right-of-use assets	255 969	194 224
power infrastructure received free of charge and received connection fees	8 459	12 039
difference between tax base and carrying amount of financial assets and financial liabilities	272 681	145 497
different timing of recognition of cost of sales for tax purposes	322 516	312 824
tax losses	15 963	15 358
other	27 407	28 692
Deferred tax assets	1 417 210	1 198 825
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	30 755	30 105
Deferred tax liability	(761 750)	(823 754)

As at 31 March 2019 and 31 December 2018, the deferred tax assets of the companies in the Tax Capital Group ("TCG") were set off against deferred tax liability due to the fact that under the Tax Capital Group agreements the companies file a combined tax return.

Following the entry into force of IFRS 16 *Leases*, as at 1 January 2019 the Group recognized the right-of-use assets and lease liabilities, which has been further described in note 8.1 hereto. This resulted in an increase in the deferred tax liability arising from the difference between the tax base and carrying amount of fixed assets, intangible assets and right-of-use assets and an increase in the deferred tax asset arising from the difference between the tax base and the carrying amount of financial assets and financial liabilities.

16. Dividends paid and proposed

In the 3-month period ended 31 March 2019 and in the comparative period the Company neither proposed nor paid out dividends to the Company's shareholders.

On 29 March 2019, 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 2018 financial year of PLN 1 709 853 thousand against the Company's reserve capital. On 8 May 2019, the Ordinary General Shareholders' Meeting of the Company adopted a resolution following the recommendation of the Management Board.

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.

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EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

17. Property, plant and equipment

For the 3-month period ended 31 March 2019 (unaudited)

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	125 869	23 775 062	19 133 480	221 074	943 340	6 376 491	50 575 316
Direct purchase	-	-	-	113	-	596 328	596 441
Borrowing costs	-	-	-	-	-	42 153	42 153
Transfer of assets under construction	103	265 981	172 273	-	16 275	(454 632)	-
Sale	(7)	(288)	(21 322)	-	(9 090)	(4)	(30 711)
Liquidation	(4)	(6 692)	(8 545)	(34 327)	(1 776)	-	(51 344)
Received free of charge	-	2 120	-	-	-	-	2 120
Overhaul expenses	-	-	-	-	-	28 187	28 187
Items generated internally	-	-	-	34 001	-	10 056	44 057
Other movements	30	(2 115)	468	-	794	(1 512)	(2 335)
Foreign exchange differences from translation of foreign entities	-	-	(1)	-	(2)	-	(3)
Closing balance	125 991	24 034 068	19 276 353	220 861	949 541	6 597 067	51 203 881
ACCUMULATED DEPRECIATION							
Opening balance	(404)	(9 599 896)	(10 765 131)	(52 458)	(611 258)	(139 502)	(21 168 649)
Depreciation for the period	-	(204 524)	(188 497)	(25 384)	(19 956)	-	(438 361)
Increase of impairment	-	(642)	(102)	-	(34)	-	(778)
Decrease of impairment	-	97	11	-	2	886	996
Sale	-	55	21 114	-	8 473	-	29 642
Liquidation	-	5 053	8 120	34 327	1 776	-	49 276
Other movements	-	(466)	994	-	(72)	-	456
Foreign exchange differences from translation of foreign entities	-	-	1	-	1	-	2
Closing balance	(404)	(9 800 323)	(10 923 490)	(43 515)	(621 068)	(138 616)	(21 527 416)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	125 465	14 175 166	8 368 349	168 616	332 082	6 236 989	29 406 667
NET CARRYING AMOUNT AT THE END OF THE PERIOD	125 587	14 233 745	8 352 863	177 346	328 473	6 458 451	29 676 465
<i>of which operating segments:</i>							
Mining	3 118	499 693	411 466	174 513	12 667	397 190	1 498 647
Generation	42 721	2 223 455	3 402 139	-	28 535	4 950 536	10 647 386
Distribution	62 889	11 050 857	4 424 646	-	267 599	1 074 651	16 880 642
Other segments and other operations	16 859	459 740	114 612	2 833	19 672	36 074	649 790

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

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	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
Opening balance adjustments	-	-	-	196 185	-	-	196 185
Restated opening balance	122 780	22 580 965	18 647 127	196 185	895 144	4 856 088	47 298 289
Direct purchase	-	-	-	394	-	502 279	502 673
Borrowing costs	-	-	-	-	-	39 187	39 187
Transfer of assets under construction	103	210 695	124 908	-	7 985	(343 691)	-
Sale	-	(314)	(16 309)	-	(7 051)	(27)	(23 701)
Liquidation	-	(11 064)	(11 208)	(33 413)	(1 285)	-	(56 970)
Received free of charge	-	958	-	-	-	-	958
Overhaul expenses	-	-	-	-	-	4 346	4 346
Items generated internally	-	-	-	37 389	-	8 690	46 079
Other movements	(354)	(2 139)	2 231	-	(2 661)	388	(2 535)
Foreign exchange differences from translation of foreign entities	-	-	6	-	9	-	15
Closing balance	122 529	22 779 101	18 746 755	200 555	892 141	5 067 260	47 808 341
ACCUMULATED DEPRECIATION							
Opening balance	(407)	(8 553 035)	(9 866 322)	-	(565 315)	(37 139)	(19 022 218)
Depreciation for the period	-	(199 254)	(184 188)	(33 413)	(18 888)	-	(435 743)
Increase of impairment	-	(147)	(78)	-	(36)	-	(261)
Decrease of impairment	-	5 978	206	-	38	20	6 242
Sale	-	276	15 996	-	6 772	-	23 044
Liquidation	-	8 658	10 677	33 413	1 282	-	54 030
Other movements	-	265	(1 548)	-	1 751	-	468
Foreign exchange differences from translation of foreign entities	-	-	(4)	-	(4)	-	(8)
Closing balance	(407)	(8 737 259)	(10 025 261)	-	(574 400)	(37 119)	(19 374 446)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	122 373	14 027 930	8 780 805	-	329 829	4 818 949	28 079 886
Opening balance adjustments	-	-	-	196 185	-	-	196 185
RESTATED NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	122 373	14 027 930	8 780 805	196 185	329 829	4 818 949	28 276 071
NET CARRYING AMOUNT AT THE END OF THE PERIOD	122 122	14 041 842	8 721 494	200 555	317 741	5 030 141	28 433 895
<i>of which operating segments:</i>							
Mining	2 774	782 804	649 948	198 486	15 620	318 956	1 968 588
Generation	41 256	2 301 961	3 696 375	-	34 478	3 821 929	9 895 999
Distribution	61 232	10 865 736	4 256 560	-	252 613	886 758	16 322 899
Other segments and other operations	16 860	91 341	118 611	2 069	15 030	2 498	246 409

The tables above present mine workings under the accounting principles (policy) changed by the TAURON Group as of 1 January 2019, which has been further described in note 8.2 hereto.

In the 3-month period ended 31 March 2019, the Group acquired property, plant and equipment at the amount of PLN 638 594 thousand (including capitalization of borrowing costs). The major purchases were made in connection with investments in the following operating segments:

Operating segment	3-month period ended 31 March 2019 (unaudited)	3-month period ended 31 March 2018 (unaudited)
Distribution	341 104	268 650
Generation	198 369	232 346
Mining	84 010	36 840

Impairment tests

Considering that the fair value of the Company's net assets has long remained at levels below the carrying amount and considering ongoing changes in the prices of electricity, raw materials and emission allowances as well as changes to the Act on renewable energy sources and the introduction of the Act on the change of the act on the excise duty and certain other acts, the effects of the changes in the market conditions in Q1 this year were analysed.

It was revealed that over the analysed period market prices of electricity and natural gas dropped. The same applied to the prices of emissions allowances which rose rapidly over the last year and dropped in Q1 2019. Following an analysis of the market and regulatory events, it was concluded that they are not factors that would necessitate changes to long-term prognoses formulated based on the information available as at 31 December 2018.

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Therefore, it was assumed that the results of the most recent property, plant and equipment impairment tests, performed as at 31 December 2018, were up-to-date.

The tests conducted as at 31 December 2018 required estimating the value in use of cash-generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

The recoverable amount of the above group of assets corresponds to their value in use. The impairment losses were charged to the Group's operating expenses.

Impairment tests carried out as at 31 December 2018, and the key assumptions underlying the tests, have been described in note 10 to the consolidated financial statements of the TAURON Polska S.A. Capital Group for the year ended 31 December 2018.

The impairment loss and its reversal resulting from the tests performed in 2018 are related to the following cash generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:			Recoverable amount As at 31 December 2018	Impairment loss recognized Year ended 31 December 2018	Impairment loss derecognized
		31 December 2018	30 June 2018 (unaudited)	31 December 2017			
Mining	TAURON Wydobywanie S.A.	11.58%	10.95%	10.20%	751 141	718 957	-
Generation - Coal	TAURON Wytwarzanie S.A. / Nowe Jaworzno Grupa TAURON	8.59%	8.47%	8.35% - 8.39%	6 570 373	818 281	-
Generation - Biomass	Sp. z o.o.	8.59%	8.36%	8.35% - 8.39%	4 796	4 532	-
ZW BB EC1					398 077	55 122	-
ZW BB EC2					(162 641)	58 271	-
ZW Katowice	TAURON Cieplo Sp. z o.o.	7.51%	7.62%	7.58%	1 037 856	-	-
ZW Tychy					611 575	-	147 774
Local generators					145 142	-	-
Transmission		6.91%	7.55%	7.55%	876 297	-	-
Hydropower plants	TAURON Ekoenergia Sp. z o.o.	9.31%	8.92%	8.64%	873 509	-	60 292
Wind farms		10.00%	10.57%	9.54%	1 015 792	-	606 441
Total impairment allowances						1 655 163	814 507

18. Right-of-use assets

For the 3-month period ended 31 March 2019 (unaudited)

	Land	Perpetual usufruct right	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Other intangible assets	Right-of- use assets in progress	Right-of-use assets, total
COST								
Opening balance	-	-	-	-	-	-	-	-
Impact of IFRS 16	81 573	1 105 187	153 642	28 978	3 748	14 799	-	1 387 927
Restated opening balance	81 573	1 105 187	153 642	28 978	3 748	14 799	-	1 387 927
Increase due to a new lease contract	738	3	3 834	7 506	-	30	-	12 111
Increase(decrease) due to lease changes	386	3 678	8 299	260	91	9	-	12 723
Other movements	-	546	(131)	(260)	-	400	14	569
Closing balance	82 697	1 109 414	165 644	36 484	3 839	15 238	14	1 413 330
ACCUMULATED DEPRECIATION								
Opening balance	-	-	-	-	-	-	-	-
Impact of IFRS 16	-	(25 386)	-	-	-	(2 346)	-	(27 732)
Restated opening balance	-	(25 386)	-	-	-	(2 346)	-	(27 732)
Depreciation for the period	(1 045)	(8 183)	(3 657)	(3 939)	(406)	(186)	-	(17 416)
Decrease of impairment	-	32	-	-	-	-	-	32
Other movements	-	3	1	-	-	-	-	4
Closing balance	(1 045)	(33 534)	(3 656)	(3 939)	(406)	(2 532)	-	(45 112)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	-	-	-	-	-	-	-	-
NET CARRYING AMOUNT AT THE END OF THE PERIOD	81 652	1 075 880	161 988	32 545	3 433	12 706	14	1 368 218

The Group has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 16 Leases, i.e. with the cumulative effect of initially applying this standard recognized as at 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard.

19. Goodwill

Operating segment	As at 31 March 2019 (unaudited)	As at 31 December 2018
Distribution	25 602	25 602
Other segments	581	581
Total	26 183	26 183

Impairment tests

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

The test as at 31 December 2018 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.

Impairment tests carried out as at 31 December 2018, and the key assumptions underlying the tests, have been described in note 10 to the consolidated financial statements of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2018. The assumptions were also used to estimate the value in use of other intangible assets.

The impairment test performed as at 31 December 2018 did not reveal any impairment of the carrying amount of goodwill.

20. Energy certificates and gas emission allowances

20.1. Long-term energy certificates and gas emission allowances

For the 3-month period ended 31 March 2019 (unaudited)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	208 585	453 018	661 603
Direct purchase	4 303	-	4 303
Reclassification	(191 943)	(406 301)	(598 244)
Closing balance	20 945	46 717	67 662

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

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

20.2. Short-term energy certificates and gas emission allowances

For the 3-month period ended 31 March 2019 (unaudited)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	90 267	111 396	201 663
Direct purchase	94 873	-	94 873
Generated internally	35 534	-	35 534
Cancellation	(61 462)	(45 075)	(106 537)
Reclassification	191 943	406 301	598 244
Closing balance	351 155	472 622	823 777

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

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

21. Other intangible assets

For the 3-month period ended 31 March 2019 (unaudited)

	Development expenses	Perpetual usufruct right	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	774 682	776 434	271 336	85 486	1 914 341
Impact of IFRS 16	-	(759 077)	-	(13 612)	-	(772 689)
Restated opening balance	6 403	15 605	776 434	257 724	85 486	1 141 652
Direct purchase	-	-	-	-	15 706	15 706
Transfer of intangible assets not made available for use	-	-	7 604	5 516	(13 120)	-
Sale/Liquidation	-	-	(1 965)	(15)	-	(1 980)
Other movements	-	-	(471)	(557)	1 311	283
Foreign exchange differences from translation of foreign entities	-	-	(5)	-	-	(5)
Closing balance	6 403	15 605	781 597	262 668	89 383	1 155 656
ACCUMULATED AMORTIZATION						
Opening balance	(5 744)	(25 387)	(493 665)	(101 835)	(7)	(626 638)
Impact of IFRS 16	-	25 387	-	2 346	-	27 733
Restated opening balance	(5 744)	-	(493 665)	(99 489)	(7)	(598 905)
Amortization for the period	(50)	-	(23 645)	(4 500)	-	(28 195)
Sale/Liquidation	-	-	1 965	5	-	1 970
Foreign exchange differences from translation of foreign entities	-	-	5	-	-	5
Closing balance	(5 794)	-	(515 340)	(103 984)	(7)	(625 125)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	659	749 295	282 769	169 501	85 479	1 287 703
NET CARRYING AMOUNT AT THE END OF THE PERIOD	609	15 605	266 257	158 684	89 376	530 531

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

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	6 403	773 287	644 480	236 548	148 502	1 809 220
Direct purchase	-	-	-	-	14 198	14 198
Transfer of intangible assets not made available for use	-	28	47 171	3 472	(50 671)	-
Sale/Liquidation	-	(137)	(46)	(50)	-	(233)
Other movements	-	333	(3)	156	(450)	36
Foreign exchange differences from translation of foreign entities	-	-	20	-	-	20
Closing balance	6 403	773 511	691 622	240 126	111 579	1 823 241
ACCUMULATED AMORTIZATION						
Opening balance	(5 265)	(25 371)	(439 639)	(84 861)	(7)	(555 143)
Amortization for the period	(63)	-	(16 180)	(4 365)	-	(20 608)
Increase of impairment	-	(7)	-	-	-	(7)
Sale/Liquidation	-	-	29	49	-	78
Other movements	-	-	(12)	-	-	(12)
Foreign exchange differences from translation of foreign entities	-	-	(19)	-	-	(19)
Closing balance	(5 328)	(25 378)	(455 821)	(89 177)	(7)	(575 711)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	1 138	747 916	204 841	151 687	148 495	1 254 077
NET CARRYING AMOUNT AT THE END OF THE PERIOD	1 075	748 133	235 801	150 949	111 572	1 247 530

The Group has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 16 *Leases*, i.e. with the cumulative effect of initially applying this standard recognized as at 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard. Therefore, the right of perpetual usufruct to land and easement for the 3-month period ended 31 March 2018 are classified as other intangible assets. As at 1 January 2019, the Group reclassified the rights of perpetual usufruct to land and easement, which as at 1 January 2019 amounted to PLN 744 956 thousand and are covered by IFRS 16 *Leases* from other intangible assets to the right-of-use assets.

Under other intangible assets the Group recognizes the rights of perpetual usufruct of land of PLN 15 605 thousand held by a limestone mine owned by a subsidiary, excluded from the scope of IFRS 16 *Leases*.

22. Interests in joint ventures

Investments in joint-ventures measured using the equity method as at 31 March 2019 and for the 3-month period ended 31 March 2019 have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 March 2019 or for the 3-month period ended 31 March 2019 (unaudited)
Non-current assets	1 394 850	2 088 353	3 483 203
Current assets, <i>including:</i>	34 599	637 337	671 936
<i>cash and cash equivalents</i>	30 236	164 450	194 686
Non-current liabilities (-) <i>including:</i>	(1 463 551)	(893 587)	(2 357 138)
<i>debt</i>	(1 460 781)	(801 284)	(2 262 065)
Current liabilities (-) <i>including:</i>	(75 800)	(578 964)	(654 764)
<i>debt</i>	(4 370)	(125 334)	(129 704)
Total net assets	(109 902)	1 253 139	1 143 237
Share in net assets	(54 951)	626 570	571 619
Investment in joint ventures	-	585 778	585 778
Share in revenue of joint ventures	39	225 296	225 335
Share in profit/(loss) of joint ventures	-	42 823	42 823
Share in other comprehensive income of joint ventures	-	122	122

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

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

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2018 or for the 3-month period ended 31 March 2018 (unaudited)
Non-current assets	1 398 743	2 027 410	3 426 153
Current assets, <i>including:</i>	35 509	775 825	811 334
<i>cash and cash equivalents</i>	3 376	336 462	339 838
Non-current liabilities (-) <i>including:</i>	(1 422 139)	(849 842)	(2 271 981)
<i>debt</i>	(1 368 531)	(768 011)	(2 136 542)
Current liabilities (-) <i>including:</i>	(81 497)	(783 951)	(865 448)
<i>debt</i>	(6 481)	(122 628)	(129 109)
Total net assets	(69 384)	1 169 442	1 100 058
Share in net assets	(34 692)	584 721	550 029
Investment in joint ventures	-	543 913	543 913
Share in revenue of joint ventures	17	186 248	186 265
Share in profit/(loss) of joint ventures	-	25 242	25 242
Share in other comprehensive income of joint ventures	-	160	160

* The data relates to 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 electrical capacity of 450 MWe and the net heat capability of 240 MWt.

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

Additionally, the Company has receivables arising from loans to Elektrociepłownia Stalowa Wola S.A. with the carrying amount of PLN 225 897 thousand, which has been further discussed in Note 23 hereto.

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014 the TAURON Group and the ArcelorMittal Group entered into a shareholders' agreement whereby TAMEH HOLDING Sp. z o.o. 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., owner of the Ostrava Heat and Power Plant.

23. Loans to joint ventures

Loans to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 31 March 2019 and 31 December 2018 have been presented in tables below.

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	Agreement date	Loan amount according to agreement	As at 31 March 2019 (unaudited)			Maturity date	Interest rate
			Principal/ Measurement	Interest	Impairment allowance		
Loans measured at fair value							
Borrower's debt consolidation agreement	28.02.2018	609 951	203 403			30.06.2033	fixed
Loans measured at amortized cost							
VAT loan	11.04.2018	6 500	1 620	4	(41)	30.09.2020	WIBOR 1M+mark-up
	30.03.2018	7 290	7 000	537	(185)		
Other loans	19.12.2018	9 500	8 535	179	(215)	30.06.2033	fixed
	12.03.2019	5 175	5 175	13	(128)		
Total			225 733	733	(569)		
Non-current			225 733	729	(569)		
Current			-	4	-		

	Agreement date	Loan amount according to agreement	As at 31 December 2018			Maturity date	Interest rate
			Principal/ Measurement	Interest	Impairment allowance		
Loans measured at fair value							
Borrower's debt consolidation agreement	28.02.2018	609 951	199 256			30.06.2033	fixed
Loans measured at amortized cost							
VAT loan	11.04.2018	6 500	2 650	5	(68)	30.09.2020	WIBOR 1M+mark-up
	30.03.2018	7 290	7 000	400	(182)		
Other loans	19.12.2018	9 500	8 535	21	(210)	30.06.2033	fixed
Total			217 441	426	(460)		
Non-current			217 441	421	(460)		
Current			-	5	-		

The key item among the above loans is the agreement to consolidate the borrower's debt of 28 February 2018 to the aggregate amount of PLN 609 951 thousand, whereby all the existing liabilities of Elektrociepłownia Stalowa Wola S.A. to the Company arising from loans granted and unpaid by 28 February 2018 were renewed. The debt is a subordinated debt. As at the date these condensed interim consolidated financial statements were authorized for issue the nominal value of the subordinated debt to the Company was PLN 310 851 thousand. The principal in the amount of PLN 299 100 thousand was repaid on 30 April 2018. As at 31 March 2019 the loan was measured at fair value of PLN 203 403 thousand.

24. Other financial assets

	As at 31 March 2019 (unaudited)	As at 31 December 2018
Initial margins	147 507	163 495
Shares	144 436	138 492
Derivative instruments	115 604	220 343
Bid bonds, deposits and collateral transferred	76 776	89 498
Deposits and term deposits for Mining Decommissioning Fund	51 167	47 126
Investment fund units	26 203	26 063
Loans granted	9 893	10 145
Other	10 637	2 548
Total	582 223	697 710
Non-current	224 361	254 677
Current	357 862	443 033

As at 31 March 2019 the shares held by the Group were mainly shares in the following entities:

- SCE Jaworzno III Sp. z o.o., in the amount of PLN 30 989 thousand;
- Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o., in the amount of PLN 23 754 thousand;
- PGE EJ 1 Sp. z o.o., in the amount of PLN 18 651 thousand;
- ElectroMobility Poland S.A., in the amount of PLN 17 500 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 14 697 thousand;
- Magenta Grupa TAURON Sp. z o.o. in the amount of PLN 9 500 thousand.

The value of initial margins is mainly related to greenhouse gas emissions allowance futures entered into on foreign stock markets.

25. Other non-financial assets

25.1. Other non-current non-financial assets

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018 <i>(restated figures)</i>
Prepayments for assets under construction and intangible assets, <i>including:</i>	96 718	101 755
<i>related to project realization: Construction of 910 MW Power Unit in</i>		
<i>Jaworzono III Power Plant</i>	92 652	98 114
Prepayments for debt charges	11 824	14 307
Contract acquisition costs and costs of discounts	5 108	13 496
Other prepayments	42 533	38 493
Total	156 183	168 051

25.2. Other current non-financial assets

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018 <i>(restated figures)</i>
Costs settled over time	60 531	50 421
IT, telecom and postal services	19 627	21 062
Contract acquisition costs and costs of discounts	11 316	10 624
Property and tort insurance	9 888	8 012
Prepayments for debt charges	2 660	3 414
Other prepayments	17 040	7 309
Other current non-financial assets	76 024	5 208
Advance payments for deliveries	11 261	3 218
Transfers made to the Social Benefit Fund	41 150	-
Other current assets	23 613	1 990
Total	136 555	55 629

26. Inventories

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
Gross value		
Coal, <i>of which:</i>	435 701	377 119
<i>Raw materials</i>	203 024	188 876
<i>Semi-finished goods and work-in-progress</i>	226 455	184 833
Gas emission allowances	222 690	2 762
Other inventories	135 894	138 920
Total	794 285	518 801
Measurement to fair value		
Gas emission allowances	6 476	46
Measurement to net realisable value		
Other inventories	(9 553)	(9 046)
Total	(3 077)	(9 000)
Fair value		
Gas emission allowances	229 166	2 808
Net realisable value		
Coal, <i>of which:</i>	435 701	377 119
<i>Raw materials</i>	203 024	188 876
<i>Semi-finished goods and work-in-progress</i>	226 455	184 833
Other inventories	126 341	129 874
Total	791 208	509 801

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

The increase in the greenhouse gas emission allowances is mainly the effect of the acquisition of allowances in March 2019. After the end of the reporting period, a vast majority of the allowances was sold.

27. Receivables from buyers

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
Value of items before allowance/write-down		
Receivables from buyers	1 597 124	1 586 686
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	731 224	657 352
Receivables claimed at court	205 937	207 121
Total	2 534 285	2 451 159
Allowance/write-down		
Receivables from buyers	(39 583)	(38 833)
Receivables claimed at court	(181 744)	(182 926)
Total	(221 327)	(221 759)
Value of item net of allowance (carrying amount)		
Receivables from buyers	1 557 541	1 547 853
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	731 224	657 352
Receivables claimed at court	24 193	24 195
Total, of which:	2 312 958	2 229 400
Current	2 312 931	2 229 363

28. Income tax receivables

Income tax receivables of PLN 9 806 thousand arise mainly from the receivables of the Tax Capital Group totalling PLN 9 489 thousand.

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.

Since 1 January 2018 the Tax Capital Group has comprised the following companies: 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 31 March 2019, the Tax Capital Group had income tax receivables of PLN 9 489 thousand, comprising:

- receivables for the year ended 31 December 2018 of PLN 72 064 thousand being the excess of advance tax payments of PLN 385 496 thousand over the tax expense of the Group of PLN 313 432 thousand;
- liability for the 3-month period ended 31 March 2019 of PLN 62 575 thousand being the excess of the TCG's tax expense of PLN 203 885 thousand over the tax advance payments of PLN 141 310 thousand.

29. Receivables due to other taxes and charges

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
VAT receivables	131 736	165 310
Excise duty receivables	9 559	39 764
Other	3 343	4 672
Total	144 638	209 746

30. Cash and cash equivalents

	As at 31 March 2019 (<i>unaudited</i>)	As at 31 December 2018
Cash at bank and in hand	781 838	602 592
Short-term deposits (up to 3 months)	7 454	178 132
Other	60	43 000
Total cash and cash equivalents presented in the statement of financial position, of which:	789 352	823 724
restricted cash	229 418	231 987
Bank overdraft	(156 933)	(767)
Cash pool	(17 771)	(14 690)
Exchange differences	407	(295)
Total cash and cash equivalents presented in the statement of cash flows	615 055	807 972

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

As at 31 March 2019, restricted cash consisted mainly of:

- cash securing the settlements with Izba Rozliczeniowa Gield Towarowych S.A. totalling PLN 98 716 thousand;
- cash on bank accounts arising from subsidies totalling PLN 78 619 thousand; and
- cash on VAT accounts (split payment) totalling PLN 51 737 thousand.

31. Equity

31.1. Issued capital

Issued capital as at 31 March 2019 (*unaudited*)

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

As at 31 March 2019, the value of the issued capital, the number of shares and the nominal value of shares did not change as compared to 31 December 2018.

Shareholding structure as at 31 March 2019 (*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 Miedz S.A.	182 110 566	910 553	10.39%	10.39%
Nationale - Nederlanden Otarty Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	1 752 549 394	8 762 747	100%	100%

To the best of the Company's knowledge, the shareholding structure as at 31 March 2019 had not changed since 31 December 2018.

31.2. Shareholders' rights

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.

31.3. Reserve capital

On 8 May 2019, the Ordinary General Shareholders' Meeting of the Company adopted a resolution to offset the Company's net loss for the 2018 financial year, totalling PLN 1 709 853 thousand, against the reserve capital.

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

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

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

As at 31 March 2019 and as at the date these condensed interim consolidated financial statements were authorized for issue there were no other dividend restrictions.

31.5. Revaluation reserve from valuation of hedging instruments

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Opening balance	3 371	23 051
Remeasurement of hedging instruments	(3 042)	(13 483)
Remeasurement of hedging instruments charged to profit or loss	271	375
Deferred income tax	527	2 490
Closing balance	1 127	12 433

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 further discussed in Note 44.2 hereto. The Company applies hedge accounting to hedging transactions covered by financial risk management policy.

As at 31 March 2019, the Company recognized PLN 1 127 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 1 678 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The amount of PLN 271 thousand constituting a change in valuation of instruments related to interest accrued on bonds as at the end of the reporting period was recognized in the profit for the period.

31.6. Non-controlling interests

The increase in the value of non-controlling interests, in the 3-month period ended 31 March 2019, is the effect of Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with the registered office in Warsaw subscribing shares in the increased issued capital of subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. of the aggregate amount of PLN 256 925 thousand, which has been further described in note 2 hereto.

32. Debt

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
Loans and borrowings	1 740 650	886 285
Bonds issued	10 252 811	10 077 067
Finance lease	634 650	25
Total	12 628 111	10 963 377
Non-current	10 169 436	8 488 210
Current	2 458 675	2 475 167

32.1. Loans and borrowings

Loans and borrowings as at 31 March 2019 *(unaudited)*

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within <i>(after the balance sheet date)</i> :					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	763 761	763 761	21 080	3 181	4 242	4 089	3 098	728 071
	fixed	813 435	813 435	19 361	137 065	156 427	156 427	216 361	127 794
Total PLN		1 577 196	1 577 196	40 441	140 246	160 669	160 516	219 459	855 865
USD	floating	198	761	761	-	-	-	-	-
	Total USD	198	761	761	-	-	-	-	-
EUR	floating	36 302	156 147	156 147	-	-	-	-	-
	Total EUR	36 302	156 147	156 147	-	-	-	-	-
Total			1 734 104	197 349	140 246	160 669	160 516	219 459	855 865
Interest increasing carrying amount			6 546						
Total			1 740 650						

Loans and borrowings as at 31 December 2018

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within <i>(after the balance sheet date)</i> :					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	34 832	34 832	19 159	3 183	4 243	4 135	4 112	-
	fixed	845 983	845 983	53 557	102 298	140 678	140 678	233 495	175 277
Total PLN		880 815	880 815	72 716	105 481	144 921	144 813	237 607	175 277
USD	floating	204	767	767	-	-	-	-	-
	Total USD	204	767	767	-	-	-	-	-
Total			881 582	73 483	105 481	144 921	144 813	237 607	175 277
Interest increasing carrying amount			4 703						
Total			886 285						

Changes in the balance of loans and borrowings, excluding interest increasing their carrying amount, in the 3-month period ended 31 March 2019 and in the comparative period, have been presented below.

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Opening balance	881 582	1 185 231
Impact of IFRS 9	-	(33 055)
Restated opening balance	881 582	1 152 176
Movement in bank overdrafts and cash pool loans received	158 869	(87 693)
Movement in loans (excluding bank overdrafts and cash pool loans):	693 653	(40 287)
Repaid	(37 054)	(36 251)
Taken*	728 120	-
Change in valuation	2 587	(4 036)
Closing balance	1 734 104	1 024 196

* Inclusive of the borrowing costs.

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On 19 December 2018 the Company and Bank Gospodarstwa Krajowego (“BGK”) concluded a PLN 1 000 000 thousand loan agreement. Under the agreement, funds are available until 31 December 2020, and will be repaid in equal instalments from 2024 to 2033. The interest shall be linked to a floating rate (6M WIBOR) increased by a BGK’s margin. In the 3-month period ended 31 March 2019 the aggregate value of released loan was PLN 730 000 thousand.

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

Loan/ borrowing	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 March 2019 (unaudited)	As at 31 December 2018
Loan	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	59 932	59 116
		Construction and start-up of a co-generation unit at EC Bielsko Biala	fixed	15.12.2021	85 763	84 613
		Modernization and extension of power grid	fixed	15.06.2024	214 911	212 219
			fixed	15.09.2024	97 630	107 353
			fixed	15.09.2024	122 543	134 738
Modernization and extension of power grid and improvement of hydropower plants	fixed – agreed until 15 September 2019	15.03.2027	236 147	252 637		
Loan	Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	floating	20.12.2033	731 086	-
Overdraft facility	Bank Gospodarstwa Krajowego	Financing of transactions involving emission allowance, energy and gas	floating	31.12.2019	156 172	-
Borrowing	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	floating	15.12.2022	15 000	16 000
Other loans and borrowings					21 466	19 609
Total					1 740 650	886 285

32.2. Bonds issued

Bonds issued as at 31 March 2019 (unaudited)

Issuer	Tranche/ Bank	Interest	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date		of which maturing within (after the balance sheet date):						
						Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years			
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on 6M WIBOR	PLN	100 000	20.12.2019	905	99 951	99 951	-	-	-			
				100 000	20.12.2020	905	99 905	-	99 905	-	-			
				100 000	20.12.2021	905	99 872	-	-	-	99 872	-		
				100 000	20.12.2022	905	99 847	-	-	-	99 847	-		
				100 000	20.12.2023	905	99 828	-	-	-	99 828	-		
				100 000	20.12.2024	905	99 815	-	-	-	-	99 815		
				100 000	20.12.2025	905	99 802	-	-	-	-	99 802		
				100 000	20.12.2026	905	99 791	-	-	-	-	99 791		
				100 000	20.12.2027	905	99 782	-	-	-	-	99 782		
				100 000	20.12.2028	905	99 776	-	-	-	-	99 776		
				70 000	20.12.2020	624	69 978	-	69 978	-	-	-		
				70 000	20.12.2021	624	69 973	-	-	-	69 973	-		
				70 000	20.12.2022	624	69 969	-	-	-	69 969	-		
				70 000	20.12.2023	624	69 966	-	-	-	69 966	-		
				70 000	20.12.2024	624	69 964	-	-	-	-	69 964		
				70 000	20.12.2025	624	69 962	-	-	-	-	69 962		
				70 000	20.12.2026	624	69 961	-	-	-	-	69 961		
				70 000	20.12.2027	624	69 960	-	-	-	-	69 960		
				70 000	20.12.2028	624	69 959	-	-	-	-	69 959		
				70 000	20.12.2029	624	69 959	-	-	-	-	69 959		
				Banks (issue scheme underwriters) ¹	floating, based on 6M WIBOR	PLN	100 000	25.03.2020	56	99 899	99 899	-	-	-
							200 000	9.11.2020	2 304	199 795	-	199 795	-	-
			1 600 000	29.12.2020	11 986	1 598 331	-	1 598 331	-	-				
Domestic investors TPEA1119	floating, based on 6M WIBOR	PLN	1 750 000	4.11.2019	19 278	1 749 429	1 749 429	-	-	-				
Bank Gospodarstwa Krajowego	floating, based on 6M WIBOR	PLN	400 000	29.03.2031 ³	190	399 350	-	-	-	399 350				
European Investment Bank	fixed ²	EUR	190 000	16.12.2034 ³	10 908	787 085	-	-	-	787 085				
		PLN	400 000	17.12.2030 ³	8 699	397 658	-	-	-	397 658				
		PLN	350 000	19.12.2030 ³	7 308	347 954	-	-	-	347 954				
Eurobonds	fixed	EUR	500 000	5.07.2027	37 788	2 135 867	-	-	-	2 135 867				
TAURON Sweden Energy AB (publ)	German market investors	fixed	EUR	168 000	3.12.2029	8 246	717 370	-	-	-	717 370			
Total						122 053	10 130 758	1 949 279	1 968 009	509 455	5 704 015			

¹ Bond issue scheme of 24.11.2015

² There are two periods for hybrid financing (subordinated) – bonds subscribed for by the European Investment Bank. In the first period, the interest rate is fixed, while in the second period, it is floating and linked to the base rate (EURIBOR/WIBOR) increased by an agreed margin.

³ The redemption date of subordinated bonds accounts for two financing periods referred to below.

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Bonds issued as at 31 December 2018

Issuer	Tranche/ Bank	Interest	Currency	Bonds at nominal value in currency	Redemption date	As at balance sheet date		of which maturing within (after the balance sheet date):						
						Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years			
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on 6M WIBOR	PLN	100 000	20.12.2019	107	99 935	99 935	-	-	-			
				100 000	20.12.2020	107	99 891	-	99 891	-	-			
				100 000	20.12.2021	107	99 861	-	-	99 861	-	-		
				100 000	20.12.2022	107	99 838	-	-	-	99 838	-		
				100 000	20.12.2023	107	99 820	-	-	-	99 820	-		
				100 000	20.12.2024	107	99 807	-	-	-	-	99 807		
				100 000	20.12.2025	107	99 796	-	-	-	-	99 796		
				100 000	20.12.2026	107	99 785	-	-	-	-	99 785		
				100 000	20.12.2027	107	99 777	-	-	-	-	99 777		
				100 000	20.12.2028	107	99 771	-	-	-	-	99 771		
				70 000	20.12.2020	73	69 975	-	69 975	-	-	-		
				70 000	20.12.2021	73	69 970	-	-	-	69 970	-		
				70 000	20.12.2022	73	69 967	-	-	-	69 967	-		
				70 000	20.12.2023	73	69 964	-	-	-	69 964	-		
				70 000	20.12.2024	73	69 963	-	-	-	-	69 963		
				70 000	20.12.2025	73	69 961	-	-	-	-	69 961		
				70 000	20.12.2026	73	69 960	-	-	-	-	69 960		
				70 000	20.12.2027	73	69 959	-	-	-	-	69 959		
				70 000	20.12.2028	73	69 958	-	-	-	-	69 958		
				70 000	20.12.2029	73	69 958	-	-	-	-	69 958		
					Banks (issue scheme underwriters) ¹	floating, based on 6M WIBOR	PLN	400 000	14.03.2019	566	400 000	400 000	-	-
								200 000	9.11.2020	854	199 764	-	199 764	-
								1 600 000	29.12.2020	387	1 598 100	-	1 598 100	-
					Domestic investors TPEA1119	floating, based on 6M WIBOR	PLN	1 750 000	4.11.2019	7 555	1 749 400	1 749 400	-	-
					European Investment Bank	fixed ²	EUR	190 000	16.12.2034 ³	1 646	790 136	-	-	790 136
							PLN	400 000	17.12.2030 ³	1 243	398 781	-	-	398 781
							PLN	350 000	19.12.2030 ³	922	348 931	-	-	348 931
	Eurobonds	fixed	EUR	500 000	5.07.2027	25 181	2 134 826	-	-	2 134 826				
TAURON Sweden Energy AB (publ)	German market investors	fixed	EUR	168 000	3.12.2029	2 009	717 050	-	-	717 050				
Total						42 163	10 034 904	2 249 335	1 967 730	509 420	5 308 419			

¹ Bond issue scheme of 24.11.2015

² There are two periods for hybrid financing (subordinated) – bonds subscribed for by the European Investment Bank. In the first period, the interest rate is fixed, while in the second period, it is floating and linked to the base rate (EURIBOR/WIBOR) increased by an agreed margin.

³ The redemption date of subordinated bonds accounts for two financing periods referred to below.

The bonds issued by the Company are unsecured, coupon bonds. They were issued at the nominal value, except for eurobonds which were issued at the issue price accounting for 99.438% of the nominal value.

The eurobonds have been admitted to trading on the London Stock Exchange. They were rated “BBB” by the Fitch rating agency.

Bonds subscribed for by the European Investment Bank are subordinated, which means that they have priority interest only over the liabilities to the Company’s shareholders in the event of the issuer’s bankruptcy or liquidation. This in turn has a positive effect on the Company’s financial stability, since the bonds are excluded from the net debt / EBITDA calculation, a covenant underlying domestic bond issue schemes concluded by the Company (except for TPEA1119 series bonds quoted in the Catalyst Alternative Trading System). Additionally, 50% of the subordinated bond amount has been classified by the rating agency as equity in the rating model, which has had a positive effect on the rating of the TAURON Group.

Two financing periods for bonds subscribed for by the European Investment Bank. In the first period early redemption of bonds by the Company (non-call) and early sales of bonds by EIB to third parties are not possible (in both cases, unless so provided in the subscription agreement). In this period, the interest rate is fixed, while after the non-call period, it is floating and is linked to the base rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by an agreed margin. The redemption date for bonds issued in PLN is 12 years of the issue date, i.e. 17 and 19 December 2030 and, pursuant to the rules of hybrid financing, the first financing period is 7 years and the next - 5 years. The redemption date for bonds issued in EUR is 18 years of the issue date, i.e. 16 December 2034 and, pursuant to the rules of hybrid financing, the first financing period is 8 years and the next - 10 years.

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In the 3-month period ended 31 March 2019, the Company issued subordinated bonds under an agreement dated 6 September 2017 concluded with Bank Gospodarstwa Krajowego of the nominal value of PLN 400 000 thousand. The bonds are subordinated. In this case also two periods are distinguished. In the first period of 7 years early redemption of bonds by the Company (non-call) and early sales of bonds by BGK to third parties are not possible (in both cases, unless so provided in the documentation). The interest rate is floating and is linked to 6M WIBOR increased by an agreed margin and in the period following the 7 years the margin is additionally increased.

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

	3-month period ended 31 March 2019	3-month period ended 31 March 2018
	(unaudited)	(unaudited)
Opening balance	10 034 904	8 599 655
Issue*	499 312	-
Redemption	(400 000)	-
Change in valuation	(3 458)	32 896
Closing balance	10 130 758	8 632 551

* Costs of issue have been included.

In the 3-month period ended 31 March 2019, the Company carried out the following transactions:

Date of issue/ Date of redemption	Agreement/Scheme	Description	3-month period ended 31 March 2019 (unaudited)	
			Par value of issue	Redemption
14.03.2019	Bond issue scheme dated 24 November 2015	Redemption of bonds according to the maturity date		(400 000)
25.03.2019		Issue of bonds maturing on 25 March 2020	100 000	
29.03.2019	Subordinated bonds, contract with BGK dated 6 September 2017	Issue of bonds maturing on 29 March 2031	400 000	
Total			500 000	(400 000)

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, as further discussed in Note 44.2 hereto.

32.3. Debt agreement covenants

The Company's agreements signed with 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 debt less cash in relation to generated EBITDA. The maximum value of net debt/EBITDA allowed is 3.5, except for TPEA1119 series bonds, for which it is 3.0. Unlike the definitions in other financing agreements, the definition of the ratio for the bonds series TPEA1119 includes the liabilities arising from the issued subordinated bonds in Group's borrowings.

As at 31 December 2018 (i.e. the last reporting period for which the Company was obliged to calculate the covenant), net debt/EBITDA ratio calculated in line with the definition included in the issue terms regarding TPEA1119 series bearer bonds issued on 4 November 2014 for the total amount of PLN 1 750 000 thousand reached 3.04, thus exceeding the maximum level allowed of 3.0 as determined in the issue terms for the TPEA1119 series. This event may provide the basis to demand early redemption of the bonds, provided it is approved the bondholders' meeting. The approval may take the form of a resolution passed by a majority of 66 and 2/3 percent of votes cast by bondholders present at the meeting. In March 2016 the Company signed an agreement with a group of bondholders who as at 31 March 2019 were entitled to exercise 41.93% of votes at the bondholders' meeting. Pursuant to the agreements, the bondholders are obliged to maintain the number of bonds held, to participate in each bondholders' meeting and to vote against a resolution approving the early redemption demand to the Company due to the net debt/EBITDA ratio having exceeded the 3.0 level. Such obligations remain valid provided that the net debt/EBITDA ratio does not exceed 3.5 (the ratio definition included in the agreement does not account for liabilities arising from subordinated bonds, i.e. it complies with the definitions included in other financing agreements concluded by the issuer). Until the date these condensed interim consolidated financial statements were authorized for issue, the Company did not learn about any bondholders that would had taken steps aimed at earlier redemption of the bonds series TPEA1119.

The fact that the net debt/EBITDA ratio (calculated in line with the definition included in the TPEA1119 series issue terms) exceeded 3.0 does not result in a breach of other financing agreements concluded by the Company, nor does it bring any other adverse effects related to these agreements.

The net debt/EBITDA ratio, being a covenant in other domestic bond issue schemes, has not been exceeded since the maximum value allowed was higher (3.5) and the debt definition was different, i.e. for the purpose of the net debt/EBITDA ratio calculation it did not include the value of subordinated bonds which had been issued.

32.4. Lease liabilities

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
within 1 year	43 202	2
within 1 to 5 years	90 525	7
within 5 to 10 years	66 474	8
within 10 to 20 years	130 297	8
more than 20 years	304 152	-
Present value of lease payments	634 650	25
Lease contracts not qualifying as finance lease under IAS 17 <i>Leases</i>	634 625	-
Finance lease liabilities under IAS 17 <i>Leases</i> (recognized under covenant calculation)	25	25

The present value of lease payments in the table above was recognized as at 31 March 2019 under IFRS 16 *Leases* and as at 31 December 2018 — under IAS 17 *Leases*.

The Group decided to apply IFRS 16 *Leases* with effect as of 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard. The information as at 31 December 2018 has been prepared based on IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease* and SIC 15 *Operating Leases – Incentives*.

33. Provisions for employee benefits

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
Provision for post-employment benefits and jubilee bonuses	1 188 595	1 188 829
Provision for employment termination benefits and other provisions for employee benefits	34 283	42 649
Total	1 222 878	1 231 478
Non-current	1 117 086	1 114 191
Current	105 792	117 287

33.1. Provisions for post-employment benefits and jubilee benefits

For the 3-month period ended 31 March 2019 (unaudited)

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	331 270	370 267	91 720	395 572	1 188 829
Current service costs	3 683	2 267	684	5 649	12 283
Actuarial gains and losses	(2 807)	-	19	(5 047)	(7 835)
Benefits paid	(5 652)	(15)	(803)	(6 382)	(12 852)
Interest expense	2 230	2 678	640	2 622	8 170
Closing balance	328 724	375 197	92 260	392 414	1 188 595
Non-current	296 337	361 873	89 159	348 152	1 095 521
Current	32 387	13 324	3 101	44 262	93 074

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

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

Measurement of provisions for employee benefits

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

The provisions for employee benefits were measured as at 31 March 2019 based on actuarial projections. Actuary's assumptions underlying the projections for 2019 were the same as those used for measuring provisions as at 31 December 2018. Key actuarial assumptions made as at 31 December 2018 for the purpose of calculation of the liability:

	31 December 2018
Discount rate (%)	3.00%
Estimated inflation rate (%)	2.50%
Employee rotation rate (%)	1.13% - 8.69%
Estimated salary increase rate (%)	2.50%
Estimated electricity price increase rate (%)	3.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%
Remaining average employment period	11.06 – 20.67

33.2. Provision for termination benefits and other provisions for employee benefits

For the 3-month period ended 31 March 2019 (unaudited)

	Voluntary redundancy schemes		Other provisions	Total
	Segment Generation	Segment Distribution		
Opening balance	26 891	5 100	10 658	42 649
Recognition	178	-	853	1 031
Reversal	(2 475)	(4 087)	-	(6 562)
Utilization	(1 594)	(813)	(428)	(2 835)
Closing balance	23 000	200	11 083	34 283
Non-current	21 565	-	-	21 565
Current	1 435	200	11 083	12 718

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

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

34. Provision for the costs of fixed asset dismantling, land restoration and other

For the 3-month period ended 31 March 2019 (unaudited)

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
Opening balance	202 599	135 878	338 477
Unwinding of the discount	1 519	738	2 257
Recognition/(reversal), net	40	(13 039)	(12 999)
Utilisation	-	(1 103)	(1 103)
Closing balance	204 158	122 474	326 632
Non-current	204 158	102 868	307 026
Current	-	19 606	19 606
Other provisions, long-term portion			88 514
Total			395 540

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

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

34.1. Provision for mine decommissioning costs

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

As at 31 March 2019, the provision totalled PLN 204 158 thousand, and the change reflects mainly the unwinding of a discount – PLN 1 519 thousand.

34.2. 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 29 149 thousand as at 31 March 2019 (versus PLN 42 150 thousand as at 31 December 2018). In the 3-month period ended 31 March 2019, following the change in the classification and designation of the part of the land and thus no need for the provision, a portion of it (PLN 13 036 thousand) was released;
- provision for windfarm dismantling costs, which totalled PLN 60 484 thousand as at 31 March 2019 (versus PLN 60 033 thousand as at 31 December 2018);
- provision for costs of liquidation of fixed assets in power plants: Jaworzno, Łagisza and Siersza, which totalled PLN 32 841 thousand as at 31 March 2019 (versus PLN 33 695 thousand as at 31 December 2018).

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

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

For the 3-month period ended 31 March 2019 (unaudited)

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	111 406	384 066	495 472
Recognition	120 509	113 657	234 166
Reversal	(74)	(3 190)	(3 264)
Utilisation	(45 075)	(249 163)	(294 238)
Closing balance	186 766	245 370	432 136

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

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

35.1. Provision for gas emission liabilities

As at 31 March 2019 the provision for gas emission liabilities had been recognized in connection with the obligation to cancel emissions allowances for 2018 and the 3-month period ended 31 March 2019.

A change in the provision for liability arising from gas emissions over the 3-month period ended 31 March 2019 by fulfilment of the cancellation obligations in specific periods has been presented in the table below.

	Satisfaction of the cancellation obligation for the 3-month period ended 31 March 2019	Satisfaction of the cancellation obligation for the year ended 31 December 2018	Total
Opening balance	-	111 406	111 406
Recognition	118 250	2 259	120 509
Reversal	-	(74)	(74)
Utilisation	-	(45 075)	(45 075)
Closing balance, of which:	118 250	68 516	186 766
TAURON Wytwarzanie S.A.'s systems	94 395	21 634	116 029
TAURON Ciepło Sp. z o.o.'s systems	23 855	46 882	70 737

The increase in the cost of provision for gas emission liabilities in the 3-month period ended 31 March 2019 versus the comparative period has been described in Note 12 hereto.

35.2. Provision for the obligation to provide energy certificates

As at 31 March 2019, the short-term provision for the obligation to provide energy certificates for 2019 and partially for 2018 was estimated at PLN 245 370 thousand, including: PLN 166 323 thousand worth of the certificates held as at the end of the reporting period, PLN 21 965 thousand planned to be covered by the payment of the substitution fee and PLN 57 082 thousand by the purchase of property rights.

The decrease in the cost of the provision for the obligation to provide energy certificates in the 3-month period ended 31 March 2019 versus the comparative period arises mainly from the fact that under the changed laws in the current period there was no obligation to recognize a provision for certificates of cogeneration (red, yellow and purple certificates). There was such an obligation in the comparative period.

In the 3-month period ended 31 March 2019, the Group partially fulfilled the obligation to cancel certificates of electricity generated using renewable sources, in cogeneration and energy efficiency certificates for 2018. Therefore, a provision of PLN 249 163 thousand was used.

36. Other provisions

For the 3-month period ended 31 March 2019 (unaudited)

	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	92 110	213 996	311 295	617 401
Unwinding of discount	-	-	773	773
Recognition/(reversal), net	707	-	1 426	2 133
Utilisation	(140)	(50 500)	(1 190)	(51 830)
Closing balance	92 677	163 496	312 304	568 477
Non-current	-	9 304	79 210	88 514
Current	92 677	154 192	233 094	479 963
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions				19 606
Total				499 569

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

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

36.1. Provision for the use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 31 March 2019, such provision amounted to PLN 92 677 thousand and was related to the following segments:

- Generation: PLN 50 538 thousand;
- Distribution: PLN 42 139 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 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*.

36.2. Provisions for onerous contracts

Provisions for onerous contracts related to the entry into force of the Act amending the Excise Duty Act and certain other acts

28 December 2018 saw the entry into force of the Act amending the Excise Duty Act and certain other acts ("Act"). In accordance with the version of the Act in force as at 31 December 2018, in 2019 electricity undertakings trading in electricity are obliged to apply gross prices and rates that are not higher than gross prices and rates in the electricity tariff or price list valid as at 30 June 2018, accounting for the decrease in excise duty on electricity. Considering the legal position as at 31 December 2018, companies in the TAURON Group concluded that the definition of an electricity price list does not apply to contracts with an individually negotiated price of electricity and contracts concluded under the Public Procurement Law of 29 January 2004.

Following the entry into force of the Act, in the consolidated financial statements prepared as at 31 December 2018 the TAURON Group recognized a provision for onerous contracts of PLN 213 756 thousand. Specifically, the provision was estimated with reference to the buyers in the G tariff group, i.e. for the difference between the selling price under the tariffs in force in 2019 and the estimated purchase price of electricity based on the volumes expected in 2019. When estimating the provision, the TAURON Group did not apply the provisions of the Act amending the Act on Excise Duty and certain other acts of 21 February 2019 (the "amended Act") treating it as a non-adjusting event after the reporting period. At the same time, the consolidated financial statements prepared as at 31 December 2018 did not account for the compensation system introduced by the Act, due to the absence of legal regulations that would allow for estimating their value.

The amended act, effective as of 20 March 2019, introduced an obligation to apply an individual price charged to a given buyer as at 30 June 2018 instead of the tariffs and price lists as at 30 June 2018. As far as the compensation is concerned, the refund of the difference between the weighted average wholesale price (determined in line with principles included in the regulation that has not been issued) and the revenue arising from the price list shall be replaced with compensation of the difference between the revenue from electricity trading, determined based on costs arising from the volume-weighted average price of electricity in the wholesale market, the company's costs of sale, costs of property

rights package and margin and the revenue arising from the application of individual prices binding as at 30 June 2018. Pursuant to the statutory authorization included in Article 7.2.2) of the amended Act, the Minister of Energy shall issue an regulation to determine the manner in which to calculate electricity prices and rates for end users applicable after 30 June 2018 and shall make a public announcement of certain parameters referred to in the amended Act. By the date these interim condensed consolidated financial statements were authorized for issue, there was no new regulation or announcement.

As at 31 March 2019, the TAURON Group reviewed the estimated provision for onerous contracts in terms of the energy volumes expected to be delivered in the period from April to December 2019 to the buyers in the G tariff group and estimated the provision at PLN 163 496 thousand. The change in the provision arises from losses actually incurred on electricity supplies, recognized on the basis of invoiced sales and resulting from the purchase cost of the delivered electricity. This way, in Q1 2019, due to the use of the prior year tariffs, the TAURON Group incurred a loss on the deliveries of electricity to buyers in the G tariff group and used a portion of the provision of PLN 50 500 thousand on onerous contracts recognized as at 31 December 2018.

In Q1 2019, the TAURON Group did not incur any loss on electricity supplies to other buyers whose selling prices are determined in bilateral contracts. The electricity supplies to those buyers are determined based on bilateral contracts subject to the obligation imposed by the amended Act to introduce changes so as to reflect the amended laws within 30 days of the publication of the regulation. By the date these condensed interim consolidated financial statements were authorized for issue, no regulation had been published, which specifically means that as at 31 March 2019 electricity suppliers were under no obligation to change the selling prices set in bilateral contracts. Changes of regulations arising from the amended Act were not implemented due to the absence of a relevant regulation. Additionally, it is not certain what the changes are going to be. Therefore, there are significant indications to consider that the enactment of the amended Act itself is not sufficient grounds to conclude that the regulations will be brought into force and thus the condition of IAS 37.50 would not be fulfilled. Additionally, the TAURON Group did not take any measures to give rise to a constructive obligation — in Q1 2019 the TAURON Group issued invoices to those buyers using the prices as set out in the earlier contracts, which precludes a constructive obligation.

At the same time, due to the absence of key legal acts in the form of an regulation and an announcement, in the interim condensed consolidated financial statements prepared as at 31 March 2019, the TAURON Group did not estimate receivables due to compensation. Considering that the regulation of the Minister of Energy is intended to define the method to calculating the price difference and the weighted-average prices in the wholesale market, its publication is necessary to enable calculation of the amount of compensation. Another necessary element enabling a full estimate of the compensations is an announcement of the Minister of Energy on unit costs.

36.3. Provisions for counterparty claims, court disputes and other provisions

Material provisions recognized as other provisions have been discussed below:

Item	Operating segment	Description	As at 31 March 2019 (unaudited)	As at 31 December 2018
Provisions for penalties fixed by the contracts	Generation	<p>Considering the risk that the projects listed below will not be continued (their continuity is required under the subsidy contracts):</p> <ul style="list-style-type: none"> • construction of a biomass boiler in Elektrownia Jaworzno III; • construction of a system of power generation from renewable sources in Stalowa Wola; <p>in 2016 a provision was recognised for the costs of returning the subsidy totalling PLN 52 297 thousand. The revalued provision as at 31 March 2019 amounted to PLN 59 266 thousand.</p>	59 266	58 493

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Item	Operating segment	Description	As at 31 March 2019 (unaudited)	As at 31 December 2018
Provision for increased transmission easement charges	Distribution	The provision is related to the risk of an increase in regular fees for transmission easement related to power infrastructure located in areas controlled by the Regional Directorate of State Forests in Wrocław and results from a change in the status of land: from forestry to business purposes. In the 3-month period ended 31 March 2019, the provision was used by a company in the Distribution segment in the amount of PLN 553 thousand.	68 347	68 900
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 real estate tax	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 ongoing inspection proceedings instituted by the Director of the Tax Inspection Office in Warszawa ("TIO Director") in relation to the value added tax. The duration of these proceedings was extended on a number of occasions by the TIO Director and by the Head of Mazowiecki Customs and Tax Office. At present, the new inspection completion dates have been set for 23 July and 22 and 28 June 2019. As at 31 December 2018, the relevant provision amounted to PLN 72 894 thousand. An increase in the provision by PLN 1 035 thousand is attributable to interest accrued for the 3-month period ended 31 March 2019.	73 929	72 894

37. Deferred income and government grants

37.1. Deferred income and government grants

	As at 31 March 2019 (unaudited)	As at 31 December 2018
Deferred income	57 667	56 822
Donations, subsidies received for the purchase or fixed assets received free-of-charge	42 661	52 431
Other	15 006	4 391
Government grants	417 615	415 162
Subsidies obtained from EU funds	315 454	311 285
Forgiven loans from environmental funds	36 939	37 464
Measurement of preferential loans	33 684	34 053
Other government grants	31 538	32 360
Total	475 282	471 984
Non-current	440 598	440 206
Current	34 684	31 778

37.2. Accrued expenses

	As at 31 March 2019 (unaudited)	As at 31 December 2018
Bonuses	106 311	60 524
Unused holidays	69 387	51 445
Environmental protection charges	14 301	33 113
Other accrued expenses	25 298	23 340
Total	215 297	168 422
Non-current	487	103
Current	214 810	168 319

38. Liabilities to suppliers

Current liabilities to suppliers as at 31 March 2019 and 31 December 2018 have been presented in the table below:

Operating segment	As at 31 March 2019 (unaudited)	As at 31 December 2018 (restated figures)
Sales	299 154	432 321
Distribution, including:	215 528	309 233
<i>Polskie Sieci Elektroenergetyczne S.A.</i>	162 658	227 095
Mining	142 884	168 076
Generation	107 009	150 731
Other	49 148	67 377
Total	813 723	1 127 738

39. Capital commitments

Short-term capital commitments as at 31 March 2019 and 31 December 2018 have been presented in the table below:

Operating segment	As at 31 March 2019 (unaudited)	As at 31 December 2018 (restated figures)
Distribution	152 097	452 047
Generation	95 570	219 849
Mining	72 574	88 001
Sales and other	20 507	35 020
Total	340 748	794 917

Long-term capital commitments have been presented in the condensed interim consolidated statement of financial position within other financial liabilities. As at 31 March 2019, they totalled PLN 28 thousand and as at 31 December 2018 - PLN 59 thousand.

Commitments to incur capital expenditure

As at 31 March 2019 and 31 December 2018, the Group had commitments to incur expenditure on property, plant and equipment and intangible assets of PLN 3 435 715 thousand and PLN 3 403 880 thousand, respectively, with the key items presented below:

Operating segment	Subject of agreement/investment project	As at 31 March 2019 (unaudited)	As at 31 December 2018
Generation	Construction new capacity in Jaworzno III Power Plant (910 MW)	1 347 334	1 593 273
Distribution	Construction of new electrical connections	573 748	497 276
	Modernization and reconstruction of existing networks	765 003	671 960
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	172 130	210 314
	Construction of the 800 m drift at "Janina" Mining Plant	94 445	102 134
	Investment Program in "Brzeszcze" Mining Plant	68 276	32 781

40. Liabilities due to other taxes and charges

	As at 31 March 2019 (unaudited)	As at 31 December 2018
VAT	152 198	81 227
Personal Income Tax	39 550	58 898
Excise	1 295	44 693
Social security	163 586	210 940
Other	13 775	9 896
Total	370 404	405 654

Regulations concerning VAT, corporate income tax and social insurance charges are frequently amended. The regulations in force may also contain ambiguous provisions, which lead to differences in opinion 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 bear 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.

41. Other financial liabilities

	As at 31 March 2019 (unaudited)	As at 31 December 2018
Derivative instruments	157 901	240 922
Wages, salaries	120 517	225 829
Margin deposits arising from stock exchange transactions	80 564	248 480
Bid bonds, deposits and collateral received	79 585	81 492
Insurance contracts	6 366	8 380
Other	65 034	76 238
Total	509 967	881 341
Non-current	78 288	107 770
Current	431 679	773 571

A decrease in the value of liabilities arising from a negative measurement of derivatives is mostly related to transactions regarding greenhouse gas emission allowances (down by PLN 81 477 thousand) and results mainly from a decrease in their price and an increase in the number of concluded contracts.

Margin deposits are funds received by the Group arising from current stock-exchange settlement in connection with a change in the valuation of open futures contracts as at the end of the reporting period. The decrease in the value of margin deposits of PLN 167 916 thousand results mainly from futures transactions regarding the supplies of greenhouse gas emission allowances carried out in foreign stock exchange markets and arises mainly from the drop in the prices of the emission allowances.

42. Other current non-financial liabilities

	As at 31 March 2019 (unaudited)	As at 31 December 2018
Payments from customers relating to future periods	341 654	335 483
Amounts overpaid by customers	289 490	279 205
Prepayments for connection fees	17 027	17 583
Other	35 137	38 695
Other current non-financial liabilities	56 292	1 565
Net liabilities of the Company's Social Benefits Fund	53 466	-
Other	2 826	1 565
Total	397 946	337 048

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

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

43.1. Cash from/used in operating activities

The following events had a material impact on the cash used in operating activities in the 3-month period ended 31 March 2019 totalling PLN 168 329 thousand:

- sales of and the receipt of payment for the greenhouse gas emission allowances in the trading portfolio after the end of the reporting period - these were acquired as part of the settlement of futures contracts and the payment due of PLN 226 878 thousand was received in March 2019,
- payment of a substitution fee of PLN 187 624 thousand by a Sales segment companies to satisfy the surrendering obligation with respect to the energy certificates,
- a decrease in liabilities arising from margin deposits to secure futures transactions of PLN 167 916 thousand arising mainly from cash payments to replenish the balance of the deposits following the change in the valuation of futures transactions,
- payment of income tax of PLN 185 801 thousand, which has been further described in this note.

Changes in working capital

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(restated figures, unaudited)</i>
Change in receivables	(63 153)	(80 235)
Change in receivables from buyers in statement of financial position	(83 558)	(26 299)
Change in other financial receivables	20 611	(23 240)
Adjustment due to change in receivables due to disposal of property, plant and equipment and financial assets	(123)	-
Adjustment accounting for impairment allowances recognized in correspondence with retained earnings following the endorsement of IFRS 9 <i>Financial Instruments</i>	-	(31 471)
Other adjustments	(83)	775
Change in inventories	(290 760)	(28 616)
Change in inventories in statement of financial position	(281 407)	(26 350)
Adjustment related to transfer of inventories to/from property, plant and equipment	(9 353)	(2 266)
Change in payables excluding loans and borrowings	(663 367)	(200 316)
Change in liabilities to suppliers in statement of financial position	(314 015)	(156 760)
Change in payroll, social security and other financial liabilities	(288 322)	(24 907)
Change in non-financial liabilities in statement of financial position	58 368	76 967
Change in liabilities arising from taxes excluding income tax	(35 250)	21 071
Adjustment of VAT change related to capital commitments	(85 907)	(122 120)
Other adjustments	1 759	5 433
Change in other non-current and current assets	(40 423)	106 292
Change in other current and non-current non-financial assets in statement of financial position	(69 058)	(100 172)
Change in receivables arising from taxes excluding income tax	65 108	48 573
Change in non-current and current gas emission allowances	45 075	279 630
Change in non-current and current energy certificates	(73 248)	(133 124)
Change in advance payments for property, plant and equipment and intangible assets	(5 037)	(14 275)
Adjustment accounting for costs of acquiring new contracts and bonuses capitalized in correspondence with retained earnings as a result of endorsement of IFRS 15 <i>Revenue from Contracts with Customers</i>	-	26 355
Other adjustments	(3 263)	(695)

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	3-month period ended 31 March 2019	3-month period ended 31 March 2018
	<i>(unaudited)</i>	<i>(restated figures, unaudited)</i>
Change in deferred income, government grants and accruals	39 968	(8 044)
Change in deferred income, government grants and accruals in statement of financial position	50 173	(201 925)
Adjustment related to property, plant and equipment and intangible assets received free of charge	(2 542)	(1 148)
Adjustment related to subsidies received	(7 630)	(637)
Adjustment accounting for recognizing deferred income from connection fees in retained earnings following the endorsement of IFRS 15 <i>Revenue from Contracts with Customers</i>	-	195 666
Other adjustments	(33)	-
Change in provisions	(130 129)	(357 911)
Change of short term and long term provisions in statement of financial position	(132 705)	(356 652)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	2 788	(1 206)
Other adjustments	(212)	(53)
Total	(1 147 864)	(568 830)

Income tax paid

The income tax paid over the 3-month period ended 31 March 2019 was PLN 185 801 thousand, with PLN 184 072 thousand in connection with the Tax Capital Group's advance income tax payments for the first two months of 2019 totalling PLN 141 310 thousand and for Q4 2018 totalling PLN 42 762 thousand. In the comparable period of the 3-month period ended 31 March 2018, the income tax paid was PLN 22 064 thousand, with PLN 19 623 thousand in connection with the Tax Capital Group's advance income tax payment for December 2017. Lack of comparability in terms of amounts of income tax paid is related with different rules of making income tax payments for the years 2017-2019 resulting from legal regulations.

43.2. Cash from/used in investing activities

Purchase of property, plant and equipment and intangible assets

	3-month period ended 31 March 2019	3-month period ended 31 March 2018
	<i>(unaudited)</i>	<i>(restated figures, unaudited)</i>
Purchase of property, plant and equipment	(596 441)	(502 673)
Purchase of intangible assets	(15 706)	(14 198)
Change in the balance of capital commitments (VAT-adjusted)	(368 293)	(432 722)
Change in the balance of advance payments	5 037	14 275
Costs of overhaul and internal manufacturing	(72 244)	(50 425)
Other	11 207	2 290
Total	(1 036 440)	(983 453)

Loans granted

Payments to grant loans result from the loan disbursed by the Company to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 6 375 thousand.

43.3. Cash from/used in financing activities

Redemption of debt securities

Payments to redeem bonds of PLN 400 000 thousand were made to redeem bonds issued under the scheme dated 24 November 2015, on a timely basis, which has been further described in note 32.2 hereto.

Repayment of loans

Payments to repay loans of PLN 37 054 thousand disclosed in the consolidated statement of cash flows result mainly from the Parent's repayment of instalments of a loan obtained from the European Investment Bank in the amount of PLN 35 205 thousand in 3-month period ended 31 March 2019.

Interest paid

	3-month period ended 31 March 2019	3-month period ended 31 March 2018
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest paid in relation to debt securities	(2 831)	-
Interest paid in relation to loans	(7 457)	(9 882)
Interest paid in relation to the lease	(7 286)	(148)
Total	(17 574)	(10 030)

Loans taken

Proceeds arising from contracted loans totalling PLN 730 000 thousand were instalments of the loan, based on the agreement with Bank Gospodarstwa Krajowego, which has been further described in note 32.1 hereto.

Issue of debt securities

Proceeds from issues of debt securities totalling PLN 500 000 thousand, which has been further described in note 32.2 hereto, were:

- issues of subordinated bonds acquired by BGK totalling PLN 400 000 thousand;
- issues of bonds of PLN 100 000 thousand under the scheme dated 24 November 2015.

Proceeds from non-controlling interests

Proceeds from non-controlling interests of PLN 256 925 thousand are related to cash contribution paid by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with the registered office in Warsaw to assume shares in the increased capital of Nowe Jaworzno Grupa TAURON Sp. z o.o.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

44. Financial instruments

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

Categories and classes of financial assets	As at 31 March 2019 (<i>unaudited</i>)		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	2 430 553		2 337 094	
Receivables from buyers	2 312 958	2 312 958	2 229 400	2 229 400
Deposits	51 167	51 167	47 126	47 126
Loans granted	32 387	32 387	28 296	28 296
Other financial receivables	34 041	34 041	32 272	32 272
2 Financial assets measured at fair value through profit or loss (FVTPL)	1 478 172		1 626 932	
Derivative instruments	113 926	113 926	216 165	216 165
Shares	144 436	144 436	138 492	138 492
Loans granted	203 403	203 403	199 256	199 256
Other financial receivables	200 852	200 852	223 232	223 232
Investment fund units	26 203	26 203	26 063	26 063
Cash and cash equivalents	789 352	789 352	823 724	823 724
3 Derivative hedging instruments	1 678	1 678	4 178	4 178
4 Financial assets excluded from the scope of IFRS 9	585 778		543 913	
Investments in joint ventures	585 778		543 913	
Total financial assets, of which in the statement of financial position:	4 496 181		4 512 117	
Non-current assets	1 036 032		1 015 992	
Investments in joint ventures	585 778		543 913	
Loans granted to joint ventures	225 893		217 402	
Other financial assets	224 361		254 677	
Current assets	3 460 149		3 496 125	
Receivables from buyers	2 312 931		2 229 363	
Loans granted to joint ventures	4		5	
Other financial assets	357 862		443 033	
Cash and cash equivalents	789 352		823 724	

Following an analysis, transferred security, which value as at 31 March 2019 was PLN 200 852 thousand, was classified as other financial receivables measured at fair value through profit or loss, since such classification best reflects the nature of these financial assets. The remaining other financial receivables are classified as measured at amortized cost.

The Group classifies a loan to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2018 to assets measured at fair value though profit or loss, as further discussed in Note 23 hereto.

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Categories and classes of financial liabilities	As at 31 March 2019 (unaudited)		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	13 499 998		13 526 426	
Preferential loans and borrowings	15 680	15 680	17 521	17 521
Arm's length loans and borrowings	1 568 037	1 590 547	867 997	892 832
Bank overdrafts	156 933	156 933	767	767
Bonds issued	10 252 811	10 477 313	10 077 067	10 204 721
Liabilities to suppliers	813 723	813 723	1 127 738	1 127 738
Other financial liabilities	225 155	225 155	406 151	406 151
Capital commitments	340 776	340 776	794 976	794 976
Salaries and wages	120 517	120 517	225 829	225 829
Insurance contracts	6 366	6 366	8 380	8 380
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	157 901		240 922	
Derivative instruments	157 901	157 901	240 922	240 922
3 Financial liabilities excluded from the scope of IFRS 9	634 650		25	
Liabilities under leases	634 650		25	
Total financial liabilities, of which in the statement of financial position:	14 292 549		13 767 373	
Non-current liabilities	10 247 724		8 595 980	
Debt	10 169 436		8 488 210	
Other financial liabilities	78 288		107 770	
Current liabilities	4 044 825		5 171 393	
Debt	2 458 675		2 475 167	
Liabilities to suppliers	813 723		1 127 738	
Capital commitments	340 748		794 917	
Other financial liabilities	431 679		773 571	

The method of fair value measurement of financial instruments and the fair value hierarchy levels assigned to these instruments are presented in the following tables.

Financial asset classes	Fair value measurement level	Fair value measurement methodology
Financial assets measured at fair value		
<i>Derivatives, including:</i>		
IRS	2	Derivatives have been measured in line with the methodology presented in Note 44.2 hereto.
CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Shares	3	The Group estimated the fair value of shares held in not listed companies 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 or the discounted dividend method. 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 Group assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk.
Units in investment funds	1	Fair value measurement of units is referred to current quotations of the units.

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Financial liability classes	Fair value measurement level	Fair value measurement methodology
Financial liabilities measured at fair value		
Derivatives, including:		
IRS	2	Derivatives have been measured in line with the methodology presented in Note 44.2 hereto.
CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Financial liabilities whose fair value is disclosed		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt, i.e. loans contracted from the European Investment Bank, issued subordinated bonds and eurobonds, as well as bonds issued by a subsidiary are 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, loans or borrowings, i.e. applying market interest rates.

As at 31 March 2019 and 31 December 2018, the fair value of other financial instruments (except for those excluded from the scope of IFRS 9 *Financial Instruments*) did not differ considerably from the amounts presented in the financial statements for specific periods for the following reasons:

- the potential discounting effect relating to short-term instruments is not significant;
- the instruments are related to arm's length transactions.

Shares in jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured using the equity method.

44.2. Derivatives and hedge accounting

Measurement of derivatives as at each reporting period end is presented in the following table.

	As at 31 March 2019 (unaudited)				As at 31 December 2018			
	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	(9 599)	-	-	(9 599)	(5 140)	-	-	(5 140)
IRS	287	1 391	1 678	-	16	4 162	4 178	-
Commodity forwards/futures	(29 161)	-	113 926	(143 087)	(17 138)	-	216 165	(233 303)
Currency forwards	(5 215)	-	-	(5 215)	(2 479)	-	-	(2 479)
Total			115 604	(157 901)			220 343	(240 922)
Non-current			6 871	(10 922)			43 844	(37 930)
Current			108 733	(146 979)			176 499	(202 992)

Method of calculation of the fair value of individual derivative financial instruments:

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

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

	As at 31 March 2019 (unaudited)		As at 31 December 2018	
	Level 1	Level 2	Level 1	Level 2
Assets				
Derivative instruments-commodity	113 926	-	216 165	-
Derivative instruments-IRS	-	1 678	-	4 178
Total	113 926	1 678	216 165	4 178
Liabilities				
Derivative instruments-commodity	143 087	-	233 303	-
Derivative instruments-currency	-	5 215	-	2 479
Derivative instruments-CCIRS	-	9 599	-	5 140
Total	143 087	14 814	233 303	7 619

Derivative instruments (subject to hedge accounting)

In 2016 the Company hedged a portion of its interest rate risk for cash flows relating to the exposure to 6M WIBOR, 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. Such transactions are subject to hedge accounting.

Effects of hedge accounting on the revaluation reserve on valuation of hedging instruments are presented in Note 31.5 hereto.

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

As at 31 March 2019, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

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

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

45. Principles and objectives of financial risk management

The objectives and principles of financial risk management have not changed since 31 December 2018.

As at 31 March 2019, the Parent was a party to hedging transactions covered by the risk management policy, 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 further discussed in Note 44.2 hereto.

46. 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.

OTHER INFORMATION

47. Contingent liabilities

Item	Description
	<p>Claims relating to termination of long-term contracts against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.</p> <p>In 2015 companies in the in.ventus, Polenergia and Wind Invest groups filed a case against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. seeking declaration of notices of termination of agreements concluded with abovementioned companies to purchase electricity and property rights submitted by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. ineffective. In the course of court proceedings, plaintiffs extend the scope of the action by bringing claims for compensation and liquidated damages due to contract termination.</p> <p>As at the date these condensed interim consolidated financial statements were authorized for issue, the amount of compensation sought in the claims is: in.ventus capital group companies – EUR 13 367 thousand, Polenergia capital group companies – PLN 67 248 thousand and Wind Invest capital group companies – PLN 125 003 thousand.</p> <p>All cases are heard in courts of first instance (including one remanded for re-examination by a court of second instance).</p> <p>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 percent. Therefore, no provision for the related costs has been recognized.</p>
	<p>Claims against TAURON Polska Energia S.A. relating to termination of long-term contracts</p> <p>In 2017 and 2018 companies in the in.ventus, Polenergia and Wind Invest group filed cases against TAURON Polska Energia S.A. seeking payment of damages and establishment of any future liability arising from tort, including acts of unfair competition. The factual basis for the claim, according to the plaintiffs, is the termination of long-term contracts for the purchase of electricity and property rights arising from green certificates by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., allegedly directed by TAURON Polska Energia S.A.</p> <p>As at the date these condensed interim consolidated financial statements were authorized for issue, the amount of compensation sought in the claims is: in.ventus capital group companies – EUR 12 286 thousand, Polenergia capital group companies – PLN 78 855 thousand and Wind Invest capital group companies – PLN 129 947 thousand.</p> <p>Moreover, the plaintiffs set out in their statements of claim the following estimated amounts which may arise in future: in.ventus capital group companies – EUR 35 706 thousand, Polenergia capital group companies – PLN 265 227 thousand, Wind Invest capital group companies – PLN 1 119 363 thousand.</p> <p>The court competent to hear the claims is the Regional Court for Katowice. All cases are heard in courts of first instance. Those filed by Wind Invest companies are heard in camera. As at the date these condensed interim consolidated financial statements were authorized for issue, the probability that the rulings would be favourable for the Company is high i.e., 70%.</p> <p>TAURON Polska Energia S.A. is also a party to an action brought by Dobiesław Wind Invest Sp. z o.o. and heard in a court of first instance, the Regional Court for Kraków. The case centres around a demand for PLN 183 391 thousand to be paid into court to reverse the threat of a loss. 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%.</p>
	<p>Claims relating to termination of long-term contracts against subsidiary TAURON Sprzedaż Sp. z o.o.</p> <p>On 28 February 2017, TAURON Sprzedaż Sp. z o.o., a subsidiary, submitted termination notices regarding long-term contracts to purchase property rights arising from green certificates by the subsidiary. The party to the contracts in 2008 are companies from the in.ventus group. The contracts were terminated after the parties were unable to reach an agreement during 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.</p> <p>On 7 March 2019, Hamburg Commercial Bank AG (formerly, HSH Nordbank AG) filed a case against TAURON Sprzedaż Sp. z o.o. seeking compensation for failure to deliver on contracts on sales of property rights arising from green certificates confirming the generation of electricity in a renewable energy sources and liquidated damages charged in relation to termination of the above contracts. The plaintiff demands that TAURON Sprzedaż Sp. z o.o. pays to the bank PLN 232 879 thousand with statutory interest for the delay, calculated from the date of filing the case to the date of payment, and including the compensation totalling PLN 36 252 thousand and liquidated damages totalling PLN 196 627 thousand.</p> <p>The claims brought by the bank arise from the assignment of claims, allegedly, initially held by the in.ventus companies: in.ventus Sp. z o.o. EW Dobrzyń sp.k., in.ventus Sp. z o.o. INO 1 sp.k., in.ventus Sp. z o.o. EW Goldap sp.k.</p> <p>The court competent to hear the claims is the Regional Court for Kraków. TAURON Sprzedaż Sp. z o.o. has started analysing the claim and it will respond to it in due time. Based on the preliminary analysis of the demands and the rationale, according to TAURON Sprzedaż Sp. z o.o., the claim is entirely groundless. In the above mentioned company's view, the probability of losing the case, both in relation to the compensation and liquidated damages, is lower than the chance to win the case. Therefore, no provisions for the costs of the case is recognized.</p>
	<p>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 PGE EJ 1 Sp. z o.o.'s investment project to build a nuclear power plant (the "agreement") demanded that PGE EJ 1 Sp. z o.o. pay the aggregate amount of PLN 92 315 thousand. As a result, on 15 April 2015 the Company (as a holder of a 10% interest in the issued capital of PGE EJ 1 Sp. z o.o.) concluded an agreement with PGE EJ 1 Sp. z o.o. and its other shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) which regulated mutual relations of the parties to the agreement as regards the claims, including the rules of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders.</p>
Claim against PGE EJ 1 Sp. z o.o.	<p>In the Company's view, the Company's potential additional exposure to PGE EJ 1 Sp. z o.o. arising from the agreement shall not exceed its percentage equity share in PGE EJ 1 Sp. z o.o.</p> <p>In November 2015, the Regional Court in Warsaw served PGE EJ 1 Sp. z o.o. with a claim made by the WorleyParsons consortium for the amount approximating PLN 59 million, increased in 2017 by PLN 45 million, to approx. PLN 104 million.</p> <p>PGE EJ 1 Sp. z o.o. did not accept the claims and believes that the probability that the court will decide in favour of the plaintiffs is remote. No provisions were recognized in relation to the above events.</p>

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Item	Description
Claims filed by Huta Łaziska S.A.	<p>Following the business combination of the Company and 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. The case is being heard at the Regional Court in Warsaw.</p> <p>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 the 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 decision of 14 November 2001 issued by the President of the Energy Regulatory Office and due to the growing indebtedness of Huta to GZE due to electricity supplies) GZE again suspended the supplies. Consequently, Huta sued GZE for damages.</p> <p>In 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 seeks the payment of PLN 182 060 thousand together with interest accrued from the date of filing the suit to the date of payment, as 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.</p> <p>In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the judgement of the Regional Court and remanded the case for re-examination by the latter. Since 27 November 2012 the case has been heard by the court of first instance.</p> <p>Based on a legal analysis, the Company believes that the claims are unsubstantiated and the risk that they will have to be satisfied is remote. As a result, the Company did not recognize any provision in connection with the claims.</p>
Amount	Claim regarding payment of damages of PLN 182 060 thousand.
Claim brought by ENEA S.A.	<p>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 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 plaintiff in case the claim against TAURON Polska Energia S.A. is dismissed. The case has been heard by the court of first instance.</p> <p>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 5 544 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 3 943 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The abovementioned provisions cover the principal, interest reviewed as at 31 March 2019 and the cost of the proceedings.</p>
Amount	As at 31 March 2019, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator Sp. z o.o. 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 (URE)	<p>In 2016, 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 were instigated against TAURON Dystrybucja S.A. By decision of 10 July 2017, the company was fined with PLN 350 thousand. In July 2017 the company recognized a provision of PLN 351 thousand and filed an appeal against the decision to the Court of Competition and Consumer Protection. The company is now waiting for the date of the next hearing to be set.</p> <p>In 2017, administrative proceedings to impose a fine 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, were instigated against TAURON Ekoenergia Sp. z o.o. The company provided the President of the Energy Regulatory Office with relevant explanations in writing. In the last one, dated 29 June 2018 it indicated that the Supreme Administrative Court had 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. By decision of 15 February 2019, the company was fined with PLN 2 thousand. On 4 March 2019 the company filed an appeal against the decision to the Regional Court in Warsaw. According to the company, the facts underlying the procedure cannot provide the basis to a fine; therefore, it has not recognized any related provision.</p> <p>As at the end of the reporting period, the companies in the Sales segment have been subject to the following proceedings:</p> <ul style="list-style-type: none"> - On 21 and 27 February 2018, proceedings were instituted against subsidiary TAURON Sprzedaż GZE Sp. z o.o. over irregularities which consisted in a failure to present end users with a choice of an offer or tariff group. The company has provided adequate explanations. - On 18 July 2018 proceedings were instigated against TAURON Sprzedaż Sp. z o.o. regarding the adjustment of the terms of the electricity trading licence to meet the requirements of the applicable law. On 30 November 2018, the company received a decision of the President of Energy Regulatory Office regarding a change to its concession. The company appealed against the decision to the Court of Competition and Consumer Protection. - On 19 October 2018 proceedings were instigated against TAURON Sprzedaż GZE Sp. z o.o. in relation to the suspension of the supplies of electricity to an end user. The company has been providing relevant explanations on an ongoing basis. <p>The companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of their Management Board the risk of adverse rulings and fines is low.</p>

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Item	Description
	<p>As at the end of the reporting period, the companies in the Sales segment were subject to the following proceedings instigated by the President of UOKiK:</p> <ul style="list-style-type: none"> - 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 the practices that violated 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 notice from 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 their 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. As at the end of the reporting period the company satisfied the obligation imposed by the decision. - Explanatory proceedings instigated on 11 May 2017 against TAURON Sprzedaż Sp. z o.o. and on 6 July 2018 against TAURON Sprzedaż GZE 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 Price list if a consumer does not respond to the new offer presented (renewal offer). The companies have been providing relevant explanations on an ongoing basis. - 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 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. Documents and explanations have been provided on an ongoing basis. - Proceedings instituted on 13 October 2017 against TAURON Sprzedaż GZE Sp. z o.o. with regard to the alleged violation of collective interests of consumers, which consisted in hindering a change of the electricity supplier. The company has been providing relevant explanations on an ongoing basis. - Proceedings instigated on 8 November 2017 against TAURON Sprzedaż Sp. z o.o. in relation to suspected practices violating collective interests of consumers, which consisted in suggesting that termination of contracts with another supplier can be costless. The company has been providing relevant explanations on an ongoing basis. - Explanatory proceedings instigated on 27 April 2018 against TAURON Sprzedaż Sp. z o.o. in relation to the alleged infringement of collective interest of consumers by sending out letters to the consumers regarding personal data updates. The company has provided required explanations. - Explanatory proceedings instigated on 31 December 2018 against TAURON Sprzedaż Sp. z o.o. in relation to suspected violation of collective interests of consumers through application of practices involving conclusion of electricity sales agreements on the phone. The company has provided adequate explanations. - Explanatory proceedings instigated on 8 January 2019 against TAURON Sprzedaż Sp. z oo. in relation to the company's alleged use of practices violating collective interest of consumers by changing the information provided to the consumers in the applications for conclusion or amendment of the terms of a master electricity agreement. The company has provided adequate explanations. <p>The companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of their Management Board the risk of adverse rulings and fines is low.</p>
Real estate tax	<p>The contingent liabilities as at the end of the reporting period arise from the administrative proceedings pending before the tax authorities to specify a correct tax basis for wind farms for 2017, applicable in the municipality in which the electricity production equipment is situated.</p>
Amount	<p>In light of the pending proceedings, the Generation company recognized accruals in 2017, arising from the difference between the property tax paid and the estimated tax amount it may be obliged to pay, which as at the end of the reporting period amounted to PLN 2 314 thousand.</p> <p>To account for the business risk related to the real property tax, a Distribution segment company recognized a provision which as at the end of the reporting period totalled PLN 39 356 thousand (Note 36.3).</p>
Use of real estate without contract	<p>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 located. The Group may have to incur costs related to non-contractual use of property in the future; though the risk of losing assets is remote. 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 in this regard is low.</p>
Amount	<p>As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 92 677 thousand (Note 36.1).</p>
Claim for reimbursement of expenses incurred to protect a facility against the effects of mining operations	<p>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. Additionally, 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 have been providing explanations and serving pleadings on an ongoing basis. The case is pending before District Court in Katowice (the first instance).</p> <p>Considering 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 Court or to estimate the amount that may be awarded by the Court, the company has not recognized any provision to this end.</p>
Recognition of Funds' interest in subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.	<p>An investment agreement between the Company and the Closed-End Funds managed by the Polish Development Fund provides for a number of material breaches of an agreement. A material breach of an agreement on the part of the Group companies may result in the need to recognize an obligation to redeem the shares in subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. from Closed-End Funds in the financial statements.</p> <p>As at the end of the reporting period, the Closed-End Funds hold shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. totalling PLN 356 925 thousand.</p>

48. Security for liabilities

Key items of security for liabilities established and binding as at 31 March 2019 in the Group are presented in the following table and secure contracts concluded by the Parent.

Collateral	Collateral amount		Due date	Agreement/transaction	
	Currency	PLN			
Declarations of submission to enforcement		2 550 000	20.12.2032	Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013	
		7 524 000	31.12.2023	Bond Issue Scheme dated 24 November 2015	
		600 000	30.06.2034	Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017	
		621 000	31.07.2019	Bank guarantee agreement dated 4 April 2018 with MUFG Bank, Ltd. ¹	
		621 000	31.07.2020	Bank guarantee agreement dated 5 February 2019 with MUFG Bank, Ltd. ²	
		120 000	11.07.2021	Framework bank guarantee agreement concluded with CaixaBank S.A.	
		600 000	17.12.2021	Bank account agreement (intraday limit) with PKO Bank Polski S.A.	
		360 000	29.12.2021	Overdraft agreement with PKO Bank Polski S.A.	
	EUR	24 000	103 231	31.12.2020	Overdraft agreement with Bank Gospodarstwa Krajowego
	EUR	50 000	215 065	31.12.2020	
	USD	750	2 877	29.03.2020	Overdraft agreement with mBank S.A.
Authorizations to debit bank accounts		1 500 000	31.12.2036	Bank loan agreement with Bank Gospodarstwa Krajowego	
		100 000	11.07.2020	Framework bank guarantee agreement concluded with CaixaBank S.A.	
		150 000	07.06.2019	Agreement with Santander Bank Polska S.A. on bank guarantees for Izba Rozliczeniowa Gield Towarowych S.A.	
		500 000	17.12.2020	Bank account agreement (intraday limit) with PKO Bank Polski S.A.	
		300 000	29.12.2020	Overdraft agreement with PKO Bank Polski S.A.	
	EUR	45 000	193 559	31.12.2019	Overdraft agreement with Bank Gospodarstwa Krajowego

¹ The security in the form of a declaration of submission to enforcement submitted to the guarantee limit agreement dated 4 April 2018 with MUFG Bank, Ltd. refers to a bank guarantee for the benefit of BGK which expired on 11 April 2019.

² The security in the form of a declaration of submission to enforcement submitted to the guarantee limit agreement dated 5 February 2019 with MUFG Bank, Ltd. refers to a bank guarantee for the benefit of BGK which is binding from 12 April 2019.

On 31 March 2019 the declaration of submission to enforcement to the amount of PLN 11 509 thousand (USD 3 000 thousand), which the Company had signed in connection with the overdraft agreement of 15 April 2015 with mBank S.A., expired.

Carrying amounts of assets pledged as security for the Group's liabilities

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

	As at 31 March 2019 (unaudited)	As at 31 December 2018
Other financial receivables	147 507	163 495
Real estate	26 761	38 809
Cash	45	45
Total	174 313	202 349

Hedges of future and forward transactions, i.e. derivatives concluded by the Company on foreign commodity exchanges are the key item. As at 31 March 2019 and 31 December 2018, the related security totalled PLN 147 507 thousand and PLN 163 495 thousand, respectively.

Other forms of security for liabilities of the Group

As at 31 March 2019, other material forms of security for liabilities in the TAURON Group included:

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

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

The Company established a first lien registered pledge 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 to be acquired or subscribed. 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 to PLN 1 370 000 thousand.

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

As at 31 March 2019, 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 585 778 thousand.

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Issuer a blank promissory note	As at 31 March 2019 (unaudited)
Agreements concerning loans granted to subsidiaries TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000*
Performance bonds under contracts and agreements concluded by the company, including co-funding of engagements being carried out.	TAURON Dystrybucja S.A.	246 181
Performance bonds under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management in Warsaw and reimbursement and performance bond under the co-funding agreements concluded with the Regional Fund for Environmental Protection and Water Management in Katowice.	TAURON Ciepło Sp. z o.o.	228 606
Performance bonds under the co-funding agreements concluded with Centrum Projektów Polska Cyfrowa in Warsaw.	TAURON Obsługa Klienta Sp. z o.o.	187 841
An agreement with PSE S.A. to provide electricity supply services, an agreement with the National Fund for Environmental Protection and Water Management in Warsaw concerning partial cancellation of a loan and an agreement with the National Centre for Research and Development in Warsaw for the funding of a project.	TAURON Wytwarzanie S.A.	60 114

* As at the end of the reporting period, the outstanding amount of loans secured with the notes was PLN 15 010 thousand.

- Corporate and bank guarantees

- In 2014 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 who purchased the bonds issued by TAURON Sweden Energy AB (publ).
- On 11 April 2018, at the request of the Company, a bank guarantee of PLN 444 000 thousand was issued for the benefit of Bank Gospodarstwa Krajowego. The guarantee secures the bank exposure arising from a loan agreement concluded on 8 March 2018 by the borrower, Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A. The guarantee was issued by MUFG Bank, Ltd., and is valid until 11 April 2019. 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. In relation to the guarantee issued, the Company recognized a liability equal to the expected credit losses, measured for the guarantee period and amounting to PLN 12 074 thousand as at 31 March 2019. The rating applied by the Company for Elektrociepłownia Stalowa Wola S.A. ranges from BB- to B.

On 7 February 2019, at the request of the Company, an annex was issued to the above bank guarantee, whereby as of 12 April 2019, the guarantee amount was increased to PLN 517 500 thousand and the term of the guarantee was extended to 11 April 2020. The annex to the bank guarantee was issued based on the guarantee limit agreement of 5 February 2019 concluded with MUFG Bank, Ltd. The exposure of MUFG Bank, Ltd to the Company is secured with a declaration of submission to enforcement up to PLN 621 000 thousand valid until 31 July 2020.

- 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 1 548 thousand and a bank guarantee to secure the transactions performed by the Company for Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. up to PLN 6 100 thousand, valid until 30 November 2019.
- Under the bank guarantee agreement with Santander Bank Polska S.A., on the instruction of the Company, the Bank issued a bank guarantees to secure the Company's liabilities to Izba Rozliczeniowa Giełd Towarowych S.A. valid until 31 May 2019:
 - on 27 March 2019 in the amount of PLN 20 000 thousand;
 - after the reporting period, on 5 and 8 April 2019, in the aggregate amount of PLN 80 000 thousand.
- On the instruction of a subsidiary TAURON Czech Energy s.r.o., PKO BP S.A. Czech Branch and UniCredit Bank Czech Republic and Slovakia, a.s. issued payment guarantees in the aggregate amount of CZK 95 000 thousand and EUR 1 200 thousand to secure contracts concluded with market operators and contracts for the supplies of electricity and natural gas. The guarantees expire in period 31 May 2019 to 31 January 2021.

In order to provide funds to cover future mine decommissioning costs, the subsidiaries TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. have established the Mine Decommissioning Fund.

49. Related-party disclosures

49.1. 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 22 hereto.

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

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Revenue	32 996	11 164
Costs	(13 274)	(13 711)

The key item of receivables from and liabilities to jointly-controlled entities is a loan to Elektrociepłownia Stalowa Wola S.A., which has been further discussed in Note 23 hereto.

The Company has also provided collateral to joint ventures in the form of a pledge on the shares in TAMEH HOLDING Sp. z o.o. and a bank guarantee issued on the instruction of the Company to secure loan liabilities of Elektrociepłownia Stalowa Wola S.A., which has been further described in Note 48 hereto.

49.2. Transactions with State Treasury companies

The State Treasury of the Republic of Poland is the Group's majority shareholder and therefore 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

	3-month period ended 31 March 2019 <i>(unaudited)</i>	3-month period ended 31 March 2018 <i>(unaudited)</i>
Revenue	548 438	402 376
Costs	(665 527)	(801 202)

Receivables and liabilities

	As at 31 March 2019 <i>(unaudited)</i>	As at 31 December 2018
Receivables	243 798	284 443
Payables	261 600	432 097

As at 31 March 2019 and 31 December 2018, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 12 196 thousand.

In the 3-month period ended 31 March 2019, KGHM Polska Miedź S.A., PSE S.A., Polska Grupa Górnicza S.A. and Jastrzębska Spółka Węglowa S.A. were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. The total sales to those companies accounted for 90% of the revenue generated from transactions with the State Treasury companies. The Group's largest purchases were from PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. They accounted for 87% of purchases from the State Treasury companies in the 3-month period ended 31 March 2019.

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

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

Transactions with State Treasury companies are mainly related to the operating activities of the Group and are made on an arm's length basis.

49.3. 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 Parent and the subsidiaries in the 3-month period ended 31 March 2019 and in the comparative period has been presented in the table below.

TAURON Polska Energia S.A. Capital Group
Condensed interim consolidated financial statements for the 3-month period ended 31 March 2019
prepared in accordance with IFRS, as endorsed by the EU
(in PLN '000)

	3-month period ended 31 March 2019 (unaudited)		3-month period ended 31 March 2018 (unaudited)	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	793	4 240	1 210	3 661
Short-term benefits (with surcharges)	793	4 119	789	3 388
Employment termination benefits	-	121	395	97
Other	-	-	26	176
Supervisory Board	246	235	204	237
Short-term employee benefits (salaries and surcharges)	246	210	204	196
Other	-	25	-	41
Other key management personnel	3 891	9 418	3 307	13 111
Short-term employee benefits (salaries and surcharges)	3 266	9 026	2 922	10 884
Jubilee bonuses	-	-	-	1 880
Employment termination benefits	356	110	124	212
Other	269	282	261	135
Total	4 930	13 893	4 721	17 009

In accordance with the adopted accounting policy, the Group recognizes provisions for termination benefits for members of the Management Board and other key executives, which may be paid or due in future reporting periods. The amounts paid or payable until 31 March 2019 have been presented above.

50. Events after the end of the reporting period

Ruling of the Court of Arbitration of the National Chamber of Commerce regarding claims of Abener Energia S.A. to Elektrociepłownia Stalowa Wola S.A.

On 25 April 2019 the Court of Arbitration of the National Chamber of Commerce in Warsaw issued a ruling in a case filed by Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A., a joint venture of the TAURON Group, in which the Company holds indirectly, through subsidiary TAURON Wytwarzanie S.A., 50% of shares in the issued capital.

The proceedings before the Court of Arbitration was related to the claim for payment, declaration as to the legal relationship and the obligation to submit a declaration of will in connection with the terminated contract between Abener Energia S.A. (general contractor) and Elektrociepłownia Stalowa Wola S.A. (ordering party) to construct a gas and steam unit in Stalowa Wola. Under the ruling of the Court of Arbitration Elektrociepłownia Stalowa Wola S.A. was ordered to pay to Abener Energia S.A. PLN 333 793 thousand with statutory interests for the delay and the arbitration court fees. The ruling of the Court of Arbitration may be appealed against - an action may be brought before a common court of law for the ruling of the court of arbitration to be overturned. Elektrociepłownia Stalowa Wola S.A. commenced analysis of the ruling and the reasoning behind it to bring an action demanding that the ruling be overturned.

As at the date these condensed interim consolidated financial statements were authorized for issue, following the ruling, the Company was carrying out legal and economic analyses to determine the impact of the event on the financial position of the TAURON Group.

Cross-border merger of Finanse Grupa TAURON Sp. z o.o. with TAURON Sweden Energy AB (publ)

On 6 May 2019, the Extraordinary General Meeting of Shareholders of Finanse Grupa TAURON Sp. z o.o. with its registered office in Katowice and on 17 May 2019, the Extraordinary General Meeting of Shareholders of TAURON Sweden Energy AB (publ) with its registered office in Stockholm adopted resolutions regarding the cross-border merger of Finanse Grupa TAURON Sp. z o.o. (acquiring company) with TAURON Sweden Energy AB (publ) (the company being acquired).

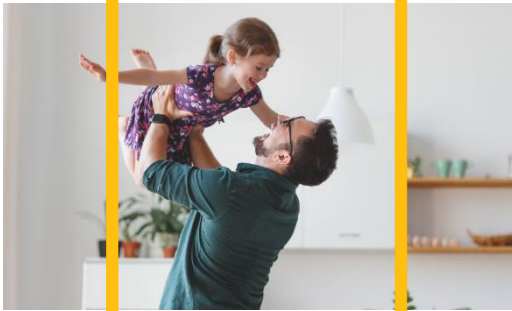
These condensed interim consolidated financial statements of TAURON Polska Energia S.A. Capital Group, prepared for the 3-month period ended 31 March 2019 in accordance with International Accounting Standard 34 have been presented on 67 pages.

Katowice, 24 May 2019

Filip Grzegorzczak – 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 S.A.
Capital Group's extended
consolidated Q1 2019 report

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1. TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP

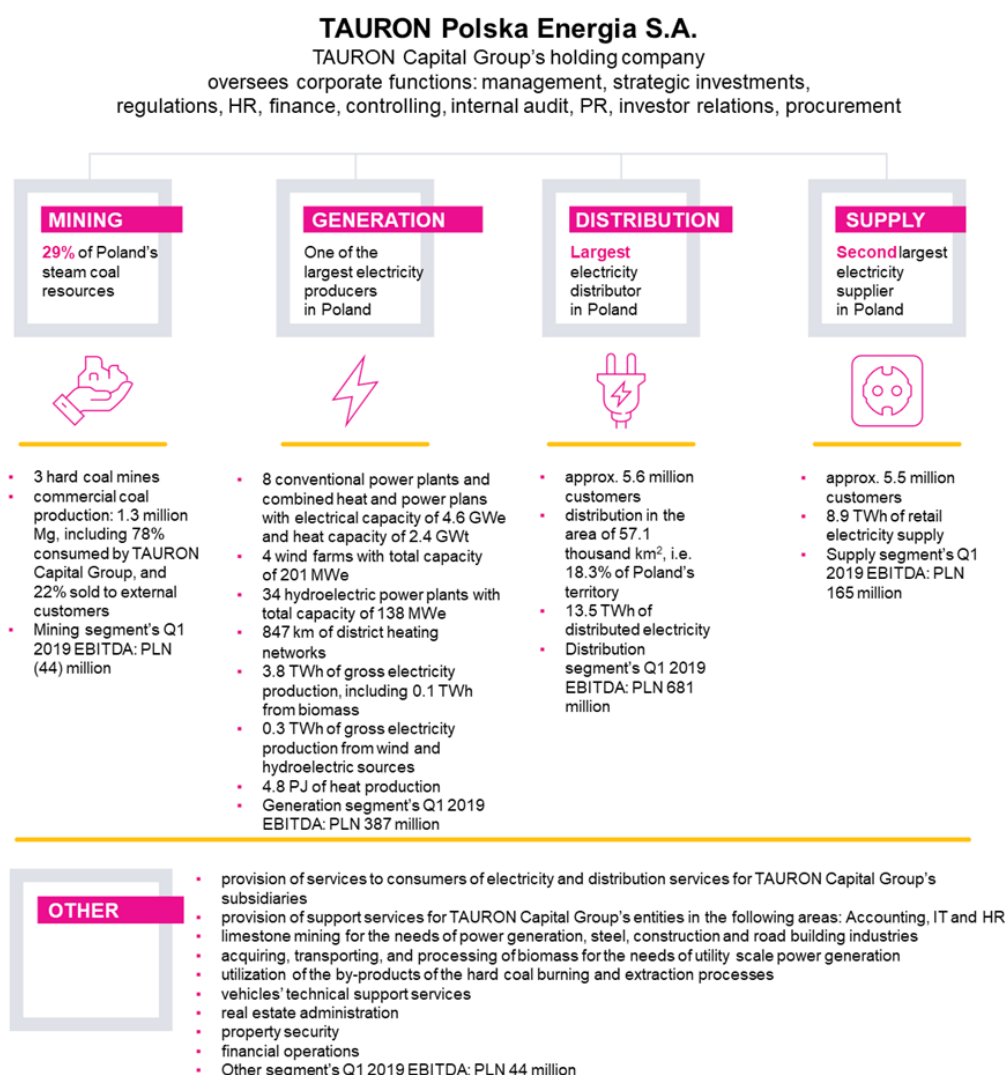
1.1. Basic information on TAURON Polska Energia S.A. and TAURON Capital Group

TAURON Capital Group's parent (holding) company is TAURON Polska Energia S.A. (hereinafter called the Company or TAURON), that was established on December 6, 2006 as part of the Program for the Energy Sector. The Company was registered in the National Court Register on January 8, 2007 under the name: Energetyka Południe S.A. The change of the Company's name to its current name, i.e. TAURON Polska Energia S.A., was registered on November 16, 2007.

The company does not have any branches (plants).

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

Figure no. 1. TAURON Capital Group



1.2. Business segments (lines of business)

Business operations, in accordance with *TAURON Group's Business and Operational Model* (Business Model) in force, are conducted by units defined as: Corporate Center, seven Lines of Business, i.e. Trading, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply as well as Shared Services Centers (CUW).

For the needs of reporting TAURON Capital Group's results from operations TAURON Capital 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 the 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, and 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 as well as Marselwind sp. z o.o.



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 TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary) subsidiary, dealing mainly with technical support services related to electricity metering systems and acquiring metering data.



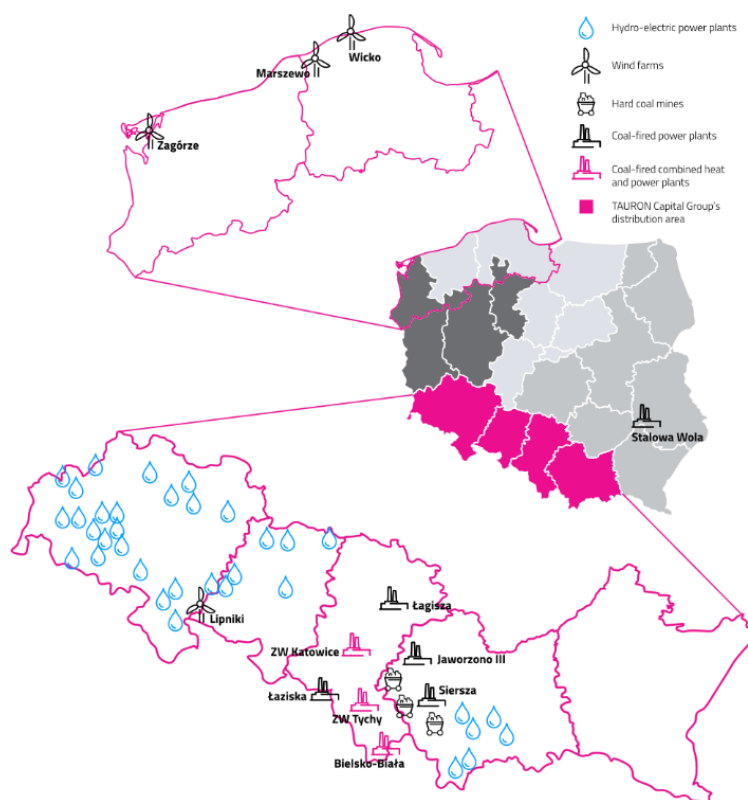
Supply Segment, comprising electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of CO₂ emission allowances, property rights arising from certificates of origin that confirm electricity generation from renewable sources, in cogeneration and property rights arising from energy efficiency certificates as well as fuels, and, as of January 2019, also lighting services sales. 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). As of January 2019, TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) subsidiary has been included in this Segment, while until the end of 2018 that subsidiary had been assigned to the Distribution Segment. The operations of that subsidiary comprise services provided for business and individual customers with respect to, among others, street lighting, operation of the MV/LV grids, construction of electric vehicles charging stations.



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.o. (Bioeko Grupa TAURON, formerly: Biomasa Grupa TAURON), dealing mainly with the utilization of the by-products of hard coal burning and extraction, 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. (PEPKH).

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

Figure no. 2. Location of TAURON Capital Group's key assets



1.3. TAURON Capital Group's organization and structure

As of March 31, 2019, TAURON Capital Group's key subsidiaries, besides the TAURON parent company, included 19 subsidiaries subject to consolidation, listed in section 1.3.2. of this report. Furthermore, the Company held, directly or indirectly, shares in the other 44 subsidiaries.

1.3.1. Composition of the Management Board and the Supervisory Board of TAURON Polska Energia

Composition of the Management Board as of March 31, 2019 and as of the day of disclosing this information:

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

No changes to the Management Board's composition took place in Q1 2019 and by the day of disclosing this information.

Composition of the Supervisory Board as of the day of disclosing this information:

1. Beata Chłodzińska - Chair of the Supervisory Board
2. Teresa Famulska - Vice Chair of the Supervisory Board
3. Jacek Szyke - Secretary of the Supervisory Board
4. Barbara Łasak-Jarszak - Member of the Supervisory Board
5. Rafał Pawełczyk - Member of the Supervisory Board
6. Jan Płudowski - Member of the Supervisory Board
7. Marcin Szlenk - Member of the Supervisory Board
8. Katarzyna Taczanowska - Member of the Supervisory Board
9. Agnieszka Woźniak - Member of the Supervisory Board

Changes to the Supervisory Board's composition in Q1 2019 and by the day of disclosing this information:

As of January 1, 2019 and as of March 31, 2019 the following persons were members of the Supervisory Board: Beata Chłodzińska (Chair of the Supervisory Board), Teresa Famulska (Vice Chair of the Supervisory Board), Jacek Szyke (Secretary of the Supervisory Board), Radosław Domagalski-Łabędzki (Member of the Supervisory Board), Barbara Łasak-Jarszak (Member of the Supervisory Board), Paweł Pampuszko (Member of the Supervisory Board), Jan Płudowski (Member of the Supervisory Board), Marcin Szlenk (Member of the Supervisory Board) and Agnieszka Woźniak (Member of the Supervisory Board).

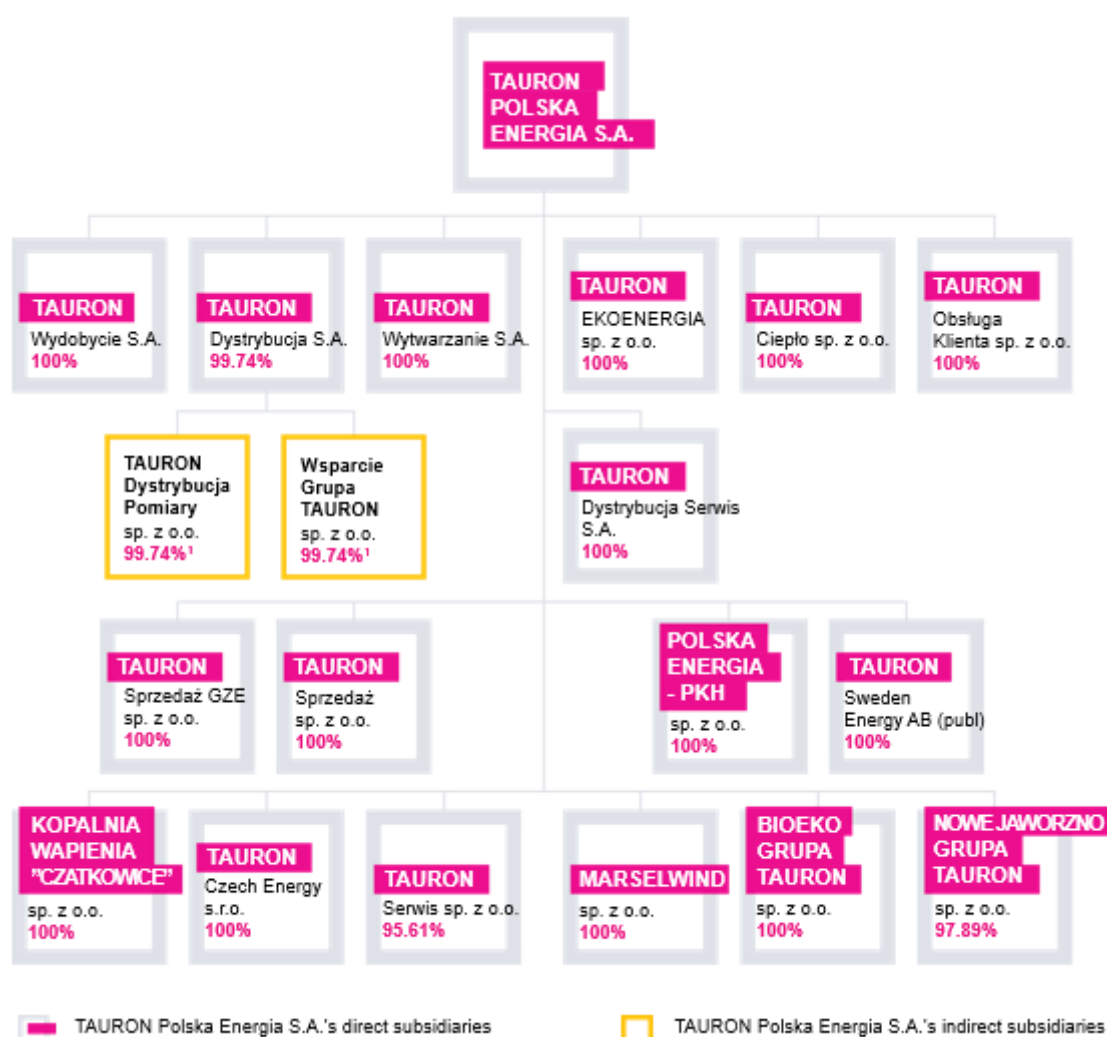
On May 8, 2019, the Ordinary General Meeting of the Company dismissed Mr. Radosław Domagalski-Łabędzki and Mr. Paweł Pampuszko from the Company's Supervisory Board of the 5th common term and appointed Mr. Rafał Pawełczyk and Ms. Katarzyna Taczanowska to the Company's Supervisory Board of the 5th common term.

There were no changes to the composition of the Supervisory Board in the first quarter of 2018 and by the day of disclosing this information.

1.3.2. Units subject to consolidation

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of March 31, 2019.

Figure no. 3. TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of March 31, 2019



¹ The shares in TAURON Dystrybucja Pomiary sp. z o.o. and Wsparcie Grupa TAURON sp. z o.o. are held by TAURON Polska Energia S.A. indirectly via the subsidiary TAURON Dystrybucja S.A. TAURON Polska Energia S.A. is a user of the shares of TAURON Dystrybucja Pomiary sp. z o.o.

1.3.3. Changes to TAURON Capital Group's organization

The following changes to the organization of TAURON Capital Group had taken place in the first quarter of 2019 and by the day of drawing up this information:

Establishing of the company Finanse Grupa TAURON sp. z o.o.

On February 15, 2019, the company Finanse Grupa TAURON sp. z o.o. with its seat in Katowice, that had been established on January 23, 2019, was registered in the National Court Register (KRS).

The company's share capital is PLN 100 000 and is split into 2 000 shares with the nominal value of PLN 50 per share that were taken up in whole by TAURON.

Establishing of the companies TEC1 sp. z o.o., TEC2 sp. z o.o. and TEC3 sp. z o.o.

On March 4, 2019 TAURON established the following companies: TEC1 sp. z o.o., TEC2 sp. z o.o. and TEC3 sp. z o.o., all with their seats in Katowice.

The share capital of each of the above mentioned company is PLN 25 000 and is split into 500 shares with the nominal value of PLN 50 per share that were taken up in whole by TAURON.

On April 12, 2019, the companies TEC1 sp. z o.o. and TEC2 sp. z o.o. were registered in the National Court Register (KRS). The company TEC3 sp. z o.o. was registered in the National Court Register (KRS) on April 29, 2019.

Furthermore, the following changes related to the entities in which TAURON has an equity stake but which are not a part of TAURON Capital Group had taken place in the first quarter of 2019 and by the day of disclosing this information.

Cross-border merger of the company Finanse Grupa TAURON sp. z o.o. with the company TAURON Sweden Energy AB (publ)

On May 6, 2019, the Extraordinary General Meeting of the Shareholders (Partners) of Finanse Grupa TAURON sp. z o.o. with its seat in Katowice and on May 17, 2019, the Extraordinary General Meeting of the Shareholders of TAURON Sweden Energy AB (publ) with its seat in Stockholm, passed the resolutions on the cross-border merger of the company Finanse Grupa TAURON sp. z o.o. (the acquiring company) with the company TAURON Sweden Energy AB (publ) (the acquired company).

As a result of the above merger the share capital of Finanse Grupa TAURON sp. z o.o. will be raised from the amount of PLN 100 000 to the amount of PLN 200 000, i.e. by the amount of PLN 100 000, by way of establishing (issuing) 2 000 new shares with the nominal value of PLN 50 each. TAURON will receive, in exchange for each 3 350 shares in the share capital of TAURON Sweden Energy AB (publ), 1 share in the increased share capital of Finanse Grupa TAURON sp. z o.o., i.e. in total for 6 700 000 shares in TAURON Sweden Energy AB (publ) TAURON will receive 2 000 shares in the increased share capital of Finanse Grupa TAURON sp. z o.o.

As of the day of drawing up this report the merger had not been registered in the applicable registers.

Changes to the other companies in which TAURON holds an equity share

Establishing of a limited joint stock partnership

On January 9, 2019, the District Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register (KRS), registered in the National Court Register (KRS) the company EEC Magenta limited liability company 2 ASI limited joint stock partnership with its seat in Warsaw (EEC Magenta 2 ASI), that had been established by TAURON on October 26, 2018.

TAURON took up 24 015 shares in the company with the nominal value of PLN 1 per share in exchange for a cash contribution equal to the nominal value of the shares taken up, i.e. PLN 24 015.

TAURON's share in the share capital and in the votes at the company's GM is 48.03%.

Establishing of the above mentioned company by TAURON is aimed at expanding TAURON Capital Group's cooperation with innovative companies as well as with the science (academic) sector and research and development (R&D) institutions, and also at providing support for the new business development

1.3.4. Organizational or equity ties with other entities

Apart from the equity ties with the companies presented in section 1.3.2 of this information the material co-subidiaries subject to consolidation in which the Company held, directly or indirectly, shares as of March 31, 2019 include the companies listed in the below table.

Table no. 1. List of material co-subsidiaries subject to consolidation as of March 31, 2019

#	Company name	Seat	Main subject of operations	TAURON's share in company's capital and in the parent company
1.	EC Stalowa Wola S.A. ¹	Stalowa Wola	Electricity generation	50.00%
2.	TAMEH HOLDING sp. z o.o. ²	Dąbrowa Górnicza	Central (head office) companies and holding operations	50.00%
3.	TAMEH POLSKA sp. z o.o. ²	Dąbrowa Górnicza	Electricity and heat generation, transmission, distribution and trading	50.00%
4.	TAMEH Czech s.r.o. ²	Ostrava, Czech Republic	Production, trading and services	50.00%

¹Shares in EC Stalowa Wola S.A. are held by TAURON indirectly via TAURON Wytwarzanie subsidiary.

²Companies form a capital group. TAURON holds a direct stake in the share capital and in the parent company of TAMEH HOLDING sp. z o.o. that holds a 100% stake in the share capital and in the parent company of TAMEH POLSKA sp. z o.o. and TAMEH Czech s.r.o.

1.3.5. Major domestic and foreign investments as well as equity investments

Taking up or acquiring share securities in TAURON Capital Group companies

The below table presents a summary of share capital increases in TAURON Capital Group subsidiaries in the first quarter of 2019 and by the day of disclosing this information.

Table no. 2. Summary of share capital increases in TAURON Capital Group subsidiaries

Subsidiary	Share capital increase (total price for taking up shares) (PLN)	Company taking up shares	Nominal value of shares taken up (PLN)	Date of passing the resolution by the GM	Structure of the share capital following the increase
Łagisza Grupa TAURON sp. z o.o.	100 000	TAURON Wytwarzanie	1 000	11.01.2019	TAURON Wytwarzanie 100%
Nowe Jaworzno GT	256 925 000	Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund – Non-public Assets Closed-end Equity Investment Fund)	2 569 250	25.02.2019	TAURON 92.86% FIIKFIZAN 7.14%

Taking up or acquiring share securities in the other companies in which TAURON holds an equity stake

The below table presents a summary of share capital increases in the other companies in which TAURON holds an equity stake in the first quarter of 2019 and by the day of disclosing this information.

Table no. 3. Summary of share capital increases in the other companies in which TAURON holds an equity stake

Company	Share capital increase (total price for taking up shares) (PLN)	Company taking up shares	Nominal value of shares taken up (PLN)	Date of passing the resolution by the GM	Structure of the share capital following the increase
EEC Magenta limited liability company ASI	107 200	EEC Ventures limited liability company limited partnership	1 072	15.01.2019	EEC Ventures limited liability company limited partnership 3%
limited joint stock partnership (EEC Magenta ASI)	2 577 600	PFR Starter FIZ	25 776		PFR Starter FIZ 72.1%
	890 200	TAURON	8 902		TAURON 24.9%
EEC Magenta ASI 2	99 557	EEC Ventures limited liability company 2 limited partnership	2 933	25.01.2019	EEC Ventures limited liability company 2 limited partnership 2.95%

Company	Share capital increase (total price for taking up shares) (PLN)	Company taking up shares	Nominal value of shares taken up (PLN)	Date of passing the resolution by the GM	Structure of the share capital following the increase
	4 874 200	PFR NCBR CVC Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Non-public Assets Closed-end Investment Fund)	48 742		PFR NCBR CVC Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Non-public Assets Closed-end Investment Fund) 49.02%
	4 775 100	TAURON	47 751		TAURON 48.03%

The other most significant equity investments in financial assets held by TAURON as of March 31, 2019 include stakes in the following entities:

- 1) Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. with the balance sheet value of PLN 30 989 000,
- 2) Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. with the balance sheet value of PLN 23 754 000,
- 3) PGE EJ 1 sp. z o.o. (PGE EJ 1) with the balance sheet value of PLN 18 651 000,
- 4) Energetyka Cieszyńska sp. z o.o. with the balance sheet value of PLN 14 697 000,
- 5) ElectroMobility Poland S.A. with the balance sheet value of PLN 17 500 000,
- 6) Magenta Grupa TAURON sp. z o.o. with the balance sheet value of PLN 9 500 000.

Major investments in financial assets

TAURON Capital Group's major investments in financial assets carried out in the reporting period include granting by TAURON of the loan to the Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola) joint subsidiary in the amount of PLN 5 175 000. The detailed information on the loan granted to EC Stalowa Wola is provided in section 5.3. of this information.

1.3.6. Implementation of the strategic investment projects

Key strategic investment projects underway

The below table presents the activities carried out by TAURON Capital Group in the first quarter of 2019 in connection with the implementation of the key strategic investment projects.

Table no. 4. Key strategic investment projects' work progress

#	Investment project	Investment project's work progress
1.	<p>Construction of a new 910 MW_e supercritical parameters power generation unit in Jaworzno</p> <p>Contractor: RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. Consortium</p> <p>Planned project completion date: Q4 2019</p> <p>Work progress: 90%</p> <p>Expenditures incurred: PLN 4 461 million</p>	<p>The project is at the commissioning stage. In January 2019 the construction of railway tracks was completed. In accordance with the current plan the delivery of 27.5 thousand tons of hard coal was completed, with the coal coming from TAURON Capital Group's coal mines.</p> <p>The installation of the thermal insulation of the boiler walls, dust burners, high pressure pipelines, the thermal and acoustic insulation of the hot air and flue gases ducts, the insulation of the electrostatic precipitator and fans was completed. In the first quarter of 2019 the key technological process systems (milestones) were transitioned (handed over) to the commissioning stage, among others, the water-steam and air-flue gases system, the flue gases desulphurization installation, the carburization system, the steam turbine. As part of the commissioning a number of functional trials and tests envisaged for the new power generating unit's installations and devices were completed. Readiness for the supply of the media for the needs of the hot start-up was achieved. The works required to commence chemical cleaning of the high pressure part of the unit were completed. The construction works related to the water and sewage networks, as well as roads were resumed after the winter break.</p>

#	Investment project	Investment project's work progress
		<p>A series of practical training courses dedicated for the future operational personnel of Nowe Jaworzno GT was completed.</p> <p>In February 2019, the verification of the application for another round of recapitalizing (funding) of Nowe Jaworzno GT by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund – Non-public Assets Closed-end Equity Investment Fund) was completed, which allowed for the disbursement of another tranche in the amount of PLN 256.9 million.</p>
2.	<p>Construction of a 449 MW_e CCGT unit, including a 240 MW_t heat generation unit at Stalowa Wola (Project implemented jointly with the strategic partner – Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)).</p> <p>Contractor: the contract with Abener Energia S.A. was terminated. The project's completion is implemented under the EPCM formula (contract manager) – Energoprojekt Katowice – Energopomiar Gliwice consortium</p> <p>Planned project completion date: 2020</p> <p>Work progress: 86%</p> <p>Expenditures incurred: PLN 1 059.9 million</p> <p>*Reduction of expenditures due to writing off from the accounting records of the removed steam pipelines. The balance sheet value excluding the financing costs.</p>	<p>As part of the tender proceedings aimed at selecting the contractors for the combined cycle power plant, announced by EC Stalowa Wola with the support of EPCM, the selection in all of the proceedings has been completed. 13 contractors are conducting works at the construction site. The assembling of the steam piping, auxiliary installations and other steel structures is underway. The construction and finishing works are also carried out.</p> <p>The startup (commissioning) group is systematically testing and commissioning the individual systems of the combined cycle power plant that were completed by the original contractor (Abener Energia S.A.). As a result of the inventory taking carried out by EPCM the assembly (installation) errors were identified as a consequence of which it was necessary to dismantle the steam piping, and then complete it again and reassemble. As a result the project's schedule was revised and the new date for commissioning the unit was set as the first quarter of 2020.</p> <p>The contractor to complete the construction of the Backup Heat Source was selected in August 2018 and this contractor completed the design works related to the construction and commenced the works related to laying down the foundations. Also, the technological process related, I&C, electrical and mechanical works are underway.</p>
3.	<p>Construction of the "Grzegorz" shaft (TAURON Wydobywanie) including the infrastructure (above the ground and underground) and the accompanying longwall faces (headings).</p> <p>Contractor: KOPEX Przedsiębiorstwo Budowy Szybów S.A., FAMUR Pemug sp. z o.o. (main task – Stage I), LINTER S.A. Consortium</p> <p>Planned project completion date: 2023</p> <p>Work progress: 37%</p> <p>Expenditures incurred: PLN 206.5 million</p>	<p>The drilling of the headings on the 800 m level was commenced.</p> <p>167 meters long headings were drilled between September 2018 and March 2019.</p> <p>967 m long headings were drilled to the "Grzegorz" shaft on the 540 m level. In 2019 the technology required to pass the fault including its dewatering (drainage) was prepared. The next step after passing the fault will be to continue the works related to the drilling towards the shaft. In the first quarter of 2019 the active freezing down to the depth of 485 m was completed. In February 2019 the works related to the erection of the headframe were carried out and also the infrastructure required to commence the deepening of the shaft was completed.</p>
4.	<p>Construction of the 800 m level at the Janina Coal Mine in Libiąż (TAURON Wydobywanie).</p> <p>Contractor: Mostostal Zabrze GPBP S.A. and SIEMAG TECBERG POLSKA S.A. Consortium (Construction of the ultimate above the ground and underground infrastructure including the Janina VI shaft mine shaft elevator), KOPEX S.A. and KOPEX Przedsiębiorstwo Budowy Szybów S.A. (task completed – shaft drilling)</p> <p>Planned project completion date: 2021</p> <p>Work progress: 65%</p> <p>Expenditures incurred: PLN 335.7 million</p>	<p>The drilling of the horizontal headings on the 800 m level by the coal mine's in-house unit is continued.</p> <p>As part of the works related to the construction of the ultimate infrastructure the General Contractor completed the piling for the headframe and built the shaft collar. The foundation slab was laid down and the temporary platforms (landings) required to install the shaft's structure were completed. As part of the project the 20-2 mm class Coal Processing Plant was upgraded with a new jig. Also the main design of the main drainage of the 800 m level was completed.</p>
5.	<p>Brzeszcze CAPEX Program</p> <p>Contractors: TRANS-JAN, FAMUR and KOPEX Machinery Consortium, FAMUR and KPRGiBSz Consortium, MAS and Carbospec Consortium, Elektrometal Cieszyn</p>	<p>In the first quarter of 2019 the extraction of the 510 deposit was conducted. Due to making the coal mine's ventilation independent of SRK in 2019 the works aimed at altering the ventilation system are carried out. The works related to the construction of the small sales facility, the brine water</p>

#	Investment project	Investment project's work progress
	<p>Planned Project completion date: 2025 Work progress: 47% Expenditures incurred: PLN 243.7 million</p>	<p>channel and with respect to the alteration of the ventilation excavations as well as boring of the new headings aimed at providing access to the 405/1 deposit were continued. As part of the program the total of 2 192 meters of new headings were drilled by the end of March 2019. The construction of the primary compressor station and the water and ash mixture dumping station was completed.</p>
6.	<p>Implementing heat generation at unit no. 10 and the construction of the peaking and backup boilers in Łagisza Contractor:</p> <ul style="list-style-type: none"> • GE Power – steam turbine set refurbishment, • Mostostal Warszawa – implementing the heat generation unit including refurbishing the heat production part, • SBB Energy – construction of the peaking and backup boilers. <p>Planned project completion date: Q4 2019 Work progress: 22% Expenditures incurred: PLN 7.29 million</p>	<p>The contractors are carrying out the works with respect to:</p> <ul style="list-style-type: none"> • steam turbine set refurbishment, • implementing the heat generation unit including the station's adaptation, • construction of the peaking and backup boilers. <p>The contractors submitted the detailed engineering for the above mentioned tasks. The preparatory works for the complete overhaul of the boiler and the refurbishment of the turbine set (dismantling of the turbine and delivery of the selected components of the installation) were commenced. The construction and assembly works that are a part of implementing the heat generation unit (with respect to laying down the foundations for the support structure of the heat exchangers and under the bridge (trestle)) are underway. The dismantling works at the heat generation station facility were commenced. As part of the task: the construction of the peaking and backup boilers, the earth works (with respect to the foundations of the boiler room, chimney stacks and oil storage tanks) are continued.</p>
7.	<p>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: 14% Expenditures incurred: PLN 10.8 million</p>	<p>The program is carried out on the territory of the following metropolitan areas: Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec and Świętochłowice</p> <p>Due to TAURON Ciepło's failure to comply with the contractual terms by the required deadline, on March 22, 2019 TAURON Ciepło terminated all of the funding agreements concluded with the Regional Fund for Environmental Protection and Water Management (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej - WFOŚiGW) in Katowice. The termination of the agreements should enable the above mentioned Company to participate in the new grant (funding) competitions to gain funds for low emission elimination.</p>
8.	<p>TAURON Internet (POPC) – implementation of the project in the areas awarded (7 projects on the territory of the following areas: Rybnik, Katowice-Tychy, Oświęcim, Kraków, Wałbrzych A, Wałbrzych B, Sosnowiec) Contractor: Atem Polska sp. z o.o. (Katowice-Tychy), proceedings to select contractors for the other areas underway. Planned project completion date: 2022 Work progress: 3% Expenditures incurred: PLN 0.0 million</p>	<p>The POPC program involves implementing the infrastructure enabling high speed internet connections for households (min 30 MB/s). The final product of the project will be the provision of the wholesale services enabling connecting of the end users by the retail operators. In the first quarter of 2019 the contractor was selected for the Katowice-Tychy area (Atem Polska sp. z o.o.), while in the other areas the tender proceeding was repeated due to the lack of bids or exceeding of the budget. The verification of the documents submitted by the bidders is underway. In the Katowice-Tychy area the concept, including the work schedule and the financial split, was approved.</p>
9.	<p>Program aimed at adapting TAURON Wytwarzanie's generating units to comply with the operational conditions in force beyond 2021 Contractor: Contractors are being selected to carry out individual projects. On February 21, 2019, the Company signed an agreement on the implementation of the refurbishment of the flue gases desulfurization installation at Łaziska Power Plant with the Budimex S.A and Mitsubishi Hitachi Power Systems Europe GmbH Consortium Planned project completion date: 2021 Work progress: 3% Expenditures incurred: PLN 1.87 million</p>	<p>As part of the program the refurbishment of the following generating units, with the following scope, is planned:</p> <ul style="list-style-type: none"> • Jaworzno II Power Plant, units no. 2 and 3 – the construction of the flue gases desulfurization (FGD) installation, • Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR) installation, • Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment of the selective catalytic reduction (SCR) installation,

#	Investment project	Investment project's work progress
		<ul style="list-style-type: none"> • Łaziska Power Plant, units no. 11 and 12 – the refurbishment of the flue gases desulfurization (FGD) installation, • Łaziska Power Plant – the refurbishment of the sewage treatment plant, • Siersza Power Plant – adaptation of the existing flue gases desulfurization (FGD) installations, • Łagisza Power Plant – the company withdrew from the construction of the flue gases desulfurization (FGD) installation in favor of the dry additives feeding installation. <p>The process of selecting the contractors for the individual projects is underway – the results of the tender proceedings have been announced.</p>

Other investment projects

Nuclear power plant construction project

PGE EJ 1 was carrying out the scope of works related to conducting environmental and siting research at Żarnowiec and Lubiatowo-Kopalino sites in the first quarter of 2019.

In November 2018 TAURON received a letter from Polska Grupa Energetyczna S.A. (PGE), in which PGE expressed preliminary interest in acquiring all of the shares in PGE EJ 1 owned by TAURON. In response to the letter TAURON expressed preliminary interest in selling all of its shares in PGE EJ 1. Talks and negotiations were conducted between the parties with respect to the said issue in the first quarter of 2019.

On April 17, 2019 TAURON received a letter from PGE, in which PGE informed that it had withdrawn from the process of acquiring the shares in PGE EJ 1 sp. z o.o. owned by the minority shareholders of PGE EJ 1.

Coal gasification project

The Coal2Gas project involves looking into the area of constructing a hard coal gasification installation, jointly with Grupa Azoty S.A., for the needs of the chemical industry.

The works related to setting up the formal relationships, necessary for the implementation of the project by TAURON and Grupa Azoty S.A., were continued in the first quarter of 2019. The content of the Partners' Agreement was agreed in December 2018 and it was signed by both parties in January 2019. A law firm was selected in March 2019 that will conduct an assessment, whether the special purpose vehicle performs the role of a joint venture company with a full range of functions in the understanding of the European law and will point out potential jurisdictions in which obtaining of a clearance of the competition protection (antitrust) authorities may be required to set up the Company.

413 MW_e CCGT unit construction project including an approx. 250 MW_t heat generation unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin

In September 2016, the 413 MWe CCGT unit construction project including a heat production unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin was halted due to the loss of its business justification. That decision was in accordance with the Strategy, according to which one of the priorities is to ensure TAURON Capital Group's financial stability,

Currently TAURON Capital Group is conducting analyses, as well as works that would enable a potential resumption of the project, for example related to updating of the applicable documents. Taking of the investment decision will, on one hand, be based on the assessment of the project's profitability, and, on the other hand, on TAURON Capital Group's financial standing.

Capital expenditures

In the first quarter of 2019 TAURON Capital Group's capital expenditures reached PLN 727 million and were 20% higher than the expenditures incurred in the same period of last year that stood at approx. PLN 606 million. This is primarily due to the higher outlays in the Distribution and Mining Segments.

The below table presents the highest by value capital expenditures incurred by TAURON Capital Group's Lines of Business in the first quarter of 2019.

Table no. 5. The highest by value capital expenditures incurred by TAURON Capital Group's Lines of Business in the first quarter of 2019

Item	Capital expenditures (PLN m)
Distribution	

Item	Capital expenditures (PLN m)
Existing grid assets' upgrades (refurbishments) and replacements	199
Installation of new connections	126
Generation	
Construction of a 910 MW _e super critical parameters generation unit in Jaworzno	141
CAPEX on replacements and upgrades (refurbishments) as well as components at TAURON Wytwarzanie	32
Connecting new facilities	5
Investment projects related to the maintenance and development of district heating networks	4
Mining	
Construction of the "Grzegorz" shaft, including the infrastructure and the accompanying headings	42
Brzeszcze Coal Mine's (ZG Brzeszcze) Investment Program	19
Construction of the 800 m level at the Janina Coal Mine (ZG Janina) in Libiąż	8

The detailed information on the capital expenditures incurred in the individual segments of TAURON Capital Group's operations is provided in section 3 of this information.

2. OPERATIONS OF TAURON POLSKA ENERGIA AND TAURON CAPITAL GROUP

2.1. Subject of the operations of TAURON Polska Energia S.A. and TAURON Capital Group

TAURON Polska Energia S.A.

As the parent entity of the Capital Group TAURON performs the consolidating and management function at TAURON Capital Group. As a result of implementing the Business Model and centralizing of the functions, TAURON concentrated many competences related to the functioning of TAURON Capital Group's subsidiaries and is currently carrying out operations, among others, in the following areas:

1. wholesale trading in electricity, gas and related products, in particular, with respect to providing trading services for the subsidiaries, securing the requirements with respect to fuel, CO₂ emission allowances and certificates of origin of electricity
2. purchasing management,
3. finance management,
4. corporate risk management,
5. managing the functioning of the IT model,
6. coordinating research and development activities carried out by TAURON Capital Group,
7. advisory services with respect to accounting and taxes,
8. legal support (services),
9. audit.

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

The core operations of the Company, besides managing TAURON Capital Group, include wholesale electricity trading on the territory of the Republic of Poland, based on the license for trading in electricity issued by the President of ERO for the period from June 1, 2008 until December 31, 2030.

The Company is focusing on purchasing and selling electricity for the needs of securing the buy and sell positions of TAURON Capital Group's entities and on wholesale electricity trading. In the first quarter of 2019 the Company bought and sold 10.1 TWh of electricity. Electricity sales performed by TAURON in the first quarter of 2019 were mainly addressed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE, to which 90% of purchased electricity was sold. These companies are performing retail electricity supply – to the final consumers, and therefore TAURON is not dependent on any electricity consumer. The other consumers (trading companies outside TAURON Capital Group, exchanges) accounted for less than 10%.

The Company's additional operations include wholesale trading in natural gas on the territory of the Republic of Poland based on the license for trading in gas fuels issued by the President of ERO for the period from May 4, 2012 until May 4, 2022. In the first quarter of 2019 the Company purchased and sold 1.0 TWh of gas fuel. The Company is focusing on selling natural gas for the supply needs of TAURON Sprzedaż with 58% of the purchased fuel gas sold thereto. The other volume was sold mainly on the exchange (34%). The other consumers accounted for less than 8%.

The competences of the Company also include management, for the needs of TAURON Capital Group, of the property rights related to the certificates of origin of electricity, representing the confirmation of electricity generation from renewable sources (including sources using agricultural biogas), in high-performance co-generation, in gas-fired co-generation, in mining methane-fired co-generation as well as the property rights related to electricity efficiency certificates. In the first quarter of 2019 the Company did not carry out trading in the property rights, such trading was carried out by TAURON Capital Group's subsidiaries obligated to redeem (retire) the above mentioned property rights.

The Company is a competence center with respect to the management and trading in CO₂ emission allowances for TAURON Capital Group's subsidiaries. As a result of centralizing trading in emissions a synergy effect was achieved, involving optimizing of the costs of utilizing the resources of TAURON Capital Group's entities. Due to centralizing of this function in TAURON the Company is responsible for settlements of the subsidiaries' CO₂ emission allowances, securing the subsidiaries' emission needs taking into account the allowances allocated and the support in the process of acquiring allowance limits for the subsequent periods.

TAURON is actively participating in consultations related to the legal acts on the national and European level, and it is also providing support for its Generation Line of Business subsidiaries in the process of obtaining free allowances. As part of the process of accomplishing the above goals with respect to trading in CO₂ emission

allowances the Company is actively participating in trading on the European Climate Exchange (The ICE) in London, the EEX exchange in Leipzig and on the OTC market.

In addition, TAURON also acts as the Market Operator and the entity responsible for trade balancing for TAURON Capital Group's subsidiaries as well as for the external customers. These functions are carried out under the Transmission Agreement concluded with the TSO – PSE and the Grid Code (Instrukcja Ruchu i Eksploatacji Sieci Przesyłowej - IRIESP). The Company currently holds exclusive control over generation capacity with respect to trading and technical capabilities related thereto, it is responsible for optimizing the generation, i.e. the selection of generation units for operation as well as the relevant distribution of loads in order to execute the contracts concluded, taking into consideration the technical conditions of the generation units as well as the grid constraints and other factors, over various time horizons. As part of the services provided for the Generation Segment the Company participates in preparing the overhaul plans, plans of available (dispatchable) capacity as well as production plans for the generation units, over various time horizons, as well as in agreeing them with the relevant grid operator. TAURON is also developing its competences with respect to the Market Operator function for gas under the transmission agreement with GAZ – System S.A. Since July 2015 TAURON, as one of the first entities in Poland, launched a balancing group for the entities performing trading transactions on the gas market and commenced trade balancing for TAURON Sprzedaż.

In the first quarter of 2019 TAURON conducted, on behalf of TAURON Capital Group's subsidiaries, the general certification of physical units, existing and planned as part of the capacity market being implemented. As a result TAURON Capital Group's physical generating units and controllable loads were able to take part in the certification process for the main auction and for the additional auctions, and subsequently they will be able to be offered at the main auction with the delivery in 2024 (scheduled to be conducted in December 2019) and at the additional auctions with the quarterly deliveries in 2021 (scheduled to be conducted in March 2020).

In accordance with the adopted *TAURON Group's Business and Operational Model* TAURON is performing the management function with respect to managing the purchasing of production fuels for the needs of TAURON Capital Group's generation entities.

TAURON Capital Group

TAURON Capital Group is conducting its operations and generating its revenue primarily from electricity and heat supply and distribution, electricity and heat production as well as hard coal sales, in accordance with the description of the operations of its operating segments (lines of business) provided in section 1.2. of this information.

TAURON Capital Group's core products are electricity and heat as well as hard coal. Additionally, the Group is trading in: electricity and energy market products as well as hard coal and gas, and it is also providing electricity distribution and supply services, including to the final consumers, heat distribution and transmission and other services related to the operations conducted.

The detailed description of the operations of the individual operating segments (lines of business), including the operating data, is provided in section 3.3., while the description of the results posted by these segments in the first quarter of 2019 is provided in section 3.4.2. of this information.

2.2. Factors and events, including non-typical ones, with a material impact on the abbreviated financial statements

No material non-typical events that would have a significant impact on the financial results posted had occurred in the first quarter of 2019.

2.3. TAURON Group's environment

The results of TAURON Capital Group's operations are impacted by the following external factors:

1. macroeconomic environment,
2. market environment,
3. regulatory environment,
4. competitive environment (landscape).

2.3.1. Macroeconomic environment

The Polish market is the primary area of TAURON Capital Group's business operations. Macroeconomic situation, market environment, as well as the conditions on the financial markets represent material factors that have an impact on the financial results generated by the Company and TAURON Capital Group.

The world economy continues to be in a good shape, although the differentiation of the GDP growth rates achieved by the world's leading economies is visible. The United States' economic growth has slightly accelerated recently, while in Germany, a country that is Poland's main trading partner, the economic indicators have deteriorated.

At the end of 2018 Poland's economy posted an approx. 4.9% GDP growth rate year on year. Good economic conditions were affected by: internal demand (consumption), an increase of investments, and also the level of consumer goods' prices. In March 2019, according to the data published by the Central Statistics Office (GUS), the inflation rate came in at 1.7% year on year, which meant an increase of the consumer goods and services price index as compared to December 2018 when the index had reached 1.1% year on year.

According to the data available, the unemployment rate in the first two months of 2019 stood at 6.1%, i.e. it was lower as compared to the same period of the previous year (the registered jobless rate came in at 6.8% in February 2018).

2.3.2. Market environment

Electricity

In the first quarter of 2019 domestic electricity consumption reached 44 463 GWh, i.e. it was 625 GWh (-1.4%) lower as compared to the same period of the previous year. Reduced electricity consumption was due to the warm winter – the average temperature in the first quarter of 2019 came in at 2.6°C, while in the first quarter of last year it stood at: -0.3°C.

In the first quarter of 2019 domestic power plants' electricity production reached 42 712 GWh as compared to 43 536 GWh in the first quarter of 2018, which meant a decline by 824 GWh (-1.9%). Electricity imports came in at 1 751 GWh, i.e. it was 197 GWh (+12.7%) higher than in the first quarter of last year.

In the first quarter of 2019 a decrease of electricity production was reported by the lignite fired power plants (from 12 276 GWh in the first quarter of 2018 to 11 012 GWh in the first quarter of 2019) and by the hard coal-fired power plants (from 21 839 GWh in the first quarter of 2018 to 20 568 GWh in the first quarter of 2019). This was due to, on one hand, lower demand for electricity, and, on the other hand, by the record breaking generation of electricity by the wind farms that covered 10.5% of domestic electricity consumption. In the first quarter of 2019 electricity generation from wind farms reached 4 651 GWh, i.e. 1 483 GWh more as compared to the year before. An increase of production was also reported by the gas-fired units, which, in the first quarter of 2019, generated 2 816 GWh of electricity (an increase by 218 GWh year on year).

The average electricity price on the SPOT market in Poland came in at 217.60 PLN/MWh (50.57 EUR/MWh) in the first quarter of 2019, i.e. it went up, as compared to the same quarter of 2018, by 33.16 PLN/MWh (7.71 EUR/MWh). In the first quarter of 2019, versus the fourth quarter of 2018, the electricity prices declined, both on the Polish exchange, as well as on the exchanges in the countries neighboring with Poland. The average electricity price in the first quarter of 2019 on the German electricity exchange EPEX SPOT stood at 40.95 EUR/MWh, i.e. 11.70 EUR/MWh less than in the fourth quarter of 2018, while on the Polish Power Exchange (Towarowa Giełda Energii - TGE) the average electricity price on the SPOT market in the first quarter of 2019 was 27.73 PLN/MWh (6.45 EUR/MWh) lower than the average price in the fourth quarter of 2018. The factors behind the falling prices included: the record breaking generation output by the wind farms, and also a relatively warm winter. The generation output by the wind farms and photovoltaic sources in Germany reached 47.8 TWh, in the first quarter of 2019 as compared to 38.4 TWh in the same period of the previous year.

The futures contracts market was characterized by high price volatility in the first quarter of 2019. The average price of the reference futures contract BASE_Y-20 reached 265.59 PLN/MWh. The price of the contract was 9.10 PLN/MWh lower than the average price in the fourth quarter of 2018. The minimum price was reported on February 25 this year at the level of 253.01 PLN/MWh. This was primarily caused by a strong decline of the short term prices on the SPOT market, as well as by the drop of the one week and one month futures contracts. A very good power balance in the power system, both in Poland, as well as in Europe, the high generation output by the wind farms and exceptionally strong decline of gas prices led to the systematic declines of electricity prices. The prevailing market trend was clearly down in January, February and March. The fall of the baseload contract prices also led to the lower one quarter futures electricity contract prices as well as the lower PEAK contract prices. The PEAK_Y 20 contract reached its minimum values almost on the same days as did the BASE_Y-20 contract. The average PEAK_Y-19 contract price came in at 347.45 PLN/MWh in the quarter under review.

Natural gas

The average gas price on the Day Ahead Market on the Polish Power Exchange (TGE) reached 92.29 PLN/MWh in the first quarter of 2019. As compared to the same period of 2018 the price dropped by more than 12 PLN/MWh (by 11.6%). The factors that had the biggest impact on this trend included: the relatively large, regular shipments of liquified natural gas to the ports in the north of Europe, well stocked up storage facilities and the lower prices of other energy commodities. The highest monthly average trading volume weighted price of a contract with the delivery on the day ahead (103.69 PLN/MWh) was reported in January. In February and March it was: 87.01 PLN/MWh and 78.00 PLN/MWh, respectively. The volume in the period under review came in at 5 567 723 MWh,

which, as compared to the volume in same period of the previous year - 1 033 296 MWh – represents a substantial surge - by 438%.

On the futures commodity market the reference one year contract's average price reached 93.35 PLN/MWh in the first quarter of 2019 and, as compared to the first quarter of 2018, it was lower by almost 16 PLN/MWh (-14.6%). This contract was cheapest in March (the average trading volume weighted price: 91.37 PLN/MWh), and most expensive in January (the average trading volume weighted price: 99.20 PLN/MWh). In the period under review the volume under the reference one year contract, as compared to the same period of the previous year, went up on aggregate from 2 750 640 MWh to 5 946 000 MWh, i.e. by 116.1%.

According to the GIE (Gas Infrastructure Europe) data, as of December 31, 2018, the Polish storage facilities, with the total capacity of approx. up to 3 billion m³, were 50.4% full, while a year before they had been 42.0% full (+ 8.4 pp). In Europe this level, at the end of 2018, stood at – 70.3%, while a year before it had come in at – 64.9% (+5.4 pp).

CO₂ emission allowances

In the first quarter of 2019 the CO₂ emission allowances prices were, after the December increases, systematically dropping, which was accompanied by high price volatility. It was a consequence of uncertainty related to Great Britain's planned exit out of the European Union, including a lack of the decision on the participation of the United Kingdom in the EU ETS system whose annual demand for emissions is approx. 130 million Mg CO₂. After the date of Great Britain's exit out of the European Union had been postponed the CO₂ emission allowances began to recover their value.

The volatility of the CO₂ emission allowances prices was also affected by the published readings of the macroeconomic indicators, related both to the euro zone, as well as to the world economy, that differed from the forecasts.

On January 2, 2019, the EUA price reached its highest value of 25.73 EUR/Mg CO₂, while on February 22, 2019 it dropped to its low – 18.40 EUR/Mg CO₂, which represents a change of 7.33 EUR/Mg CO₂ over the period of only 7 weeks.

Property rights

Due to the amendment of the *act on renewable energy sources*, being prepared by the Ministry of Energy, the price of green certificates fell by 50% in the first quarter of 2019. The OZEX_A index prices have gone down since the beginning of the year from the highs of 152.50 PLN/MWh, to the lows of 80.82 PLN/MWh. The weighted average price of the green certificates reached 117.64 PLN/MWh in the first quarter of 2019. The trading volume during this period came in at 2 452 GWh. The balance of the PMOZE_A register reached a surplus of 27.35 TWh as of the end of March 2019, and taking into account the certificates blocked for retirement this register drops by more than 1.24 TWh, down to 26.11 TWh. The substitution fee in force in 2019 is 129.78 PLN/MWh, while the retirement obligation: 18.5%.

The blue certificates market prices were stable in the first quarter of 2019. The prices fluctuated between 300,01 PLN/MWh and 302,44 PLN/MWh. The weighted average price of the TGEozebio index for the first three months of this year came in at 300.56 PLN/MWh and it was higher than the substitution fee in force of 300.03 PLN/MWh. The trading volume came in at 115.21 GWh in the first quarter of 2019, while the balance of the PMOZE-BIO register stood at 391,4 GWh as of the end of March. Taking into account the certificates blocked for retirement this balance drops to 332.9 GWh.

The cogeneration contracts market prices were also stable in the first quarter of 2019. The weighted average price of the property rights that confirm the generation of electricity in high efficiency gas-fired cogeneration in 2018 – the yellow certificates (PMGM - 2018), came in at 109.58 PLN/MWh, while the substitution fee in force is 115 PLN/MWh. In case of the hard coal -fired cogeneration P MEC - 2018 (red certificates) the weighted average price for the quarter stood at 8.68 PLN/MWh, while the substitution fee is 9 PLN/MWh, and in case of electricity generation from burning methane PMMET - 2018 (violet certificates) the weighted average quarterly price for the first three months of 2019 reached 55.21 PLN/MWh, with the substitution fee in force of 56 PLN/MWh.

In the first quarter of 2019 the price of the white certificates P MEF fluctuated between 110.69 PLN/toe and 440.47 PLN/toe. The weighted average price for that period came in at 247.07 PLN/toe. The prices for the one year contract P MEF-2018 were at a similar level, with its weighted average price reaching 216.03 PLN/toe. The prices for both, the P MEF-2019 register, as well as for the P MEF_F register, were hovering around the substitution fee that is 1 653.75 PLN/toe this year, while the weighted average prices stood at, respectively: 1 651.27 and 1 654 PLN/toe.

2.3.3. Regulatory environment

National regulations

Act on the amendment to the act on the excise tax and some other acts

As of the beginning of 2019 the act of December 28, 2018 on the amendment to the act on the excise tax and some other acts came into force with its goal to provide protection for the electricity consumers against a material increase of the costs of purchasing electricity in 2019. Apart from reducing the excise tax rate and the transition fee rates the act introduced the "freezing" in 2019 of the prices stemming from the tariffs and price lists applied by electricity transmission (TSO), distribution (DSO) and trading companies at the level of prices and fees applied in 2018. At the same time the act grants the obligated entities the right to a compensation for the lost revenue. The compensations are to be financed using the funds of the newly established Price Difference Payout Fund (Fundusz Wyплаты Różnicy Ceny), controlled by the Minister of Energy and managed by Zarządca Rozliczeń S.A. (Settlements Manager).

In February a change of the regulations was introduced in this respect that, among others:

- specified that the "freezing" of the prices was applicable solely to the final consumers,
- specified that the electricity prices to be applied for the final consumers in 2019 were to be in line with either the tariff as of December 31, 2018, approved by the President of ERO, or – if the price is not set based on the tariff – the price applicable for the given final consumer on June 30, 2018,
- removed the regulations imposing the obligation to apply by the TSO and the distribution companies the prices set by the law.

The draft ordinance of the Minister of Energy on the way to calculate the amount of the price difference and the way to calculate the reference price was presented on March 14, 2019. This ordinance defines the manner of setting the electricity sales price for some consumers, and also the manner of calculating the compensations for the trading companies.

The draft includes the formulas for determining the weighted average electricity price on the wholesale market. The difference between this price and the set sales price will be the compensation for the supplier.

Amendment to the Act on the Renewable Energy Sources (RES)

On February 28, 2019, the Ministry of Energy published on the websites of the Government Legislation Center (Rządowe Centrum Legislacji) the draft act on the amendment to the act on the renewable energy sources and some other acts and provided it for public consultations. The main goals of the amendment are: taking additional actions aimed at achieving a 15% share of electricity generated from renewable energy sources in the final gross electricity consumption by 2020, increasing the security of electricity supply while maintaining the lowest possible electricity prices and enabling conducting auctions for purchases of electricity generated from RES in 2019.

Draft ordinance of the Minister of Environment on the detailed quality and dimensions related features of the energy wood

On January 30, 2019, the draft ordinance of the Minister of Environment on the detailed quality and dimensions related features of the energy wood that represents the implementation of the statutory authorization included in the act of February 20, 2015 on renewable energy sources was presented. The goal of the planned ordinance is to define the detailed quality and dimensions related features of the energy wood, understood as wood that due to its quality and dimensions related features is characterized by reduced technical and utility value preventing its industrial use, and also wood that constitutes biomass of agricultural origin.

The need to identify quality and dimensions related features in order to qualify wood as energy wood, as well as to prepare the required documentation, may lead to an extension of the process of obtaining RES property rights in the proceeding before ERO.

European Union regulations

Winter package "Clean Energy for all Europeans"

In 2018, at the EU level, activities aimed at drawing up the final provisions of eleven documents constituting the so-called "Winter Package" were conducted. The key documents include: Regulation on the Governance of the Energy Union, amendment of the Regulation on the Internal Energy Market, amendment of the Directive on the Internal Energy Market, amendment of the Directive on the Use of Energy from Renewable Sources, amendment of the ACER regulation, amendment of the Energy Efficiency Directive and the Regulation on Risk Preparedness in the Electricity Sector.

The texts of the directives on buildings' energy characteristics (EU Directive 2018/844), RES (EU Directive 2018/2001) and energy efficiency, as well as the regulation related on the governance of the energy union (EU regulation 2018/1999) were drawn up and officially published last year.

As part of the trilogue among the European Parliament, the European Union Council and the European Commission the texts of the other "Winter Package" regulations were finalized. Their most important element is the amendment to the regulation on the internal energy market due to the future limitations in the ability of apply capacity mechanisms introduced thereby. As a result of the trilogue among the European Parliament, the European Union Council and the European Commission it was agreed that:

- 1) fossil based generating units with emissions of more than 550 gr CO₂/kWh of electricity produced, that commenced commercial production following the regulation's entry into force, will not be able to be engaged in capacity mechanisms and will not be able to receive payments under such mechanisms, as well as they will not be covered by the obligations to receive future payments under capacity mechanisms,
- 2) fossil based generating units with emissions of more than 550 gr CO₂/kWh of electricity produced and more than 350 kg of CO₂ on average annually per kWh of installed capacity, that commenced commercial production prior to the regulation's entry into force, will not be able to be engaged in capacity mechanisms and will not be able to receive payments under such mechanisms, as well as they will not be covered by the obligations to receive future payments under capacity mechanisms starting from July 1, 2025 at the latest,
- 3) member states applying capacity mechanisms upon the regulation's entry into force should adapt such mechanisms by introducing the above mentioned emission limitations, however without prejudice for the commitments or contracts concluded by December 31, 2019.

With respect to the revision of the directive in relation to the common internal market rules, the key element of the agreement reached is related to the power (right) of the electricity suppliers to set electricity prices autonomously, in order to shore up competition and create an efficient market based process for the setting thereof. At the same time, it was ensured that the so-called sensitive consumers and microenterprises should continue to be protected, by way of empowering the member states to set regulated prices for such groups of consumers

Furthermore, a number of agreed provisions of the revised directive are related to strengthening the position of the consumers.

On March 26, 2019,³ the European Parliament accepted the prepared text of the political agreements related to all of the other elements of the "Winter Package", which will be published in the Official Journal of the European Union after they have been approved by the Council.

2050 long term strategy "A clean planet for all"

On November 28, 2018, the European Commission presented its strategic long term vision for a prosperous, modern, competitive and climate-neutral economy by 2050 that is included in the document "A clean planet for all" (COM(2018) 773).

The strategy presented shows how Europe can lead the way to climate neutrality by investing into realistic technological solutions, empowering citizens, and aligning action in key areas such as industrial policy, finance and scientific research. The vision for a climate-neutral future presented by the Commission covers nearly all EU policies and is in line with the Paris Agreement objective to keep the global temperature increase to well below 2°C and pursue efforts to keep it to 1.5°C. According to the Commission to maintain its leadership position in terms of climate neutrality EU must achieve it by 2050.

EU institutions began working on this document and it can be expected that in the future it will most probably be used to agree new long term climate and energy policy goals.

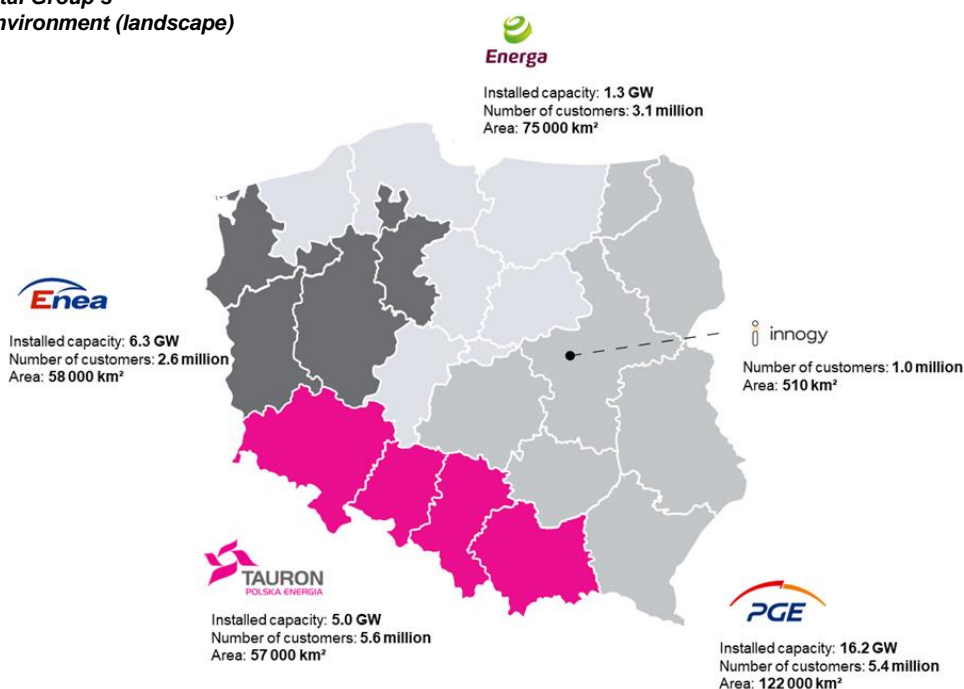
On March 14, 2019, the European Parliament adopted the resolution on climate change – a European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy in accordance with the Paris Agreement (2019/2582(RSP)). The resolution was prepared as a result of cooperation of ENVI Commission (Natural Environment Protection, Public Health and food Safety) and ITRE Commission (Industry, Scientific Research and Energy). In the resolution the Parliament, among others, supports ambitious goals presented by the European Commission, indicates a favorable impact of the transition on the creation of additional jobs, emphasizes the need to support regions most affected by decarbonization (a direct reference to the need to set up the Just Transition Fund), emphasizes that under the high emissions scenario (reduction by 80%) the costs incurred annually due to the meteorological factors in the EU may go up to EUR 1 billion by 2100 and calls the Commission and member states to support the agreed medium term target for 2030.

On March 22, 2019, during the European Council's summit the EU leaders called for more intense works on the long term climate strategy.

2.3.4. Competitive environment (landscape)

Apart from TAURON Capital Group currently three large, vertically integrated energy groups are operating on the Polish market: PGE, ENEA S.A. (ENEA) and ENERGA S.A. (ENERGA). The below figure presents TAURON Capital Group's competitive environment (landscape) based on the data available, i.e. for 2018.

Figure no. 4.
TAURON Capital Group's
competitive environment (landscape)
(2018 data)



Based on the vertically integrated structure the above entities have a strong position on the domestic market. Furthermore, also foreign energy groups are present on the Polish market.

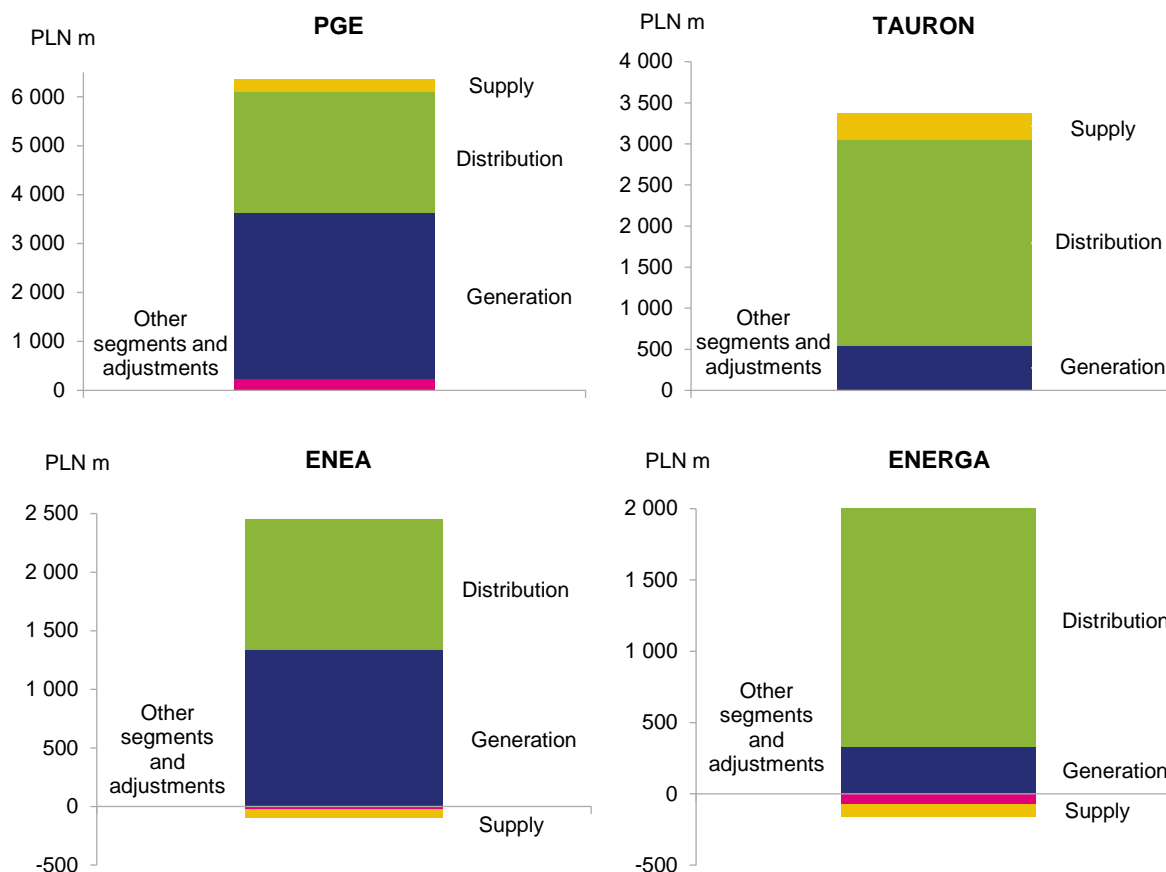
According to the 2018 data the consolidated energy groups (PGE, TAURON, ENEA, ENERGA) held an approx. 70% market share in the electricity generation sub-sector.

TAURON Capital Group is a fully vertically integrated energy (utility) enterprise that utilizes synergies resulting from the size and scope of the operations conducted.

TAURON Capital Group controls the value chain, from hard coal mining up to the delivery of electricity to the final consumers. TAURON Capital Group conducts its operations in all key segments of the energy market (excluding electricity transmission), i.e. hard coal mining as well as electricity and heat generation, distribution, supply and trading.

The below figure presents information on EBITDA structure, showing the main segments' contribution, of the largest energy (utility) groups on the domestic market.

Figure no. 5. EBITDA - estimated structure showing the main segments' contribution in 2018¹



¹In order to make the segments presented comparable the Generation Segment includes also Mining, RES and Heat; Generation Segment includes impairment charges.

Source: Companies' Annual Reports

Generation

TAURON Capital Group is Poland's key electricity producer

TAURON Capital Group's share in the domestic electricity generation market, based on gross electricity production output, reached approx. 10% in 2018. TAURON Capital Group is the third largest electricity producer on the Polish market

90% of TAURON Capital Group's generation assets are hard coal fired units, 10% of which are modern high efficiency generating units. TAURON Capital Group's total installed capacity reached almost 5.0 GW as of the end of 2018. Wind farms' installed capacity represents 4%, hydroelectric power plants' installed capacity represents 2.7%, biomass-fired generating units' installed capacity represents 2.9% of TAURON Capital Group's total installed capacity

PGE is Poland's largest electricity generator with its share in the domestic electricity production market reaching approx. 43% in 2018 and installed capacity of 16.2 GW.

ENEA was Poland's second largest electricity generator in 2018, with its market share standing at approx. 17% and installed capacity of 6.3 GW

Meanwhile ENERGA had the largest, on the Polish market, share of its total electricity output coming from RES in 2018, reaching approx. 31%. ENERGA Group's total installed capacity stood at 1.34 GW, while its annual production output came in at 3.9 TWh.

TAURON Capital Group's generation assets are concentrated in the south of Poland. The hard coal deposits used by TAURON Capital Group's power plants and combined heat and power plants are also located in this region. The location of generation assets near the hard coal deposits allows for optimizing the costs related to the transportation of this commodity.

The below table presents information on installed capacity as of December 31, 2018 and on electricity generated in 2018.

Table no. 6. Installed capacity and electricity generation by energy groups in 2018

#	Group	Installed capacity		Generation ¹	
		Value (GW)	Share (%)	Volume (TWh)	Share (%)
1.	PGE	16.2	37	72	43
2.	ENEA	6.3	14	29	17
3.	TAURON	5.0	11	16	10
4.	PAK	1.9	4	4	2
5.	ENERGA	1.3	3	4	2
6.	CEZ	0.7	2	3	2
7.	Other	12.9	29	42	24
Total		44.3	100	170	100

¹Gross electricity volume generated in 2018

Source: ARE, information from companies published on their websites, own estimates in case of companies publishing the net production

The below figures present information on electricity generated in 2018 and installed capacity as of December 31, 2018.

Figure no. 6. Gross electricity production - estimated market shares in 2018

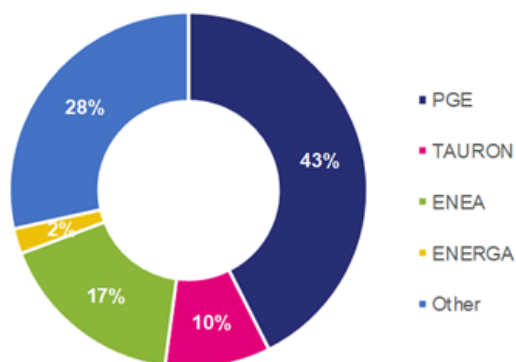
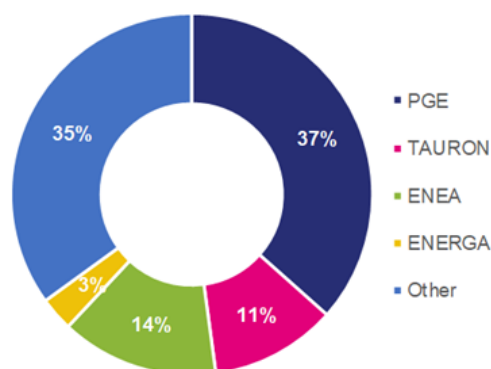


Figure no. 7. Installed capacity - estimated market shares in 2018



Distribution

TAURON Capital Group is the Polish market leader in terms of the number of distribution customers and volume of electricity distributed.

TAURON Capital Group is Poland's largest electricity distributor. TAURON Dystrybucja's share in electricity distribution to the final consumers reached approx. 35% in 2018 (taking into account top 5 distributors). TAURON Capital Group's distribution grids cover more than 18% of Poland's territory.

The below table presents basic information on the share of individual energy groups in terms of electricity distribution based on the 2018 data.

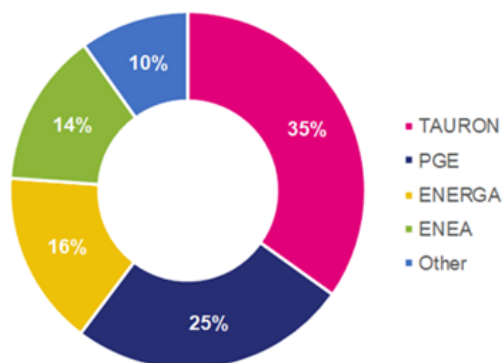
Table no. 7. Electricity distribution to the final consumers by energy groups

#	Group	Distribution	
		Volume (TWh)	Share (%)
1.	TAURON	49.6	35%
2.	PGE	36.4	25%
3.	ENERGA	22.5	16%
4.	ENEA	19.9	14%
5.	Other	14.1	10%
Total		142.5	100%

Source: estimated data, information from companies published on their websites

The below figure presents estimated market share of individual energy groups in terms of electricity distribution based on the 2018 data.

Figure no. 8.
Electricity distribution
- estimated market shares in 2018



Source: ARE, information from companies published on their websites

Based on the data for recent years TAURON Capital Group was number one in terms of volume of electricity delivered, with the volume of electricity delivered by the Distribution Segment to the final customers standing at 49.6 TWh. In the first quarter of 2019 the volume of electricity delivered to the final consumers came in at more than 13.5 TWh. TAURON Capital Group is Poland's largest electricity distributor also in terms of revenue from the distribution operations.

It should be emphasized that TAURON Capital Group's distribution operations, due to the natural quasi monopoly in the designated area, are a source of stable and predictable revenue, representing a material part of the consolidated revenue of the entire TAURON Capital Group. The electricity distribution geographical area on which the Distribution and Supply Segments' subsidiaries are historically operating is a strongly industrialized and densely populated area and this factor has an impact on the demand for electricity both among households, as well as businesses. The number of the Distribution Segment's customers topped 5.6 million in the first quarter of 2019.

Supply

TAURON Capital Group is Poland's second largest electricity supplier.

The below table presents basic information on the share of individual energy groups in terms of electricity supply to the final consumers based on the 2018 data.

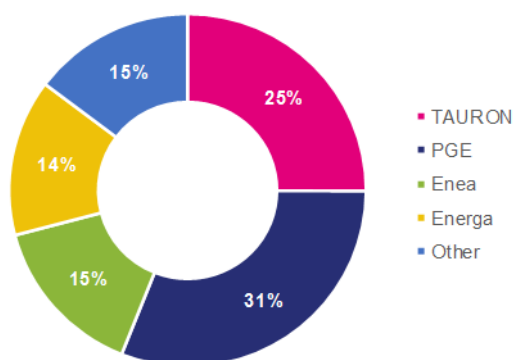
Table no. 8. Electricity supply to the final consumers by energy groups

#	Group	Supply	
		Volume (TWh)	Share (%)
1.	PGE	42.6	31%
2.	TAURON	34.5	25%
3.	ENERGA	19.8	14%
4.	ENEA	20.5	15%
5.	Other	20.2	15%
Total		137.6	100%

Source: ARE, information from companies published on their websites

The below figure presents estimated market share of individual energy groups in terms of electricity supply to the final consumers based on the 2018 data.

Figure no. 9.
Electricity supply to the final consumers -
estimated market shares in 2018



Source: ARE, information from companies published on their websites

TAURON Capital Group was Poland's second largest electricity supplier behind PGE in 2018. Retail electricity supply reached 34.5 TWh in 2018.

In the first quarter of 2019 the volume of retail electricity supply came in at approx. 8,9 TWh. The number of the Supply Segment's customers is approx. 5.5 million.

In the electricity supply segment the individual energy groups are geographically tied, first of all, to the areas in which they are performing the DSO function – this is applicable especially to customers classified as households and small enterprises. A broader and more open competition among the groups is limited due to the continued obligation to submit tariffs for households for approval to the President of ERO. The need to apply tariff based prices leads to limited options of positioning prices in the product offerings, and what follows, it impacts their attractiveness for customers. These restrictions do not apply to business and institutional customers.

The analysis of the largest energy groups operating on the domestic market points to various sources of competitiveness in the selected segments of the energy market, depending on the activities conducted.

The below table presents the main sources of competitiveness.

Table no. 9. Sources of competitiveness

#	Line of Business	Initiatives	Sources of competitiveness
1.	Mining Generation	<ol style="list-style-type: none"> Reducing the fuel price and supply risk Investments in generating units Operating expenses 	<ol style="list-style-type: none"> Own coal resources – security of fuel supply and control over mining costs High efficiency generating units with a competitive unit production cost Improvement of operational efficiency
	RES Heat	<ol style="list-style-type: none"> Operating expenses Investments in district heating networks 	<ol style="list-style-type: none"> Improvement of operational efficiency Expanding regulated operations
2.	Distribution	<ol style="list-style-type: none"> Operating expenses Investment efficiency Improvement of grid reliability indicators 	<ol style="list-style-type: none"> Implementing the ultimate business model Implemented IT systems, separate processes, clear (transparent) split of responsibilities
3.	Supply	<ol style="list-style-type: none"> Operating expenses Sales margin, developing products tailored to customer needs, growth in new Lines of Business 	<ol style="list-style-type: none"> Efficiently allocated operating expenses Brand, current customer base, sales channels in place, experience in product and purchasing portfolio management

2.4. TAURON Capital Group's material accomplishments and failures in Q1 2019

Material events that had occurred in the first quarter of 2019, as well as the ones that had taken place by the day of disclosing this information are listed below.

Important business events in the first quarter of 2019

Filing of a lawsuit against TAURON Sprzedaż

On March 7, 2019 TAURON Sprzedaż subsidiary was served an official copy of the statement of claim filed against the company by Hamburg Commercial Bank AG (formerly HSH Nordbank AG) with its seat in Hamburg (Plaintiff).

The subject of the statement of claim is the payment by TAURON Sprzedaż, in favor of the Plaintiff, of the total amount of PLN 232 878 578.36 along with the statutory interest for a late payment, accrued from the day of filing the lawsuit until the payment date, on account of:

- damages (in the total amount of PLN 36 251 978.36) due to TAURON Sprzedaż's failure to perform agreements on the sale of property rights arising from the certificates of origin constituting the confirmation of electricity generation from a renewable energy source, and
- liquidated damages (in the total amount of PLN 196 626 600) assessed due to the termination of the above mentioned agreements.
- The plaintiff is seeking redress arising from the purchase by way of a transfer of claims originally due to, according to its assertions, the in.ventus group subsidiaries, i.e.:
 - in.ventus sp. z o.o. EW Dobrzyń sp.k.,
 - in.ventus sp. z o.o. INO 1 sp.k.,
 - in.ventus sp. z o.o. EW Goldap sp.k.

The competent court to rule on the lawsuit is the Regional Court in Cracow (Sąd Okręgowy w Krakowie). The preliminary assessment of the lawsuit and its justification indicates, in the opinion of TAURON Sprzedaż, that the claims asserted are without merit and completely groundless.

TAURON disclosed the information on the termination by TAURON Sprzedaż of the long-term contracts for the purchase of property rights arising from certificates of origin of electricity from renewable sources in the regulatory filing (current report) no. 6/2017 of February 28, 2017.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 4/2019 of March 7, 2019.

Important corporate events in the first quarter of 2019

Shareholders' request to include particular items in the agenda of the General Meeting of the Company

The Company received, from the shareholders representing more than one twentieth part of TAURON's share capital, requests to include in the agenda of the Ordinary General Meeting of the Company to be convened on May 8, 2019, the following items:

- on March 11, 2019, from KGHM, an item related to the adoption of resolutions on making changes to the composition of the Company's Supervisory Board,

- 2) on April 16, 2019, from the Minister of Energy, exercising the rights of the shareholder State Treasury, the items: the adoption of the resolutions on amending resolution no. 5 of the Extraordinary General Meeting of Shareholders of December 15, 2016 on the principles for determining the compensation of the Members of the Management Board and the adoption of the resolutions on amending the *Articles of Association of TAURON Polska Energia S.A.*

KGHM informed that it was intending to propose making changes to the composition of the Company's Supervisory Board and will file applicable motions at Ordinary General Meeting.

Minister of Energy, in the statement of reasons with respect to the item related to the adoption of the resolutions on amending resolution no. 5 of the Extraordinary General Meeting of Shareholders of December 15, 2016 on the principles for determining the compensation of the Members of the Management Board pointed out, among others, that updating of the general catalogue of the Management Targets for the Management Board of TAURON Polska Energia S.A. is justified by the planned completion, in 2019, of the accomplishment of the majority of the Management Targets, and what follows, the problems that may arise in the future with respect to the detailing thereof by the Supervisory Board.

In the statement of reasons with respect to the item related to the adoption of the resolutions on amending the *Articles of Association of TAURON Polska Energia S.A.* the Minister of Energy pointed out the need to introduce amendments to the provisions implemented in the Company's Articles of Association in 2017 in connection with the amendment of the act of December 16, 2016 on the principles of state assets management.

The information on the above event was disclosed by the Company in the regulatory filing (current report) no. 5/2019 of March 11, 2019 and no. 11/2019 of April 16, 2019.

Other important events in the first quarter of 2019

Proceeds from security issues

As part of the bond issue Program concluded with the following banks: Bank Handlowy w Warszawie S.A., Bank BGŻ BNP Paribas S.A., Santander Bank Polska S.A., CaixaBank S.A. (Spółka Akcyjna) (Jointly Stock Company) Oddział w Polsce (Poland Branch), Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce (Poland Branch), ING Bank Śląski S.A., mBank S.A. (mBank), MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Oddział w Polsce (Poland Branch) and Powszechna Kasa Oszczędności Bank Polski S.A., of November 24, 2015, the Company:

- redeemed bonds with the nominal value of PLN 400 000 000 in line with the maturity date,
- issued, on March 25, 2019, bonds with the nominal value of PLN 100 000 000, with the maturity date falling on March 25, 2020.

Subordinated bonds issue program

On March 29, 2019, the Company issued subordinated (hybrid) bonds with the nominal value of PLN 400 000 000 as part of the subordinated bonds issue program concluded with Bank Gospodarstwa Krajowego (BGK) of September 6, 2017.

The financing period is 12 years from the issue date, however in accordance with the nature of hybrid financing the first financing period has been defined as 7 years (the so-called non-call period) during which TAURON shall not be able to redeem the hybrid bonds early and BGK shall not be able to sell the Bonds to third parties early (in both cases subject to the exceptions defined in the documentation). The Agreement also provides for an option to defer the hybrid bonds' interest payment dates until, at the latest, the hybrid bonds' maturity date. The subordinated nature of the bonds means that in case of a bankruptcy or winding up of TAURON the obligations related to the bonds shall be repaid only ahead of the liabilities of TAURON's shareholders. The hybrid bond issue has a positive impact on TAURON Capital Group's financial stability as the bonds are excluded from the calculation of the leverage ratio which is a covenant in some of TAURON's financing programs. Furthermore, 50 percent of the hybrid bonds amount will be classified by the Fitch rating agency as equity in the rating model which will have a favorable impact on TAURON's rating. The hybrid bonds were granted a BB+ rating by the Fitch rating agency.

Important events after March 31, 2019

Withdrawal of Polska Grupa Energetyczna S.A. from the process of acquiring the shares in PGE EJ 1 sp. z o.o.

On April 17, 2019, TAURON received a letter from Polska Grupa Energetyczna S.A. in which PGE informed that it had withdrawn from the process of acquiring the shares in PGE EJ 1 sp. z o.o. owned by the minority shareholders of PGE EJ 1. TAURON holds a 10 percent stake in PGE EJ 1.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 13/2019 of April 17, 2019.

Ruling of the Court of Arbitration at the Polish Chamber of Commerce on the claims of Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A.

On April 25, 2019, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw (Arbitration Court) issued the award in the case related to the claim filed by Abener Energia S.A., with its seat in Campus Palmas Altas, Sevilla (Abener Energia), against Elektrociepłownia Stalowa Wola S.A., with its seat in Stalowa Wola, in which the TAURON holds, indirectly via its TAURON Wytwarzanie S.A. subsidiary, 50 percent of shares in the share capital.

The proceedings before the Court of Arbitration were related to the claim for payment, the petition to establish legal relationship and the claim for an injunction to submit a statement of will (intent) in conjunction with the terminated contract, concluded between Abener Energia and EC Stalowa Wola, for the construction of an approx. 400 MW CCPP unit, including a heat generation unit, at Elektrociepłownia Stalowa Wola S.A.

According to the ruling of the Court of Arbitration, ECSW has been obligated to pay Abener Energia the amount of PLN 333 793 359.31, plus statutory interest for the delay and the costs of the arbitration proceedings.

An appeal to have the ruling of the Court of Arbitration overturned may be filed with a common court of law. EC Stalowa Wola has proceeded to review the ruling and statement of reasons in order to file an appeal to have it overturned.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 16/2019 of May 2, 2019.

Ordinary General Meeting of the Company

The Ordinary General Meeting of the Company was held on May 8, 2019, and it adopted the resolutions concerning, inter alia, the approval of the financial statements of TAURON for the financial year 2018, the consolidated financial statements of TAURON Capital Group for the financial year 2018, the report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2018, the covering of the net loss for the financial year 2018, the acknowledgement of the fulfillment of duties by members of the Company's Management Board and Supervisory Board, dismissing and appointing new members of the Supervisory Board, updating of the general catalogue of the management targets for the Company's Management Board by amending the earlier resolution of the Extraordinary General Meeting of Shareholders of December 15, 2016 on the principles for determining the compensation of the Members of the Management Board, amending the *Articles of Association of TAURON Polska Energia S.A.*

The decision was taken to cover the Company's loss for the financial year 2018, in the amount of PLN 1 709 852 955.76 from the Company's spare (supplementary) capital.

The Ordinary General Meeting of the Company made changes to the composition of the Supervisory Board by way of:

- dismissing from the Supervisory Board of the 5th common term of office the following persons:
 - a) Mr. Radosław Domagalski-Łabędzki,
 - b) Mr. Paweł Pampuszko,and
- appointing to the Supervisory Board of the 5th common term of office the following persons:
 - a) Mr. Rafał Pawełczyk,
 - b) Ms. Katarzyna Taczanowska.

The information on the completed changes to the Supervisory Board was disclosed by TAURON in the regulatory filing (current report) no. 17 of May 8, 2019.

During the Ordinary General Meeting of the Company the objections were raised and entered into the minutes to:

- resolution no. 5 *on the approval of the financial statements of TAURON Polska Energia S.A. for the financial year ended on December 31, 2018, in accordance with the International Financial Reporting Standards approved by the European Union,*

- resolution no. 6 *on the approval of the consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2018, in accordance with the International Financial Reporting Standards approved by the European Union.*

The Company disclosed the information on convening the Ordinary General Meeting and on the content of the draft resolutions in the regulatory filings (current reports) no. 9/2019 of April 11, 2018, no. 10/2019 of April 11/2019 and no. 14/2019 of April 30, 2019.

The Company disclosed the information on the adopted resolutions of the Ordinary General Meeting in the regulatory filing (current report): no. 18 of May 8, 2018.

2.5. Factors that may have an impact on the financial results achieved over at least the next quarter

2.5.1. Internal factors

The most material factors among the internal factors impacting the results of the Company's and TAURON Capital Group's operations include:

- 1) steadfast implementation of the Strategy and achieving 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) implementing the 2018-2025 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,
- 6) loyalty building measures aimed at retaining the existing customers and marketing activities with respect to acquiring new customers,
- 7) centralizing TAURON Capital Group's financial management area, supported by the use of such tools as: central model of financing, cash flow (financial liquidity) management policy using the cash pooling mechanism, risk management policy in the financial area, insurance policy,
- 8) ability to obtain debt financing on the international markets,
- 9) functioning of Tax Capital Group within the TAURON Capital Group, pursuant to the provisions of Article 1a of the act of February 15, 1992 on corporate income tax,
- 10) TAURON's procurement processes management, in particular, management of fuel purchases for the needs of TAURON Capital Group's generation entities,
- 11) geological and mining conditions of hard coal extraction,
- 12) failures of TAURON Capital Group's equipment, installations and grids.

2.5.2. External factors

The following external factors will, first of all, impact the results of 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) administrative and political environment, in particular in Poland as well as in the European Union, including the 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),
- 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,
- 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 CO₂ 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,
- 14) energy related commodity prices worldwide,

- 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, and also the so-called BAT conclusions,
- 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.

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 supply depends on weather conditions, in particular on outdoor temperature, and is 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 quarter of 2019 is described in section 3 of this document. The effects of this impact are visible both in the short term perspective, as well as in the long term outlook.

3. ANALYSIS OF FINANCIAL POSITION AND ASSETS OF TAURON CAPITAL GROUP

3.1. Selected financial data of TAURON Polska Energia S.A. and TAURON Capital Group

The below table presents selected financial data of TAURON Polska Energia S.A. and TAURON Capital Group.

Table no. 10. Selected financial data of TAURON Polska Energia S.A. 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	
	2019 period from 01.01.2019 to 31.03.2019	2018 period from 01.01.2018 to 31.03.2018 (adjusted data)	2019 period from 01.01.2019 to 31.03.2019	2018 period from 01.01.2018 to 31.03.2018 (adjusted data)
Sales revenue	5 312 809	4 636 886	1 236 169	1 109 728
Operating profit	727 967	875 486	169 381	209 527
Pre-tax profit	654 212	791 098	152 220	189 330
Net profit	524 692	636 669	122 084	152 371
Net profit attributable to shareholders of the parent company	524 194	636 153	121 968	152 248
Net profit attributable to non-controlling shares	498	516	116	123
Other total net income	(1 016)	(6 895)	(236)	(1 650)
Total aggregate income	523 676	629 774	121 847	150 721
Total aggregate income attributable to shareholders of the parent company	523 170	629 256	121 730	150 597
Total aggregate income attributable to non-controlling shares	506	518	118	124
Profit per share (in PLN/EUR) (basic and diluted)	0,30	0,36	0,07	0,09
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	(168 329)	701 043	(39 166)	167 778
Net cash flows from investing activities	(1 044 823)	(1 019 953)	(243 106)	(244 101)
Net cash flows from financing activities	1 020 235	(51 946)	237 385	(12 432)
Increase/(decrease) in net cash and equivalents	(192 917)	(370 856)	(44 887)	(88 756)
	As of 31.03.2019	As of 31.12.2018 (adjusted data)	As of 31.03.2019	As of 31.12.2018 (adjusted data)
Fixed assets	32 892 029	32 596 304	7 646 997	7 580 536
Current assets	5 391 392	4 501 173	1 253 433	1 046 784
Total assets	38 283 421	37 097 477	8 900 430	8 627 320
Share capital	8 762 747	8 762 747	2 037 232	2 037 848
Equity attributable to shareholders of the parent company	18 823 135	18 295 824	4 376 150	4 254 843
Equity attributable to non-controlling shares	385 947	132 657	89 728	30 850
Total equity	19 209 082	18 428 481	4 465 878	4 285 693
Long term liabilities	12 972 162	11 382 254	3 015 870	2 647 036
Short term liabilities	6 102 177	7 286 742	1 418 682	1 694 591

Total liabilities	19 074 339	18 668 996	4 434 552	4 341 627
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Selected financial data of TAURON Polska Energia S.A.

SELECTED FINANCIAL DATA	In PLN '000		in EUR '000	
	2019 period from 1.01.2019 to 31.03.2019	2018 period from 1.01.2018 to 31.03.2018	2019 period from 1.01.2019 to 31.03.2019	2018 period from 1.01.2018 to 31.03.2018
Sales revenue	2 516 047	1 924 505	585 427	460 584
Operating loss	(19 484)	(30 082)	(4 533)	(7 199)
Pre-tax loss	(180 379)	(40 803)	(41 970)	(9 765)
Net loss	(155 717)	(42 502)	(36 232)	(10 172)
Other total net income	(2 198)	(10 553)	(511)	(2 526)
Total aggregate income	(157 915)	(53 055)	(36 743)	(12 697)
Loss per share (in PLN/EUR) (basic and diluted)	(0,09)	(0,02)	(0,02)	(0,00)
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	(544 299)	(28 028)	(126 646)	(6 708)
Net cash flows from investing activities	(170 708)	1 066 706	(39 720)	255 291
Net cash flows from financing activities	760 291	(51 694)	176 902	(12 372)
Increase/(decrease) in net cash and equivalents	45 284	986 984	10 537	236 211

	As of 31.03.2019	As of 31.12.2018	As of 31.03.2019	As of 31.12.2018
Fixed assets	27 124 285	27 166 500	6 306 067	6 317 791
Current assets	2 689 189	2 346 490	625 204	545 695
Total assets	29 813 474	29 512 990	6 931 271	6 863 486
Share capital	8 762 747	8 762 747	2 037 232	2 037 848
Equity	15 101 921	15 259 836	3 511 013	3 548 799
Long term liabilities	9 627 735	8 533 790	2 238 331	1 984 602
Short term liabilities	5 083 818	5 719 364	1 181 926	1 330 085
Total liabilities	14 711 553	14 253 154	3 420 257	3 314 687

The above 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 March 29, 2019 - PLN/EUR 4.3013 (as of December 31, 2019 - PLN/EUR 4.3),
- individual items of the statement of comprehensive income and the statement of cash flows - 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, 2019 to March 31, 2019 - PLN/EUR 4.2978 (for the period from January 1, 2018 to March 31, 2018: PLN/EUR 4.1784).

3.2. Key operating data of TAURON Capital Group

In the first quarter of 2019 TAURON Capital Group posted the following key operating data:

Table no. 11. Key operating data of TAURON Capital Group

Item	Unit	Q1 2019	Q1 2018	change in % 2019/2018
Commercial coal production	Mg m	1.26	1.42	89%
Electricity generation (gross production)	TWh	3.82	3.94	97%
Generation of electricity from renewable sources	TWh	0.39	0.24	163%
<i>Production from biomass</i>	<i>TWh</i>	<i>0.09</i>	<i>0.02</i>	<i>450%</i>
<i>Production of hydroelectric power plants and wind farms</i>	<i>TWh</i>	<i>0.29</i>	<i>0.22</i>	<i>132%</i>
Heat generation	PJ	4.76	5.68	84%
Electricity distribution	TWh	13.54	13.42	101%
Electricity supply (by the Supply and Generation Segments)	TWh	12.02	11.96	101%
- retail supply	<i>TWh</i>	<i>8.93</i>	<i>9.28</i>	<i>96%</i>
- wholesale	<i>TWh</i>	<i>3.10</i>	<i>2.68</i>	<i>116%</i>
Number of customers - Distribution	'000	5 612	5 546	101%

3.3. Sales structure by the lines of business (segments of operations)

The below table presents TAURON Capital Group's sales volumes and structure broken down into individual lines of business (segments of operations) in the first quarter of 2019 as compared to the first quarter of 2018.

Table no. 12. TAURON Capital Group's sales volumes and structure broken down into individual lines of business (segments) in the first quarter of 2019 as compared to the first quarter of 2018

Item	Unit.	Q1 2019	Q1 2018	change in % 2019/ 2018
Mining Segment's hard coal sales	Mg m	1.20	1.43	84%
Generation Segment's electricity and heat sales	TWh	3.68	3.79	97%
	PJ	6.76	7.69	88%
Distribution Segment's distribution services sales	TWh	13.54	13.42	101%
Supply Segment's retail electricity supply	TWh	8.92	9.27	96%

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 2019 hard coal sales volume reached 1.2 million Mg, i.e. a 16% decline as compared to the same period of 2018 as a consequence of a lower production output and a lower opening inventory level. Coal sales to TAURON Group came in at 0.93 million Mg which meant that 78% of coal produced was sold to TAURON Capital Group's subsidiaries, while the balance of the sales was placed on the external market.

Commercial coal production in the reported period stood at 1.26 mln Mg, i.e. it was 11% lower than in the same period of last year as a result of the occurrence of difficult geological conditions at the Janina Coal Mine and a delay in the startup of one of coal faces at the Sobieski Coal Mine that prevented the achievement of the 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 by:

- 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 March 2019. Generation Segment is also conducting heat transmission and distribution operations.

In the first quarter of 2019 the Generation Segment produced 3.8 TWh of electricity, i.e. 3% less than last year (3.9 TWh), which was due to the lower sales of electricity from own production year on year and the adopted trading strategy.

Production from RES came in at 0.39 TWh, i.e. 63% more as compared to last year (0.24 TWh) which was due to favorable wind and hydrological conditions and the higher production of the biomass burning units.

Sales of electricity from own production plus electricity purchased for trading reached 3.7 TWh in the first quarter of 2019, i.e. a 3% decline in relation to the same period of 2018. Purchased electricity resale volume came in at 0.3 TWh, both in the first quarter of 2019, as well as in the first quarter of 2018).

Heat sales reached 6.8 PJ in the first quarter of 2019, i.e. 12% less as compared to the same period of last year which was due to the higher outside temperatures year on year and the lower consumer demand.

49% of the Generation Segment's subsidiaries' demand for coal to be used to generate electricity and heat was covered with hard coal coming from the Group's own coal mines in the first quarter of 2019. The balance of the demand was covered from the external sources.

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. Distribution Segment is operating large area distribution grids, located in the south of Poland.

In the first quarter of 2019 the Distribution Segment delivered, in total, 13.54 TWh of electricity, including 13.1 TWh to the final consumers. During this period the Distribution Segment provided distribution services to 5.61 million consumers. In the same period of last year the Distribution Segment delivered, in total, 13.42 TWh of electricity to 5.55 million consumers, including 12.9 TWh to the final consumers. The increase in the volume delivered to the final consumers year on year is due to the positive GDP growth rate and increased electricity consumption by the industrial consumers.

Supply Segment

Supply segment is conducting its operations on the domestic and foreign markets, comprising wholesale trading and retail supply of electricity and natural gas as well as other energy market products, property rights arising from the certificates of origin of electricity, CO₂ emission allowances and fuels. Supply segment is supplying electricity to business and mass customer segments, including to households. Additionally, the Supply Segment supplies electricity to TAURON Dystrybucja S.A. to cover grid losses related to electricity distribution.

In the first quarter of 2019 the Supply Segment subsidiaries supplied, in total, 8.9 TWh of retail electricity to 5.5 million customers, both households, as well as businesses, i.e. 4% less than in the same period of last year.

3.4. TAURON Capital Group's financial position after Q1 2018

3.4.1. Analysis of the financial position

The below table presents an analysis of TAURON Capital Group's financial position in Q1 2019 as compared to the end of 2018.

Table no. 13. Structure of the interim abbreviated consolidated statement of the financial position

Consolidated statement of the financial position	As of March 31, 2019 (unaudited data)	As of December 31, 2018 (adjusted data)	change in % (2019/2018)
ASSETS			
Fixed assets	85.9%	87.9%	98%
Current assets	14.1%	12.1%	116%
TOTAL ASSETS	100.0%	100.0%	
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company	49.2%	49.3%	100%
Non-controlling shares	1.0%	0.4%	282%
Total equity	50.2%	49.7%	101%
Long term liabilities	33.9%	30.7%	110%
Short term liabilities	15.9%	19.6%	81%
Total liabilities	49.8%	50.3%	99%
TOTAL EQUITY AND LIABILITIES	100.0%	100.0%	
Financial liabilities	10 177 421	9 421 718	108%
Net financial liabilities	9 253 091	8 571 889	108%
Net debt/EBITDA ratio	2.74	2.54	up by 0.20x
Current liquidity ratio	0.88	0.62	up by 0.26

In the structure of assets, as of March 31, 2019, fixed assets represent 85.9% of total assets, i.e. a 2% decline as compared to their share as of the end of 2018.

The share of current assets, as of March 31, 2019, as compared to their share as of the end of 2018, rose 16%, due to an increase of the balance of certificates of origin of electricity and greenhouse gases emission allowances to be retired (fulfilment of the obligation for 2018).

In the structure of equity and liabilities as of March 31, 2019 liabilities represent 49.8% of total equity and liabilities, with long-term liabilities representing 34.3% and short-term liabilities 15.9% of the balance sheet total, which means a change of the debt structure versus the end of 2018 when such shares were, respectively: 30.7% and 19.6%.

Net financial liabilities rose 8% and the net debt to EBITDA ratio increased to 2.74x (the ratio expressed in relation to EBITDA for the last twelve months) in the first quarter of 2019 as compared to 2018.

TAURON Capital Group's financial liquidity position is stable and TAURON Capital Group has guaranteed financing up to PLN 4 640 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 3 months ended on March 31, 2019, as well as the comparable data for the period of 3 months ended on March 31, 2018. These items are provided in accordance with the interim abbreviated consolidated financial statements of TAURON Capital Group, drawn up in compliance with the International Financial Reporting Standards, for the period of 3 months ended on March 31, 2019.

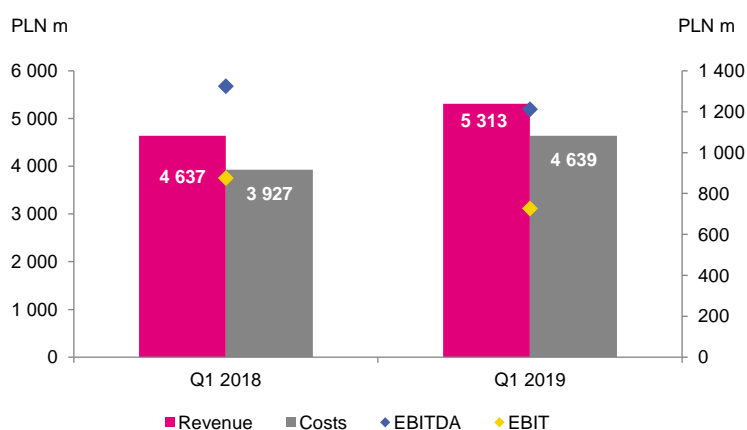
Table no. 14. Interim abbreviated consolidated statement of comprehensive income

Item (PLN '000)	Q1 2019 (unaudited)	Q1 2018. (adjusted data)	change in % (2019/2018)
Sales revenue	5 312 809	4 636 886	115%
Cost of goods sold	(4 639 289)	(3 926 677)	118%
Other operating revenues and costs	11 624	140 035	8%
Share in joint ventures' profits (losses)	42 823	25 242	170%
Operating profit (loss)	727 967	875 486	83%
<i>Operating profit margin (%)</i>	13.7%	18.9%	73%
Cost of interest on debt	(54 882)	(38 403)	143%
Other financial revenue and costs	(18 873)	(45 985)	41%
Gross profit (loss)	654 212	791 098	83%
<i>Gross profit margin (%)</i>	12.3%	17.1%	72%
Income tax	(129 520)	(154 429)	84%
Net profit (loss) for the period	524 692	636 669	82%
<i>Net profit margin (%)</i>	9.9%	13.7%	72%
Total income for the period	523 676	629 774	83%
Profit attributable to:			
Shareholders of the parent entity	524 194	636 153	82%
Non-controlling shares	498	516	97%
EBIT and EBITDA			
EBIT	727 967	875 486	83%
EBITDA	1 212 197	1 325 656	91%

The financial results generated by TAURON Capital Group in the first quarter of 2019 are in line with the Group's estimated earnings for the first quarter of 2019 disclosed in the regulatory filing (current report) no. 15/2019 of April 30 this year.

The below figure presents TAURON Capital Group's Q1 2019 financial results as compared to the same period of 2018.

Figure no. 10. TAURON Capital Group's Q1 2018 and Q1 2019 financial results



In the first quarter of 2019 TAURON Capital Group generated 15% higher revenue than reported in the first quarter of 2018. The main factors impacting the level of revenue generated:

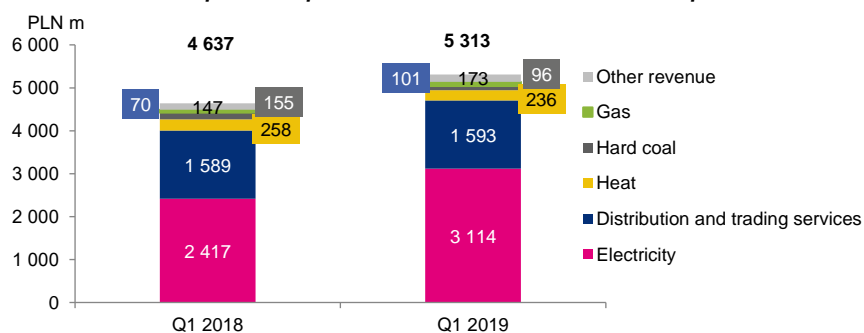
1. higher electricity sales revenue which is a consequence of an increase of electricity sales prices and the higher electricity sales volume on the wholesale market, while the electricity supply volume to the retail customers was lower. An increase of the electricity sales volume is, among others, the result of the legislator raising the obligation to sell electricity on the power exchange from 30% in force in the first quarter of 2018 to 100% in force as of January 1. 2019. Furthermore, due to the situation on the electricity market, the first quarter of 2019 saw a 35% rise of the electricity sales price on the wholesale market and

a 19% increase of the electricity sales price on the retail market, which is related to the coming into force, as of January 1, 2019, of the act "freezing the electricity prices",

2. higher gas sales revenue due to the 17% higher gas sales price year on year,
3. higher distribution services sales revenue as a consequence of an increase of the distribution services sales volume,
4. lower hard coal sales revenue as a result of the 31% lower sales volume,
5. lower heat sales revenue as a result of the lower heat and transmission services sales volumes as a consequence of the average outdoor temperature being higher by 2.4°C.

The below figure presents TAURON Capital Group's Q1 2019 revenue structure as compared to Q1 2018.

Figure no. 11. TAURON Capital Group's Q1 2019 revenue structure as compared to Q1 2018



In the first quarter of 2019 the costs of TAURON Capital Group's operations (operating expenses) came in at PLN 4.6 billion, i.e. they were 18% higher than the costs incurred in the first quarter of 2018, which was impacted by the following factors:

1. higher depreciation costs as a result of the higher depreciation of TAURON Ekoenergia's assets which is related to the reversal, as of June 30, 2018, and as of December 31, 2018, of the impairment charges related to the fixed assets' carrying value as a result of the completed impairment tests and the higher depreciation of TAURON Dystrybucja's assets which is related to the commissioning of the investment projects carried out by the Company,
2. higher costs of materials and electricity consumption, mainly as a result of the higher costs of fuels used in the production and the consumption of the larger quantity of hard coal purchased outside TAURON Group, which is a consequence of the lower production output of TAURON Group's own coal mines,
3. higher labor costs which is primarily a result of dissolving, in the first quarter of 2018, of the provision related to employee benefits (entitlements) (cash equivalent for the subsidized consumption of electricity (employee tariff), service anniversary awards and the Company's Social Benefits (Entitlements) Fund (Zakładowy Fundusz Świadczeń Socjalnych)) at TAURON Wytwarzanie – a one-off event,
4. higher costs of the greenhouse gases emission allowances which is a result of an increase of the price of the allowances,
5. higher costs of goods and materials sold, primarily as a result of the prices of the electricity purchased being higher by 38%.

The EBITDA and EBIT margins generated in the first quarter of 2019 came in at, respectively, 22.8% and 13.7% and they were lower than the margins posted in the same period of last year by, respectively, 5.8 pp and 5.2 pp.

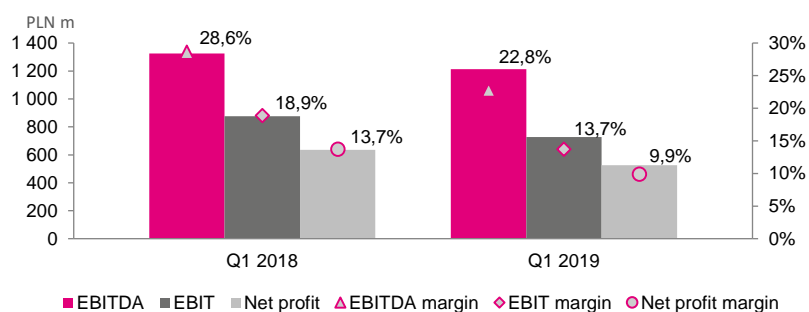
The net profit margin realized in the first quarter of 2019 stood at 9.9% and it was lower by 3.9 pp, which was due to the lower financial revenue and the higher costs of interest on debt than in the first quarter of 2018.

In accordance with the consolidated statement of comprehensive income presented, the total comprehensive income of TAURON Capital Group, taking into account the net profit increased or decreased by the change in the value of the hedging instruments, the FX differences arising from the conversion of a foreign unit and the other revenues, after tax, reached PLN 524 million in the first quarter of 2019, as compared to PLN 630 million generated in the same period of 2018.

The total income attributable to the shareholders of the parent company came in at PLN 523 million, as compared to PLN 629 million posted a year ago, while the net profit attributable to the shareholders of the parent company stood at PLN 524 million, as compared to PLN 636 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 quarter of 2019, as compared to the first quarter of 2018.

Figure no. 12. TAURON Capital Group's financial results and the margins generated



3.4.2. Financial results by the lines of business (segments of operations)

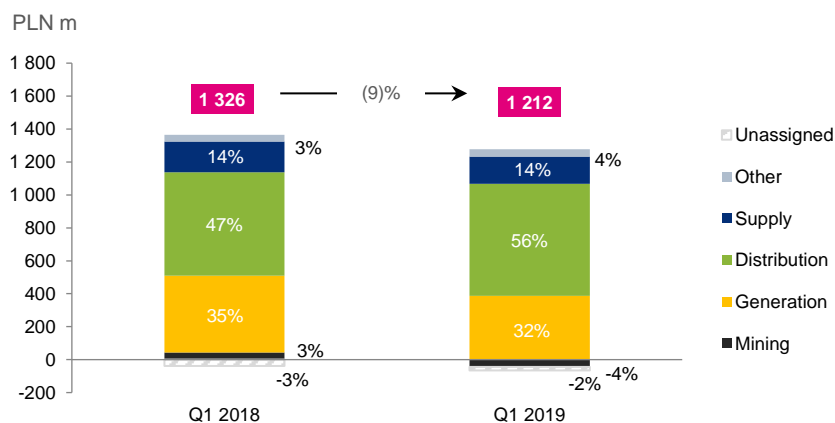
The below table presents TAURON Capital Group's EBITDA by the individual lines of business (segments of operations) in the first quarter of 2019, as compared to the same period of 2018. The data for the individual segments do not include consolidation related exclusions

Table no. 15. TAURON Capital Group's EBITDA by the individual lines of business in the first quarter of 2019, as compared to the same period of 2018

EBITDA (PLN '000)	Q1 2019	Q1 2018	change in % 2019 / 2018
Mining	(44 286)	43 751	-
Generation	386 667	465 312	83%
Distribution	681 195	627 853	108%
Supply	164 931	188 048	88%
Other	44 444	39 703	112%
Unassigned items and exclusions	(20 754)	(39 011)	-
Total EBITDA	1 212 197	1 325 656	91%

The below figure presents TAURON Capital Group's Q1 2018 and Q1 2019 EBITDA structure.

Figure no. 13. TAURON Capital Group's Q1 2018 and Q1 2019 EBITDA structure



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

3.4.2.1. Mining Segment

The below table presents the Mining Segment's results.

Table no. 16. Mining segment's results

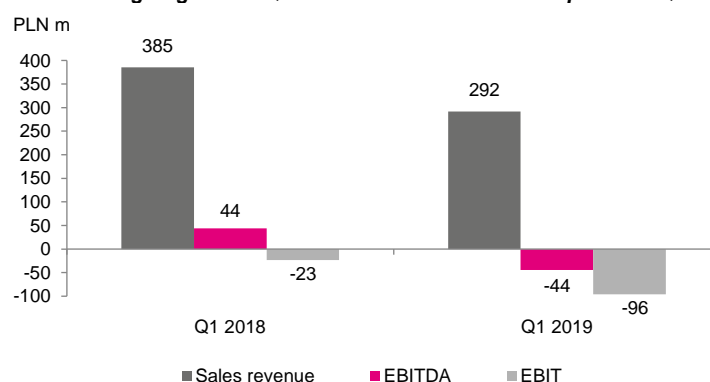
Item (PLN '000)	Q1 2019	Q1 2018	change in % 2019/2018
Mining			
Sales revenue	291 866	385 243	76%
<i>hard coal – large and medium size lump coal</i>	<i>60 750</i>	<i>104 167</i>	<i>58%</i>
<i>thermal coal</i>	<i>219 087</i>	<i>259 743</i>	<i>84%</i>
<i>other products, materials and services</i>	<i>12 029</i>	<i>21 333</i>	<i>56%</i>
EBIT	(95 919)	(23 376)	-
Depreciation and write-offs	51 633	67 127	77%
EBITDA	(44 286)	43 751	-

The Mining Segment's EBITDA and EBIT were lower in the first quarter of 2019 than in the same period of 2018. The results posted were impacted by the following factors:

- 1) lower commercial coal volume sales by 16% in each product group. The biggest drop was posted in the large and medium size lump coal product groups, by 40% on average, and in the coal dust product group by 12%,
- 2) increase of the variable unit costs of the hard coal sold, mainly due to the higher electricity prices, the higher waste utilization costs – the higher cost of handling and the larger quantity of waste to be utilized.

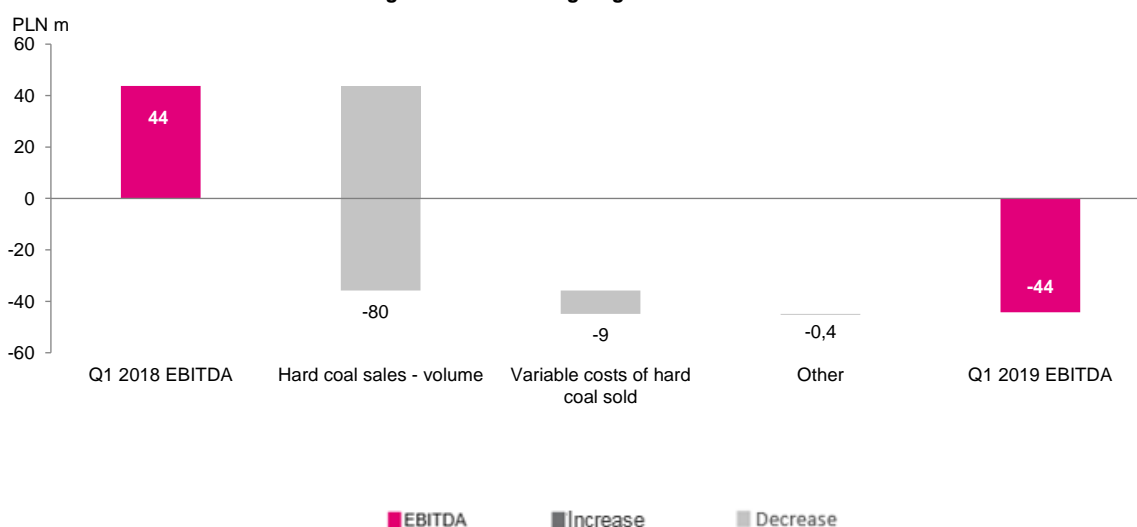
The below figure presents the Mining Segment's Q1 2019 financial data as compared to Q1 2018.

Figure no. 14. Mining Segment's Q1 2019 financial data as compared to Q1 2018



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

Figure no. 15. Mining Segment's EBITDA



3.4.2.2. Generation Segment

The below table presents the Generation Segment's results.

Table no. 17. Generation Segment's results

Item (PLN '000)	Q1 2019	Q1 2018	change in % 2019/2018
Generation			
Sales revenue	1 388 948	1 172 183	118%
<i>electricity</i>	<i>1 013 034</i>	<i>789 480</i>	<i>128%</i>
<i>heat (incl. heat transmission)</i>	<i>307 398</i>	<i>335 625</i>	<i>92%</i>
<i>property rights related to certificates of origin of electricity</i>	<i>56 910</i>	<i>32 205</i>	<i>177%</i>
<i>other</i>	<i>11 606</i>	<i>14 873</i>	<i>78%</i>
EBIT	280 328	371 666	75%
Depreciation and write-offs	106 339	93 646	114%
EBITDA	386 667	465 312	83%

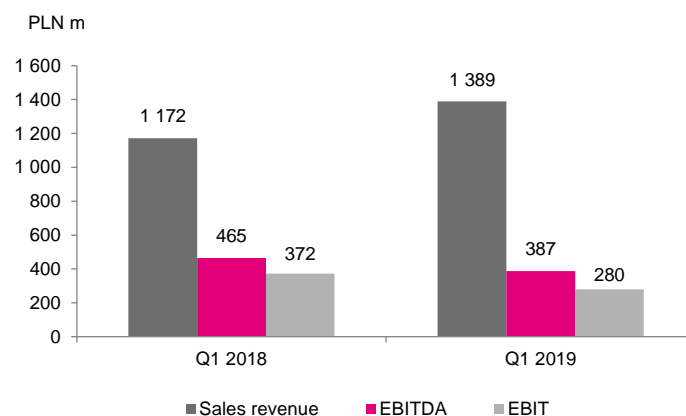
In the first quarter of 2019 the Generation Segment's sales revenue was 18% higher as compared to the same period of last year, mainly due to the higher revenue from the sales of electricity (higher electricity sales price) and property rights (higher PM OZE volume and sales price).

The Generation segment's EBITDA and EBIT in the first quarter of 2019 were lower than in the same period of last year. The results posted were affected by the following factors:

- 1) higher margin on electricity (conventional power generation) – primarily due to the higher Clean Dark Spread (CDS) year on year. The increase of the CDS was materially impacted by including, 883 thousand Certified Emission Reduction (CER) units in the cost of the provision set up in connection with the obligation to present the CO₂ emission allowances to be retired,
- 2) higher margin on electricity (RES) – due to the higher production volume by the wind farms and hydroelectric power plants as well as the higher electricity and PM OZE sales prices,
- 3) lower margin on heat – the lower heat and transmission services sales volume (a consequence of the higher outdoor temperature (Q1 2018 : 0.0°C, Q1 2019 : +2.4°C) and an increase of the costs of fuels and the CO₂ emission allowances not fully passed on in the heat tariffs,
- 4) dissolving of the provision related to employee benefits (entitlements) (cash equivalent for the subsidized consumption of electricity (employee tariff), service anniversary awards and the Company's Social Benefits (Entitlements) Fund (Zakładowy Fundusz Świadczeń Socjalnych)) at TAURON Wytwarzanie – a one-off event, that had a positive impact on the Q1 2018 result (PLN +230 million),
- 5) other (primarily the higher result of TAMEH year on year, dissolving of the provisions related to the reclamation of the combustion waste landfill and the lower costs of rent, lease and the perpetual usufruct of land in connection with the implementation of IFRS 16).

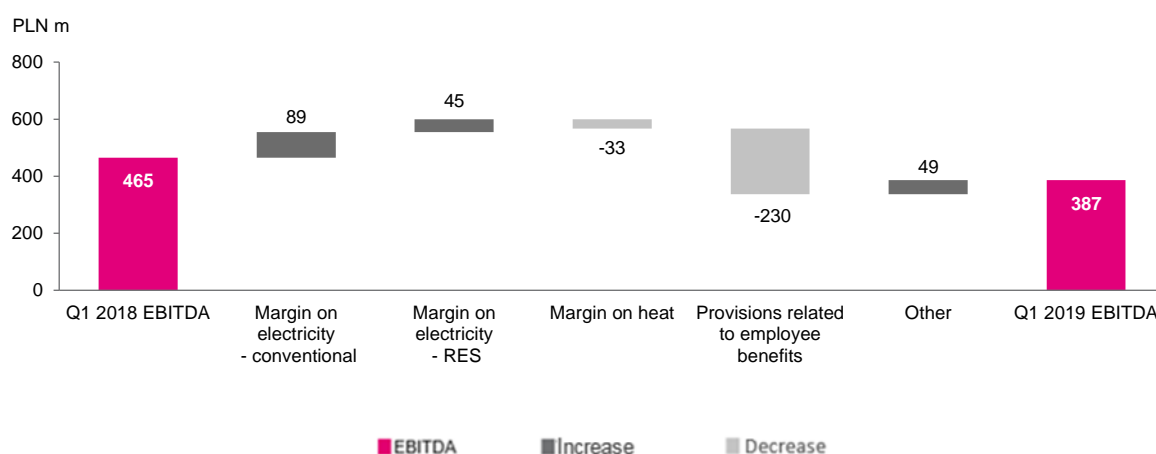
The below figure presents the Generation segment's Q1 2019 financial data as compared to Q1 2018.

Figure no. 16. Generation segment's Q1 2019 financial data as compared to Q1 2018



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

Figure no. 17. Generation segment's EBITDA, including the material factors impacting the change year on year



3.4.2.3. Distribution Segment

The below table presents the Distribution Segment's results.

Table no. 18. Distribution Segment's results

Item (PLN '000)	Q1 2019	Q1 2018	change in % 2019 / 2018
Distribution			
Sales revenue	1 681 221	1 570 867	107%
<i>distribution services</i>	<i>1 636 002</i>	<i>1 527 060</i>	<i>107%</i>
<i>connection fees</i>	<i>18 835</i>	<i>15 376</i>	<i>122%</i>
<i>other services</i>	<i>26 384</i>	<i>28 431</i>	<i>93%</i>
EBIT	387 062	368 650	105%
Depreciation and write-offs	294 133	259 203	113%
EBITDA	681 195	627 853	108%

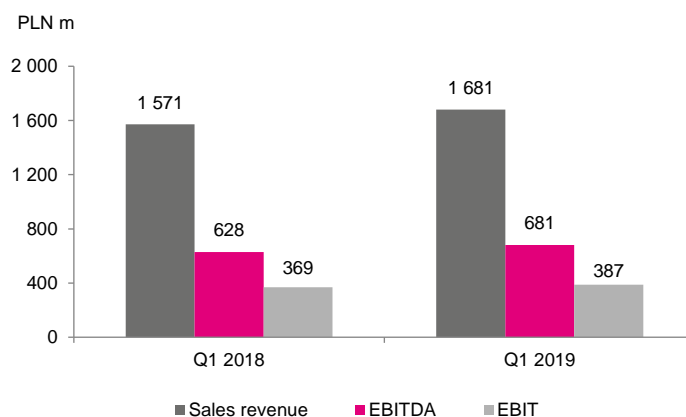
In the first quarter of 2019 the Distribution Segment reported a 7% sales revenue increase as compared to the same period of 2018, while EBIT and EBITDA rose 5% and 8%, respectively. The results posted were affected by the following factors:

- 1) increase of electricity delivery to the final consumers by 174 GWh, first of all in the A and B tariff groups as a result of the GDP growth which had a direct impact on the increased consumption of electricity by the industrial consumers,
- 2) increase of the average rate for the distribution service sales to the final consumers,

- 3) higher costs of purchasing the transmission services,
- 4) increase of the revenue from connection fees and the revenue due for fixing power line collisions with a decline of the revenue for exceeding capacity (capacity overruns),
- 5) decrease of the costs of purchasing electricity to cover the balancing difference as a result of the lower volume, higher purchase price and the positive deviation due to the upward adjustment,
- 6) increase of the costs of taxes on grid assets stemming from the growth of the assets' value as a result of the investment projects underway,
- 7) decline of the other fixed costs, including the lower costs of the perpetual usufruct of land as well as rent and lease of the grid facilities in connection with the implementation of IFRS 16.

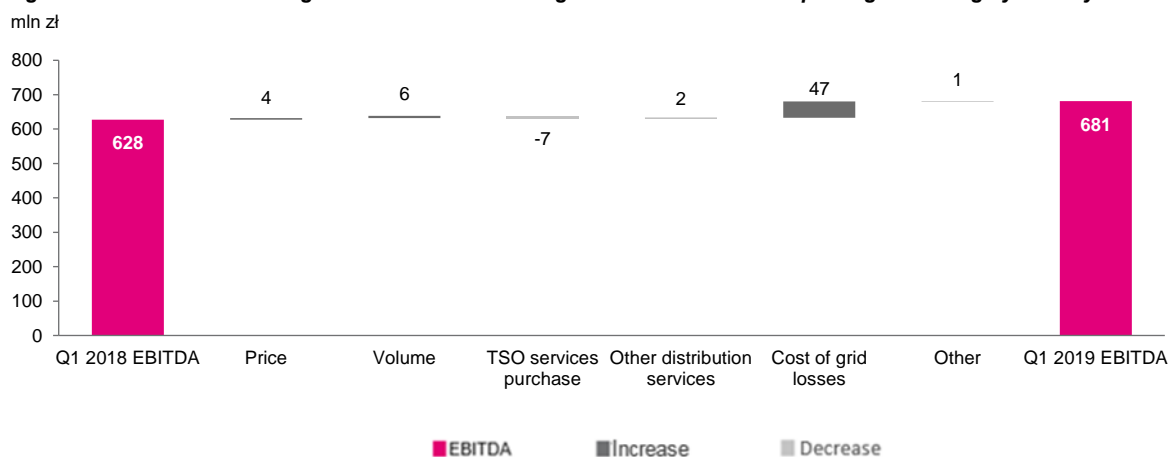
The below figure presents the Distribution segment's Q1 2019 financial data as compared to Q1 2018.

Figure no. 18. Distribution segment's Q1 2019 financial data as compared to Q1 2018



The below figure presents the Distribution segment's EBITDA including the material factors impacting the change year on year.

Figure no. 19. Distribution segment's EBITDA including the material factors impacting the change year on year



3.4.2.4. Supply Segment

The below table presents the Supply Segment's results.

Table no. 19. Supply Segment's results

Item (PLN '000)	Q1 2019	Q1 2018	change in % 2019/2018
Supply			
Sales revenue	3 911 422	3 384 324	116%
<i>electricity, including:</i>	<i>2 683 016</i>	<i>2 274 971</i>	<i>118%</i>
<i>retail electricity supply revenue</i>	<i>2 397 857</i>	<i>2 057 187</i>	<i>117%</i>

Item (PLN '000)	Q1 2019	Q1 2018	change in % 2019/2018
Greenhouse gases emission allowances	6 996	107	6 538%
Fuels	378 289	277 238	136%
distribution service (transferred)	805 176	785 222	103%
other services, incl. trading services	37 946	46 786	81%
EBIT	155 224	178 697	87%
Depreciation and write-offs	9 707	9 351	104%
EBITDA	164 931	188 048	88%

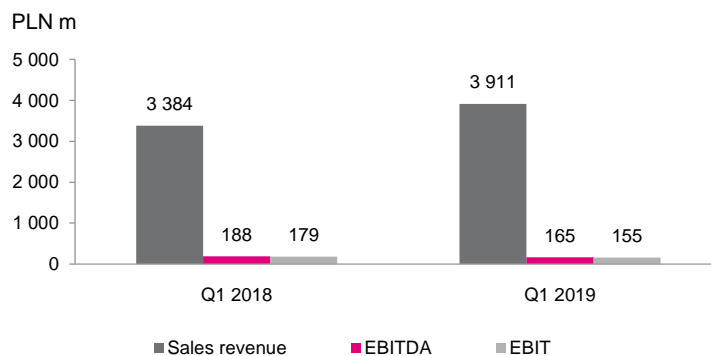
In the first quarter of 2019 the Supply Segment's sales revenue was 16% higher as compared to the same period of last year, mainly due to the higher revenue from the sales of electricity (higher electricity sales price) and the gas fuel (higher gas fuel sales price).

Supply Segment's EBITDA and EBIT were lower in the first quarter of 2019 than in the same period of 2018. 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 and the introduction of the act on “freezing sales prices”. This situation has a direct impact on the margin decline, mainly in the mass customers segment, with the total electricity supply volume falling at the same time by 0.7 TWh year on year (from 10.7 TWh to 10.0 TWh, including the retail electricity supply volume – a decline by 0.3 TWh and the electricity wholesale volume – a drop by 0.4 TWh),
- 2) property rights prices – a negative impact on the result due to an increase of the prices of the “green” certificates (PMOZE),
- 3) obligation to redeem (retire) property rights – a positive impact on the result is a consequence of a lack of the cogeneration obligations in 2019 (the redemption (retirement) obligation level in force in 2018 was: for P MEC 23.2%, for PMGM 8%, for PMMET 2.3%), with the obligation for the “green” certificates (PMOZE) rising, at the same time, from 17.5% to 18.5% and the obligation for PMOZE-BIO being maintained at 0.50%,
- 4) other market (commercial) products – the recognized (included) result on the other market (commercial) products sales includes, among others, the result on the sales of the CO₂ emission allowances and the provision of the street lighting service,
- 5) result of the TAURON Dystrybucja Serwis subsidiary that, as of 01.01.2019, was transferred from the Distribution Segment to the Supply Segment as a consequence of the change of the profile of its operations to the strictly supply related operations,
- 6) other – the recognized (included) result on the other business operations and the lower costs of sales.

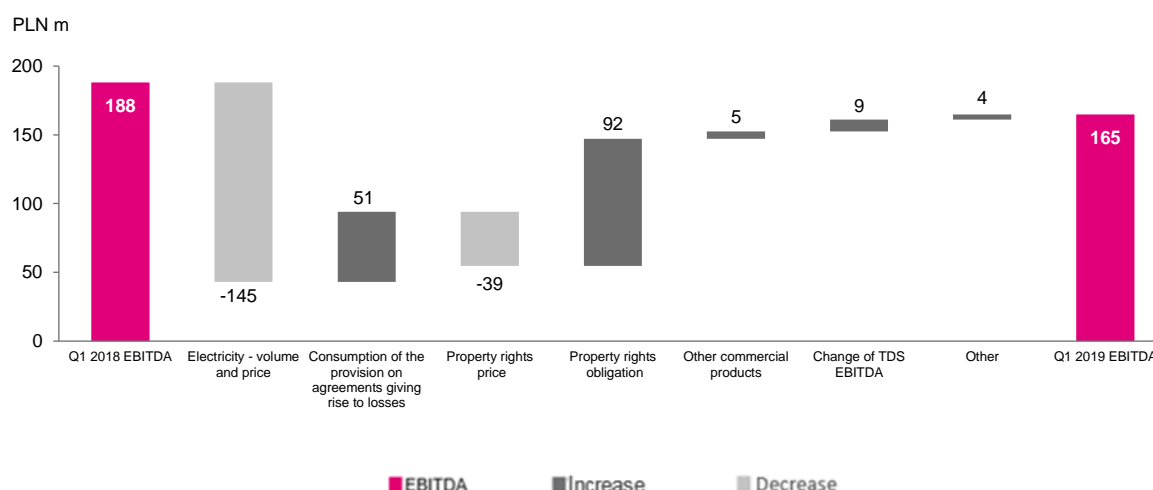
The below figure presents the Supply segment's Q1 2019 financial data as compared to Q1 2018.

Figure no. 20. Supply segment's Q1 2019 financial data as compared to Q1 2018



The below figure presents the Supply Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 21. Supply Segment's EBITDA, including the material factors impacting the change year on year



3.4.2.5. Other operations

The below table presents the results of the subsidiaries assigned to the Other operations.

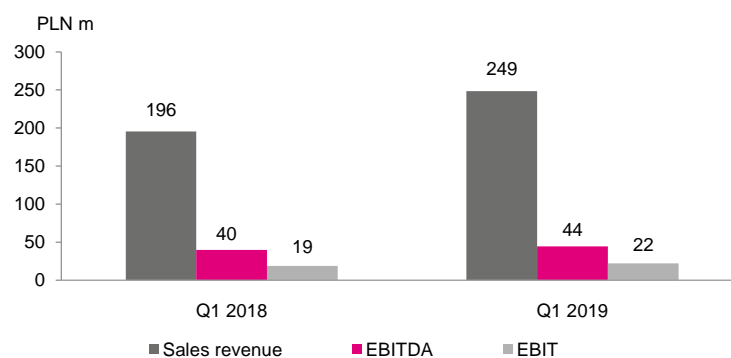
Table no. 20. Other operations subsidiaries' results

Item (PLN '000)	Q1 2019	Q1 2018	change in % 2019/2018
Other Operations			
Sales revenue	248 516	195 553	127%
customer service services	52 298	49 713	105%
support services	111 236	106 222	105%
Aggregates	25 303	23 099	110%
Biomass	38 466	5 953	646%
other revenue	21 213	10 567	201%
EBIT	22 026	18 860	117%
Depreciation and write-offs	22 418	20 843	108%
EBITDA	44 444	39 703	112%

The Other Operations Segment subsidiaries' sales revenue in the first quarter of 2019 was higher than in the same period of last year (by 27%), which was primarily due to an increase of the revenue from the biomass sales and also the higher sales of the support services provided by the Shared Services Center for TAURON Group's subsidiaries.

The below figure presents the Other Operations Segment's Q1 2019 financial data as compared to Q1 2018.

Figure no. 22. Other Operations Segment's Q1 2019 financial data as compared to Q1 2018



3.4.3. Assets

The below table presents the consolidated statement of financial position as of March 31, 2019, as compared to December 31, 2018.

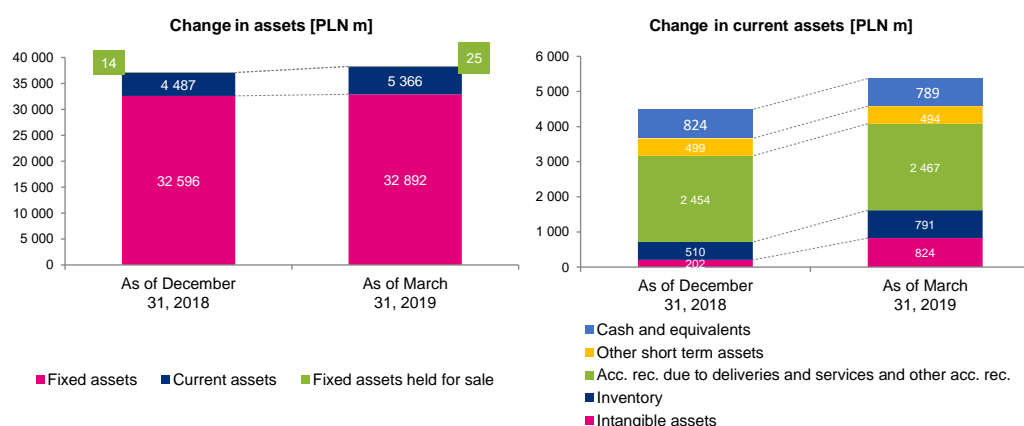
Table no. 21. Interim abbreviated consolidated statement of financial position – assets (material items)

Statement of financial position (PLN '000)	As of March 31, 2019 (unaudited data)	As of December 31, 2018 (adjusted data)	change in % (2019/2018)
ASSETS			
Fixed assets	32 892 029	32 596 304	101%
Tangible fixed assets	29 676 465	29 406 667	101%
Current assets	5 391 392	4 501 173	120%
Cash and equivalents	789 352	823 724	96%
Fixed assets and the group's assets for disposal, classified as held for trade	25 259	13 712	184%
TOTAL ASSETS	38 283 421	37 097 477	103%

As of March 31, 2019, TAURON Capital Group's statement of financial position shows the balance sheet total that is 3% higher as compared to the balance sheet total as of December 31, 2018.

The below figure presents the change in assets and current assets as of March 31, 2019, as compared to December 31, 2018.

Figure no. 23. Change in assets and current assets



Fixed assets are the biggest item of the assets as of the end of March 2019, representing 86% of the balance sheet total. As compared to the end of last year the value of fixed assets is higher by PLN 296 million (1%) as a consequence of changes in the below analytical fixed asset items:

- 1) tangible fixed assets – an increase by 1% is a result of the investment projects implemented by TAURON Capital Group's subsidiaries,
- 2) recognizing in the assets of the right to use the assets in connection with the coming into force, as of January 1, 2019, of IFRS 16 *Leasing*. In accordance with the option provided for in the standard the Group resigned from converting the comparable data,
- 3) certificates of origin of electricity and gas emission allowances to be redeemed (retired) – a decline by 90% due to the reclassifying of the certificates of origin of electricity and the CO₂ emission allowances as current assets in order to fulfill the obligation related to the redemption (retirement) of the above mentioned assets,
- 4) loans granted to the joint ventures – an increase by 4% due to the granting of the loan to the EC Stalowa Wola subsidiary and the valuation of the loans already granted as of the balance sheet date,
- 5) value of stocks and shares in the joint ventures – an increase by 8% due to the recognizing (including) of the share in the profit of the TAMEH HOLDING company,
- 6) other long-term non-financial assets - a decline by 12% due to the to the drop in the level of the valuation of the derivative instruments and in the value of the initial margins related to the futures contracts.

The following factors had an impact on the rise in the value of current assets by PLN 890 million (20%):

- 1) balance of cash on hand and equivalents – a decline by 4%. The reasons for the change are described in section 3.4.4 of this report related to the cash flow statement,
- 2) certificates of origin of electricity and CO₂ emission allowances to be redeemed (retired) – a surge by 308% which is the result of the settlement of the obligation due to the CO₂ emission for 2018 and the production and purchasing of the property rights in order to fulfill this year's redemption (retirement) obligation. Furthermore, in the first quarter of 2019 the Company reclassified as current assets that part of the property rights and the CO₂ emission allowances that will be settled (retired) as part of fulfilling the obligation to redeem (retire) the above mentioned assets for the current financial year,
- 3) inventory – an increase by 55% mainly as a result of the higher inventory levels of hard coal at the Generation and Mining Segments' subsidiaries and the CO₂ emission allowances purchased in order to settle their sales transactions,
- 4) other financial assets – a decline by 19% as a result of a decline in the level of the valuation of the derivative instruments and the initial margins related to the futures contracts,
- 5) other non-financial assets – an increase by 145%, mainly as a result of the periodic setting up of contributions towards the Company's Social Benefits Fund (Zakładowy Fundusz Świadczeń Socjalnych).

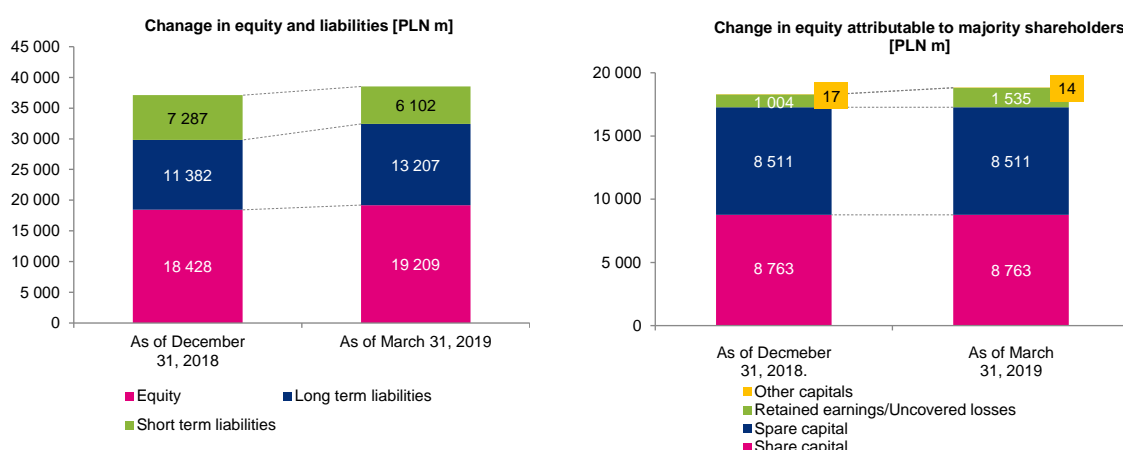
The below table presents the consolidated statement of financial position – equity and liabilities.

Table no. 22. Interim abbreviated consolidated statement of financial position – equity and liabilities (material items)

Statement of financial position (PLN '000)	As of March 31, 2019 (unaudited data)	As of December 31, 2018 r. (adjusted data)	change in % (2019/2018)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent entity	18 823 135	18 295 824	103%
Non-controlling shares	385 947	132 657	291%
Total equity	19 209 082	18 428 481	104%
Long term liabilities	12 972 162	11 382 254	114%
Liabilities due to debt	10 169 436	8 488 210	120%
Short-term liabilities	6 102 177	7 286 742	84%
Liabilities due to debt	2 458 675	2 475 167	99%
Total liabilities	19 074 339	18 668 996	102%
TOTAL EQUITY AND LIABILITIES	38 283 421	37 097 477	103%

The below figure presents a change in the liabilities and equity as of March 31, 2019 and December 31, 2018.

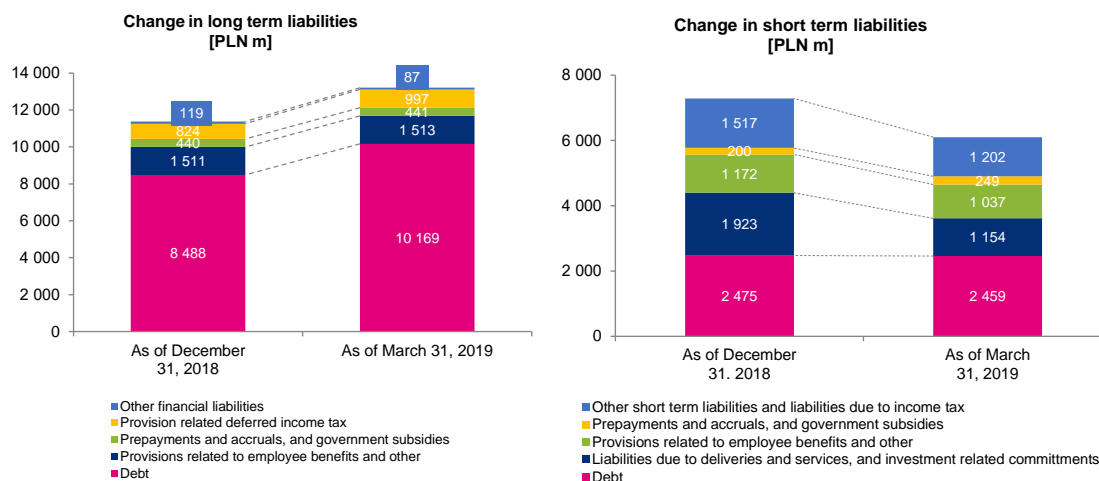
Figure no. 24. Change in the liabilities and equity as of March 31, 2019 and December 31, 2018



Similar as in previous years the equity is still a material source of financing the assets and its share in the balance sheet total rose to 50.2%.

The below figure presents the change in liabilities as of March 31, 2019 and December 31, 2018.

Figure no. 25. change in liabilities as of March 31, 2019 and December 31, 2018



The level of TAURON Capital Group's long term liabilities rose by PLN 1 590 million (14%) in the first quarter of 2019, which was a consequence of the following factors:

- 1) liabilities due to debt – an increase by 20% as a result of taking out a PLN 730 million loan in the first quarter of 2019, bond issue worth PLN 400 million and the application, as of January 1, 2019, of IFRS 16 *Leasing* – the PLN 591 million impact. In accordance with the option allowed by the standard the Group resigned from converting the comparable data,
- 2) liabilities due to deferred tax – a decline by 8%,
- 3) provisions – maintaining the level as of the end of 2018.

The value of TAURON Capital Group's short-term liabilities went down by PLN 1 185 million (16%), which was the result of the following factors:

- 1) liabilities due to debt – a drop by 1%,
- 2) investment related commitments – a drop by 57% and accounts payable towards suppliers – a drop by 28%,
- 3) provisions – a decline by 11% which is the result of using up (consuming) the provision, set up in 2018, related to the obligation due to the emissions of gases in connection with the fulfillment by the companies of the statutory obligation and setting up the provision related to the obligations due to the emissions of gases for the current period and the provision related to the obligation to present for redemption (retirement) the certificates of origin for the first quarter of 2019,
- 4) liabilities due to taxes and fees – a decrease by 9% which is the result of the lower liabilities due to the excise tax, liabilities due to social security premiums and the higher liability due to VAT,
- 5) other financial liabilities – a decline by 44% as a decrease of the level of the valuation of the derivative instruments and the value of the variation margins related to the futures contracts.

3.4.4. Cash flows

Consolidated cash flow statement

The below table presents the selected information from the interim abbreviated cash flow statement for the first quarter of 2019 as compared to the same period of 2018.

Table no. 23. Interim abbreviated cash flow statement (material items)

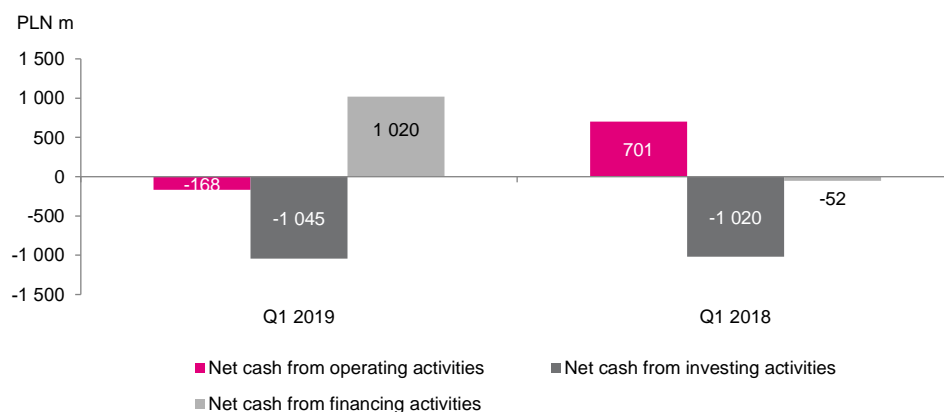
Cash flow statement (PLN '000)	Q1 2019 (unaudited data)	Q1 2018 (adjusted data)	change in % (2019 / 2018)
Cash flows from operating activities			
Gross profit / (loss)	654 212	791 098	83%
Adjustments	(822 541)	(90 055)	913%
Net cash from operating activities	(168 329)	701 043	-
Cash flows from investing activities			

Cash flow statement (PLN '000)	Q1 2019 (unaudited data)	Q1 2018 (adjusted data)	change in % (2019 / 2018)
Sales of tangible fixed assets and intangible assets	5 503	3 584	154%
Purchases of tangible fixed assets and intangible assets	(1 036 440)	(983 453)	105%
Granting of loans	(6 375)	(31 800)	20%
Net cash from investing activities	(1 044 823)	(1 019 953)	102%
Cash flows from financing activities			
Issuance of debt securities	500 000	0	-
Redemption of debt securities	(400 000)	0	-
Proceeds from credits/loans taken out	730 000	0	-
Repayment of loans/credits	(37 054)	(36 251)	102%
Interest paid	(17 574)	(10 030)	175%
Net cash from financing activities	1 020 235	(51 946)	-
Increase / (decrease) in net cash and equivalents	(192 917)	(370 856)	52%
Cash opening balance	807 972	801 353	101%
Cash closing balance	615 055	430 497	143%

The total amount of all net flows of cash from operating, investing and financing activities in the first quarter of 2019 reached PLN 615 million.

The below figure presents cash flows in the first quarter of 2019 and 2018.

Figure no. 26. Cash flows in the first quarter of 2019 and 2018



In spite of TAURON Capital Group posting EBITDA of PLN 1 212 million in the first quarter of 2019 the level of cash flows from operating activities was negative, which was result of the following factors:

- 1) decline of the liabilities due to the futures contracts margins by PLN168 million as a result of the valuation of the derivative instruments as of the balance sheet day, in connection with the decline of the CO₂ emission allowances market prices,
- 2) purchase of the CO₂ emission allowances for PLN 227 million, purchased in order to settle the concluded sale transactions thereof, which will be carried out in the subsequent months,
- 3) payment of the substitution fee by TAURON Group in the amount of PLN 188 million in connection with the fulfillment of the obligation to present the certificates of origin of electricity for redemption (retirement) for 2018, which was a consequence of a reduction in the supply thereof on the market, except for the "green" and "white" certificates,
- 4) paid income tax in the amount of PLN 186 million stems from the payment by the Tax Capital Group of the advance payments on account of the income tax for the first two months of 2019 in the amount of PLN 141 million and the payment by the Tax Capital Group of the advance payments on account of the income tax for the fourth quarter of 2018 in the amount of PLN 43 million,

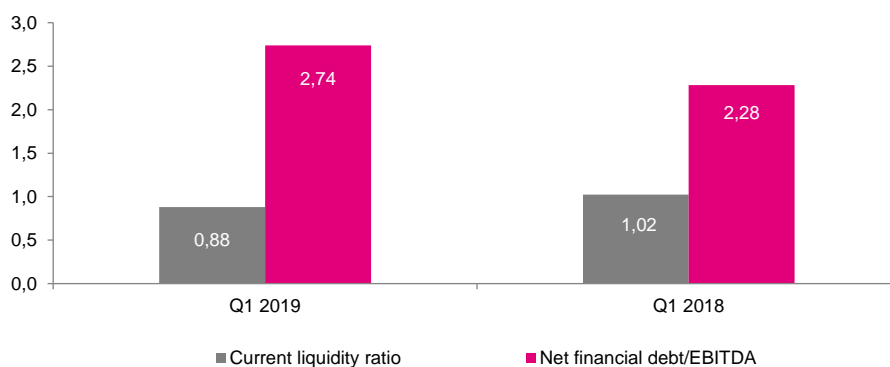
Expenditures for the purchase of tangible fixed assets have the biggest impact on the cash flows from investing activities and they were higher by 5% in the reporting period than the outlays incurred in the same period of 2018. In the first quarter of 2019 the highest expenditures were incurred by the Distribution and Generation Segments.

The positive value of cash flows from financing activities is primarily due to the issue of the debt securities worth PLN 500 million, taking out a loan in the amount of PLN 730 million and contributions made by the non-controlling shareholders in the amount of PLN 257 million. In the first quarter of 2019 TAURON Capital Group repaid loan installments in the total amount of PLN 37 million and redeemed the debt securities for the amount of PLN 400 million. The total amount of the interest paid, mainly on the financial liabilities, reached PLN 18 million.

TAURON Capital Group is maintaining its market position. The current liquidity ratio and the net debt to EBITDA ratio continue to stand at a safe level.

The below figure presents the liquidity ratio and the leverage (net debt to EBITDA) ratio in the first quarter of 2019 and 2018.

Figure no. 27. Liquidity ratio and the leverage (net debt to EBITDA) ratio in the first quarter of 2019 and 2018



TAURON Capital Group is effectively managing its financial liquidity using the central financing model put in place and the central financial risk management policy. TAURON Capital Group is using the *cash pooling* mechanism 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.

3.5. 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 2019. 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 information.

4. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

4.1. Shareholding structure

As of March 31, 2019, and as of the day of drawing up this information the Company's share capital was, in accordance with an entry in the National Court Register, PLN 8 762 746 970 and it was split into 1 752 549 394 shares with a nominal value of PLN 5 per share, including 1 589 438 762 ordinary AA series bearer shares and 163 110 632 registered BB series shares.

4.2. Information on the shareholders holding at least 5% of the total number of votes

The below table presents the shareholders that hold, directly or indirectly through their subsidiaries, at least 5% of the total number of votes at the General Meeting of the Company, as of the day of disclosing this information.

Table no. 24. Shareholders that hold, directly or indirectly through their subsidiaries, at least 5% of the total number of votes at the General Meeting of the Company, as of the day of disclosing this information

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

From the day of disclosing the previous interim report, i.e. since April 3, 2019, until the day of disclosing this information the Company did not receive any notifications from its shareholders on any changes in the ownership structure of substantial blocks of TAURON shares.

4.3. Summary of shareholdings by members of the Management Board and the Supervisory Board

As of the day of disclosing this information the members of Company's Management Board and the members of the Company's Supervisory Board did not hold any shares or rights to the Company's shares.

From the day of disclosing the previous interim report, i.e. since April 3, 2019, until the day of disclosing this information there had been no changes to the number of shares or rights thereto held by the members of the Company's Management Board and the members of the Company's Supervisory Board.

5. OTHER MATERIAL INFORMATION AND EVENTS

5.1. Material proceedings pending before the court, competent arbitration authority or public administration authority

The below table presents material proceedings pending before the court, competent arbitration authority or public administration authority in the first quarter of 2019.

Table no. 25. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in the first quarter of 2019

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 GZE) and the State Treasury represented by the President of ERO (defendants)	<p>Object of litigation: a lawsuit for the payment of compensation for alleged damage caused by non-performance by GZE of the decision of the President of ERO of October 12, 2001 related to the resumption of electricity supply to the plaintiff.</p> <p>Value of the object of litigation: PLN 182 060 000.00</p> <p>Initiation of the proceeding: the lawsuit of March 12, 2007</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
2.	ENEA (plaintiff) TAURON (defendant)	<p>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.</p> <p>Value of the object of litigation: PLN 17 085 846.49</p> <p>Initiation of the proceeding: the lawsuit of December 10, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
3.	Head of the Mazovian Customs and Tax Office (authority conducting the investigation) TAURON (party)	<p>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.</p> <p>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</p> <p>Date of initiating the proceeding: Castor Energy sp. z o.o. – October 2014 and December 2016, Virtuse Energy sp. z o.o. – December 2016</p> <p>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 (Regional Administrative Court) and NSA (Supreme Administrative Court), 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 (business partners, contractors), 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 (business partners, contractors) Castor and Virtuse.</p>
Lawsuits pertaining to the termination, by the PEPKH subsidiary, of the agreements related to the sales 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) TAURON (defendant)	<p>Object of litigation: lawsuit for payment of damages and determination of liability for the future.</p> <p>Value of the object of litigation: PLN 34 746 692.31</p> <p>Initiation of the proceeding: the lawsuit of June 30, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
5	Dobiesław Wind Invest sp. z o.o. (plaintiff) TAURON defendant)	<p>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)</p> <p>Value of the object of litigation: PLN 183 391 495.00</p> <p>Date of initiating the proceeding: June 30, 2017</p> <p>Company's position: the Company considers the claims as being without merit.</p>
6.	Gorzycza Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	<p>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.</p> <p>Value of the object of litigation: PLN 39 718 323.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
7.	Pękanino Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	<p>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.</p> <p>Value of the object of litigation: PLN 28 469 073.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
8.	Nowy Jarosław Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	<p>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.</p> <p>Value of the object of litigation: PLN 27 008 100.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
9.	in.ventus sp. z o.o. Mogilno I sp. k. (plaintiff) TAURON defendant)	<p>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.</p> <p>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)</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2018</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
10.	Amon sp. z o.o. and Talia sp. z o.o. (formal co-participation on the plaintiff's side) TAURON (defendant)	<p>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.</p> <p>Value of the object of litigation: Amon – PLN 47 556 025.51; Talia – PLN 31 299 182.52</p> <p>Initiation of the proceeding: the lawsuit of April 30, 2018</p>

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) PEPKH (defendant)	<p>Object of litigation: plea to declare the termination, by PE-PKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: Gorzyca – PLN 1 141 991.61; Pękanino PLN 39 266 111.02</p> <p>Date of initiating the proceeding: Gorzyca – May 18, 2015, Pękanino – May 20, 2018, DWI – May 18, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
2.	Dobiesław Wind Invest sp. z o.o. (plaintiff) PEPKH (defendant)	<p>Object of litigation: plea to award damages</p> <p>Value of the object of litigation: PLN 42 095 462.00</p> <p>Initiation of the proceeding: the lawsuit of June 14, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
3.	Nowy Jarosław Wind Invest sp. z o.o. (plaintiff) PEPKH (defendant)	<p>Object of litigation: plea to declare the termination, by PE-PKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 42 499 627.97</p> <p>Initiation of the proceeding: the lawsuit of June 3, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
4.	Amon sp. z o.o. (plaintiff) PEPKH (defendant)	<p>Object of litigation: plea to declare the termination, by PE-PKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 40 478 983.22</p> <p>Initiation of the proceeding: the lawsuit of May 22, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
5.	Talia sp. z o.o. (plaintiff) PEPKH (defendant)	<p>Object of litigation: plea to declare the termination, by PE-PKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 26 769 159.48</p> <p>Initiation of the proceeding: the lawsuit of May 21, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
6.	Mogilno III Mogilno IV	<p>Object of litigation: plea to declare the termination, by PE-PKH, of the agreements related to the sale of electricity null and void, and to award damages.</p>

	Mogilno V Mogilno VI (plaintiff) PEPKH (defendant)	Value of the object of litigation: Mogilno III – equivalent of EUR 2 141 164.43; Mogilno IV – equivalent of EUR 2 119 031.84; Mogilno V – equivalent of EUR 2 061 418.01; Mogilno VI – equivalent of EUR 671 721.86
		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.
		Object of litigation: lawsuit for payment of damages
7.	Mogilno I Mogilno II (plaintiff) PEPKH (defendant)	Value of the object of litigation: Mogilno I – equivalent of EUR 2 141 977.50; Mogilno II – equivalent of EUR 2 245 128.90
		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.
		Object of litigation: lawsuit for payment of damages due to TAURON Sprzedaż's failure to perform agreements on the sale of property rights arising from the certificates of origin constituting the confirmation of electricity generation from a renewable energy source and the liquidated damages assessed due to the termination of the above mentioned agreements.
8.	Hamburg Commercial Bank AG (formerly HSH Nordbank AG) (plaintiff) i TAURON Sprzedaż (defendant)	Value of the object of litigation: PLN 232 878 578.36
		Initiation of the proceeding: March 7, 2019
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.

5.2. Transactions with related entities on terms other than at arm's length

All of the transactions with related entities are concluded at arm's length. The detailed information on the transactions with related entities is provided in note 49 of the interim abbreviated consolidated financial statements for the period of 3 months ended on March 31, 2019.

5.3. Information on granted guarantees, loan or credit co-signings (sureties, endorsements)

Loans granted

On February 5, 2019, TAURON concluded a new agreement on a limit on a bank guarantee with MUFG Bank Ltd., under which an amendment to the bank guarantee to provide a collateral for the claims of BGK towards EC Stalowa Wola was issued.

The below table presents a summary of bank guarantees granted under TAURON's framework (master) agreements in the first quarter of 2019, listed according to the effective term.

Table no. 26. Summary of bank guarantees granted under TAURON's framework (master) agreements in the first quarter of 2019, listed according to the effective term

#	Bank	Company	Beneficiary	Type of guarantee	Amount ('000)	Effective term
1.	Santander Bank	TAURON	IRGiT	accounts payable	PLN 20 000	27.03.2019 – 31.05.2019
2.	CaixaBank	TAURON Wydobycie	PKP	performance bond	PLN 105	01.01.2019 – 31.12.2019
3.	CaixaBank	KW Czatkowice	PGE GIEK	performance bond	PLN 106	01.01.2019 – 30.03.2020
4.	CaixaBank	KW Czatkowice	PGE Energia Ciepła	performance bond	PLN 258	01.01.2019 – 30.03.2020
5.	CaixaBank	KW Czatkowice	ZEW	performance bond	PLN 48	01.01.2019 – 30.03.2020

Since April 12, 2019 (an event occurring after the balance sheet date) the amendment to the guarantee has been in force under which the amount of the guarantee granted under the framework (master) agreement on a limit on a bank guarantee concluded with MUFG Bank Ltd. was raised to PLN 517 500 000 in favor of the BGK bank. The effective term of the guarantee was extended until April 11, 2020.

Additionally, at the instruction of TAURON Czech Energy, PKO BP S.A. Czech Branch issued a guarantee to provide a collateral for the agreement with the market operator up to the amount of EUR 500 000, effective from March 21, 2019 to January 31, 2020.

Additionally, after the balance sheet date, under TAURON's framework (master) agreements bank guarantees were issued to provide a collateral for the accounts payable of:

- TAURON towards the Commodity Exchanges Settlement (Clearing) House (Izba Rozliczeniowa Gield Towarowych) in the total amount of PLN 80 000 000,
- TAURON Dystrybucja Serwis in the amount of PLN 488 000.

Loans granted

On March 12, 2019, TAURON granted financing to its co-subsiary, EC Stalowa Wola in the amount of PLN 5 175 000 with the repayment date until June 30, 2033. As of the balance sheet date the amount of the loans granted to EC Stalowa Wola had reached PLN 333 181 000.

In the first quarter of 2019 neither TAURON, nor its subsidiaries granted any loan or credit co-signings (sureties, endorsements).

5.4. Other information that could be material for the evaluation of TAURON Capital Group's staffing, assets, financial position, financial result and changes thereof, as well as information that could be material for the evaluation of the ability of TAURON Capital Group to meet its obligations

Besides the events indicated above in this document no other events had occurred in the first quarter of 2019, 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 result and changes thereof in an exhaustive manner and that no other events occurred, undisclosed by the Company, that could be material for the evaluation of such position.

Katowice, May 24, 2019

Filip Grzegorzcyk – President of the Management Board (CEO)

Marek Wadowski – Vice President of the Management Board for Finance (CFO)

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