TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ENDORSED BY THE EUROPEAN UNION FOR THE YEAR ENDED 31 DECEMBER 2016

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(in PLN '000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016	Year ended 31 December 2015 (*restated figures*)
Sales revenue	12	17 646 489	18 264 440
Cost of sales, of which:	13	(15 717 462)	(19 028 962)
Impairment of non-financial non-current assets	*13.3*	*(832 092)*	*(3 594 654)*
Profit (loss) on sale		**1 929 027**	**(764 522)**
Selling and distribution expenses	13	(459 191)	(489 963)
Administrative expenses	13	(652 827)	(618 969)
Other operating income and expenses	14	(15 487)	(27 762)
Operating profit (loss)		**801 522**	**(1 901 216)**
Share in profit/(loss) of joint ventures	22	60 040	7 933
Interest expense on debt	15	(259 564)	(279 673)
Other finance income and costs	15	(93 137)	(14 815)
Profit (loss) before tax		**508 861**	**(2 187 771)**
Income tax expense	16	(138 724)	383 556
Net profit (loss)		**370 137**	**(1 804 215)**
Measurement of hedging instruments	30.5	127 252	85 932
Foreign exchange differences from translation of foreign entities		9 991	595
Income tax	16	(24 178)	(16 327)
Other comprehensive income subject to reclassification to profit or loss		**113 065**	**70 200**
Actuarial gains/(losses)	34.1	204 597	64 523
Income tax	16	(38 874)	(12 260)
Share in other comprehensive income of joint ventures	22	(1 040)	(387)
Other comprehensive income not subject to reclassification to profit or loss		**164 683**	**51 876**
Other comprehensive income, net of tax		**277 748**	**122 076**
Total comprehensive income		**647 885**	**(1 682 139)**
Net profit (loss):			
Attributable to equity holders of the Parent		367 468	(1 807 317)
Attributable to non-controlling interests		2 669	3 102
Total comprehensive income:			
Attributable to equity holders of the Parent		644 944	(1 685 301)
Attributable to non-controlling interests		2 941	3 162
Basic and diluted earnings (loss) per share (in PLN):	17	**0.21**	**(1.03)**

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2016	As at 31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	**18**	26 355 189	24 882 817
Goodwill	**19**	40 156	92 059
Energy certificates and emission allowances for surrender	**20.1**	126 260	510 840
Other intangible assets	**21**	1 224 427	1 182 765
Investments in joint ventures	**22**	461 348	418 127
Loans granted to joint ventures	**23**	240 951	221 803
Other financial assets	**24**	227 140	211 215
Other non-financial assets	**25.1**	422 400	550 375
Deferred tax assets	**16.3**	50 382	54 184
		29 148 253	**28 124 185**
Current assets			
Energy certificates and emission allowances for surrender	**20.2**	980 348	805 388
Inventories	**26**	486 120	433 279
Receivables from clients	**27**	1 894 065	1 830 033
Receivables arising from taxes and charges	**28**	263 854	228 345
Other financial assets	**24**	94 753	34 334
Other non-financial assets	**25.2**	185 008	233 059
Cash and cash equivalents	**29**	384 881	364 912
Non-current assets classified as held for sale		19 612	17 898
		4 308 641	**3 947 248**
TOTAL ASSETS		**33 456 894**	**32 071 433**

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 December 2016	As at 31 December 2015
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**30.1**	8 762 747	8 762 747
Reserve capital	**30.3**	7 823 339	11 277 247
Revaluation reserve from valuation of hedging instruments	**30.5**	29 660	(73 414)
Foreign exchange differences from translation of foreign entities		9 200	(791)
Retained earnings/(Accumulated losses)	**30.4**	24 320	(3 947 461)
		16 649 266	**16 018 328**
Non-controlling interests		**30 052**	**29 829**
Total equity		**16 679 318**	**16 048 157**
Non-current liabilities			
Debt	**33**	8 759 789	4 924 127
Provisions for employee benefits	**34**	1 373 385	1 735 206
Provisions for disassembly of fixed assets, land restoration and other provisions	**35**	449 310	377 372
Accruals, deferred income and government grants	**38**	554 293	650 364
Deferred tax liabilities	**16.3**	759 568	795 176
Other financial liabilities	**42**	72 374	101 705
		11 968 719	**8 583 950**
Current liabilities			
Debt	**33**	219 740	3 214 520
Liabilities to suppliers	**39**	829 729	790 706
Capital commitments	**40**	1 033 804	766 843
Provisions for employee benefits	**34**	158 228	172 505
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	**36**	964 821	1 018 134
Other provisions	**37**	366 456	178 044
Accruals, deferred income and government grants	**38**	267 662	254 337
Liabilities arising from taxes and charges	**41**	410 943	429 649
Other financial liabilities	**42**	256 295	340 666
Other non-financial liabilities	**43**	301 179	273 922
		4 808 857	**7 439 326**
Total liabilities		**16 777 576**	**16 023 276**
TOTAL EQUITY AND LIABILITIES		**33 456 894**	**32 071 433**

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2015		**8 762 747**	**10 393 686**	**(143 019)**	**(1 386)**	**(1 045 580)**	**17 966 448**	**30 116**	**17 996 564**
Dividends	**30.6, 31**	–	–	–	–	(262 882)	**(262 882)**	(2 787)	**(265 669)**
Other transactions with non-controlling shareholders	**30.6**	–	–	–	–	63	**63**	(662)	**(599)**
Distribution of prior year profits		–	883 561	–	–	(883 561)	**–**	–	**–**
Transactions with shareholders		**–**	**883 561**	**–**	**–**	**(1 146 380)**	**(262 819)**	**(3 449)**	**(266 268)**
Net profit (loss)		–	–	–	–	(1 807 317)	**(1 807 317)**	3 102	**(1 804 215)**
Other comprehensive income		–	–	69 605	595	51 816	**122 016**	60	**122 076**
Total comprehensive income		**–**	**–**	**69 605**	**595**	**(1 755 501)**	**(1 685 301)**	**3 162**	**(1 682 139)**
As at 31 December 2015		**8 762 747**	**11 277 247**	**(73 414)**	**(791)**	**(3 947 461)**	**16 018 328**	**29 829**	**16 048 157**
Dividends	**30.6, 31**	–	–	–	–	–	**–**	(3 043)	**(3 043)**
Accounting for acquisition of ZCP Brzeszcze	**32**	–	–	–	–	(14 041)	**(14 041)**	–	**(14 041)**
Other transactions with non-controlling shareholders	**30.6**	–	–	–	–	35	**35**	325	**360**
Coverage of prior years loss	**30.3**	–	(3 453 908)	–	–	3 453 908	**–**	–	**–**
Transactions with shareholders		**–**	**(3 453 908)**	**–**	**–**	**3 439 902**	**(14 006)**	**(2 718)**	**(16 724)**
Net profit (loss)		–	–	–	–	367 468	**367 468**	2 669	**370 137**
Other comprehensive income		–	–	103 074	9 991	164 411	**277 476**	272	**277 748**
Total comprehensive income		**–**	**–**	**103 074**	**9 991**	**531 879**	**644 944**	**2 941**	**647 885**
As at 31 December 2016		**8 762 747**	**7 823 339**	**29 660**	**9 200**	**24 320**	**16 649 266**	**30 052**	**16 679 318**

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

(in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Profit (loss) before taxation		**508 861**	**(2 187 771)**
Share in (profit)/loss of joint ventures		(60 040)	(7 933)
Depreciation and amortization		1 668 726	1 832 780
Impairment losses on property, plant and equipment, intangible assets and goodwill	44.1	867 109	3 595 895
Interest and commissions		249 719	273 502
Other adjustments of profit before tax		(2 703)	329
Change in working capital	44.1	227 335	(7 628)
Income tax paid	44.1	(394 792)	(111 716)
Net cash from operating activities		**3 064 215**	**3 387 458**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	44.2	(3 516 296)	(3 973 510)
Public aid refund	44.2	(131 077)	–
Purchase of financial assets	44.2	(36 621)	(29 067)
Loans granted	44.2	(23 575)	(26 100)
Total payments		**(3 707 569)**	**(4 028 677)**
Proceeds from sale of property, plant and equipment and intangible assets		33 260	36 554
Repayment of loans granted		–	14 500
Redemption of debt securities		–	21 732
Dividends received	44.2	29 728	4 684
Other proceeds		17 123	9 085
Total proceeds		**80 111**	**86 555**
Net cash used in investing activities		**(3 627 458)**	**(3 942 122)**
Cash flows from financing activities			
Redemption of debt securities	44.3	(3 300 000)	(450 000)
Repayment of loans and borrowings	44.3	(140 331)	(140 585)
Dividends paid to equity holders of the Parent		–	(262 882)
Interest paid	44.3	(255 116)	(276 305)
Other payments		(29 697)	(44 059)
Total payments		**(3 725 144)**	**(1 173 831)**
Issue of debt securities	44.3	4 284 607	310 000
Proceeds from contracted loans/borrowings		914	295 000
Subsidies received		29 884	43 139
Total proceeds		**4 315 405**	**648 139**
Net cash from (used in) financing activities		**590 261**	**(525 692)**
Net increase / (decrease) in cash and cash equivalents		**27 018**	**(1 080 356)**
Net foreign exchange difference		1 283	1 169
Cash and cash equivalents at the beginning of the period	29	**327 715**	**1 408 071**
Cash and cash equivalents at the end of the period, of which:	29	**354 733**	**327 715**
restricted cash	29	144 404	206 254

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.

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

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

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

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, Entry No. KRS 0000271562. The Parent has been assigned statistical number REGON 240524697.

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

The core business of the TAURON Group includes the following segments: Mining, Generation, Distribution, Sale and other operations, which has been discussed in more detail in Note 10 to these consolidated financial statements.

The Group's consolidated financial statements cover the year ended 31 December 2016 and present comparative data for the year ended 31 December 2015.

These consolidated financial statements were approved for publication by the Management Board on 13 March 2017.

Composition of the Management Board

As at 31 December 2016, the composition of the Management Board was as follows:

- Filip Grzegorczyk – President of the Management Board;
- Jarosław Broda – Vice-President of the Management Board;
- Kamil Kamiński – Vice-President of the Management Board;
- Marek Wadowski – Vice-President of the Management Board;
- Piotr Zawistowski – Vice-President of the Management Board.

As at the date of approval of these financial statements for publication the composition of the Management Board had not changed.

As at 31 December 2015, the composition of the Management Board was as follows:

- Remigiusz Nowakowski – President of the Management Board;
- Jarosław Broda – Vice-President of the Management Board;
- Kamil Kamiński – Vice-President of the Management Board;
- Anna Striżyk – Vice-President of the Management Board;
- Piotr Zawistowski – Vice-President of the Management Board.

Changes in the composition of the Management Board in the year ended 31 December 2016 have been presented in the Management Board's Report on the Activities of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2016 (Section 6.11.1).

2. Composition of the TAURON Capital Group and joint ventures

As at 31 December 2016, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

(in PLN '000)

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

[1] *On 1 December 2016, the business combination under common control of TAURON Wydobycie S.A. and Nowe Brzeszcze Grupa TAURON Sp. z o.o. was registered, which has been discussed in more detail in Note 32 to these consolidated financial statements.*

[2] *On 2 November 2016, a business combination under common control of TAURON Serwis Sp. z o.o. and TAURON Wytwarzanie Serwis Sp. z o.o. was registered.*

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

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

As at 31 December 2016, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities, which are measured in the consolidated financial statements using the equity method:

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

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

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

3. Statement of compliance

These consolidated financial statements have been prepared in compliance with the requirements of the International Financial Reporting Standards ("IFRS"), as endorsed by the European Union ("EU").

The IFRS consist of standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee.

The Group companies and the Parent keep their accounting records and prepare their financial statements in accordance with the International Financial Reporting Standards, as endorsed by the European Union, except KOMFORT-ZET Sp. z o.o., which maintains its accounting records and prepares financial statements in accordance with the Accounting Act, as well as TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ), whose accounting records are kept and financial statements prepared in accordance with the accounting principles adopted in Poland, the Czech Republic and Sweden, respectively.

The consolidated financial statements contain adjustments which have not been recognized in the accounting records of the Group companies, introduced in order to achieve compliance of the consolidated financial statements with EU-IFRS.

4. Going concern

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

5. Functional and presentation currency

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

These 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 judgment and estimates

When applying the accounting policy to the issues mentioned below, professional judgment of the management, along with accounting estimates, have been of key importance; they have impacted figures disclosed in the consolidated financial statements and in the explanatory notes. Assumptions underlying the estimates have been based on the Management Board's best knowledge of current and future actions and events in individual areas. In the period covered by these 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 consolidated financial statements.

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

(in PLN '000)

Item	Value of item to which the estimate figure applies		Accounting policy description	Details regarding assumptions made and calculation of significant estimates
	As at 31 December 2016	As at 31 December 2015		
Property, plant and equipment	26 355 189	24 882 817	note 9.2 note 9.6	• In the year ended 31 December 2016, having performed impairment tests, the Group recognized an impairment loss on property, plant and equipment of PLN 1 942 937 thousand and derecognized an impairment loss of PLN 1 208 245 thousand. note 18
Goodwill	40 156	92 059	note 9.3 note 9.6	• In the year ended 31 December 2016 as a result of impairment test performed as at 30 June 2016 the Group recognized an impairment loss on goodwill of PLN 51 903 thousand. The impairment tests as at 31 December 2016 did not indicate the need to recognise impairment losses. note 19
Provisions for employee benefits	1 531 613	1 907 711	note 9.18	• Description of actuarial assumptions made and valuation method. note 34
Provision for gas emission obligations	209 736	153 083	note 9.20	• Provision calculation note 36
Provision for obligation to submit energy certificates	755 085	865 051	note 9.20	• Provision calculation note 36
Provision for mine decommissioning costs	146 885	111 675	note 9.19	• Provision calculation note 35
Provision for restoration of land and dismantling and removal of fixed assets	115 302	101 244	note 9.19	• Provision calculation note 35
Provision for onerous contracts	198 844	182 877	note 9.21	• Provision calculation note 35
Accrued revenue from sales of electricity and distribution services in the Sales segment	15 573 358	16 284 291	note 9.26	• Additional assessment of revenue from sales of electricity and distribution services in the Sales segments at the end of the reporting period in the amount of PLN 353 065 thousand. note 12
Deferred tax assets	957 118	936 795	note 9.25	• Realisation of deferred tax assets. note 16.3
Derivative instruments: Assets Liabilities	 56 417 560	 5 684 112 109	note 9.16	• Fair value measurement note 45.3
Receivables from clients	1 894 065	1 830 033	note 9.12	• Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 205 647 thousand. note 27

7. New standards and interpretations

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

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

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

IFRS 9 *Financial Instruments*
Effective in the EU – annual periods beginning on or after 1 January 2018.

Key amendments introduced by IFRS 9 *Financial Instruments*:

- amendments to classification and measurement of financial assets based on the business model for managing the financial assets and their contractual cash flow characteristics. The existing four categories of financial assets defined in IAS 39 *Financial Instruments: Recognition and Measurement* will be replaced by two categories: amortized cost and fair value;

- a new impairment model based on expected credit losses;
- new hedge accounting model.

Effect on the consolidated financial statements

The amendments to classification and measurement of financial assets will lead to changes in the classification of financial assets in the Group's financial statements, however, this will not have a material impact on the measurement as well as the Group's profit/loss and capitals. An analysis of the financial assets held by the Group as at 31 December 2016 has shown that, provided that the Group maintains similar financial assets when IFRS 9 *Financial Instruments* becomes effective, the new classification will not materially change the measurement and hence the Company's profit/loss and capitals. The instruments which have so far been classified to loans and receivables meet the conditions for classification to assets measured at amortized cost and hence the amendment will not result in any changes in measurement. The Group does not hold any assets held to maturity. Other categories of financial assets measured at fair value in line with IFRS 9 are assets measured at fair value.

The above outcomes of the analysis do not apply to shares held by the Group in entities not quoted in active markets, which cannot be reliably measured and therefore are currently measured at cost less any impairment. Effects of IFRS 9 *Financial Instruments*on the consolidated financial statements with respect to this asset group have not been fully analysed yet.

With respect to expected credit losses, an analysis of receivables from the Sales segment buyers has been carried out. This class of financial instruments constitutes the most important item of the Group's financial assets. These receivables have been classified by client groups demonstrating material differences in terms of credit losses based on historical data. Subsequently, for each group, an allowance recognition coefficient has been determined, including the effects of available information regarding future on historical ratios.

Preliminary analysis performed indicates that application of IFRS 9 will not materially affect the consolidated financial statements.

As at 31 December 2016 the Group held hedging instruments to hedge fluctuations in cash flows related to issued bonds due to interest rate risk. These interest rate swaps are not subject to hedge accounting. IFRS 9 *Financial Instruments* coming into effect is not expected to materially affect the consolidated financial statements of the Group with respect to hedge accounting.

IFRS 15 *Revenue from Contracts with Customers*

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

The standard specifies how and when to recognize revenue and requires more detailed disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations concerning revenue recognition.

Effect on the consolidated financial statements

The Group is carrying out an analysis of contracts with clients in five steps, which are necessary from the viewpoint of correct determination of revenue in line with IFRS 15 *Revenue from Contracts with Customers* and include: identifying a contract (or a contract group); indicating individual performance obligations and defining prices; assigning the prices to individual performance obligations and determining the revenue. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements. Evaluation of the effects of IFRS 15 on the consolidated financial statements is still being analysed due to a broad range of the related changes. The new guidance included in IFRS 15 may necessitate system change.

Preliminary analysis of impact of IFRS 15 on the accounting policies applied has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which may be particularly important for the Sales segment, mainly with regard to contracts for sales of electricity and gas, which offer customers additional services or devices included in the sales prices. With respect to the Group, these services shall include providing customers with support of engineers or servicemen in case of power or gas supply failure. Another analysed aspect involves fees for so-called price guarantee in sales contracts, which enable clients to ensure that during a given period, prices paid by them will not change. Pursuant to the new standard, the Group is obliged to separately recognise each identifiable performance obligations, and therefore to allocate transaction price to these obligations. At present, the Group has been analysing its contractual obligations in order to identify individual obligations and allocate transaction prices to them.

Additionally, in the Distribution segment, the Group is analysing contracts that underlie the recognition of revenue from connecting new customers and contracts for distribution and comprehensive services in light of IFRS 15, with regard to separate identification of these services as required by the Standard. To this end the Group analyses its contracts among others in terms of sources of law underlying the provision of these services, legal obligations imposed on the company with regard to the connecting of new customers, service pricing freedom and interrelation of the compensation received for the provision of these services, possibility to include both services into a single agreement and the right of the customer who has concluded the following agreements: the connection agreement and distribution/comprehensive service agreement to resign from the purchasing of these services.

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

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

IFRS 16 *Leases*

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

Under IFRS 16 *Leases*, the lessee recognizes 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 at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Lessors continue to classify leases as operating or finance, with the approach to lessor accounting substantially unchanged from IAS 17 *Leases*. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. A lessor recognises 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 recognises operating lease payments as income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Effect on the consolidated financial statements

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

(in PLN '000)

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

Standard	Effective date specified in the Standard, not endorsed by the EU (*annual periods beginning on or after the date provided*)
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
Revised IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture with subsequent amendments*	the effective date has been postponed until completion of research on the equity method
Revised IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*	1 January 2017
Revised IAS 7 *Statement of Cash Flows – Disclosure Initiative*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities.	1 January 2017
Revised IFRS 2 *Share-based Payments: Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Revised IFRS 4 *Insurance Contracts – application of IFRS 9 Financial Instruments along with IFRS 4 Insurance Contracts*	1 January 2018 or at the date of first-time adoption of IFRS 9
Annual Improvements to IFRS (2014–2016):	
IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2017
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2018
IAS 28 *Investments in Associates and Joint Ventures*	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Revised IAS 40 *Investment Property – Transfers of Investment Property*	1 January 2018

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

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

8. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2015, except for the application of amendments to the standards specified below as well as a change in the presentation of gains/losses on trading in emission allowances purchased for resale and generation of profit on market price fluctuations as well as gains/losses on derivative commodity instruments.

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

(in PLN '000)

Standard	Effective in the EU as of (*annual periods beginning on or after this date*)
Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*	1 February 2015
Annual Improvements to *IFRS (Cycle 2010–2012)*	1 February 2015
Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations.*	1 January 2016
Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative*	1 January 2016
Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization*	1 January 2016
Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants*	1 January 2016
Revised IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements*	1 January 2016
Annual Improvements to *IFRS (Cycle 2012–2014)*	1 January 2016
Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures Investment Entities: Applying the Consolidation Exception*	1 January 2016

Presentation change

The Group decided to change the presentation of gains/losses on forward and futures transactions – derivative commodity instruments falling within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* as well as gains/losses on trading in emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices, in the financial statements.

Before, gains/losses on derivative commodity instruments were recognized within financing activities. As these gains/losses are linked with operating activities with respect to commodity trading and gains/losses on trading activities are aimed to be recognized in one place in the statement of comprehensive income and volatility of profit is to be reduced in different parts of the statement of comprehensive income, i.e. operating and financing activities, the Management Board decided to introduce a presentation change.

Currently, the aggregate gain/loss on the emission allowances purchased for resale and generation of profit due to volatility of market prices, comprising the aggregate gain/loss on:

- trading in the inventory of greenhouse gas emission allowances classified to the trading portfolio;
- change in fair value measurement of the inventory of greenhouse gas emission allowances classified to the trading portfolio;
- change in measurement and gains/losses on derivative commodity instruments falling within the scope of IAS 39, related to purchases and sales of greenhouse gas emission allowances;

is presented within revenue from sales of goods (gain) or cost of sales (loss).

The cost of fees and charges relating to the aforesaid transactions is also recognized within operating activities.

Additionally, operating revenue or expenses include gain (loss) on change in measurement and on exercising derivative commodity instruments falling within the scope of IAS 39, related to purchases and sales of other commodities.

According to the Management Board, the aforementioned changes concerning aggregate presentation of gains/losses on a specific trading strategy within operating activities will reflect the Company's activities in the field of trading in commodities and the related derivatives in a more accurate manner.

The effect of the presentation change on the consolidated statement of comprehensive income for the year ended 31 December 2015 is presented in the table below. The change has not had any effect on the Group's profit/loss.

(in PLN '000)

	Year ended 31 December 2015 (*approved figures*)	Change in presentation of gains/losses on trading in emission allowances and on commodity derivative instruments	Year ended 31 December 2015 (*restated figures*)
Sales revenue	18 375 224	(110 784)	18 264 440
Cost of sales	(19 140 775)	111 813	(19 028 962)
Profit (loss) on sale	**(765 551)**	**1 029**	**(764 522)**
Selling and distribution expenses	(488 859)	(1 104)	(489 963)
Operating profit (loss)	**(1 901 141)**	**(75)**	**(1 901 216)**
Other finance income and costs	(14 890)	75	(14 815)
Net profit (loss)	**(1 804 215)**	**–**	**(1 804 215)**

9. Significant accounting policies

9.1. Consolidation principles and the methods of accounting for business acquisitions (including jointly-controlled entities)

9.1.1. Consolidation

Subsidiaries are entities controlled by the Parent directly or indirectly through its subsidiaries.

Subsidiaries are consolidated using the full method from the date of assuming to the date of losing control. Financial statements of subsidiaries are prepared for the same reporting period as those of the Parent, using consistent accounting principles. Balances and transactions between the Group entities, including unrealized gains and losses (if not indicating impairment) which result from transactions within the Group, are eliminated.

9.1.2. Business acquisitions

Business acquisitions are accounted for using the acquisition method. As at the acquisition date, the acquirer recognizes identifiable assets acquired and liabilities assumed, which are measured at fair value.

Goodwill is measured as the excess of the aggregate of the consideration transferred for the acquisition, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed. The accounting policy applicable to goodwill has been presented in Note 9.3.

9.1.3. Acquisition of businesses under common control of the State Treasury — Note 32

Combinations of businesses under common control of the State Treasury (i.e. those which have remained under control of the State Treasury before and after the transaction) are accounted for using the pooling of interest method in accordance with the principles described below.

Following the business combination, the continuity of common control is presented in the financial statements, while the fair value remeasurement of the net assets (or recognition of new assets) or measurement of goodwill are not presented therein, as none of the entities combined is actually acquired. The financial statements are prepared as if the combined entities had been combined as of the date when common control began to be exercised.

When accounting for a combination of entities under common control of the State Treasury, the Company relies on the separate financial statements of the acquiree to determine the value of its assets and liabilities. When accounting for a combination of entities under common control of the State Treasury within the TAURON Group, the Company relies on the consolidated financial statements as a source of the value of assets and liabilities of the acquired subsidiary.

The difference between the book value of the net assets recognized as a result of a business combination and the value of shares recognized in the accounting records of the acquirer thus far is recognized in the equity of the acquirer.

The entities acquired in May 2007 were controlled by the State Treasury, which means that the Company and those entities were under common control of the State Treasury at the time of the acquisition. Therefore, in the opinion of the company, the transaction meets the definition of a transaction under common control, hence it has been excluded from the scope of IFRS 3.

(in PLN '000)

9.2. Property, plant and equipment — Note 18

Key fixed assets by segment:

- With respect to Generation:
  - boilers with accessories, turbines with generators, transformers and thermal stations as well as equipment used for purposes of fuel unloading and transportation, pumping stations and sulfur-recovery facilities;
  - thermal stations, equipment used for purposes of fuel unloading and transportation as well as pumping stations and water treatment facilities;
  - wind farms, water turbine sets as well as weirs and dams.;
- With respect to Distribution: power lines and stations. Power lines are located on the area of 57,000 square meters, with the total length of ca. 267,000 km. The Group holds over 59,000 electrical substations in its assets;
- With respect to Mining: mechanized lining, pit shafts and dip-headings and fixed assets located in the mine walls and the coal processing plant.

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost includes:

- acquisition price or manufacturing cost;
- costs directly attributable to the purchase and bringing the asset to a usable condition;
- the expected cost of disassembly and removal of items of property, plant and equipment, and restoration of their current location to its original condition (the accounting policy on provisioning for these costs has been presented in Note 9.19);
- borrowing costs (the accounting policy on capitalizing these costs has been presented in Note 9.7).

All material elements included in an asset but having various useful lives (components) are identified and separated as at the date of acquisition of an item of property, plant and equipment. Components also include costs of overhauls, periodic inspections and costs of replacing their key parts.

The Group recognizes specialized spare parts and service equipment as separate items of property, plant and equipment if their useful life exceeds one year.

Depreciation charges are calculated at cost of the given asset less its residual value. Depreciation is based on a depreciation plan determining the estimated useful life of each fixed asset. Items of property, plant and equipment (including components) are depreciated on a straight-line basis over the period of their estimated useful lives, except for land and fixed assets under construction, which are not depreciated. Specialized spare parts and service equipment are depreciated over the useful life of the fixed asset they relate to.

Depreciation principles applied to assets used under finance leases are consistent with those applied to depreciation of assets owned by the entity. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset item is fully depreciated over the shorter of the lease term and its useful life.

Average residual useful lives by fixed asset group:

Asset group	Average remaining depreciation period (number of years)
Buildings, premises, civil and water engineering structures	17 years
Plant and machinery	13 years
Other tangible fixed assets	5 years

Items of property, plant and equipment are tested for impairment if there is any indication of impairment. Impairment tests for property, plant and equipment are carried out in line with the accounting policy presented in Note 9.6.

9.3. Goodwill — Note 19

Goodwill is carried at its initial amount (determined in line with the accounting policy presented in Note 9.1.2) less accumulated impairment losses. Goodwill is not amortized but it is tested for impairment on an annual basis or more frequently if any indications of impairment occur.

As at the acquisition date, goodwill acquired is allocated to each cash-generating unit ("CGU") that may derive benefits from synergy effects. An operating segment is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group (except the Generation segment). In the Generation segment, however, the lowest level units are cash-generating units related to electricity generation from conventional sources, including in CHP units, in co-firing of biomass and other thermal energy (TAURON Wytwarzanie S.A.), cash-generating units related to generation of electricity from renewable sources (TAURON Ekoenergia Sp. z o.o.) and cash-generating units related to generation, distribution and sale of heat (TAURON Ciepło Sp. z o.o.).

Impairment tests for goodwill are performed in line with the accounting principles presented in Note 9.6.

9.4. Energy certificates and gas emission allowances — Note 20

Energy certificates and gas emission allowances include:

- certificates of energy generated using renewable sources and in gas, methane and other cogeneration and energy efficiency certificates acquired or received for surrendering purposes due to the sale of electricity to end buyers or for resale;
- greenhouse gas emission allowances received or acquired with the intention to fulfil the obligation resulting from emission of greenhouse gases or for resale.

Energy certificates and greenhouse gas emission allowances are classified considering the Group's intention to use them as at the acquisition date (possible subsequent reclassification) as:

- current intangible assets – energy certificates and gas emission allowances designated for internal purposes, where the Group has the intention to surrender them so as to fulfil the obligation for the current or future year, if the Group intends to surrender the allowances in the same year;
- non-current intangible assets – energy certificates and gas emission allowances designated for internal purposes, where they are intended to be used for purposes of the fulfilment of the surrendering obligation for the following years and they are planned to be surrendered within more than one year of the end of the reporting period;
- inventories – energy certificates and gas emission allowances designated for sale.

At initial recognition, the said assets are measured in accordance with the following principles:

	Acquired	Granted/Received free of charge	Release
Energy certificates	Acquisition cost	Fair value as at the receipt date	Weighted average
Greenhouse gas emission allowances	Acquisition cost or fair value*	Nominal value (i.e. zero)	Obtained free of charge in the first place, subsequently acquired ones (according to weighted average)

** Fair value – greenhouse gas emission allowances in the trading portfolios.*

The energy certificates and the emission allowances are surrendered (in correspondence with settlement of the provision amount) at the date of their being redeemed. The principles applicable to the recognition of provisions relating to the energy certificate surrendering obligation and for liabilities arising from gas emissions have been presented in Note 9.20.

9.5. Other intangible assets — Note 21

Key items of other intangible assets include acquired right to perpetual usufruct of land, software, concessions, patents, licenses and similar items.

Other intangible assets are measured at cost less accumulated amortization and impairment losses.

Other intangible assets, except those which have not been made available for use, are amortized over their estimated useful lives. Amortization is calculated by reference to the initial value less the residual value.

Residual value is included in determining the basis for calculation of depreciation charges, if for a given asset, an active market exists or a third party has committed to buy the asset upon completion of its useful life. For the right to perpetual usufruct of land, the residual value has been determined on the basis of market prices. As the residual value is similar to the carrying amount, the said right has not been amortized.

(in PLN '000)

Average residual useful lives by other intangible asset group:

Asset group	Average remaining amortization period (number of years)
Development expenses	4 years
Software, concessions, patents, licenses and similar items	4 years
Other	10 years

9.6. Impairment of non-financial non-current assets Note 11

Goodwill is tested for impairment every year and each time when indications of impairment have been identified. Other non-financial non-current assets are tested for impairment if there are indications that they may have been impaired.

Impairment tests include estimation of the recoverable amount of an asset or the cash-generating unit (CGU) to which the asset belongs. Information concerning identification of CGU which goodwill is allocated to has been presented in Note 9.3.

The recoverable amount of an asset or CGU is the higher of the fair value less cost to sell and the value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, impairment occurs and the value of the asset is reduced to the recoverable amount determined.

Impairment losses are allocated to goodwill in the first place and the remaining amount is allocated to individual assets forming the CGU based on the share of the carrying amount of each asset in the carrying amount of the CGU, with the proviso that as a result of such allocation the carrying amount of the asset may not be lower than the highest of the fair value less cost to sell, the value in use and zero.

If the indications of impairment driving the recognition of an impairment loss in a preceding period are no longer present, the impairment loss is reversed or reduced. Impairment losses on goodwill are not reversed.

9.7. Borrowing costs

Borrowing costs are capitalized as part of the cost of qualifying non-current assets.

Borrowing costs include mainly interest on specific and general borrowings calculated using the effective interest method and financial charges relating to finance lease agreements. The effective portion of the hedge for contracts that satisfy the hedge accounting criteria and are entered into in connection with financing the development of non-current assets is also capitalized (the hedge accounting policy has been presented in Note 9.17).

After the completion of a qualifying asset that has been financed using specific borrowings, specific borrowings and the related costs are not taken into account when determining borrowing costs eligible for capitalization.

General borrowing costs eligible for capitalization are determined by applying the capitalization rate to expenditure incurred for qualifying assets. The capitalization rate is the weighted average rate of all borrowing costs related to borrowings classified as liabilities in a given period, other than specific borrowings.

9.8. Shares in joint ventures Note 22

Joint arrangements of the Group are classified as joint ventures. Shares in joint ventures where the Group exercises joint control are accounted for using the equity method.

Whereby the initial value of the investment carried at cost is increased or reduced by a share in profits/losses and in other comprehensive income of the joint venture as from the acquisition date (recognized in profit or loss or in other comprehensive income of the Group, as appropriate).

Shares in joint ventures are tested for impairment if indications of impairment or reversal of impairment losses recognized before are identified.

9.9. Loans granted to joint ventures Note 23

Loans granted to a joint venture do not satisfy the criteria to be recognized as a net investment in a joint venture. Initially, loans are recognized at fair value and measured at amortized cost less impairment losses as at the end of the reporting period.

9.10. Other non-financial assets — Note 25

Other non-financial assets of the Group include prepayments as well as advance payments for fixed assets under construction, intangible assets and inventories. Prepayments, as non-monetary items, are not discounted.

Prepayments include in particular costs of production preparation in coal mines, including costs of reinforcing working faces and costs of drilling drifts which are not classified as property, plant and equipment. Such costs are carried at the amount of expenditures incurred by the Group and recognized in profit or loss by reference to the percentage monthly output relative to the volume of commercial coal planned to be produced from each working face.

9.11. Inventories — Note 26

The Group's inventories include mainly the inventory of fuels (being materials, semi-finished products or finished products) as well as energy certificates (property rights) and greenhouse gas emission allowances designated for sale.

Inventories are measured at the lower of cost and net realizable value. Greenhouse gas emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices are measured at fair value at the end of each reporting period. Release of inventories is measured using the weighted average method.

9.12. Receivables from buyers — Note 27

Receivables from buyers include amounts due which have been billed and those which have been recognized on account of revenue but have not been measured and billed due to the buyer settlement system used. The accounting policy applicable to accrued revenue has been presented in Note 9.26.

Receivables from buyers are measured at the originally billed amounts (including the effect of discounting, if material), less allowances/write-downs.

As at the end of the reporting period, the Group verifies whether there are any objective indications of impairment of its receivables or groups of receivables. Material objective indications of impairment include mainly delays in payment, major financial difficulties encountered by the debtor, institution of court proceedings against the debtor, the debtor being placed into liquidation or bankruptcy, or the occurrence of a material adverse change in the economic, legal or market environment of the debtor.

If the recoverable amount of an asset is lower than its carrying amount, the entity recognizes an allowance/write-down reducing it to the present value of projected cash flows. An allowance/write-down corresponding to the whole amount due is recognized for receivables from debtors placed into liquidation or bankruptcy, those for which court proceedings have been instituted as well as those subject to administrative or court enforcement proceedings. Otherwise, the allowance/write-down is recognized collectively based on the criterion of delinquency – for amounts past due by 6 to 9 months: 50% and for those which have not been paid for more than 9 months: 100%.

Allowances/write-downs on receivables are charged to operating expenses or finance costs, according to the type of receivables.

9.13. Cash and cash equivalents — Note 29

Cash and cash equivalents include in particular cash at bank and in hand and short-term deposits with original maturity of up to three months.

Cash is recognized at face value. At the end of the reporting period, the face value of cash deposited in bank accounts includes also accrued bank interest or interest calculated by the entity itself.

9.14. Issued capital — Note 30.1

Issued capital is recognized at the amount determined in the articles of association and recorded in the court register of the Parent.

9.15. Debt — Note 33

Debt comprises bank loans, borrowings, debt securities and finance lease liabilities.

(in PLN '000)

Initially, debt is measured at fair value less transaction costs. After initial recognition it is measured at amortized cost using the effective interest method.

Finance leases transferring substantially all the risks and rewards of ownership of a lease object to the Capital Group are recognized in the statement of financial position as at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Leases whereby the lessor retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Operating lease payments and subsequent lease rents are charged to expenses using the straight-line method over the lease term.

9.16. Derivative financial instruments — Note 45.3

Derivative financial instruments falling within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets/financial liabilities measured at fair value through profit or loss, except derivatives which are designated as hedging instruments and subject to hedge accounting. Derivative instruments acquired and held for internal purposes as excluded from the scope of IAS 39 are not measured at the end of the reporting period.

Derivatives classified as "financial assets/financial liabilities measured at fair value through profit or loss" are measured at fair value, taking into account their market value as at the end of the reporting period. Changes in the fair value of these instruments are recognized in profit or loss for the period. Derivatives are presented as assets if their value is positive or as liabilities if their value if negative.

As at the end of the reporting period, Interest Rate Swaps (IRS) acquired and held to hedge the interest rate risk relating to bonds issued are subject to hedge accounting (the accounting policy has been discussed in detail in Note 9.18). Other derivative instruments held by the Group as at the end of the reporting period are not subject to hedge accounting.

At the end of the reporting period, the Group held the following derivative instruments:

Classification	Instrument type
Derivatives subject to hedge accounting	Interest Rate Swaps concluded to hedge against risk related to interest rate changes. Subject to hedge accounting; detailed policy presented in Note 9.17.
Derivatives not subject to hedge accounting, classified as "assets/liabilities measured at fair value through profit or loss"	• forward contracts concluded in order to hedge against risk related to foreign exchange rate fluctuations; • forwards and futures for purchase and sales of emission allowances, energy and other commodities, concluded and maintained for speculation purposes.
Derivatives excluded from the scope of IAS 39	Forwards and futures for purchase and sales of non-financial assets, concluded and maintained for own use purposes.

9.17. Hedge accounting

In order to hedge the interest rate risk the Group uses Interest Rate Swaps (IRS). These instruments hedge cash flows related to bonds issued. Such transactions are subject to hedge accounting.

At the inception of the hedge the hedging relationship is designated and the risk management objective and strategy for undertaking the hedge are documented formally.

A cash flow hedge is accounted for in the following manner:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income; and
- the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss for the period.

Gain or loss from revaluation of the hedging instrument disclosed in other comprehensive income is recognized directly in profit or loss in the same period during which the hedged item affects profit or loss for the period.

9.18. Provisions for employee benefits — Note 34

In accordance with compensation policies, employees of the Group companies are entitled to the following post-employment benefits:

- retirement and disability benefits – paid on a one-off basis, when an employee retires or is vested with the right to receive disability benefits;

- death benefits;
- cash equivalent resulting from special tariff for energy sector employees;
- in-kind benefits granted in coal or as a cash equivalent;
- benefits from the Company's Social Benefit Fund.

Jubilee bonuses are paid to employees of Group companies after a specified number of years of service.

At the end of the reporting period the present value of provisions for post-employment benefits and provisions for jubilee bonuses is calculated by an independent actuary using actuarial methods. The accrued liabilities are equal to discounted future payments, including employee turnover, and pertain to the time remaining until the end of the reporting period. Demographic and employee turnover data are based on historical information.

Actuarial gains and losses on measurement of liabilities arising from post-employment benefits are recognized in whole in other comprehensive income (with the accumulated amount recognized in retained earnings), while actuarial gains and losses on jubilee bonuses are recognized in profit or loss.

Other increases and decreases in provisions are charged to operating expenses in the case of employees, to other operating expenses/revenue in the case of pensioners and individuals entitled to disability allowances and to finance costs in the portion pertaining to interest that constitutes the unwinding of discount.

In accordance with IAS 19 *Employee Benefits* the Group also recognizes provisions for termination benefits under voluntary redundancy schemes. The benefits are measured based on the expected number of employees willing to accept the employment termination offer and the estimated benefit amount.

9.19. Provisions for dismantling fixed assets and restoration of land — Note 35

Provision for mine decommissioning costs

The provision for costs of dismantling fixed assets and restoration of land includes mainly the provision for costs of decommissioning mines for which it is required that the assets be removed and the land restored to its original condition.

The provision is determined based on future decommissioning costs and costs of land restoration estimated by independent experts taking into account the discounting effect and the amount determined in line with separate regulations of the Mine Decommissioning Fund. The provision is estimated based on an analysis prepared using deposit exploitation projections (for mines) and a technical and business analysis.

For coal mines a corresponding entry is made in line with IAS 16 *Property, Plant ant Equipment* as a fixed asset item of a mine and changes in estimates are disclosed in line with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, i.e. as adjustments to the provision and capitalized future mine decommissioning costs. The related accounting policy has been presented in Note 9.2. The unwinding of discount is recognized in profit or loss.

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

Based on estimates of future costs of dismantling prepared by independent experts, taking into account the discounting effect, the Group establishes a provision for estimated costs of dismantling, to include those related to wind farms, but also for removing fixed assets and restoring the land where the fixed assets were located if it has an obligation arising from the acquisition or use of property, plant and equipment items.

9.20. Provision for liabilities due to gas emission and energy certificates

9.20.1. Provision for the obligation to surrender energy certificates — Note 36.1

Pursuant to the Energy Law and regulations of the Minister of Economy energy companies trading in and selling electricity to end buyers are obliged to acquire property rights resulting from energy certificates and to surrender them or to pay a substitution fee. If in a given financial year the volume share of electricity specified in the energy certificates in the total annual sales of electricity to end buyers complies with limits provided for in regulations of the Minister of Economy – such an obligation is considered met.

At the end of each reporting period the Group recognizes a provision for costs of surrendering energy certificates or paying the substitution fee so as to fulfil the obligation.

The provision for the obligation to surrender energy certificates is recognized:

- in the portion corresponding to energy certificates held at the end of the reporting period – at the value of certificates held (the accounting policy applicable to certificates held has been presented in Note 9.4);
- in the portion not covered by energy certificates held at the end of the reporting period – first, at the amount resulting from futures and forwards for the purchase of certificates with the intention to fulfil the obligation for the current year; then at the market value of certificates necessary to fulfil the obligation at the end of the reporting period or at the amount of the substitution fee – in accordance with the Group's intention concerning the method of fulfilling the obligation.

The provision is charged to operating expenses.

The provision is settled and the certificates are surrendered when the President of the Energy Regulatory Office redeems the certificates or when the substitution fee has been paid.

9.20.2. Provision for greenhouse gas emission liabilities — Note 36.2

The provision for liabilities arising from emission of gas covered by the emissions system is recognized only when the actual emission level in a given year exceeds the volume of emission allowances awarded to the Group free of charge, including allocation of free-of-charge emission allowances to facilities belonging to individual Generation companies. The Group companies included in the EU ETS are obliged to surrender emission allowances for each emitted ton of carbon dioxide by 30 April in the following year.

The accounting policy concerning emission allowances received and acquired has been presented in Note 9.4.

The provision is charged to operating expenses (taxes and charges) in the following amount:

- in the portion covered by allowances held at the end of the reporting period:
  - nil – for allowances received free of charge;
  - at cost – for allowances acquired;
- in the portion not covered by allowances held at the end of the reporting period:
  - first, at the amount resulting from futures and forwards for the purchase of emission allowances with the intention to fulfil the obligation for the current year;
  - then in the market value of allowances necessary to fulfil the obligation at the end of the reporting period or in the amount of a possible fine – in accordance with the intention concerning the method of fulfilling the obligation.

Emission allowances are awarded free of charge for the years 2013–2020 based on costs of investments, which is the condition for obtaining allowances.

At the surrendering date, emission allowances classified as current intangible assets are derecognized in correspondence with the provision for gas emission liabilities.

9.21. Other provisions — Note 35.3, 37

Other provisions include:

- A provision for use of real estate without contract. The Group recognizes provisions for all claims filed by owners of real estate on which distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period. The Group does not establish a provision for possible claims of owners of land with unregulated status, which have not been lodged Recognition and reversal of the provision is charged to other operating revenue or other operating expenses and interest accrued is charged to finance income or finance costs.
- A provision for onerous contracts. At the end of the reporting period, the Group recognized a provision for onerous contracts. It was recognized for a surplus of the expected costs of fulfilment of the obligations under the agreements entered into with a joint venture over the expected benefits.
- Other provisions relate to court cases, counterparty claims or other claims, possible fines resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office of Competition and Consumer Protection and tax settlements.

9.22. Accruals and government grants — Note 38

The Group's deferred income and government grants include mainly deferred connection fees as well as grants and subsidies received to acquire property, plant and equipment. Deferred connection fees result from transactions which fall within the scope of IFRIC 18 *Transfers of Assets from Customers* and were received before 1 July 2009. Effective from 1 July 2009, in accordance with IFRIC 18, the said connection fees are recognized within revenue from sales of services.

Grants and subsidies received to acquire property, plant and equipment are recognized at the value of cash received as other operating revenue matching the corresponding depreciation expense related to items of property, plant and equipment.

9.23. Liabilities to suppliers, capital commitments and other financial liabilities Note 39, 40, 42

Liabilities to suppliers, capital commitments and other financial liabilities are measured at the amount due, as the effect of discounting is immaterial.

9.24. Receivables / Liabilities due to taxes and charges Note 28, 41

Settlements due to taxes and charges presented in the statement of financial position comprise:

- Income tax receivables and liabilities;
- VAT and excise duty;
- PIT and social insurance;
- Environmental fees and other regulatory settlements.

9.25. Current and deferred income tax Note 16

Current tax

Income tax recognized in profit or loss for the period includes actual tax charge for the given reporting period for each company from the Tax Capital Group (TCG) as well as other non-TCG companies, determined in line with the provisions of the CIT Act, as well as any previous year tax adjustments.

Deferred tax

The Group recognizes a deferred tax asset and a deferred tax liability arising from temporary differences between the book value of assets and liabilities and their tax value, and a tax loss deductible in the future.

The deferred tax asset is recognized only if its realization is probable, i.e. if it is expected that a taxable profit sufficient to realize the asset will be generated in the future.

Income tax related to items which are recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or in equity, respectively.

The deferred tax asset and deferred tax liability of companies from the Tax Capital Group are netted off due to the fact that the companies file combined tax returns.

9.26. Sales revenue Note 12

Revenue is recognized at the fair value of the payment, received or due, following reduction by VAT, excise duty, other sales taxes, charges and discounts.

Revenue of the financial year includes also accrued revenue which has not been measured and billed due to the buyer settlement system used.

9.26.1. Revenue from sales of electricity distribution services in the Distribution segment

The Group's revenue from sales of services includes in particular revenue related to distribution operations and settlements of the connection fee.

Electricity distribution services are considered sold upon service provision to the client, as registered by the electricity meter, i.e.:

- for VAT invoices raised by reference to the meter reading – the reading date;
- For VAT invoices raised in a billing period exceeding one month, by reference to the forecast energy consumption – the forecast period; at present one-and two-month periods are settled based on actual use, while six- and twelve-month periods are settled based on projections;

- For billing periods specified in contracts with buyers exceeding one month, revenue includes revenue which has not been measured and billed. The said revenue is estimated based on the average daily consumption of electricity in prior billing periods and the number of days in the analysed billing period. Additional sales are calculated using the weighted average selling price of the financial year or using prices quoted on the last issued invoice;
- Adjustments to sales revenue are recognized in the period of their identification or in the period to which they relate (only when material).

The Group recognizes revenue relating to fixed assets received free of charge due to rendering services of removing power or heat infrastructure collision in sales revenue. Moreover, since 1 July 2009, the Group has also recognized transactions included in the scope of IFRIC 18 *Transfer of Assets from Customers* in this item. Revenue falling within the scope of IFRIC 18 *Transfer of Assets from Customers*, relating to fixed assets received from clients free of charge and used for connecting such clients to the infrastructure and providing them with constant access to supplies of services, or revenue relating to cash received from clients for acquisition or development of the said fixed assets (connection fees) is carried at the estimated fair value or the amount of cash received and recognized as revenue from sales of services in the period when such assets are actually received from clients.

9.26.2. Revenue from sales of electricity and distribution services in the Sales segment

The Group companies operating in the Sales segment generate revenue from sales of electricity and distribution services to retail and wholesale clients (balancing market sales). Revenue from sales is determined on the basis of the billed volume and price, including additional assessments.

Three types of additional assessment of revenue from sales of electricity and distribution services are made in this segment:

- Additional assessment of sales to clients, unbilled as at the end of the reporting period

  Measurement and billing systems showing the electricity volume sold to retail clients are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales at the end of each reporting period. For clients being parties to complex contracts and sales contracts, the additional assessment is made in the billing systems on the basis of the average daily consumption of electricity between the last actual reading date and the end of the reporting period.
- Additional assessment of sales related to client migration to an integrated billing system

  Due to the implementation of an integrated billing system, at the end of each reporting period additional assessments are made to comply with technical requirements of the billing system in relation to earlier meter reading dates and changes to the client billing model versus the previous billing systems.
- Additional assessment of sales resulting from reconciliation of the energy balance

  The Group companies from the Sales segment reconcile the energy balance by estimating the non-balancing sales or purchase volume at the end of each reporting period. An amount increasing or reducing revenue from sales of electricity, determined as the product of the estimated non-balancing volume and the weighted average purchase price of electricity is also accounted for.

Revenue from sales of gas fuel and distribution services provided to retail and wholesale buyers (balancing market sales) is classified to the Sales segment. Revenue from sales is determined on the basis of the billed volume and price, including additional assessments.

Revenue from sales of gas fuel and distribution services is estimated using two methods:

- Additional assessment of sales to clients, unbilled as at the end of the reporting period

  Measurement and billing systems showing the gas volume sold to retail clients are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, relevant estimates are performed as at the end of the reporting period. For clients who have concluded comprehensive contracts, the additional assessments regarding gas fuel sales are made in the billing systems based on daily average consumption of gas fuel in the period from the last actual reading date until the end of the reporting period. Additional assessments regarding distribution services are made as a difference between the costs of purchasing the gas fuel distribution services and billed revenue from sales of the distribution services.
- Additional assessment of sales resulting from reconciliation of the energy balance

  The company reconciles the energy balance by estimating the non-balancing gas fuel sales or purchase volume at the end of each reporting period. The additional assessment includes the amount increasing or reducing revenue from sales of gas fuel, calculated as the product of the estimated non-balancing volume and the monthly average reference price of high-methane gas published by Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.

9.26.3. Revenue from wholesale of electricity in the Generation segment

Wholesale of electricity from the generation units managed centrally and as part of trading operations requires the client and the supplier's notification of the volume of electricity declared per each hour to the Transmission System Operator through the centralized computerized Energy Market Information Exchange System, which volume a Generation segment company is obliged to provide under specific contracts as a supplier (sales of energy generated internally or purchased as part of trading operations) or ensure its provision (through energy purchases on the Balancing Market) and the client is obliged to accept. Both the price and volume per each hour is determined on the basis of transactions signed in advance or (in the case of the Polish Power Exchange) recorded electronically. The Transmission System Operator, which kind of guarantees volume settlements, ensures reliability of data concerning the supplied volume of energy. As billing is based on reports generated by the Transmission System Operator, all electricity wholesale invoices are raised following electricity supply, with a clearly determined volume and value of such energy.

Sales invoices relating to electricity supplied to the Balancing Market are raised on the basis of reports from the centralized system balancing sales in the Polish National Power System. Such settlements are made every decade. The invoicing procedure, including the price setting algorithms and principles as well as the due dates, is set out in the Transmission System Operation and Maintenance Instruction approved by the President of the Energy Regulatory Office.

Wholesale of electricity from generation units which are not managed centrally (local market generation units of less than 100MW) is subject to similar rules. However, it is the local market operator that is responsible for the settlements.

9.26.4. Revenue from sales of heat in the Generation segment

Heat is sold under heat sale contracts entered into with institutional clients and consumers.

Institutional clients incur charges twice a month: fixed ones for power contracted in advance at rates specified in the tariff in force and floating ones calculated regularly based on progressive readings. Meters are read between the first and the last reading date. Charges are imposed regularly, on a monthly basis. Seldom, institutional buyers are charged once a month with the total of fixed and floating charges or just with fixed charges in accordance with concluded contracts. Fixed and variable charges are imposed on consumers once a month, in line with the meter reading schedule, on a specific meter reading date, at rates specified in the tariff in force. Variable charges are imposed periodically, by reference to meter readings on an accrual basis. Meters are read between the first and the last reading date. Charges are imposed regularly, on a monthly basis.

Revenue is measured by reference to the tariff in force, the volume of power billed, heat, carrier, lease rate, excess amount and other actual consumption of products, based on rates and prices listed in the current tariffs. It includes mainly charges for contracted power as well as fixed and variable transmission.

Heat is sold by reference to readings on an accrual basis. Therefore, an additional assessment of sales is made for accounting purposes from the reading date to the end of the month so as to determine the monthly sales volume from the first to the last day of the month. Additional assessments of sales are made separately for each reading point. Additional assessment for a given point includes billed sales minus an additional assessment for the previous month, plus an additional assessment for the current month.

9.26.5. Revenue from sales of coal in the Mining segment

Sales of fine coal supplied under sales contracts to power and heat and power stations of the TAURON Group represent the intragroup market for the Mining segment. Entities operating in the Company's sales network in the Mining segment, i.e. Authorized Coal Sellers and Coal Sellers, play a strategic role in coal sales. Coal sales are performed also under agreements with final buyers, in the form of Intracommunity Delivery of Goods and export, as well as retail sales.

Sales are made on a continuous basis in the form of railroad and truck sales, in accordance with the railroad supply schedule and truck sales advice notes. Sales are made when coal is handed over to the carrier, whether in truck or railroad transport.

(in PLN '000)

Revenue from sales of coal is measured on the basis of sales values resulting from the billed volume and price. Revenue from sales of coal is adjusted, in particular, based on discounts, price reductions as well as accepted volume and quality complaints.

9.27. Operating expenses — Note 13

Operating expenses include:

- cost of goods, products, materials and services sold (cost of sales), incurred during a given reporting period, including any impairment losses on property, plant and equipment, intangible assets, receivables and inventories, adjusted by cost of manufacturing products for own purposes;
- total selling and distribution as well as administrative expenses incurred in the reporting period (disclosed separately in the statement of comprehensive income).

Costs that can be assigned directly to revenue generated by the Group impact the profit or loss for the period which the revenue pertains to.

Costs that can only be indirectly assigned to revenue or other benefits obtained by the Group impact the profit or loss in the portion pertaining to the given reporting period, and match the revenue or other economic benefits.

9.28. Foreign currency transactions translated into the presentation currency of foreign operations

Foreign currency transactions (i.e. those not made in the functional currency) are translated into the functional currency at initial recognition at the exchange rate applicable as at the transaction date.

As at the end of the reporting period monetary items are translated at the closing rate (for entities whose functional currency is PLN the closing rate is the average exchange rate published for the currency by the National Bank of Poland as at the date).

Exchange rates applied for the purpose of balance sheet measurement:

Currency	31 December 2016	31 December 2015
USD	4.1793	3.9011
EUR	4.4240	4.2615
CZK	0.1637	0.1577

As at the end of the reporting period, exchange differences from translation and settlement are recognized through profit or loss within finance income (or cost), except for those capitalized in assets.

Individual items of the financial statements of foreign operations (TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ)) have been translated to the presentation currency in the following manner:

- assets and liabilities have been translated to the presentation currency at the average exchange rate published by the National Bank of Poland as at the end of the reporting period;
- revenue and expenses have been translated at the average exchange rate of the National Bank of Poland published at the transaction date or the average exchange rate for a given period, if no significant exchange rate fluctuations occurred in the period;
- exchange differences from translation have been recognized in other comprehensive income.

9.29. Statement of cash flows

The statement of cash flows is prepared in line with the indirect method.

OPERATING SEGMENTS

10. Information on operating segments

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

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

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

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

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

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

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

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

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

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

The Group's reporting format for the period from 1 January 2016 to 30 September 2016 and for the comparative period was based on the following operating segments:

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

* *Entities recognized with the equity method.*

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

10.1. Operating segments

Revenue, profit or loss, assets and liabilities of individual operating segments of the Group for the years ended 31 December 2016 and 31 December 2015 have been presented below.

(in PLN '000)

Year ended 31 December 2016	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	492 231	2 457 280	3 100 495	11 513 348	83 135	–	**17 646 489**
Inter-segment sales	818 912	1 898 821	3 209 721	2 502 842	744 793	(9 175 089)	**–**
Segment revenue	**1 311 143**	**4 356 101**	**6 310 216**	**14 016 190**	**827 928**	**(9 175 089)**	17 646 489
Profit/(loss) of the segment	**(205 163)**	**(752 813)**	**1 363 236**	**479 374**	**42 642**	**(20 472)**	**906 804**
Unallocated expenses	–	–	–	–	–	(105 282)	**(105 282)**
EBIT	**(205 163)**	**(752 813)**	**1 363 236**	**479 374**	**42 642**	**(125 754)**	**801 522**
Share in profit/(loss) of joint ventures	–	60 040	–	–	–	–	**60 040**
Net finance income (costs)	–	–	–	–	–	(352 701)	**(352 701)**
Profit/(loss) before income tax	**(205 163)**	**(692 773)**	**1 363 236**	**479 374**	**42 642**	**(478 455)**	**508 861**
Income tax expense	–	–	–	–	–	(138 724)	**(138 724)**
Net profit/(loss) for the year	**(205 163)**	**(692 773)**	**1 363 236**	**479 374**	**42 642**	**(617 179)**	**370 137**
Assets and liabilities							
Segment assets	2 069 263	10 412 940	16 761 938	2 659 458	468 202	–	**32 371 801**
Investments in joint ventures	–	461 348	–	–	–	–	**461 348**
Unallocated assets	–	–	–	–	–	623 745	**623 745**
Total assets	**2 069 263**	**10 874 288**	**16 761 938**	**2 659 458**	**468 202**	**623 745**	**33 456 894**
Segment liabilities	829 974	1 936 334	2 162 907	1 660 156	288 365	–	**6 877 736**
Unallocated liabilities	–	–	–	–	–	9 899 840	**9 899 840**
Total liabilities	**829 974**	**1 936 334**	**2 162 907**	**1 660 156**	**288 365**	**9 899 840**	**16 777 576**
EBIT	**(205 163)**	**(752 813)**	**1 363 236**	**479 374**	**42 642**	**(125 754)**	**801 522**
Depreciation/amortization	**(123 031)**	**(425 742)**	**(1 037 789)**	**(10 631)**	**(71 533)**	**–**	**(1 668 726)**
Impairment	**(2)**	**(872 382)**	**6 213**	**–**	**(395)**	**–**	**(866 566)**
EBITDA	**(82 130)**	**545 311**	**2 394 812**	**490 005**	**114 570**	**(125 754)**	**3 336 814**
Other segment information							
Capital expenditure*	283 169	1 661 215	1 806 054	1 452	64 921	–	**3 816 811**

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

Year ended 31 December 2015 (*restated figures*)	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	459 304	2 226 869	3 006 443	12 486 908	84 916	–	**18 264 440**
Inter-segment sales	746 640	3 149 411	3 443 831	3 386 447	843 037	(11 569 366)	**–**
Segment revenue	**1 205 944**	**5 376 280**	**6 450 274**	**15 873 355**	**927 953**	**(11 569 366)**	18 264 440
Profit/(loss) of the segment	**(104 328)**	**(3 477 076)**	**1 371 577**	**369 529**	**32 596**	**(6 379)**	**(1 814 081)**
Unallocated expenses	–	–	–	–	–	(87 135)	**(87 135)**
EBIT	**(104 328)**	**(3 477 076)**	**1 371 577**	**369 529**	**32 596**	**(93 514)**	**(1 901 216)**
Share in profit/(loss) of joint ventures	–	7 933	–	–	–	–	**7 933**
Net finance income (costs)	–	–	–	–	–	(294 488)	**(294 488)**
Profit/(loss) before income tax	**(104 328)**	**(3 469 143)**	**1 371 577**	**369 529**	**32 596**	**(388 002)**	**(2 187 771)**
Income tax expense	–	–	–	–	–	383 556	**383 556**
Net profit/(loss) for the year	**(104 328)**	**(3 469 143)**	**1 371 577**	**369 529**	**32 596**	**(4 446)**	**(1 804 215)**
Assets and liabilities							
Segment assets	1 657 407	10 370 286	15 974 893	2 709 132	478 618	–	**31 190 336**
Investments in joint ventures	–	418 127	–	–	–	–	**418 127**
Unallocated assets	–	–	–	–	–	462 970	**462 970**
Total assets	**1 657 407**	**10 788 413**	**15 974 893**	**2 709 132**	**478 618**	**462 970**	**32 071 433**
Segment liabilities	537 234	1 735 686	2 505 890	1 654 794	303 352	–	**6 736 956**
Unallocated liabilities	–	–	–	–	–	9 286 320	**9 286 320**
Total liabilities	**537 234**	**1 735 686**	**2 505 890**	**1 654 794**	**303 352**	**9 286 320**	**16 023 276**
EBIT	**(104 328)**	**(3 477 076)**	**1 371 577**	**369 529**	**32 596**	**(93 514)**	**(1 901 216)**
Depreciation/amortization	**(113 473)**	**(647 963)**	**(992 771)**	**(10 876)**	**(67 607)**	**–**	**(1 832 690)**
Impairment	**8**	**(3 583 864)**	**(7 781)**	**–**	**(117)**	**–**	**(3 591 754)**
EBITDA	**9 137**	**754 751**	**2 372 129**	**380 405**	**100 320**	**(93 514)**	**3 523 228**
Other segment information							
Capital expenditure*	211 458	1 934 229	1 924 886	4 604	100 293	–	**4 175 470**

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

10.2. Geographic areas of operations

The majority of the Group's business operations is carried out in Poland. In the years ended 31 December 2016 and 31 December 2015, export sales amounted to PLN 259 166 thousand and PLN 469 756 thousand, respectively.

The aforesaid value of export sales includes sales of emission allowances in the trading portfolio presented less cost of sales in the statement of comprehensive income as the total gain/loss on transactions from this portfolio. Gains/losses on derivative commodity instruments are not taken into account.

IMPAIRMENT OF NON-FINANCIAL ASSETS

11. Impairment of non-financial assets

11.1. Impairment of property, plant and equipment

In the year ended 31 December 2016, the Group recognized and reversed impairment losses on property, plant and equipment as a result of impairment tests performed as at 31 December 2016 and 30 June 2016.

As at 31 December 2016, impairment tests were performed for property, plant and equipment based on the following indications:

- the market value of the Company's net assets remaining below their carrying amount for a long period;
- a drop in the prices of certificates for energy produced from renewable sources;
- introduction of new RES regulations;
- the continued unfavorable market conditions in the coal power industry;
- an increase in the risk-free rate.

The tests conducted as at 31 December 2016 and 30 June 2016 required estimating the value in use of cash-generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

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

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

Key assumptions made for purposes of tests performed as at 31 December 2016:

- the adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will increase by ca. 9% in real terms by 2026 and after 2026 insignificant changes in 2026 year prices (fixed) are anticipated;
- the adopted electricity wholesale price path for the years 2017–2026 with the perspective by 2040, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring greenhouse gas emission allowances. A drop of ca. 5% is assumed by 2020 with a dynamic growth rate by 2026 (16% vs. 2020), an increase of 11% between 2026 and 2040 and 2040 year prices thereafter (fixed);
- estimated changes in the Polish market model aimed to introduce the capacity market or other incentive mechanisms for production capacity have been taken into account;
- emission limits for generating electricity specified in the regulation of the Council of Ministers, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- the adopted greenhouse gas emission allowance price path for the years 2017–2026 with the perspective by 2040. It is assumed that the market price will increase by ca. 70% by 2026, followed by a rise of ca. 16% between 2026 and 2040, with 2040 year price level thereafter (fixed);
- green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A drop of ca. 6% is assumed for renewable energy prices by 2020, followed by a rise by 2026 (13% vs. 2020), an increase of 13% between 2026 and 2040 and 2040 year prices thereafter (fixed);
- limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources (the "RES Act"), which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity of more than 5 MW do not qualify for support;

- support for CHP in line with the regulations which are currently in force. It is assumed that property rights exist for red, yellow and purple energy and that they will have to be surrendered by 2018. No support for CHP has been assumed thereafter;
- regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- the adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- sales volumes taking into account GDP growth and increased market competition;
- tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- maintaining the production capacity of the existing non-current assets as a result of replacement investments;
- the level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 5.94% to 8.44% in nominal terms before tax.

Key assumptions made for purposes of tests performed as at 30 June 2016:

- the adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will decrease by ca. 6% in real terms by 2025 and after 2025 insignificant changes in 2025 year prices (fixed) are anticipated;
- the adopted electricity wholesale price path for the years 2016–2025, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring greenhouse gas emission allowances. A drop of ca. 7% is assumed by 2020 with a dynamic growth rate by 2025 (13% vs. 2020), an increase of 18% between 2025 and 2040 and 2040 year prices thereafter (fixed);
- the adopted greenhouse gas emission allowance price path for the years 2016–2025. It is assumed that the market price will increase by ca. 50% by 2025, followed by a rise of ca. 20% between 2025 and 2040, with 2040 year price level thereafter (fixed);
- green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A drop of ca. 7% is assumed for renewable energy prices by 2020, followed by a rise by 2025 (11% vs. 2020), an increase of 22% between 2025 and 2040 and 2040 year prices thereafter (fixed);
- the level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 6.34% to 9.63% in nominal terms before tax;
- other assumptions were the same as adopted for tests performed as at 31 December 2016.

In the year ended 31 December 2016, the Group recognized and reversed impairment losses on property, plant and equipment as a result of impairment tests performed:

- as at 31 December 2016: the impairment test revealed that an additional impairment loss of PLN 581 900 thousand should be recognized on a portion of the Generation segment assets. The test also identified the possibility to reverse an impairment loss in this segment in the amount of PLN 505 083 thousand.
- as at 30 June 2016: the impairment test revealed that an additional impairment loss of PLN 1 361 037 thousand should be recognized on a portion of the Generation segment assets. The test also showed that it would be reasonable to reverse an impairment loss in this segment in the amount of PLN 703 162 thousand.

The recoverable amount of this asset group corresponds to the value in use. The impairment losses were charged to the cost of sales.

The impairment loss and its reversal as a result of tests performed as at 31 December 2016 and 30 June 2016 concerned the following cash-generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:			Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		31 December 2016	30 June 2016	31 December 2015	As at 31 December 2016	Year ended 31 December 2016	
Elektrownia Jaworzno II	TAURON Wytwarzanie S.A.	7.78%	7.49%	7.69%	235 750	269 823	86 034
Elektrownia Jaworzno III					1 024 583	14 410	433 638
Elektrownia Łaziska					319 744	–	54 124
Elektrownia Łagisza					1 289 344	193 430	–
Elektrownia Siersza					157 356	232 253	156 571
Elektrownia Stalowa Wola					(99 426)	40 216	46 802
Capital projects in progress					–	19 328	–
ZW Bielsko Biała EC 1	TAURON Ciepło Sp. z o.o.	7.63%	7.17%	7.61%	615 489	–	209 433
ZW Bielsko Biała EC 2					(45 965)	7 061	–
ZW Tychy					499 172	382 719	221 643
Hydropower plants	TAURON Ekoenergia Sp. z o.o.	8.44%	8.25%	8.39%	611 273	42 310	–
FW Lipniki		6.71%	6.34%	8.90%	19 112	65 513	–
FW Wicko		6.97%	6.48%	8.17%	69 309	164 121	–
FW Marszewo		7.04%	6.49%	8.14%	228 352	464 839	–
Total CGU						**1 896 023**	**1 208 245**
Common assets	TAURON Wytwarzanie S.A.	7.78%	7.49%	7.69%	(19 511)	46 914	–
Total impairment losses						**1 942 937**	**1 208 245**

A sensitivity analysis performed for each CGU revealed that the value in use of the tested assets was mainly affected by the issue of the capacity market, followed by changes in electricity prices, in hard coal prices and in the weighted average cost of capital. The measurement is also affected by changes in greenhouse gas emission allowances, though to a lesser extent. The estimated changes in impairment losses on Generation assets, considering also the effect of their reversal as at 31 December 2016 as a result of changes in the key assumptions, have been presented below. If the capacity market mechanism was disregarded in the process of estimation of the value in use of property, plant and equipment, an additional net loss of ca. PLN 2 666 thousand would be recognized in the Group's profit/loss.

Parameter	Change	Net impact on impairment loss (i.e. reduced by derecognized amounts, in PLN million)	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	–	237
	-1%	366	–
Change of WACC (net)	+0.1 p.p.	92	–
	-0.1 p.p.	–	44
Change of CO_2 emission allowances prices in the forecast period	+1%	41	–
	-1%	–	41
Change of coal prices in the forecast period	+1%	105	–
	-1%	–	85
No recognition of Capacity Market		2 666	–

11.2. Impairment of goodwill

The test was performed for the net assets increased by goodwill in each operating segment, except Generation, where the test was carried out at each company level. The recoverable amount in each company was determined based on the value in use.

The test was performed based on the present value of projected cash flows from operations. The calculations were based on detailed projections for the period from 2017 to 2026 (in tests performed on 30 June 2016 for the period from 2016 to 2025) and the estimated residual value. In tests performed on 30 June 2016 for the generation units the projection period covers the whole period of their operation. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

(in PLN '000)

The discount rate used for calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (3.63%) (in the tests carried out as at 30 June 2016 – 3.27%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

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

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

Impairment test for the carrying amount of goodwill as at 31 December 2016

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

Goodwill in the segment	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		31 December 2016	31 December 2015
Mining	• The adopted price path of power coal and other coal sizes. The actual increase in the price of power coal assumed by 2026 approximates 9%, with slight fluctuations of 2026 prices thereafter (fixed); • The adopted retail price path of electricity based on the wholesale price of black energy including excise costs, cost of energy certificates surrender and a relevant markup; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	6.95%	9.05%
Distribution	• Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	6.39%	7.50%

The impairment test performed as at 31 December 2016 did not reveal impairment of the carrying amount of goodwill in the segments.

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

Impairment test for the carrying amount of goodwill as at 30 June 2016

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

(in PLN '000)

Goodwill in the segment (company)	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		30 June 2016 (*unaudited*)	31 December 2015
Mining	• The adopted price path of power coal and other coal sizes. The actual decrease in the price of power coal assumed by 2025 approximates 6%, with slight fluctuations of 2025 prices thereafter (fixed); • The adopted retail price path of electricity based on the wholesale price of black energy including excise costs, cost of energy certificates surrender and a relevant markup; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	9.57% – 9.63%	9.05%
Distribution	• Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	7.50%	7.50%
Generation (TAURON Ekoenergia Sp. z o.o.)	• Green energy production volumes depending on the production capacity, along with the price path for energy certificates. A drop of approx. 7% in prices of electricity from renewable sources has been assumed by 2020; a growth has been assumed by 2025 (11% in relation to 2020); a rise of ca. 22% is assumed for the years 2025–2040, with 2040 prices thereafter (fixed); • For green energy, limited support periods have been included, in accordance with the provisions of the Act on renewable energy sources determining new mechanisms of supporting generation of electricity from renewable sources. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity exceeding 5 MW have been excluded from the support; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	8.25% (for hydropower plants) 6.34% – 8.92% (for windfarms)	8.39% (for hydropower plants) 8.14% – 8.90% (for windfarms)

The impairment test performed as at 30 June 2016 revealed impairment of the carrying amount of goodwill in the Generation segment (TAURON Ekoenergia Sp. z o.o.). As a result, the Group recognized an impairment loss on goodwill of PLN 51 903 thousand. The impairment loss was charged to cost of sales.

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized
		30 June 2016 (*unaudited*)	31 December 2015		
Generation	TAURON Ekoenergia Sp. z o.o.	8.25% (for hydropower plants) 6.34% – 8.92% (for windfarms)	8.39% (for hydropower plants) 8.14% – 8.90% (for windfarms)	1 225 935	51 903

The impairment loss was recognized as a result of a drop in the prices of green certificates as well as introduction of new RES regulations.

The sensitivity analyses for each CGU revealed that changes in electricity prices and in the weighted average cost of capital were the key factors having the most significant effect on the value in use of the tested assets.

(in PLN '000)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

12. Sales revenue

	Year ended 31 December 2016	Year ended 31 December 2015 (*restated figures*)
Sale of goods for resale, finished goods and materials without elimination of excise	**11 575 033**	**12 080 940**
Excise	(395 601)	(425 691)
Sale of goods for resale, finished goods and materials, of which:	**11 179 432**	**11 655 249**
Electricity	9 521 948	10 099 333
Heat energy	650 625	613 660
Energy certificates	127 791	272 896
Coal	467 962	439 608
Gas	230 466	117 867
Other goods for resale, finished goods and materials	180 640	111 885
Rendering of services, of which:	**6 409 430**	**6 552 945**
Distribution and trade services	6 051 410	6 184 958
Connection fees	102 657	124 866
Maintenance of road lighting	116 463	116 042
Other services	138 900	127 079
Other revenue	**57 627**	**56 246**
Total sales revenue	**17 646 489**	**18 264 440**

Additional assessment of the revenue from sale of electricity and distribution services in the Sales segment

Additional assessment of the revenue from the sale of electricity and distribution services has been discussed in Note 9.26 Sales revenue.

As at 31 December 2016, additionally assessed revenue from sale of electricity and distribution services in the Sales segment totaled PLN 353 065 thousand and, when revered estimations from the prior year have been accounted for, the impact on the profit or loss for the period was PLN 104 592 thousand.

13. Cost of goods, products, materials and services sold (cost of sales)

13.1. Expenses by type

	Year ended 31 December 2016	Year ended 31 December 2015 (*restated figures*)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(1 668 726)	(1 832 690)
Impairment of property, plant and equipment and intangible assets	(867 109)	(3 598 926)
Materials and energy	(1 537 285)	(1 848 777)
Maitenance and repair services	(265 300)	(382 641)
Distribution services	(1 771 651)	(1 706 894)
Other external services	(759 687)	(674 265)
Cost of obligation to remit the emission allowances	(381 883)	(150 794)
Other taxes and charges	(667 415)	(619 698)
Employee benefits expense	(2 613 984)	(2 560 784)
Allowance for doubtful debts	(22 943)	(29 461)
Other	(106 892)	(130 155)
Total costs by type	**(10 662 875)**	**(13 535 085)**
Change in inventories, prepayments, accruals and deferred income	61 655	(164 328)
Cost of goods produced for internal purposes	471 286	610 506
Selling and distribution expenses	459 191	489 963
Administrative expenses	652 827	618 969
Cost of goods for resale and materials sold	(6 699 546)	(7 048 987)
Cost of sales	**(15 717 462)**	**(19 028 962)**

(in PLN '000)

13.2. Employee benefits expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	(2 036 168)	(1 952 987)
Social security costs	(399 157)	(380 096)
Jubilee bonuses	84 473	(19 367)
Social Fund	(57 881)	(56 215)
Post-employment benefit expenses, of which:	(85 478)	(31 863)
Provision for retirement, disability and similar benefits	5 368	(11 824)
Coal allowances and special electricity rates and charges	(13 665)	32 287
Social Benefits Fund	(9 754)	16 387
Contributions to employee retirement plans	(67 427)	(68 713)
Voluntary termination scheme	(20 866)	(46 172)
Other employee benefit expenses	(98 907)	(74 084)
Employee benefits expenses, of which:	**(2 613 984)**	**(2 560 784)**
Items included in cost of sales	(1 687 692)	(1 705 021)
Items included in selling and distribution expenses	(203 799)	(226 328)
Movement in stock of finished goods	(89 010)	(5 941)
Items included in administrative expenses	(403 571)	(376 309)
Items included in cost of goods produced for internal purposes	(229 912)	(247 185)

As at 31 December 2016, provisions for post-employment benefits and jubilee bonuses were remeasured. Past service costs were recognized within the Group's operating expenses in relation to:

- Jubilee bonuses – operating expenses were reduced by PLN 84 487 thousand, where PLN 37 027 thousand concerned changes in Collective Labor Agreements, while PLN 47 460 thousand concerned the change in the retirement age;
- post-employment benefit expenses – operating expenses were reduced by PLN 6 603 thousand, where PLN 61 236 thousand related to the reduction of provisions due to changes in Collective Labor Agreements, while PLN 54 633 thousand increased provisions due to the change in the retirement age.

The change in provisions for post-employment benefits and for jubilee bonuses has been discussed in more detail in Note 34.1 to these consolidated financial statements.

13.3. Depreciation and amortization charges and impairment losses

	Year ended 31 December 2016	Year ended 31 December 2015
Items included in cost of sales:	**(2 409 461)**	**(5 337 505)**
Depreciation of property, plant and equipment	(1 532 717)	(1 703 932)
Impairment of property, plant and equipment	(757 974)	(3 437 907)
Amortization of intangible assets	(43 487)	(36 909)
Impairment of intangible assets	(22 215)	(1 749)
Impairment of goodwill	(51 903)	(154 998)
Other	(1 165)	(2 010)
Items included in selling and distribution expenses:	**(33 318)**	**(33 291)**
Depreciation of property, plant and equipment	(17 639)	(16 999)
Amortization of intangible assets	(15 679)	(16 292)
Items included in administrative expenses:	**(75 640)**	**(42 354)**
Depreciation of property, plant and equipment	(27 868)	(25 286)
Impairment of property, plant and equipment	(33 245)	(2 262)
Amortization of intangible assets	(14 308)	(14 806)
Impairment of intangible assets	(219)	–
Items included in cost of goods produced for internal purposes:	**(17 416)**	**(18 466)**
Depreciation of property, plant and equipment	(16 751)	(18 117)
Impairment of property, plant and equipment	(388)	–
Amortization of intangible assets	(277)	(349)
Total depreciation/amortization expense and impairment, of which:	**(2 535 835)**	**(5 431 616)**
Depreciation and amortization	(1 668 726)	(1 832 690)
Impairment	(867 109)	(3 598 926)

(in PLN '000)

In the year ended 31 December 2016, the Group recognized impairment losses on property, plant and equipment as well as goodwill, in addition to reversing in part the impairment losses recognized before in the Generation segment, which was due to impairment tests performed as at 31 December 2016 and 30 June 2016. The total effect on the Group's gross profit/loss for 2016 was PLN 786 595 thousand (surplus of recognition over reversal). The tests and their results have been discussed in more detail in Note 11 to these consolidated financial statements.

Additionally in the year ended 31 December 2016, the Group companies recognized and derecognized impairment losses on individual assets. The related total charges to operating expenses of the Group amounted to PLN 80 514 thousand. The key items include impairment losses recognized by a Generation segment company on property, plant and equipment in relation to a subsidy obtained under contracts on co-funding of RES units construction of PLN 68 875 thousand, and intangible assets regarding land used for waste storage purposes of PLN 22 734 thousand.

Depreciation and amortization rates

A review of the estimated useful lives of fixed assets and intangible assets, conducted in 2016, had a material effect on the amortization and depreciation expense in the following operating segments:

Increase (decrease) in depreciation and amortization costs	Year ended 31 December 2016	Year ended 31 December 2015
Mining	(13 286)	(1 744)
Generation	520	5 567
Distribution	(25 900)	(10 000)

A review of the estimated useful lives in the remaining segments did not have a considerable effect on the amortization and depreciation expense.

14. Other operating revenue and expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Penalties, fines, compensations received or receivable	48 256	28 043
Surplus of (recognition)/reversal of actuarial provisions for the existing pensioners and disability pensioners	58 528	45 557
Surplus of other provisions (recognized)/derecognized	(115 733)	(12 616)
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges on subsidies/grants to fixed assets or fixed assets received free of charge	38 434	39 404
Surplus of subsidies written-off over provision created for their return	29 684	–
Loss on the disposal of property, plant and equipment / intangible assets and costs of damages to non-current assets	(116)	(14 973)
Write-off for abandoned investments and production as well as liquidated materials	(2 821)	(81 540)
Costs of court proceedings, fines and damages	(24 675)	(12 322)
Costs of patricipation in Polish National Foundation	(32 500)	–
Other operating income	22 208	43 878
Other operating expenses	(36 752)	(63 193)
Total other operating income and expenses	**(15 487)**	**(27 762)**

In the year ended 31 December 2016, following the modification of their Collective Labor Agreements, some Group companies reversed their provisions for post-employment benefits for their existing pensioners. Consequently, PLN 58 528 thousand was recognized within other operating revenue.

In the year ended 31 December 2016 the amount of provisions recognized in the Group exceeded the amount of unrecognized ones by PLN 115 733 thousand. The basis for provisions which were recognized or remeasured and had a material effect on the profit/loss of the Group have been presented in Note 37 to these consolidated financial statements.

A decrease in the cost of writing off discontinued investments was driven by a write-off of capitalized costs of work relating to drilling drifts and reinforcing walls of PLN 78 610 thousand in the comparative period, as they were no longer suitable for economic use.

(in PLN '000)

15. Finance income and costs

	Year ended 31 December 2016	Year ended 31 December 2015 (*restated figures*)
Income and costs from financial instruments, of which:	**(252 206)**	**(242 535)**
Interest income	35 314	60 385
Interest costs	(259 564)	(279 673)
Commission relating to borrowings and debt securities	(18 767)	(12 514)
Gain/loss on derivative instruments	14 138	(7 089)
Foreign exchange gains/losses	(30 261)	524
Dividend income	5 728	4 684
Other	1 206	(8 852)
Other finance income and costs, of which:	**(100 495)**	**(51 953)**
Interest on employee benefits	(50 101)	(44 491)
Interest on discount of other provisions	(19 106)	(5 272)
Other	(31 288)	(2 190)
Total finance income and costs, including recognized in the statement of comprehensive income:	**(352 701)**	**(294 488)**
Interest expense on debt	(259 564)	(279 673)
Other finance income and costs	(93 137)	(14 815)

In the year ended 31 December 2016, exchange losses exceeded exchange gains by PLN 30 261 thousand, which was mainly driven by exchange losses on an intra-group loan in the euro.

16. Income tax

16.1. Tax expense in the statement of comprehensive income

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax	**(229 134)**	**(206 255)**
Current income tax expense	(223 825)	(233 398)
Adjustments to current income tax from previous years	(5 309)	27 143
Deferred tax	**90 410**	**589 811**
Income tax expense in profit/(loss)	**(138 724)**	**383 556**
Income tax expense relating to other comprehensive income	**(63 052)**	**(28 587)**

16.2. Reconciliation of the effective tax rate

	Year ended 31 December 2016	Year ended 31 December 2015
Profit/(loss) before taxation	**508 861**	**(2 187 771)**
Tax at Poland's statutory tax rate of 19%	**(96 684)**	**415 676**
Adjustments to income tax from previous years	(5 309)	27 143
Tax effects of the following items:	(46 169)	(62 376)
Recognition of non-deductible provisions and write-downs/allowances	(25 072)	(9 183)
National Disabled Persons Rehabilitation Fund (PFRON)	(4 857)	(4 551)
Permanent differences on costs related to tangible assets	(27 426)	(5 135)
Impairment of goodwill	(9 862)	(29 450)
Settlement of a tax loss which was not recognized as a tax asset	16 595	–
Other tax non-deductible costs	(16 658)	(19 692)
Share in profit/loss of joint ventures	11 408	1 507
Other income not included in taxable base	9 703	4 128
Other	9 438	3 113
Tax at the effective rate of 27.3% (2015 – 17.5%)	**(138 724)**	**383 556**
Income tax (expense) in profit/(loss)	(138 724)	383 556

(in PLN '000)

16.3. Deferred income tax

	As at 31 December 2016	As at 31 December 2015
difference between tax base and carrying amount of fixed and intangible assets	1 511 102	1 490 408
difference between tax base and carrying amount of financial assets	45 981	29 609
different timing of recognition of sales revenue for tax purposes	49 299	69 064
difference between tax base and carrying amount of energy certificates	15 766	48 817
other	44 156	39 889
Deferred tax liabilities	**1 666 304**	**1 677 787**
provisions	638 914	685 405
difference between tax base and carrying amount of fixed and intangible assets	143 403	6 359
power infrastructure received free of charge and received connection fees	51 811	57 071
difference between tax base and carrying amount of financial assets and financial liabilities	50 387	49 471
valuation of hedging instruments	–	18 139
different timing of recognition of cost of sales for tax purposes	39 940	58 333
tax losses	12 758	12 758
difference between tax base and carrying amount of emission allowances	–	26 985
other	19 905	22 274
Deferred tax assets	**957 118**	**936 795**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**50 382**	**54 184**
Deferred tax liability	**(759 568)**	**(795 176)**

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

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

Change in deferred tax liability

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	**1 677 787**	**2 187 951**
Change in the balance:		
corresponding to profit/(loss)	(27 405)	(529 019)
reclassification from disposal group classified as held for sale	–	18 910
acquisition of ZCP Brzeszcze	15 239	–
other changes	683	(55)
Closing balance	**1 666 304**	**1 677 787**

Change in deferred tax asset

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	**936 795**	**892 902**
Change in the balance:		
corresponding to profit/(loss)	63 005	60 792
corresponding to other comprehensive income	(63 052)	(28 587)
reclassification from disposal group classified as held for sale	–	11 585
acquisition of ZCP Brzeszcze	18 366	–
other changes	2 004	103
Closing balance	**957 118**	**936 795**

(in PLN '000)

17. Earnings (loss) per share

Earnings (loss) per share (in PLN)	Year ended 31 December 2016	Year ended 31 December 2015
Basic and diluted, for profit (loss) for the year attributable to equity holders of the Parent	0.21	(1.03)

Presented below is information about the earnings (loss) and number of shares which served as the basis for calculation of the basic and diluted earnings (loss) per share presented in the statement of comprehensive income.

	Year ended 31 December 2016	Year ended 31 December 2015
Net profit (loss) for the year attributable to equity holders of the Parent	367 468	(1 807 317)
Number of ordinary shares	1 752 549 394	1 752 549 394

(in PLN '000)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

18. Property, plant and equipment

For the year ended 31 December 2016

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**119 536**	**19 928 399**	**16 910 428**	**804 020**	**2 599 980**	**40 362 363**
Direct purchase	–	–	85	253	3 495 992	**3 496 330**
Borrowing costs	–	–	–	–	94 018	**94 018**
Transfer of assets under construction	1 409	1 587 221	1 373 628	79 288	(3 041 546)	**–**
Sale, disposal	(385)	(7 610)	(14 329)	(24 203)	(48)	**(46 575)**
Liquidation	–	(55 360)	(124 965)	(13 342)	–	**(193 667)**
Received free of charge	9	16 912	766	–	–	**17 687**
Transfers to/from assets held for sale	(43)	(11 789)	64	(2 062)	(13)	**(13 843)**
Overhaul expenses	–	–	–	–	60 685	**60 685**
Items generated internally	–	–	–	–	38 332	**38 332**
Acquisition of ZCP Brzeszcze	1 544	165 401	22 429	1 637	14 405	**205 416**
Cost of disassembly of wind farms and decommissioning of mines	–	(31 863)	(1 552)	–	–	**(33 415)**
Other movements	(90)	11 733	(2 520)	4 495	(632)	**12 986**
Foreign exchange differences from translation of foreign entities	–	–	12	16	–	**28**
Closing balance	**121 980**	**21 603 044**	**18 164 046**	**850 102**	**3 261 173**	**44 000 345**
ACCUMULATED DEPRECIATION						
Opening balance	**(466)**	**(6 692 656)**	**(8 304 965)**	**(467 731)**	**(13 728)**	**(15 479 546)**
Depreciation for the period	–	(802 997)	(712 304)	(79 674)	–	**(1 594 975)**
Increase of impairment	(30)	(540 226)	(929 441)	(3 964)	(19 958)	**(1 493 619)**
Decrease of impairment	47	156 917	546 123	835	29	**703 951**
Sale, disposal	–	3 952	12 695	22 662	–	**39 309**
Liquidation	–	47 448	121 256	13 050	–	**181 754**
Transfers to/from assets held for sale	16	2 948	(16)	657	–	**3 605**
Other movements	–	(1 352)	(1 379)	(2 890)	–	**(5 621)**
Foreign exchange differences from translation of foreign entities	–	–	(7)	(7)	–	**(14)**
Closing balance	**(433)**	**(7 825 966)**	**(9 268 038)**	**(517 062)**	**(33 657)**	**(17 645 156)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**119 070**	**13 235 743**	**8 605 463**	**336 289**	**2 586 252**	**24 882 817**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**121 547**	**13 777 078**	**8 896 008**	**333 040**	**3 227 516**	**26 355 189**
of which operating segments:						
Mining	**2 774**	**724 056**	**612 225**	**16 706**	**341 810**	**1 697 571**
Generation	**41 303**	**2 394 113**	**3 935 303**	**37 148**	**2 252 690**	**8 660 557**
Distribution	**60 610**	**10 562 543**	**4 222 354**	**260 139**	**620 819**	**15 726 465**
Other segments and other operations	**16 860**	**96 366**	**126 126**	**19 047**	**12 197**	**270 596**

(in PLN '000)

For the year ended 31 December 2015

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**117 142**	**18 195 456**	**14 819 091**	**808 607**	**1 364 263**	**35 304 559**
Direct purchase	–	–	228	401	3 808 063	**3 808 692**
Borrowing costs	–	–	–	–	68 656	**68 656**
Transfer of assets under construction	3 608	1 320 193	1 400 437	102 850	(2 827 088)	**–**
Sale	(1 181)	(5 172)	(8 327)	(17 875)	(586)	**(33 141)**
Liquidation	–	(64 089)	(174 717)	(9 238)	(4)	**(248 048)**
Received free of charge	–	19 830	403	3	–	**20 236**
Transfers to/from assets held for sale	(7)	470 453	793 329	(8 536)	21 192	**1 276 431**
Overhaul expenses	–	–	–	–	139 078	**139 078**
Items generated internally	–	–	–	–	41 899	**41 899**
Cost of disassembly of wind farms and decommissioning of mines	–	(10 039)	(660)	–	–	**(10 699)**
Other movements	(26)	1 767	80 637	(72 202)	(15 493)	**(5 317)**
Foreign exchange differences from translation of foreign entities	–	–	7	10	–	**17**
Closing balance	**119 536**	**19 928 399**	**16 910 428**	**804 020**	**2 599 980**	**40 362 363**
ACCUMULATED DEPRECIATION						
Opening balance	**(458)**	**(5 049 663)**	**(4 957 467)**	**(440 706)**	**(5 323)**	**(10 453 617)**
Depreciation for the period	–	(839 414)	(837 677)	(87 243)	–	**(1 764 334)**
Increase of impairment	(81)	(826 976)	(2 608 593)	(5 036)	(8 421)	**(3 449 107)**
Decrease of impairment	51	8 954	143	770	16	**9 934**
Sale	–	1 890	7 290	16 500	–	**25 680**
Liquidation	–	52 057	169 981	8 821	–	**230 859**
Transfers to/from assets held for sale	22	(39 254)	(43 328)	4 610	–	**(77 950)**
Other movements	–	(250)	(35 310)	34 557	–	**(1 003)**
Foreign exchange differences from translation of foreign entities	–	–	(4)	(4)	–	**(8)**
Closing balance	**(466)**	**(6 692 656)**	**(8 304 965)**	**(467 731)**	**(13 728)**	**(15 479 546)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**116 684**	**13 145 793**	**9 861 624**	**367 901**	**1 358 940**	**24 850 942**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**119 070**	**13 235 743**	**8 605 463**	**336 289**	**2 586 252**	**24 882 817**
of which operating segments:						
Mining	**1 189**	**582 131**	**596 130**	**14 595**	**161 732**	**1 355 777**
Generation	**41 638**	**2 514 623**	**3 977 254**	**38 806**	**1 662 593**	**8 234 914**
Distribution	**59 414**	**10 037 164**	**3 892 698**	**260 861**	**754 370**	**15 004 507**
Other segments and other operations	**16 829**	**101 825**	**139 381**	**22 027**	**7 557**	**287 619**

Property, plant and equipment used based on finance leases	As at 31 December 2016	As at 31 December 2015
Buildings	34 117	33 962
Plant and machinery	17 226	3 715
Motor vehicles	406	870

In the year ended 31 December 2016, the Group purchased property, plant and equipment of PLN 3 590 348 thousand, including capitalized borrowing costs. The major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	Year ended 31 December 2016	Year ended 31 December 2015
Distribution	1 717 236	1 858 807
Generation	1 560 458	1 750 548
Mining	282 420	210 574

The average capitalization rate of borrowing costs in the year ended 31 December 2016 was 4.10% vs. 4.33% in the year ended 31 December 2015.

The key investment projects carried out by the Group in the 2016 financial year have been discussed in Section 1.5.2. of the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the 2016 financial year.

(in PLN '000)

Recognition and reversal of impairment losses on property, plant and equipment had the following impact on operating segment performance:

	Year ended 31 December 2016				Year ended 31 December 2015			
	Generation	Distribution	Other	Total	Generation	Distribution	Other	Total
Increase of impairment	(1 487 766)	(5 853)	–	**(1 493 619)**	(3 430 917)	(18 173)	(17)	**(3 449 107)**
Decrease of impairrment	689 181	14 770	–	**703 951**	609	9 322	3	**9 934**
Total impact on the profit (loss) for the period	**(798 585)**	**8 917**	**–**	**(789 668)**	**(3 430 308)**	**(8 851)**	**(14)**	**(3 439 173)**

19. Goodwill

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	**92 059**	**195 154**
Impairment loss	(51 903)	(154 998)
Reclassification from disposal group classified as held for sale	–	51 903
Closing balance, of which operating segments:	**40 156**	**92 059**
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	581	52 484

In the year ended 31 December 2016, the Group recognized an impairment loss on the carrying amount of goodwill in the Generation segment, totaling PLN 51 903 thousand. The impairment loss was recognized following the performance of impairment tests as at 30 June 2016. The tests performed as at 31 December 2016 did not identify a necessity to recognize an impairment loss on the carrying amount of goodwill. The performed tests have been described in Note 11.2 hereof.

20. Energy certificates and gas emission allowances

20.1. Long-term energy certificates and gas emission allowances

For the year ended 31 December 2016

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**232 973**	**277 867**	**510 840**
Direct purchase	110 430	15 830	**126 260**
Reclassification	(232 973)	(277 867)	**(510 840)**
Closing balance	**110 430**	**15 830**	**126 260**

For the year ended 31 December 2015

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**207 397**	**265 103**	**472 500**
Direct purchase	85 240	129 548	**214 788**
Reclassification	(59 664)	(116 784)	**(176 448)**
Closing balance	**232 973**	**277 867**	**510 840**

20.2. Short-term energy certificates and gas emission allowances

For the year ended 31 December 2016

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**652 305**	**153 083**	**805 388**
Direct purchase	283 978	318 127	**602 104**
Generated internally	102 149	–	**102 149**
Cancellation	(709 538)	(325 230)	**(1 034 768)**
Reclassification	227 607	277 867	**505 475**
Closing balance	**556 501**	**423 847**	**980 348**

(in PLN '000)

For the year ended 31 December 2015

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**724 918**	**8 130**	**733 048**
Direct purchase	411 854	33 643	**445 497**
Generated internally	235 484	–	**235 484**
Cancellation	(781 711)	(5 941)	**(787 652)**
Reclassification	61 760	117 251	**179 011**
Closing balance	**652 305**	**153 083**	**805 388**

20.3. Balance of greenhouse gas emission allowances recorded in the Union Registry

CO_2 emissions allowances	Year ended 31 December 2016	Year ended 31 December 2015
Allowances recorded at the beginning of the financial year	**23 737 448**	**26 878 236**
Allowances surrendered:		
in the installations of TAURON Wytwarzanie S.A. (previous year's emissions)	(14 736 415)	(12 508 585)
in the installations of TAURON Ciepło Sp. z o.o. (previous year's emissions)	(1 562 047)	(1 571 376)
in the installations of TAURON Wytwarzanie S.A. (current year's emissions)	(7 501 634)	–
Allocation of free-of-charge allowances	3 627 599	6 985 193
Allowances purchased on the secondary market	24 673 500	8 745 500
Allowances sold on the secondary market	(8 755 500)	(3 698 500)
Other changes – transferred to TAMEH	–	(1 093 020)
Allowances recorded at the end of the financial year, of which:	**19 482 951**	**23 737 448**
Allowances intended for surrender for a given year:	(7 395 649)	(14 604 360)
in the installations of TAURON Wytwarzanie S.A.	(5 863 776)	(13 040 086)
in the installations of TAURON Ciepło Sp. z o.o.	(1 531 873)	(1 564 274)

The third phase of the EU Emissions Trading System (EU ETS) started on 1 January 2013. For that phase, one EU-wide emission limit has been imposed, which will gradually be reduced by 1.74% a year by 2020. In accordance with Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 (the "Directive") amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community, auctioning has become the key method of obtaining EU emission allowances. It is expected that during the third phase each EU member state will auction over 40% of allowances awarded in 2013–2020. The remaining allowances are allocated free of charge to: energy-intensive sectors (exposed to the risk of carbon leakage), other sectors (in line with the strategy to gradually eliminate free allocation) – pursuant to Article 10a of the Directive, and electric power sectors in selected member states, including Poland, qualifying for derogation under Article 10c ("derogation allowances"). Derogation allowances have been awarded for the years 2013–2020 based on costs of investments, which are a condition for obtaining allowances.

In 2016, the TAURON Group companies obtained emission allowances free of charge under Article 10a of the Directive in the following quantity: 585 344 EUA for heat generation (based on the List of facilities covered by the National Implementation Measures, including the quantity of emission allowances for 2013–2020 – to be awarded in 2016) and 3 042 255 EUA for electricity generation (based on the List of electricity generation facilities covered by the greenhouse gas emissions trading system, including the quantity of allowances to be granted in 2016 – allocation for 2015).

In the financial and factual reports filed by the TAURON Group in 2016, which concerned investment task performance covered by National Investment Plan for the settlement period from 1 July 2015 to 30 June 2016, the value of free-of-charge allowances related to modernization of the electricity generation process for 2016, i.e. 1 680 838 EUA were balanced. The Group expects that the allowances will have been obtained by the end of April 2017.

(in PLN '000)

21. Other intangible assets

For the year ended 31 December 2016

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**5 690**	**786 504**	**550 892**	**188 004**	**51 885**	**1 582 975**
Direct purchase	–	–	38	–	127 408	**127 446**
Transfer of intangible assets not made available for use	–	184	63 062	22 492	(85 738)	**–**
Sale, disposal	–	(2 373)	(4)	–	(55)	**(2 432)**
Liquidation	(256)	(65)	(3 996)	(89)	–	**(4 406)**
Acquisition of ZCP Brzeszcze	–	10 266	95	147	–	**10 508**
Transfers to/from assets held for sale	–	(8 728)	–	–	–	**(8 728)**
Other movements	–	495	449	1 319	(440)	**1 823**
Foreign exchange differences from translation of foreign entities	–	–	42	–	–	**42**
Closing balance	**5 434**	**786 283**	**610 578**	**211 873**	**93 060**	**1 707 228**
ACCUMULATED AMORTIZATION						
Opening balance	**(4 893)**	**(13 064)**	**(332 862)**	**(49 391)**	**–**	**(400 210)**
Amortization for the period	(159)	–	(58 046)	(15 546)	–	**(73 751)**
Increase of impairment	(403)	(23 094)	(1 359)	(138)	(7)	**(25 001)**
Decrease of impairment	79	1 773	1 619	16	–	**3 487**
Sale, disposal	–	–	3	–	–	**3**
Liquidation	256	–	3 917	81	–	**4 254**
Transfers to/from assets held for sale	–	8 768	–	–	–	**8 768**
Other movements	–	–	(312)	(4)	–	**(316)**
Foreign exchange differences from translation of foreign entities	–	–	(35)	–	–	**(35)**
Closing balance	**(5 120)**	**(25 617)**	**(387 075)**	**(64 982)**	**(7)**	**(482 801)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**797**	**773 440**	**218 030**	**138 613**	**51 885**	**1 182 765**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**314**	**760 666**	**223 503**	**146 891**	**93 053**	**1 224 427**

For the year ended 31 December 2015

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**4 670**	**789 670**	**475 291**	**153 770**	**53 436**	**1 476 837**
Direct purchase	–	–	80	–	117 065	**117 145**
Transfer of intangible assets not made available for use	–	1 123	89 290	33 451	(123 864)	**–**
Sale	–	(2 132)	(8 072)	–	–	**(10 204)**
Liquidation	(256)	(1)	(5 925)	(433)	–	**(6 615)**
Other movements	1 276	(2 156)	200	1 216	5 248	**5 784**
Foreign exchange differences from translation of foreign entities	–	–	28	–	–	**28**
Closing balance	**5 690**	**786 504**	**550 892**	**188 004**	**51 885**	**1 582 975**
ACCUMULATED AMORTIZATION						
Opening balance	**(3 822)**	**(15 297)**	**(289 949)**	**(35 635)**	**–**	**(344 703)**
Amortization for the period	(474)	–	(53 959)	(13 922)	–	**(68 355)**
Increase of impairment	(853)	(383)	(2 845)	(259)	–	**(4 340)**
Decrease of impairment	–	2 616	–	–	–	**2 616**
Sale	–	–	8 072	–	–	**8 072**
Liquidation	256	–	5 916	430	–	**6 602**
Other movements	–	–	(75)	(5)	–	**(80)**
Foreign exchange differences from translation of foreign entities	–	–	(22)	–	–	**(22)**
Closing balance	**(4 893)**	**(13 064)**	**(332 862)**	**(49 391)**	**–**	**(400 210)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**848**	**774 373**	**185 342**	**118 135**	**53 436**	**1 132 134**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**797**	**773 440**	**218 030**	**138 613**	**51 885**	**1 182 765**

(in PLN '000)

In the year ended 31 December 2016 an impairment loss on perpetual usufruct of land of PLN 22 734 thousand was recognized relating to land used for storage of waste coming from power generation in Jaworzno II and Jaworzno III Power Plants.

22. Shares in joint ventures

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o. in liquidation	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2016
Non-current assets	1 126 668	–	1 479 845	**2 606 513**
Current assets, including:	5 739	37 056	501 547	**544 342**
cash and cash equivalents	*3 809*	*37 009*	*196 442*	***237 260***
Non-current liabilities (-) including:	(1 028 954)	–	(664 603)	**(1 693 557)**
debt	*(980 977)*	–	*(536 585)*	***(1 517 562)***
Current liabilities (-) including:	(132 395)	(97)	(349 101)	**(481 593)**
debt	*(65 752)*	–	*(1 647)*	***(67 399)***
Total net assets	(28 942)	36 959	967 688	**975 705**
Share in net assets	(14 471)	18 479	483 844	**487 852**
Investment in joint ventures	**–**	**18 479**	**442 869**	**461 348**
Share in revenue of joint ventures	6 675	449	559 624	**566 748**
Share in profit/(loss) of joint ventures	**–**	**18**	**60 022**	**60 040**
Share in other comprehensive income of joint ventures	**–**	**–**	**(1 040)**	**(1 040)**

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

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2015
Non-current assets	1 085 917	–	1 295 743	**2 381 660**
Current assets, including:	12 387	37 008	341 716	**391 111**
cash and cash equivalents	*91*	*36 943*	*14 880*	***51 914***
Non-current liabilities (-) including:	(965 514)	–	(378 507)	**(1 344 021)**
debt	*(963 766)*	–	*(295 503)*	***(1 259 269)***
Current liabilities (-) including:	(125 610)	(85)	(377 432)	**(503 127)**
debt	*(40 149)*	–	*(2 134)*	***(42 283)***
Total net assets	7 180	36 923	881 520	**925 623**
Share in net assets	3 590	18 461	440 760	**462 811**
Investment in joint ventures	**–**	**18 461**	**399 666**	**418 127**
Share in revenue of joint ventures	18	490	545 175	**545 683**
Share in profit/(loss) of joint ventures	**(1 474)**	**(13 644)**	**23 051**	**7 933**
Share in other comprehensive income of joint ventures	**–**	**–**	**(387)**	**(387)**

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

Elektrociepłownia Stalowa Wola S.A.

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

On 27 October 2016, a conditional agreement was made among the Company, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. to set out the key boundary conditions for project restructuring along with a conditional annex to the electricity sales contract. Furthermore, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. executed a conditional annex to the gaseous fuel supply contract, which has been discussed in more detail in Note 35 to these consolidated financial statements.

The agreement reflects the will of the Company and PGNIG S.A. to continue the construction of the gas and steam unit. According to the Management Board of the Company, the aforesaid documents enable completion of the investment in 2019 (preliminary estimate).

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

Additionally, the Company has receivables due to loans granted to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 256 067 thousand, which has been discussed in more detail in Note 23, as well as provisions for onerous commercial contracts in the amount of PLN 198 844 thousand, which have been discussed in Note 35.3.

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

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

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

On 28 July 2016, TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. signed an agreement pursuant to which they unanimously decided to discontinue the construction of the gas and steam unit in Elektrownia Blachownia Nowa Sp. z o.o. and terminate the shareholders agreement concluded by KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A., which denotes expiration of all contractual obligations and discontinuation of all works specified in the agreement. KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. unanimously decided to commence the liquidation of the company, in line with its articles of association and laws of general application. On 11 October 2016, the Extraordinary General Shareholders' Meeting dissolved Elektrownia Blachownia Nowa Sp. z o.o. and placed it into liquidation, in addition to appointing a receiver. As Elektrownia Blachownia Nowa Sp. z o.o. in liquidation holds current assets which may be subject to distribution among the partners in the joint venture to a considerable extent, the Group does not recognize any additional impairment losses on its interest in the company.

TAMEH HOLDING Sp. z o.o. and subsidiaries

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

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

On 29 June 2016, the General Shareholders' Meeting of TAMEH HOLDING Sp. z o.o. decided to allocate PLN 48 000 thousand to pay dividends to the shareholders. The Group's interest in the joint venture TAMEH HOLDING Sp. z o.o. was reduced by the value of the dividend payable to the Group in the amount of PLN 24 000 thousand.

23. Loans granted to joint ventures

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 31 December 2016 and 31 December 2015:

(in PLN '000)

	Agreement date	Contractual loan amount	As at 31 December 2016		As at 31 December 2015		Maturity date	Purpose
			Principal	Interest	Principal	Interest		
Subordinated loan	20 June 2012	177 000	177 000	36 381	177 000	28 922	31.12.2032	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14 December 2015	15 850	15 850	699	15 850	31	31.12.2027	Repayment of the principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
	15 December 2016	15 300	11 000	21	–	–		
Other loans	25 November 2015	2 600	2 600	117	2 100	6	30.06.2017	Financing of current operations
	22 January 2016	5 500	5 500	214	–	–		
	22 April 2016	1 200	600	17	–	–		
	27 May 2016	3 100	3 100	65	–	–		
	31 August 2016	3 800	2 875	28	–	–		
Total loans			**218 525**	**37 542**	**194 950**	**28 959**		
Non-current			203 850	37 101	192 850	28 953		
Current			14 675	441	2 100	6		

In the year ended 31 December 2016, the interest income on loans granted amounted to PLN 8 583 thousand.

24. Other financial assets

	As at 31 December 2016	As at 31 December 2015
Shares	127 698	136 488
Deposits	38 472	39 724
Derivative instruments	56 417	5 684
Investment fund units	27 761	2 405
Loans granted	15 166	2 108
Bid bonds, deposits and collateral transferred	41 818	54 106
Other	14 561	5 034
Total	**321 893**	**245 549**
Non-current	227 140	211 215
Current	94 753	34 334

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

- SCE Jaworzno III Sp. z o.o., in the amount of PLN 36 283 thousand;
- Przedsiębiorstwo Energetyki Cieplnej Tychy Sp. z o.o., in the amount of PLN 32 113 thousand;
- PGE EJ 1 Sp. z o.o., in the amount of PLN 23 046 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 15 063 thousand.

In the year ended 31 December 2016, the Parent acquired units in investment funds in the total amount of PLN 25 000 thousand. As at 31 December 2016, the carrying amount of these units measured at fair value was PLN 25 316 thousand.

Deposits constitute financial assets of Mine Decommissioning Fund.

25. Other non-financial assets

25.1. Other non-current non-financial assets

	As at 31 December 2016	As at 31 December 2015
Prepayments for assets under construction and intangible assets including:	274 301	358 673
related to project realization: Construction of 910 MW Power Unit in Jaworzono III Power Plant	*271 667*	*337 531*
Costs of preparing production in hard coal mines	132 862	159 159
Other prepayments	15 237	32 543
Total	**422 400**	**550 375**

(in PLN '000)

25.2. Other current non-financial assets

	As at 31 December 2016	As at 31 December 2015
Costs settled over time, including:	**78 457**	**104 251**
Costs of preparing production in hard coal mines	36 175	33 411
Property and tort insurance	10 922	15 888
IT, telecom and postal services	17 994	26 367
Other prepayments	13 366	28 585
Other current non-financial assets, including:	**106 551**	**128 808**
Advance payments for deliveries	103 601	120 342
Surplus of Social Benefit Fund assets over its liabilities	338	3 984
Other current assets	2 612	4 482
Total	**185 008**	**233 059**

Social Benefit Fund

The Group entities offset the Fund assets with their liabilities to the Fund as the assets are not classified as separate assets of the Group. An analysis of the fund is presented in the following table.

	As at 31 December 2016	As at 31 December 2015
Loans granted to employees	30 671	31 087
Cash	17 093	20 144
Other Fund assets and liabilities	2 822	(382)
Social Fund liabilities	(50 248)	(46 865)
Net balance	**338**	**3 984**
Transfers made to the Social Fund during the period	(62 180)	(60 388)

26. Inventories

	As at 31 December 2016	As at 31 December 2015
Historical cost		
Coal, of which:	320 201	324 635
Raw materials	*98 759*	*163 644*
Semi-finished goods and work-in-progress	*216 831*	*154 555*
Energy certificates	783	1 319
Emission allowances	45 912	3 424
Other inventories	115 591	114 037
Total	**482 487**	**443 415**
Write-downs to net realisable value / Revaluation		
Emission allowances	13 226	–
Other inventories	(9 593)	(10 136)
Total	**3 633**	**(10 136)**
Net realisable value / Fair value		
Coal, of which:	320 201	324 635
Raw materials	*98 759*	*163 644*
Semi-finished goods and work-in-progress	*216 831*	*154 555*
Energy certificates	783	1 319
Emission allowances	59 138	3 424
Other inventories	105 998	103 901
Total	**486 120**	**433 279**

(in PLN '000)

Movement in write-downs to net realizable value / Revaluation

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	**(10 136)**	**(21 088)**
Recognition	(5 417)	(3 220)
Reversal	2 682	10 392
Utilization	3 278	3 780
Fair value measurement of emission allowances	13 226	–
Closing balance	**3 633**	**(10 136)**

The inventory of emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices is measured at fair value as at the end of the reporting period. The Group recognized a gain on measurement of PLN 13 226 thousand as at 31 December 2016 following an increase in the prices of emission allowances. The measurement the change of the allowances should be analyzed jointly with the measurement change of forward contracts of allowances.

27. Receivables from buyers

Current receivables from buyers as at 31 December 2016 and 31 December 2015 have been presented in the table below.

	As at 31 December 2016	As at 31 December 2015
Value of items before allowance/write-down		
Receivables from clients	1 527 921	1 581 863
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	425 705	298 805
Receivables claimed at court	146 086	227 739
Total	**2 099 712**	**2 108 407**
Allowance/write-down		
Receivables from clients	(84 036)	(74 828)
Receivables claimed at court	(121 611)	(203 546)
Total	**(205 647)**	**(278 374)**
Value of item net of allowance (carrying amount)		
Receivables from clients	1 443 885	1 507 035
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	425 705	298 805
Receivables claimed at court	24 475	24 193
Total	**1 894 065**	**1 830 033**

Information on allowances/write-downs on receivables from buyers and other financial receivables has been presented in Note 46.1.1 to these consolidated financial statements.

28. Receivables due to taxes and charges

	As at 31 December 2016	As at 31 December 2015
Corporate Income Tax receivables	83 468	909
VAT receivables	154 181	205 713
Excise duty receivables	24 205	20 314
Other	2 000	1 409
Total	**263 854**	**228 345**

As at 31 December 2016, the Group had the following income tax assets and liabilities:

- income tax receivables of PLN 83 468 thousand, where PLN 83 153 thousand relates to settlements of the Tax Capital Group;
- income tax liability of PLN 2 371 thousand not included in the settlements of the Tax Capital Group.

Tax Capital Group

A Tax Capital Group ("TCG") agreement for the years 2015–2017 was concluded on 22 September 2014. The Tax Capital Group was registered by the Head of the First Śląski Tax Office in Sosnowiec under a tax identification number

(in PLN '000)

NIP 2050004308 pursuant to a decision of 20 November 2014. The major companies constituting the Tax Capital Group as from 1 January 2015 are TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

In the year ended 31 December 2016, the income tax charge of the Tax Capital Group was PLN 217 201 thousand. At the same time, the Tax Capital Group made advance payments relating to income tax of PLN 300 053 thousand and reported receivables arising from tax overpaid by a subsidiary before joining the Tax Capital Group in the amount of PLN 301 thousand.

29. Cash and cash equivalents

	As at 31 December 2016	As at 31 December 2015
Cash at bank and in hand	368 274	353 428
Short-term deposits (up to 3 months)	16 450	10 722
Other	157	762
Total cash and cash equivalents presented in the statement of financial position, of which:	**384 881**	**364 912**
restricted cash	144 404	206 254
Bank overdraft	(15 156)	(10 206)
Cash pool	(16 095)	(29 377)
Foreign exchange	1 103	2 386
Total cash and cash equivalents presented in the statement of cash flows	**354 733**	**327 715**

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 foreign currency accounts.

As at 31 December 2016, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 79 227 thousand and cash on the accounts used for the settlement of electricity and emission allowances traded on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 49 000 thousand.

30. Issued capital and other capitals

30.1. Issued capital

Issued capital as at 31 December 2016

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 December 2016, the value of issued capital, the number of shares and the nominal value of shares had not changed as compared to 31 December 2015.

Shareholding structure as at 31 December 2016 (*to the best of the Company's knowledge*)

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

(in PLN '000)

To the best of the Company's knowledge, the shareholding structure as at 31 December 2016 had not changed as compared to 31 December 2015.

30.2. 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 voting right limitation mentioned above 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.

Detailed information concerning the limitations on exercising the voting rights has been presented in Section 6.6 of the Management Board's Report on the Activities of the TAURON Polska Energia S.A. Capital Group for the 2016 financial year.

30.3. Reserve capital

On 8 June 2016, the Ordinary General Shareholders' Meeting adopted a resolution to offset the net loss for the 2015 financial year, totaling PLN 3 453 908 thousand, against the reserve capital.

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

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

As at 31 December 2016 and as at the date of approval of these financial statements for publication no other dividend restriction occurred.

The Company's Management Board recommends the net loss for the year 2016 in the amount of PLN 166 253 thousand to be covered from the Company's reserve capital.

30.5. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	**(73 414)**	**(143 019)**
Remeasurement of hedging instruments	132 108	85 466
Remeasurement of hedging instruments charged to profit or loss	(4 856)	466
Deferred income tax	(24 178)	(16 327)
Closing balance	**29 660**	**(73 414)**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued, which has been discussed in more detail in Note 45.3 to these consolidated financial statements.

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

As at 31 December 2016, the Company recognized PLN 29 660 thousand of revaluation reserve from valuation of hedging instruments. It represents receivables arising from valuation of interest rate swaps as at the end of the reporting period, totaling PLN 36 641 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period was charged with PLN 80 658 thousand, where PLN 85 514 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN (4 856) thousand resulted from a change in valuation of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of IRS hedging transactions adjusted finance costs arising from interest on bonds issued in the statement of comprehensive income.

(in PLN '000)

30.6. Non-controlling interest

	Year ended 31 December 2016	Year ended 31 December 2015
At the beginning of the period	**29 829**	**30 116**
Dividends for non-controlling interests	(3 043)	(2 787)
Share in actuarial gains/(losses) related to provisions for post-employment benefits	272	60
Acquisition of non-controlling interests by the Group and mandatory squeeze-out	325	(662)
Share in subsidiaries' net profit or loss	2 669	3 102
At the end of the period	**30 052**	**29 829**

31. Dividends paid

	Year ended 31 December 2016	Year ended 31 December 2015
Dividends paid in the period		
Dividends paid by subsidiaries	(2 787)	(2 630)
Dividends paid by the Parent	–	(262 882)
Total dividends paid	**(2 787)**	**(265 512)**

Dividend per share paid out by the parent for individual years was the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Dividend paid per share (PLN)	–	0.15

On 10 March 2016, the Management Board adopted a resolution to put forward a recommendation to the Ordinary General Shareholders' Meeting, concerning the use of the Company's reserve capital representing amounts transferred from prior year profit for purposes of dividend payment to the Company's shareholders in the amount of PLN 175 255 thousand, which equals to PLN 0.10 per share. On 17 March 2016, the Supervisory Board of the Company approved the recommendation presented by the Management Board.

On 8 June 2016, the Ordinary General Shareholders' Meeting did not adopt a resolution to use a portion of the Company's reserve capital representing amounts transferred from prior year profit for purposes of dividend payment to the Company's shareholders.

On 23 April 2015, the Ordinary General Shareholders' Meeting adopted a resolution to pay dividend to the shareholders of the Company of PLN 262 882 thousand from the net profit of the Company generated in the 2014 financial year, i.e. PLN 0.15 per share. The dividend was paid in August 2015.

32. Acquisition under common control

Acquisition of an organized part of the enterprise of Zakład Górniczy Brzeszcze

On 31 December 2015, Nowe Brzeszcze Grupa TAURON Sp. z o.o and Spółka Restrukturyzacji Kopalń S.A. ("SRK") entered into an agreement for sale of a designated part of Zakład Górniczy Brzeszcze as an organized part of the enterprise ("ZCP Brzeszcze"). The aforesaid agreement was entered into in performance of the preliminary agreement of 19 October 2015 and under Article 8a.4 of the Act on Hard Coal Mining of 7 September 2007. Under the sale agreement, the date of the provision of the object of sale and making the acquired ZCP Brzeszcze available for use to Nowe Brzeszcze Grupa TAURON Sp. z o.o was 1 January 2016, as of which date the risks and rewards relating to the object of sale were transferred onto Nowe Brzeszcze Grupa TAURON Sp. z o.o.

The ZCP Brzeszcze selling price agreed by the parties and payable to SRK is PLN 1.00. Due to the fact that KWK Brzeszcze incurred losses at the time of its operation as part of SRK, under an agreement of 29 May 2015 between the Minister of Economy and SRK, funds from the government budget were allocated to SRK for purposes of offsetting current production losses of the mining company in 2015 ("Public Aid"). At the same time, in accordance with the aid refund agreement, Nowe Brzeszcze Grupa TAURON Sp. z o.o. committed to return the Public Aid, including interest accrued as of each date of disbursement of the Public Aid by its provider to SRK. Thus, the acquisition price comprises the agreed price of PLN 1.00 and the Public Aid amount to be refunded, including interest due as at 31 December 2015, i.e. PLN 130 218 thousand. In the year ended 31 December 2016, Nowe Brzeszcze Grupa

(in PLN '000)

TAURON Sp. z o.o. refunded the aforementioned Public Aid amount along with interest accrued by the repayment date. The expenditure relating to the Public Aid refund has been presented under investing activities in the consolidated statement of cash flows.

As the transaction involving the acquisition of ZCP Brzeszcze is carried out under common control of the State Treasury, Nowe Brzeszcze Grupa TAURON Sp. z o.o. accounted for the business combination using the pooling of interest method, as provided for by the accounting policies adopted by the Group, on the assumption that comparative data could not be presented.

Presented below is the balance sheet as at the date of the acquisition of the designated part of Zakład Górniczy Brzeszcze by Nowe Brzeszcze Grupa TAURON Sp. z o.o.

	As at 1 January 2016		As at 1 January 2016
Non-current assets		**Equity**	**(14 041)**
Property, plant and equipment and intangible assets	215 924	**Provisions and liabilities**	
Deferred tax assets	3 127	Provision for mine decommissioning	65 992
	219 051	Provisions for employee benefits	26 462
		Accruals (provision for unused annual leave)	4 203
Current assets		Obligations under leases	3 132
Inventories	1 349	Liabilities arising from public aid refund	130 218
Other financial assets	25	Other financial liabilities	4 459
	1 374		**234 466**
Total assets	**220 425**	**Total equity and liabilities**	**220 425**

As Zakład Górniczy Brzeszcze did not prepare its financial statements in conformity with IFRS, for purposes of accounting for the transaction, the Group prepared the balance sheet of ZCP Brzeszcze in accordance with its own accounting policies. To this end, the following procedures were performed:

- fixed assets were measured by an independent property appraiser. In the absence of an active market, the major part of such assets were measured at amortized replacement cost.
- The following provisions were recognized:
  - a mine decommissioning provision – estimated on the basis of third-party expert calculations;
  - an actuarial provision – estimated using actuarial methods on the basis of agreements setting out the terms of calculation and payment of retirement and disability benefits and jubilee bonuses at Kompania Węglowa S.A.;
  - a provision for unused annual leave – estimated by an actuary.

Following the acquisition of ZCP Brzeszcze, no trade receivables or liabilities relating to that part of the enterprise were transferred onto Nowe Brzeszcze Grupa TAURON Sp. z o.o. As regards inventories, only materials of PLN 1 349 thousand were transferred.

Business combination under common control of Nowe Brzeszcze Grupa TAURON Sp. z o.o. and TAURON Wydobycie S.A.

On 1 December 2016, the business combination under common control of TAURON Wydobycie S.A. (acquirer) and Nowe Brzeszcze Grupa TAURON Sp. z o.o. (acquiree) was registered. The business combination under common control was effected in accordance with Article 492.1.1 of the Code of Commercial Companies as an acquisition, through the transfer of all the assets, equity and liabilities of Nowe Brzeszcze Grupa TAURON Sp. z o.o. onto TAURON Wydobycie S.A. The business combination has not affected these consolidated financial statements.

33. Debt

	As at 31 December 2016	As at 31 December 2015
Loans and borrowings	1 263 553	1 411 776
Bonds issued	7 681 128	6 680 433
Finance lease	34 848	46 438
Total	**8 979 529**	**8 138 647**
Non-current	8 759 789	4 924 127
Current	219 740	3 214 520

(in PLN '000)

33.1. Loans and borrowings

Loans and borrowings taken out as at 31 December 2016

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

Loans and borrowings taken out as at 31 December 2015

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	77 350	77 350	29 993	6 864	7 333	7 308	14 316	11 536
	fixed	1 316 062	1 316 062	20 444	112 297	147 478	162 214	324 429	549 200
Total PLN		**1 393 412**	**1 393 412**	**50 437**	**119 161**	**154 811**	**169 522**	**338 745**	**560 736**
EUR	floating	2 025	8 630	8 630	–	–	–	–	–
Total EUR		**2 025**	**8 630**	**8 630**	**–**	**–**	**–**	**–**	**–**
USD	floating	404	1 576	1 576	–	–	–	–	–
Total USD		**404**	**1 576**	**1 576**	**–**	**–**	**–**	**–**	**–**
Total			**1 403 618**	**60 643**	**119 161**	**154 811**	**169 522**	**338 745**	**560 736**
Interest increasing carrying amount			8 158						
Total loans and borrowings			**1 411 776**						

Changes in the balance of loans and borrowings, excluding interest increasing their carrying amounts, in the year ended 31 December 2016 and in the year ended 31 December 2015, have been presented below.

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	**1 403 618**	**1 225 612**
Movement in bank overdrafts and cash pool loans	**(8 332)**	**23 184**
Movement in loans (excluding bank overdrafts and cash pool loans):	**(138 819)**	**154 822**
Repaid	(140 331)	(140 585)
Taken out*	914	294 705
Change in valuation	598	702
Closing balance	**1 256 467**	**1 403 618**

** Costs of granting the loan have been included.*

(in PLN '000)

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

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 December 2016	As at 31 December 2015
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	105 039	126 218
		Construction and start-up of a co-generation unit at EC Bielsko Biała	Fixed	15.12.2021	150 056	180 303
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	307 362	348 325
			Fixed – agreed until 15 March 2018	15.09.2024	147 091	165 467
			Fixed – agreed until 15 March 2018	15.09.2024	183 783	206 746
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	297 170	297 132
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	24 000	28 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	16 561	19 216
Other loans and borrowings					32 491	40 369
Total					**1 263 553**	**1 411 776**

33.2. Bonds issued

Bonds issued as at 31 December 2016

Issuer	Tranche/ Bank	Redemption date	Currrency	As at balance sheet date		of which maturing within (after the balance sheet date):				
				Interest accrued	Principal at amortised cost	up to 3 months	3–12 months	1–2 years	2–5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20 December 2019	PLN	107	99 805	–	–	–	99 805	–
		20 December 2020	PLN	107	99 786	–	–	–	99 786	–
		20 December 2021	PLN	107	99 773	–	–	–	99 773	–
		20 December 2022	PLN	107	99 763	–	–	–	–	99 763
		20 December 2023	PLN	107	99 754	–	–	–	–	99 754
		20 December 2024	PLN	107	99 749	–	–	–	–	99 749
		20 December 2025	PLN	107	99 744	–	–	–	–	99 744
		20 December 2026	PLN	107	99 738	–	–	–	–	99 738
		20 December 2027	PLN	107	99 734	–	–	–	–	99 734
		20 December 2028	PLN	107	99 733	–	–	–	–	99 733
		20 December 2020	PLN	74	69 976	–	–	–	69 976	–
		20 December 2021	PLN	74	69 976	–	–	–	69 976	–
		20 December 2022	PLN	74	69 976	–	–	–	–	69 976
		20 December 2023	PLN	74	69 976	–	–	–	–	69 976
		20 December 2024	PLN	74	69 975	–	–	–	–	69 975
		20 December 2025	PLN	74	69 975	–	–	–	–	69 975
		20 December 2026	PLN	74	69 975	–	–	–	–	69 975
		20 December 2027	PLN	74	69 975	–	–	–	–	69 975
		20 December 2028	PLN	74	69 975	–	–	–	–	69 975
		20 December 2029	PLN	74	69 975	–	–	–	–	69 975
	Bond Issue Scheme of 24.11.2015	29 December 2020	PLN	549	2 244 801	–	–	–	2 244 801	–
		25 March 2020	PLN	790	99 771	–	–	–	99 771	–
		9 December 2020	PLN	560	298 761	–	–	–	298 761	–
	TPEA1119	4 November 2019	PLN	7 578	1 749 155	–	–	–	1 749 155	–
	European Investment Bank	16 December 2034	EUR	1 693	839 330	–	–	–	–	839 330
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	2 067	736 930	–	–	–	–	736 930
Total debentures				**15 047**	**7 666 081**	**–**	**–**	**–**	**4 831 804**	**2 834 277**

(in PLN '000)

Bonds issued as at 31 December 2015

Issuer	Tranche/ Bank	Redemption date	Currrency	As at balance sheet date		of which maturing within (after the balance sheet date):				
				Interest accrued	Principal at amortised cost	up to 3 months	3–12 months	1–2 years	2–5 years	Over 5 years
TAURON Polska Energia S.A.	C	12 December 2016	PLN	4 389	2 998 938	2 249 203	749 735	–	–	–
	Bank Gospodarstwa Krajowego	20 December 2019	PLN	106	99 836	–	–	–	99 836	–
		20 December 2020	PLN	106	99 823	–	–	–	99 823	–
		20 December 2021	PLN	106	99 815	–	–	–	–	99 815
		20 December 2022	PLN	106	99 808	–	–	–	–	99 808
		20 December 2023	PLN	106	99 802	–	–	–	–	99 802
		20 December 2024	PLN	106	99 800	–	–	–	–	99 800
		20 December 2025	PLN	106	99 796	–	–	–	–	99 796
		20 December 2026	PLN	106	99 792	–	–	–	–	99 792
		20 December 2027	PLN	106	99 790	–	–	–	–	99 790
		20 December 2028	PLN	97	99 790	–	–	–	–	99 790
		20 December 2020	PLN	12	70 000	–	–	–	70 000	–
		20 December 2021	PLN	12	70 000	–	–	–	–	70 000
		20 December 2022	PLN	12	70 000	–	–	–	–	70 000
	TPEA1119	4 November 2019	PLN	7 508	1 749 043	–	–	–	1 749 043	–
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	1 921	709 495	–	–	–	–	709 495
Total debentures				**14 905**	**6 665 528**	**2 249 203**	**749 735**	**–**	**2 018 702**	**1 647 888**

Changes in the balance of bonds, excluding interest which increased the carrying amount, in the year ended 31 December 2016 and in the comparative period, have been presented below.

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	**6 665 528**	**6 803 298**
Issue*	4 273 379	309 789
Redemption	(3 300 000)	(450 000)
Change in valuation	27 174	2 441
Closing balance	**7 666 081**	**6 665 528**

* *Costs of issue have been included.*

In the year ended 31 December 2016, the Parent issued (par value) and repurchased the following bonds:

Date of issue/ redemption	Agreement/ Scheme	Description	Year ended 31 December 2016	
			Par value of issue	Redemption
8.01.2016	Agreement with Bank Gospodarstwa Krajowego	Issue of three bond tranches with the par value of PLN 70 000 thousand each, maturing on 20 December 2023, 2024 and 2025, respectively.	210 000	
29.02.2016	Bond Issue Scheme dated 16 December 2010	Early repurchase of C tranche bonds with the par value of PLN 2 250 000 thousand, issued on 12 December 2011.		(2 250 000)
29.02.2016	Bond Issue Scheme dated 24 November 2015	Issue of bonds with the par value of PLN 2 250 000 thousand, maturing on 29 December 2020.	2 250 000	
25.03.2016		Issue of bonds with the par value of PLN 100 000 thousand, maturing on 25 March 2020.	100 000	
30.03.2016		Issue of bonds with the par value of PLN 300 000 thousand, maturing on 30 March 2020.	300 000	
30.09.2016		Early repurchase of a tranche of PLN 300 000 thousand, issued in March 2016.		(300 000)
9.12.2016		Issue of bonds with the par value of PLN 300 000 thousand, maturing on 9 December 2020.	300 000	
9.12.2016	Agreement with Bank Gospodarstwa Krajowego	Issue of four bond tranches with the par value of PLN 70 000 thousand each, maturing on 20 December 2026, 2027, 2028 and 2029, respectively.	280 000	
12.12.2016	Bond Issue Scheme dated 16 December 2010	Repurchase of C tranche bonds with the par value of PLN 750 000 thousand, issued on 12 December 2011, at maturity.		(750 000)
16.12.2016	Agreement with European Investment Bank	Issue of bonds with the par value of EUR 190 000 thousand, maturing on 16 December 2034.	844 607	
		Total	**4 284 607**	**(3 300 000)**

The major issues and repurchases have been discussed below:

- Under the bond issue scheme of 16 December 2010, the debt balance as at 1 January 2016 was PLN 3 000 000 thousand. On 29 February 2016, the Company repurchased 22 500 out of 30 000 Tranche C bonds issued on 12 December 2011, for purposes of redemption. The remaining 7 500 Tranche C bonds were not repurchased early. In accordance with the terms of issue, they were repurchased on 12 December 2016. The aforesaid bonds were repurchased at the issue price of PLN 100 thousand. Thus, the total par value of bonds which were repurchased and redeemed by the Company was PLN 2 250 000 thousand. This amount was increased by interest due between the beginning of the interest period of the repurchase and the repurchase date. The bonds were repurchased for redemption under bilateral agreements concluded by the Company with Tranche C bond holders, mainly to prolong the date of the Company's repayment of debt incurred in the form of bonds. The funds necessary to refinance the bonds were secured as part of a new bond issue scheme of 24 November 2015.
- Under the new bond issue scheme of 24 November 2015, the Company issued 22 500 bonds with the total par value of PLN 2 250 000 thousand on 29 February 2016. The bonds will mature on 29 December 2020. The bonds were issued as unsecured, dematerialized coupon securities. They were purchased at the issue price equal to the par value of PLN 100 thousand. The interest on issued bonds was determined by reference to WIBOR 6M increased by a fixed margin. The bonds will be repurchased at the issue price at maturity, while interest will be paid in arrears at the end of each interest period to bond holders determined at the record date. The bonds were purchased by financial institutions being parties to the bond issue scheme agreements, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. As part of the aforesaid scheme lower value issues took place as well. They have been presented in the table above.
- On 14 December 2016, the Company entered into agreements with the European Investment Bank ("EIB") serving as the basis for the issue of hybrid bonds of EUR 190 000 thousand. The purpose of the issue is to finance the expenditures of an entity from the Distribution segment, planned for 2016–2020 in relation to the development and modernization of electric energy grid infrastructure.

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

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

Bonds issued by TAURON Sweden Energy AB (publ), a subsidiary, are fixed-rate securities with interest payable annually. The euro is the issue currency and the repayment currency. As at 31 December 2016, the carrying amount of the bonds in the bond currency, increased by accrued interest, was EUR 167 043 thousand (versus EUR 166 941 thousand as at 31 December 2015). The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ) to secure the bonds in question. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand.

The Company hedges a portion of interest cash flows related to bonds issued using IRS contracts. The instruments are subject to hedge accounting, which has been discussed in more detail in Note 45.3 to these consolidated financial statements.

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. As at 31 December 2016, none of these covenants were breached and the contractual provisions were complied with.

(in PLN '000)

33.3. Finance lease

	As at 31 December 2016		As at 31 December 2015	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within 1 year	12 026	11 301	13 909	12 715
Within 1 to 5 years	23 724	23 527	34 691	33 701
More than 5 years	22	20	24	22
Minimum lease payments, total	**35 772**	**34 848**	**48 624**	**46 438**
Less amounts representing finance charges	(924)	–	(2 186)	–
Present value of minimum lease payments, of which:	**34 848**	**34 848**	**46 438**	**46 438**
Non-current	23 546	23 546	33 723	33 723
Current	11 302	11 302	12 715	12 715

Key finance lease items as at 31 December 2016:

- liability due to lease of buildings in Katowice in the amount of PLN 26 974 thousand (versus PLN 30 169 thousand as at 31 December 2015);
- liability due to lease of technical equipment and machines as well as real property of PLN 6 642 thousand (versus PLN 15 785 thousand as at 31 December 2015).

34. Provisions for employee benefits

	As at 31 December 2016	As at 31 December 2015
Provision for post-employment benefits and jubilee bonuses	1 480 391	1 850 375
Provision for employment termination benefits	51 222	57 336
Total	**1 531 613**	**1 907 711**
Non-current	1 373 385	1 735 206
Current	158 228	172 505

34.1. Provisions for post-employment benefits and jubilee bonuses

Change in provisions for employee benefits in the year ended 31 December 2016

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**341 124**	**722 734**	**131 110**	**2 242**	**653 165**	**1 850 375**
Current service costs	17 093	14 003	2 170	–	37 519	**70 785**
Actuarial gains and losses, of which:	(27 145)	(148 051)	(29 401)	–	(40 296)	**(244 893)**
arising from changes in financial assumptions	(6 026)	(54 665)	(15 892)	–	(7 245)	**(83 828)**
arising from changes in demographic assumptions	10 566	(32 751)	(3 966)	–	3 035	**(23 116)**
arising from other changes	(31 685)	(60 635)	(9 543)	–	(36 086)	**(137 949)**
Benefits paid	(22 065)	(22 432)	(3 677)	(2 241)	(74 090)	**(124 505)**
Past service costs	(20 470)	(53 901)	8 677	–	(84 487)	**(150 181)**
Interest expense	9 308	19 831	3 590	–	17 372	**50 101**
Acquisition of ZCP Brzeszcze	9 436	–	–	–	17 026	**26 462**
Other changes	–	–	–	2 247	–	**2 247**
Closing balance	**307 281**	**532 184**	**112 469**	**2 248**	**526 209**	**1 480 391**
Non-current	271 934	512 671	108 116	–	468 963	**1 361 684**
Current	35 347	19 513	4 353	2 248	57 246	**118 707**

(in PLN '000)

Change in provisions for employee benefits in the year ended 31 December 2015

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**357 017**	**769 975**	**170 242**	**67 661**	**679 510**	**2 044 405**
Current service costs	14 533	8 144	2 960	983	39 023	**65 643**
Actuarial gains and losses, of which:	(11 222)	(47 439)	(6 084)	222	(8 683)	**(73 206)**
arising from changes in financial assumptions	(29 065)	(63 451)	(12 090)	–	(39 657)	**(144 263)**
arising from changes in demographic assumptions	2 439	15 946	3 749	–	6 687	**28 821**
arising from other changes	15 404	66	2 257	222	24 287	**42 236**
Benefits paid	(24 011)	(22 784)	(3 943)	(1 321)	(61 515)	**(113 574)**
Past service costs	(3 115)	(2 321)	(35 561)	(68 432)	(10 197)	**(119 626)**
Interest expense	7 922	17 159	3 496	887	15 027	**44 491**
Other changes	–	–	–	2 242	–	**2 242**
Closing balance	**341 124**	**722 734**	**131 110**	**2 242**	**653 165**	**1 850 375**
Non-current	318 390	699 207	126 824	–	581 372	**1 725 793**
Current	22 734	23 527	4 286	2 242	71 793	**124 582**

In the year ended 31 December 2016, the Group reduced its provisions for post-employment benefits and jubilee bonuses relating to past service costs by the total of PLN 150 181 thousand, which increased the Group's profit/loss. Past service costs resulted mainly from:

- modification of the Collective Labor Agreements in companies mainly from the Distribution segment – reversal of provisions totaling PLN 156 792 thousand;
- changes in the retirement age – increase in provisions by PLN 7 174 thousand.

Following a change in actuarial assumptions made for purposes of the actuarial valuation as at 31 December 2016, provisions were reduced by PLN 244 893 thousand, which drove an increase in other comprehensive income by PLN 204 597 thousand (provisions for post-employment benefits) and in the Group's profit/loss by PLN 40 296 thousand (provisions for jubilee bonuses).

Measurement of provisions for employee benefits

Provisions for post-employment benefits and jubilee bonuses have been estimated using actuarial methods. Key actuarial assumptions made as at the end of the reporting period for provision calculation purposes:

	31 December 2016	31 December 2015
Discount rate (%)	3.00%	2.75%
Estimated inflation rate (%)	2.50%	2.35%
Employee rotation rate (%)	0.04% – 7.95%	1.14% – 9.10%
Estimated salary increase rate (%)	1.00% – 3.50%	0.23% – 2.43%
Estimated electricity price increase rate (%)	3.50%	4.30%
Estimated increase rate for contribution to the Social Fund (%)	3.50%	4.50%
Remaining average employment period	9.27 – 25.00	9.80 – 14.90

Sensitivity analysis

As at 31 December 2016, the Group analyzed sensitivity of measurement results to changes in the financial discount rates and changes in the planned increases in the base amounts in the range of -0.5 p.p./+0.5 p.p.

The carrying amounts of individual provisions and provisions calculated based on the changed assumptions have been presented below:

Provision title	Carrying amount as at 31 December 2016	Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	307 281	321 730	293 961	294 146	321 401
Employee electricity rates	532 184	575 395	493 934	493 934	574 953
Costs of appropriation to Social Benefits Fund	112 469	123 616	106 232	106 294	123 453
Jubilee bonuses	526 209	544 509	509 054	512 185	541 052
Total		**1 565 250**	**1 403 181**	**1 406 559**	**1 560 859**

(in PLN '000)

The table below presents the carrying amounts of individual provisions and how these carrying amounts would change with different assumptions applied:

Provision title	Carrying amount	Deviations			
		Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	307 281	14 449	(13 320)	(13 135)	14 120
Employee electricity rates	532 184	43 211	(38 250)	(38 250)	42 769
Costs of appropriation to Social Benefits Fund	112 469	11 147	(6 237)	(6 175)	10 984
Jubilee bonuses	526 209	18 300	(17 155)	(14 024)	14 843
Total, including:		**87 107**	**(74 962)**	**(71 584)**	**82 716**
effect on profit/loss		18 300	(17 155)	(14 024)	14 843
effect on other comprehensive income		68 807	(57 807)	(57 560)	67 873

The Group classifies provisions as current and non-current based on estimates regarding distribution of payments over time, prepared with the use of actuarial methods.

Provisions for employee benefits by maturity

	Retirement, disability and similar benefits	Employee electricity rates	Social Fund	Coal allowances	Jubilee bonuses	Provisions, total
2017	35 347	19 513	4 353	2 248	57 246	**118 707**
2018	14 346	21 557	4 421	–	48 304	**88 628**
2019	14 675	21 067	4 321	–	44 081	**84 144**
2020	14 167	20 606	4 227	–	39 598	**78 598**
2021	13 702	20 130	4 134	–	37 973	**75 939**
Other years	215 044	429 311	91 013	–	299 007	**1 034 375**
Total	**307 281**	**532 184**	**112 469**	**2 248**	**526 209**	**1 480 391**

34.2. Provisions for employment termination benefits

For the year ended 31 December 2016

	Voluntary redundancy schemes in operating segments		Other	Total
	Generation	Distribution		
Opening balance	**23 460**	**25 432**	**8 444**	**57 336**
Recognition	5 383	8 290	14 036	**27 709**
Reversal	(571)	(3 797)	(2 504)	**(6 872)**
Utilization	(10 673)	(12 863)	(3 415)	**(26 951)**
Closing balance	**17 599**	**17 062**	**16 561**	**51 222**
Non-current	11 701	–	–	**11 701**
Current	5 898	17 062	16 561	**39 521**

For the year ended 31 December 2015

	Voluntary redundancy schemes in operating segments			Other	Total
	Mining	Generation	Distribution		
Opening balance	**–**	**38 867**	**22 236**	**1 769**	**62 872**
Recognition	4 750	9 864	24 898	8 444	**47 956**
Reversal	(4 750)	(419)	(3 563)	–	**(8 732)**
Utilization	–	(24 852)	(18 139)	(1 769)	**(44 760)**
Closing balance	**–**	**23 460**	**25 432**	**8 444**	**57 336**
Non-current	–	9 413	–	–	**9 413**
Current	–	14 047	25 432	8 444	**47 923**

(in PLN '000)

In the year ended 31 December 2016, the TAURON Group continued the Voluntary Redundancy Schemes introduced in previous years and implemented new schemes.

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

For the year ended 31 December 2016

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity	Provisions, total
Opening balance	**111 675**	**101 244**	**182 877**	**395 796**
Interest cost (discounting)	4 904	2 700	11 502	**19 106**
Discount rate adjustment	(35 846)	(9 854)	2 257	**(43 443)**
Recognition/(reversal), net	160	21 212	2 208	**23 580**
Acquisition of ZCP Brzeszcze	65 992	–	–	**65 992**
Closing balance	**146 885**	**115 302**	**198 844**	**461 031**
Non-current	146 885	102 984	152 943	**402 812**
Current	–	12 318	45 901	**58 219**
Other provisions, long-term portion				**46 498**
Total				**449 310**

For the year ended 31 December 2015

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity	Provisions, total
Opening balance	**120 704**	**42 774**	**–**	**163 478**
Interest cost (discounting)	2 996	961	–	**3 957**
Discount rate adjustment	(13 308)	(675)	–	**(13 983)**
Recognition/(reversal), net	1 283	(1 205)	182 877	**182 955**
Reclassification to liabilities of a disposal group classified as held for sale	–	59 389	–	**59 389**
Closing balance	**111 675**	**101 244**	**182 877**	**395 796**
Non-current	111 675	100 339	163 449	**375 463**
Current	–	905	19 428	**20 333**
Other provisions, long-term portion				**1 909**
Total				**377 372**

35.1. Provision for mine decommissioning costs

The provision is recognized for mines included in the Group based on estimated costs of facility decommissioning and reclaiming land after completion of the exploitation process. More details on the calculation of the provision have been presented in Note 9.19 to these consolidated financial statements.

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.

In the year ended 31 December 2016, the provision increased by PLN 65 992 thousand following the acquisition of an organized part of the enterprise of Zakład Górniczy Brzeszcze, which has been discussed in more detail in Note 32 to these consolidated financial statements.

A decrease in the provision by PLN 35 846 thousand in the year ended 31 December 2016 was driven by the adoption of higher discount rates (3.50%) for purposes of valuation as at 31 December 2016 than as at 31 December 2015 (2.75%–3.04%). In the comparative period, following an increase in the discount rate used for purposes of valuation of provisions as at 31 December 2015 (up from 2.25%–2.50% to 2.75%–3.04%), the Group derecognized a provision of PLN 13 308 thousand.

(in PLN '000)

The following tables present the amount of appropriation to the Fund, the Fund's assets and the balance of liabilities arising from future costs of mine decommissioning.

Mine Decommissioning Fund financial assets

	Year ended 31 December 2016	Year ended 31 December 2015
Assets as at 1 January	**42 129**	**38 232**
Contributions made	4 112	4 463
Interest	730	809
Use	(6 051)	(1 375)
Other changes	243	–
Assets as at 31 December	**41 163**	**42 129**
Transfers made to the MDF in the period	(4 446)	(4 113)

Provision for mine decommissioning costs

	Year ended 31 December 2016	Year ended 31 December 2015
Mine Decommissioning Fund	44 442	43 731
Surplus of discounted estimated decommissioning costs	102 443	67 944
Total	**146 885**	**111 675**

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

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

- Provision for ash pile reclamation costs, which totaled PLN 39 415 thousand as at 31 December 2016 (versus PLN 41 855 thousand as at 31 December 2015).
- Provision for wind farm dismantling costs, which totaled PLN 51 088 thousand as at 31 December 2016 (versus PLN 59 389 thousand as at 31 December 2015).
- In 2016, a provision was recognized for the costs of removal of fixed assets in the amount of PLN 24 799 thousand related to the decommissioning of a chimney in Elektrownia Jaworzno as well as cooling towers and a unit in Elektrownia Łagisza.

35.3. Provision for onerous contracts with a joint venture

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

In view of the foregoing, in the year ended 31 December 2015, the Company recognized provisions for onerous contracts with a joint venture, Elektrociepłownia Stalowa Wola S.A., totaling PLN 182 877 thousand.

In the year ended 31 December 2016, the Company remeasured the provisions for onerous contracts with a joint venture due to the unwinding of discount as at the end of the reporting period, which increased the provisions by PLN 11 502 thousand in total, and recognized additional provisions of PLN 4 465 thousand (net).

As at the end of the reporting period, the balance of provisions for onerous contracts amounted to PLN 198 844 thousand and included:

- a provision of PLN 133 327 thousand resulting from the fact that under a multi-annual electricity sales contract among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company is obliged to purchase half of the volume of electricity at a price determined in the "cost plus" formula, which covers the production costs and the financing costs. The provision was estimated taking account of the difference between the planned market prices of electricity and the costs resulting from the "cost plus" formula;

(in PLN '000)

- a provision of PLN 54 837 thousand resulting from the fact that the Company may be obliged to cover losses which may be incurred under the take or pay clause of the comprehensive gaseous fuel supply contract entered into by PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. In accordance with the aforesaid clause, Elektrociepłownia Stalowa Wola S.A. is obliged to make a payment to PGNiG S.A. for uncollected gas or resell it on the market. The provision was estimated on the assumption that the gas volume for 2016–2018 was the same as the one specified in the contract. The short-term portion of the provision is PLN 38 608 thousand;
- a provision for costs of PLN 10 680 thousand (PLN 7 293 thousand of which is the short-term portion). The Company may be required to incur additional costs necessary for the operation of Elektrociepłownia Stalowa Wola S.A. due to delays in project completion.

The provisions for the costs of fulfilment of the gas contract and for additional costs of operation have been recognized in proportion to the Company's interest in the joint venture.

On 27 October 2016, a conditional agreement was made among the Company, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. to set out the key boundary conditions for project restructuring along with a conditional annex to the electricity sales contract. Furthermore, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. executed a conditional annex to the gaseous fuel supply contract. The aforesaid agreements and annexes will enter into force once the conditions precedent have been satisfied, i.e. the binding financing agreements have been amended or the amounts due to the last institution which currently provides funding to Elektrociepłownia Stalowa Wola S.A. have been paid. With a view to enforcing the standstill agreement entered into by the Company, Elektrociepłownia Stalowa Wola S.A., PGNiG S.A., the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. aimed to ensure that the financing institutions will refrain from accelerating the loans granted to the company and satisfying their claims through the use of the related collateral, at the request of the Company The Bank of Tokyo-Mitsubishi UFJ, Ltd. issued three bank guarantees for the financing institutions, totaling PLN 314 486 thousand.

The agreements and annexes reflect the will of the Company and PGNIG S.A. to continue the construction of the gas and steam unit. According to the Management Board of the Company, the aforesaid documents enable completion of the investment in 2019 (preliminary estimate). As the aforesaid agreements are conditional, the Management Board decided not to modify the key assumptions constituting the basis for provision calculation.

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

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

For the year ended 31 December 2016

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**153 083**	**865 051**	**1 018 134**
Recognition	381 946	743 312	**1 125 258**
Reversal	(63)	(3 884)	**(3 947)**
Utilisation	(325 230)	(849 394)	**(1 174 624)**
Closing balance	**209 736**	**755 085**	**964 821**

For the year ended 31 December 2015

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**8 130**	**914 926**	**923 056**
Recognition	153 084	863 210	**1 016 294**
Reversal	(2 290)	(2 202)	**(4 492)**
Utilisation	(5 841)	(910 883)	**(916 724)**
Closing balance	**153 083**	**865 051**	**1 018 134**

36.1. Provision for the obligation to surrender energy certificates

As at 31 December 2016, the Group recognized a short-term provision for the obligation to surrender energy certificates in the amount of PLN 755 085 thousand, out of which the amount of PLN 556 223 thousand was covered by certificates held as at the end of the reporting period, the amount of PLN 145 727 thousand was planned to be paid in the form of a substitution fee and the amount of PLN 53 135 thousand through the purchase of property rights.

(in PLN '000)

In the year ended 31 December 2016, the Group fulfilled the obligation to surrender certificates of electricity generated using renewable sources, in CHP units and energy efficiency certificates for 2015. Therefore, a provision of PLN 849 394 thousand was used.

36.2. Provision for gas emission liabilities

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

As at 31 December 2016, the provision for gas emission liabilities amounted to PLN 209 736 thousand and regarded the obligatory surrendering of emission allowances for the year ended 31 December 2016. As at 31 December 2016, the provision was recognized both for facilities owned by TAURON Wytwarzanie S.A. and by TAURON Ciepło Sp. z o.o.

In the year ended 31 December 2016, the Group fulfilled the surrendering obligation for 2015 and in part for 2016. A change in the balance of the provision in the year ended 31 December 2016 arises from:

- remeasurement of the provision for the obligation for 2015: TAURON Wytwarzanie S.A. recognized an additional provision of PLN 21 937 thousand and TAURON Ciepło Sp. z o.o. reversed a provision of PLN 63 thousand;
- recognition of the provision for the obligation for 2016: TAURON Wytwarzanie S.A. recognized a provision of PLN 319 620 thousand and TAURON Ciepło Sp. z o.o. a provision of PLN 40 389 thousand;
- use of the provision due to the fulfilment of the obligation for 2015 and surrender of emission allowances in the amount of PLN 174 957 thousand;
- use of the provision due to the fulfilment of the obligation for 2016 and surrender of emission allowances in the amount of PLN 150 273 thousand in December 2016.

As at 31 December 2016, 19 482 951 emission allowances were registered in the Group's accounts with the Union Registry, out of which 7 395 649 allowances were planned to be surrendered in fulfillment of the remaining obligation for 2016.

37. Other provisions

For the year ended 31 December 2016

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**91 909**	**67 711**	**159 620**
Recognition/(reversal), net	902	201 928	**202 830**
Utilisation	(642)	(7 258)	**(7 900)**
Other changes	(26)	211	**185**
Closing balance	**92 143**	**262 592**	**354 735**
Non-current	–	46 498	**46 498**
Current	92 143	216 094	**308 237**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**58 219**
Total current other provisions			**366 456**

(in PLN '000)

For the year ended 31 December 2015

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**93 818**	**66 341**	**160 159**
Recognition/(reversal), net	3 587	5 840	**9 427**
Utilisation	(5 496)	(6 240)	**(11 736)**
Other movements	–	1 771	**1 771**
Foreign exchange differences from translation of foreign entities	–	(1)	**(1)**
Closing balance	**91 909**	**67 711**	**159 620**
Non-current	–	1 909	**1 909**
Current	91 909	65 802	**157 711**
Current portion of provision for the costs of disassembly of fixed assets and land restoration and other provisions			**20 333**
Total current other provisions			**178 044**

Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat facilities are located. As at 31 December 2016, the relevant provision amounted to PLN 92 143 thousand and was related to the following segments:

- Generation: PLN 50 196 thousand;
- Distribution: PLN 41 947 thousand.

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

Provisions for counterparty claims, court disputes and other provisions

Material provisions recognized as other provisions have been discussed below:

(in PLN '000)

Item	Operating segment	Description	As at 31 December 2016	Effect on gross profit/loss for 2016
Provision for penalties fixed by the contracts	Generation	Considering the risk that the two projects listed below will not be continued (their continuity is required under the subsidy contracts): • Construction of a biomass boiler in Elektrownia Jaworzno III – Elektrownia II; • Construction of a system of power generation from renewable sources in Stalowa Wola, a provision has been recognised for the costs of returning the subsidy totalling PLN 52,297 thousand. Considering the risk that Polski Fundusz Rozwoju S.A. may terminate the agreement, as a result of TAURON Wytwarzanie S.A. withdrawal from the construction of a gas and steam unit in Elektrownia Łagisza in Będzin and the risk of accruing liquidated damages, a provision totalling PLN 11,250 has been recognised.	63 547	(63 547)
Provision for a fine to the Energy Regulatory Office	Distribution	The provision concerning the risks of the violation of the Energy Law of 10 April 1997 by providing misleading information to the President of the Energy Regulatory Office.	20 436	(20 436)
Provision for increased transmission easement charges	Distribution	The provision concerns a risk of increased periodic charges for transmission easement related to energy infrastructure located within the Forestry Commission areas overseen by the Regional State Forest Directorate in Wrocław, following a change in the nature of the land from forestry to business.	21 700	(21 700)
Proceedings before the Office of Competition and Consumer Protection	Distribution	A provision for fines imposed by the President of the Office of Competition and Consumer Protection for the abuse by ENION S.A. (now TAURON Dystrybucja S.A.) of its dominant position on the electricity distribution market. As at 31 December 2016, the provision was recognized for fines related to proceedings before the Court of Competition and Consumer Protection which had not been closed as at that date. The balance of the provision had not changed as compared to 31 December 2015.	7 302	–
Provision for real estate tax	Mining	Provisions for proceedings related to real estate tax on underground mining excavations.	23 008	(20 860)
Provision related to pending inspection proceedings	Sales	The provision was recognized in connection with pending inspection proceedings instituted by the Director of the Tax Inspection Office in Warsaw in relation to the value added tax. The period of the inspection proceedings was prolonged by the Director of the Tax Inspection Office a few times and the new deadline has been set at 28 April 2017.	64 494	(64 494)

38. Accruals, deffered income and government grants

38.1. Deferred income and government grants

	As at 31 December 2016	As at 31 December 2015
Deferred income, of which:	**293 284**	**325 861**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	71 849	83 308
Connection fees	218 075	240 485
Other	3 360	2 068
Government grants, of which:	**317 505**	**382 660**
Subsidies obtained from EU funds	211 981	286 222
Forgiven loans from environmental funds	28 068	11 801
Measurement of preferential loans	37 777	39 401
Other	39 679	45 236
Total	**610 789**	**708 521**
Non-current	553 874	650 364
Current	56 915	58 157

(in PLN '000)

38.2. Accruals

	As at 31 December 2016	As at 31 December 2015
Unused holidays	48 640	37 468
Bonuses	140 930	140 946
Environmental protection charges	3 806	4 449
Other	17 790	13 317
Total	**211 166**	**196 180**
Non-current	419	–
Current	210 747	196 180

39. Liabilities to suppliers

Current liabilities to suppliers as at 31 December 2016 and 31 December 2015 are presented in the table below:

Liabilities to suppliers in operating segments	As at 31 December 2016	As at 31 December 2015
Distribution	294 573	281 839
including from Polskie Sieci Elektroenergetyczne S.A.	*200 732*	*176 859*
Sales	247 487	245 424
Mining	144 722	83 111
Generation	100 857	130 606
Other	42 090	49 726
Total	**829 729**	**790 706**

40. Capital commitments

Short-term capital commitments as at 31 December 2016 and 31 December 2015 are presented in the table below:

Capital commitments in operating segments	As at 31 December 2016	As at 31 December 2015
Generation	511 403	290 916
Distribution	336 624	420 735
Mining	159 138	30 603
Sales and other	26 639	24 589
Total	**1 033 804**	**766 843**

An increase in capital commitments in the Generation segment concerned mainly a rise in commitments relating to construction of unit 910 in Jaworzno, which totaled PLN 458 484 thousand as at 31 December 2016 versus PLN 124 690 thousand as at 31 December 2015.

A rise in capital commitments in the Mining segment concerned mainly a commitment relating to development of a longwall system in Zakład Górniczy Brzeszcze in the amount of PLN 89 080 thousand. No such commitment was recognized as at 31 December 2015.

Long-term capital commitments have been presented in the consolidated statement of financial position within other financial liabilities. As at 31 December 2016 and 31 December 2015, the related commitments totaled PLN 299 thousand (Distribution) and PLN 916 thousand (Distribution: PLN 416 thousand, Sales: PLN 500 thousand), respectively.

Commitments to incur capital expenditure

As at 31 December 2016 and 31 December 2015, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 4 368 685 thousand and PLN 5 597 990 thousand, respectively, with the key items presented below:

(in PLN '000)

Operating segment	Agreement/investment project	As at 31 December 2016	As at 31 December 2015
Generation	Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	2 579 313	3 773 520
	Commissioning of a part of external coal handling system and an ash removal system for a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	229 150	144 325
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	10 000	98 970
Distribution	Redevelopment of the double track overhead line Przybków-Kąty Wrocławskie-Klecina	31 446	73 140
	Implementation of Smart City Wrocław, an intelligent measurement system	18 880	91 126
	Construction of Grid Management Centre in Kraków and in Wrocław	30 951	55 176
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	16 484	22 105
	Construction of the 800 m drift at Janina Mining Plant	19 578	37 986
	Investment Program in Brzeszcze Mining Plant	32 731	–

41. Liabilities due to taxes and charges

	As at 31 December 2016	As at 31 December 2015
Corporate Income Tax	2 371	85 357
Personal Income Tax	51 084	46 841
Excise	41 549	42 467
VAT	98 114	46 787
Social security	170 039	156 635
Environmental charges	40 964	46 889
Other	6 822	4 673
Total	**410 943**	**429 649**

A decrease in corporate income tax liabilities was driven by the fact that as at 31 December 2016, the Tax Capital Group had receivables of PLN 83 153 thousand arising from income tax, which has been discussed in more detail in Note 28 to these consolidated financial statements. As at 31 December 2015, the Tax Capital Group had an income tax liability in the amount of PLN 82 944 thousand.

42. Other financial liabilities

	As at 31 December 2016	As at 31 December 2015
Wages, salaries and related charges	174 212	172 660
Bid bonds, deposits and collateral received	79 415	120 890
Insurance contracts	12 560	16 149
Derivative instruments	560	112 109
Other	61 922	20 563
Total	**328 669**	**442 371**
Non-current	72 374	101 705
Current	256 295	340 666

Derivative instruments have been discussed in Note 45.3 to these consolidated financial statements.

43. Other current non-financial liabilities

	As at 31 December 2016	As at 31 December 2015
Payments from customers relating to future periods, of which:	**298 606**	**273 168**
Prepayments for connection fees	21 369	25 366
Amounts overpaid by customers	245 544	240 700
Other	31 693	7 102
Other current non-financial liabilities	**2 573**	**754**
Total	**301 179**	**273 922**

(in PLN '000)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

44. Significant items of the consolidated statement of cash flows

44.1. Cash flows from operating activities

Impairment losses on property, plant and equipment and intangible assets

Impairment losses of PLN 867 109 thousand, which adjust the Group's profit/loss before tax, have been discussed in more detail in Note 11 to these consolidated financial statements.

Changes in working capital

	Year ended 31 December 2016	Year ended 31 December 2015
Change in receivables	**(46 280)**	**118 806**
Change in receivables from clients in statement of financial position	(64 032)	87 065
Adjustment related to acquisition of orgnanized part of the enterprise (ZCP Brzeszcze) and inclusion of new companies in consolidation	12 496	13 200
Other adjustments	5 256	18 541
Change in inventories	**(55 731)**	**90 497**
Change in inventories in statement of financial position	(52 841)	94 317
Adjustment related to transfer of invetories to/from property, plant and equipment	(4 347)	(4 502)
Other adjustments	1 457	682
Change in payables excluding loans and borrowings	**156 247**	**(180 636)**
Change in liabilities to suppliers in statement of financial position	39 023	(126 038)
Change in payroll, social security and other financial liabilities	(1 536)	(74 211)
Change in non-financial liabilities in statement of financial position	27 257	(3 649)
Change in liabilities due to taxes excluding income tax	64 280	2 174
Adjustment related to acquisition of orgnanized part of the enterprise (ZCP Brzeszcze) and inclusion of new companies in consolidation	(24 610)	(9 395)
Adjustment of VAT change related to capital commitments	50 570	33 574
Other adjustments	1 263	(3 091)
Change in other non-current and current assets	**341 335**	**(104 176)**
Change in other current and non-current non-financial assets	176 026	95 543
Change in receivables due to taxes excluding income tax	47 050	(94 481)
Change in non-current and current emission allowances	(8 727)	(157 717)
Change in non-current and current energy certificates	218 347	47 037
Change in advance payments for property, plant and equipment and intangible assets	(84 372)	(49 172)
Reclassification to/from assets held for sale	–	39 758
Other adjustments	(6 989)	14 856
Change in deferred income, government grants and accruals	**(140 063)**	**(73 962)**
Change in deferred income, government grants and accruals	(82 746)	(2 891)
Adjustmet related to property, plant and equipment and intangible assets received free of charge	(18 919)	(21 348)
Adjustment related to subsidies received	(29 220)	(41 941)
Other adjustments	(9 178)	(7 782)
Change in provisions	**(28 173)**	**141 843**
Change of short term and long term provisions in statement of financial position	(169 061)	127 291
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	204 597	64 523
Adjustment related to acquisition of orgnanized part of the enterprise (ZCP Brzeszcze)	(92 454)	–
Adjustment related to change of provisions for disassembly of fixed assets and land restoration booked in correspondence with property, plant and equipment	33 415	10 699
Reclassification to/from assets held for sale	–	(59 375)
Other adjustments	(4 670)	(1 295)
Total	**227 335**	**(7 628)**

Income tax paid

Income tax paid in the amount of PLN 394 792 thousand results mainly from the Tax Capital Group's payment of advance income tax for 2016 totaling PLN 300 054 thousand in the year ended 31 December 2016 and advance income tax for the fourth quarter of 2015 totaling PLN 88 784 thousand.

(in PLN '000)

44.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	Year ended 31 December 2016	Year ended 31 December 2015
Purchase of property, plant and equipment	(3 590 348)	(3 877 348)
Purchase of intangible assets	(127 446)	(117 145)
Change in the balance of VAT – adjusted capital commitments	214 984	138 635
Change in the balance of advance payments	84 372	49 172
Costs of overhaul and internal manufacturing	(99 017)	(180 912)
Other	1 159	14 088
Total	**(3 516 296)**	**(3 973 510)**

Public aid refund

Payments to refund public aid of PLN 131 077 thousand are related to the refund made by Nowe Brzeszcze Grupa TAURON Sp. z o.o. under the public aid refund agreement, which has been discussed in more detail in Note 32 to these consolidated financial statements.

Acquisition of financial assets

Payments to acquire financial assets in the year ended 31 December 2016 in the amount of PLN 36 621 thousand include mainly the Parent's purchase of units of PLN 25 000 thousand.

Loans granted

Payments to grant loans result from the loans disbursed by the Parent to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 23 575 thousand under agreements entered into in November 2015 and in the year ended 31 December 2016, which has been discussed in more detail in Note 23 to these consolidated financial statements.

Dividends received

Proceeds from dividends received in the amount of PLN 29 728 thousand concern mainly the dividends received by the Company from a jointly-controlled entity, TAMEH HOLDING Sp. z o.o., in the amount of PLN 24 000 thousand.

44.3. Cash flows from financing activities

Repurchase of debt securities

Payments to repurchase debt securities result from the Company's repurchase of Tranche C bonds in the total amount of PLN 3 000 000 thousand in the year ended 31 December 2016 and the early repurchase (on 30 September 2016) of a Tranche of PLN 300 000 thousand issued in March 2016.

Loans and borrowings repaid

Payments to repay loans and borrowings of PLN 140 331 thousand disclosed in the consolidated statement of cash flows result mainly from the Parent's repayment of installments of a loan obtained from the European Investment Bank in the amount of PLN 132 818 thousand in the year ended 31 December 2016.

Interest paid

	Year ended 31 December 2016	Year ended 31 December 2015
Interest paid in relation to debt securities	(296 949)	(286 692)
Interest paid in relation to loans and borrowings	(53 183)	(57 536)
Interest paid in relation to the finance lease	(955)	(1 237)
Total, of which:	**(351 087)**	**(345 465)**
financing cash outflows	(255 116)	(276 305)
investing cash outflows	(95 971)	(69 160)

The Group's consolidated statement of cash flows presents incurred borrowing costs which were capitalized in the current period in the value of assets as payments to acquire property, plant and equipment and intangible assets in cash flows from investing activities.

Issue of debt securities

Proceeds from the issue of debt securities in the year ended 31 December 2016 are related to:

- the Company's issue of bonds with the total par value of PLN 2 950 000 thousand under a bond issue scheme of November 2015, which has been discussed in more detail in Note 33.2 to these consolidated financial statements;
- the Company's issue of bond tranches under the agreement with Bank Gospodarstwa Krajowego in the total amount of PLN 490 000 thousand;
- the Company's issue of subordinated hybrid bonds of PLN 844 607 thousand.

(in PLN '000)

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

45. Financial instruments

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

Categories and classes of financial assets	Note	As at 31 December 2016		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss, held for trading		**45 092**		**5 684**	
Derivative instruments	**45.3**	19 776	19 776	5 684	5 684
Investment fund units	**24**	25 316	25 316	–	–
2 Financial assets available for sale		**130 143**		**140 783**	
Shares (non-current)	**24**	123 594		132 383	
Shares (current)	**24**	4 104		4 105	
Investment fund units	**24**	2 445	2 445	2 405	2 405
Bonds, T-bills and other debt securities		–	–	1 890	1 890
3 Loans and receivables		**2 245 033**		**2 150 918**	
Receivables from clients	**27**	1 894 065	1 894 065	1 830 033	1 830 033
Deposits	**24**	38 472	38 472	39 724	39 724
Loans granted		256 117	256 117	223 911	223 911
Other financial receivables		56 379	56 379	57 250	57 250
4 Financial assets excluded from the scope of IAS 39		**461 348**		**418 127**	
Investments in joint ventures	**22**	461 348		418 127	
5 Derivative hedging instruments	**45.3**	**36 641**	**36 641**	**–**	**–**
6 Cash and cash equivalents	**29**	**384 881**	**384 881**	**364 912**	**364 912**
Total financial assets, of which in the statement of financial position:		**3 303 138**		**3 080 424**	
Non-current assets		**929 439**		**851 145**	
Investments in joint ventures		461 348		418 127	
Loans granted to joint ventures		240 951		221 803	
Other financial assets		227 140		211 215	
Current assets		**2 373 699**		**2 229 279**	
Receivables from clients		1 894 065		1 830 033	
Other financial assets		94 753		34 334	
Cash and cash equivalents		384 881		364 912	

(in PLN '000)

Categories and classes of financial liabilities	Note	As at 31 December 2016		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss, held for trading		**560**		**16 642**	
Derivative instruments	**45.3**	560	560	16 642	16 642
2 Financial liabilities measured at amortized cost		**11 136 323**		**9 980 020**	
Preferential loans	**33.1**	41 748	41 748	47 999	47 999
Arm's length loans	**33.1**	1 206 649	1 209 558	1 353 571	1 375 724
Bank overdrafts	**33.1**	15 156	15 156	10 206	10 206
Bonds issued	**33.2**	7 681 128	7 719 015	6 680 433	6 683 707
Liabilities to suppliers	**39**	829 729	829 729	790 706	790 706
Other financial liabilities	**42**	158 383	158 383	157 240	157 240
Capital commitments	**40**	1 034 103	1 034 103	767 759	767 759
Salaries and wages		156 867	156 867	155 957	155 957
Insurance contracts	**42**	12 560	12 560	16 149	16 149
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**34 848**		**46 438**	
Obligations under finance leases	**33.3**	34 848	34 848	46 438	46 438
4 Derivative hedging instruments	**45.3**	**–**	**–**	**95 467**	**95 467**
Total financial liabilities, of which in the statement of financial position:		**11 171 731**		**10 138 567**	
Non-current liabilities		**8 832 163**		**5 025 832**	
Debt		8 759 789		4 924 127	
Other financial liabilities		72 374		101 705	
Current liabilities		**2 339 568**		**5 112 735**	
Debt		219 740		3 214 520	
Liabilities to suppliers		829 729		790 706	
Capital commitments		1 033 804		766 843	
Other financial liabilities		256 295		340 666	

Derivative financial instruments classified as assets and liabilities measured at fair value through profit or loss and designated as hedging instruments, which are measured at fair value as at the end of the reporting period, were measured in line with the method described in Note 45.3 to these consolidated financial statements. Disclosures regarding the fair value hierarchy have also been presented in Note 45.3. Measurement of units in investment funds has been classified to Level 1 in the fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- As at 31 December 2016, fixed-rate financial instruments, which included loans obtained from the European Investment Bank and bonds issued by a subsidiary, were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable currently to a given bond or loan, i.e. by applying market interest rates. The measurement resulted in Level 2 classification in the fair value hierarchy. The fair value of bonds issued in December 2016 with the par value of EUR 190 000 thousand, bearing fixed interest in the first financing period, did not differ considerably from the carrying amount as the issue date was close to the end of the reporting period.
- The fair value of other financial instruments (except shares classified as financial assets available for sale and excluded from the scope of IAS 39, as discussed below) as at 31 December 2016 and 31 December 2015 did not significantly differ from their values presented in the financial statements for the respective periods, for the following reasons:
  – the potential discounting effect relating to short-term instruments is not significant;
  – the instruments are related to arm's length transactions.

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

(in PLN '000)

45.2. Revenue, expenses, gain and loss items included in the statement of comprehensive income by category of financial instruments

For the year ended 31 December 2016

	Assets/ liabilities at fair value through profit or loss, held for trading	Financial assets available for sale	Loans and receivables	Financial liabilities at amortized cost	Hedging instruments	Financial assets/ liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	5 728	–	–	–	–	**5 728**
Interest income / (expense)	7 412	–	27 902	(177 949)	(80 658)	(957)	**(224 250)**
Currency translation differences	(2 088)	–	183	(28 356)	–	–	**(30 261)**
Impairment / revaluation	14 495	(203)	(603)	–	–	–	**13 689**
Commission relating to borrowings and debt securities	–	–	–	(18 767)	–	–	**(18 767)**
Gain/ (loss) on disposal of investments	–	2 114	(416)	–	–	–	**1 698**
Other	(43)	–	–	–	–	–	**(43)**
Net financial income (costs)	**19 776**	**7 639**	**27 066**	**(225 072)**	**(80 658)**	**(957)**	**(252 206)**
Revaluation	15 982	–	(22 943)	–	–	–	**(6 961)**
Gain/loss on exercised commodity derivative instruments	(34 365)	–	–	–	–	–	**(34 365)**
Net operating income/(costs)	**(18 383)**	**–**	**(22 943)**	**–**	**–**	**–**	**(41 326)**
Remeasurement	–	–	–	–	127 252	–	**127 252**
Other comprehensive income	**–**	**–**	**–**	**–**	**127 252**	**–**	**127 252**

For the year ended 31 December 2015 (*restated data*)

	Assets/ liabilities at fair value through profit or loss, held for trading	Financial assets available for sale	Loans and receivables	Financial liabilities at amortized cost	Hedging instruments	Financial assets/ liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	4 684	–	–	–	–	**4 684**
Interest income / (expense)	15 651	–	44 734	(189 057)	(89 380)	(1 236)	**(219 288)**
Currency translation differences	1 887	–	(24)	(2 152)	–	813	**524**
Impairment / revaluation	2 148	189	(9 798)	–	–	–	**(7 461)**
Commission relating to borrowings and debt securities	–	–	–	(12 514)	–	–	**(12 514)**
Gain/ (loss) on disposal of investments	3	754	–	–	–	–	**757**
Other	(9 237)	–	–	–	–	–	**(9 237)**
Net financial income (costs)	**10 452**	**5 627**	**34 912**	**(203 723)**	**(89 380)**	**(423)**	**(242 535)**
Revaluation	267	–	(29 461)	–	–	–	**(29 194)**
Gain/loss on exercised commodity derivative instruments	762	–	–	–	–	–	**762**
Net operating income/(costs)	**1 029**	**–**	**(29 461)**	**–**	**–**	**–**	**(28 432)**
Remeasurement	–	–	–	–	85 932	–	**85 932**
Other comprehensive income	**–**	**–**	**–**	**–**	**85 932**	**–**	**85 932**

(in PLN '000)

45.3. Derivative instruments

	As at 31 December 2016				As at 31 December 2015			
	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	–	–	**–**	**–**	(11 368)	–	**3 055**	**(14 423)**
IRS	23	36 618	**36 641**	**–**	(4 833)	(90 634)	**–**	**(95 467)**
Commodity forwards/futures	15 999	–	**16 559**	**(560)**	17	–	**2 225**	**(2 208)**
Currency forwards	3 217	–	**3 217**	**–**	393	–	**404**	**(11)**
Total derivative instruments, including:			**56 417**	**(560)**			**5 684**	**(112 109)**
Non-current			35 814	–			16	(15 156)
Current			20 603	(560)			5 668	(96 953)

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

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

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

	As at 31 December 2016		As at 31 December 2015	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity-related derivatives	16 559	–	2 225	–
Derivate instruments – CCIRS	–	–	–	3 055
Derivative instruments – IRS	–	36 641	–	–
Derivative instruments – currency	–	3 217	–	404
Liabilities				
Commodity-related derivatives	560	–	2 208	–
Currency derivatives	–	–	–	11
Derivate instruments – CCIRS	–	–	–	14 423
Derivate instruments – IRS	–	–	–	95 467

Hedging derivative instruments (subject to hedge accounting) – IRS

Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, the Company hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme (Tranche A and Tranche C), by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. The Tranche A transaction was settled at maturity of the instrument, i.e. in December 2015. On 29 February 2016, the Company repurchased and redeemed a portion of Tranche C bonds with the par value of PLN 2 250 000 thousand, which had been hedged using IRS, and at the same time issued bonds with the same par value under an agreement entered into in November 2015, which has been discussed in more detail in Note 33.2 to these consolidated financial statements. In accordance with the dynamic interest rate risk hedging strategy adopted by the Company, whereby cash flows related to the exposure to the WIBOR 6M interest rate risk are the hedged instrument, the Company maintained the hedging relationship for the IRS transactions concluded in March 2012 with respect to the newly issued bonds. As the effectiveness of the hedge was considered high, the transactions were covered by hedge accounting. On 5 July

2016, a portion of the IRS transactions concluded in March 2012 was settled earlier. The amount paid by the Company on that basis was PLN 7 697 thousand. On 12 December 2016, the remaining portion of the IRS transactions concluded in March 2012 was settled at maturity.

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

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

In the first quarter of 2016, the Company closed a transaction involving a coupon cross currency swap (CCIRS), which was not subject to hedge accounting. Following the settlement of the aforesaid transaction in February 2016, the Company received PLN 5 400 thousand. The transaction involved a swap of interest payments on the nominal amount of EUR 168 000 thousand and its original maturity was 15 years. In accordance with the contract, the Company paid interest accrued based on a floating interest rate in PLN and received fixed-rate payments in EUR.

As at 31 December 2016, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

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

46. Principles and objectives of financial risk management

Risks related to financial instruments which the TAURON Group is exposed to, including a description of the exposure and the risk management method:

Risk exposure	Risk management	Regulation
	Credit risk	
The possibility to incur a loss due to counterparty default on contractual obligations. The credit exposure means the amount that may be lost if a counterparty defaults on its obligations within the agreed time limit (taking into account any security provided by the counterparty).	The credit risk is managed with a view to minimizing the probability of the counterparty default as well as the effect of the credit risk on the achievement of the objectives of the TAURON Group. The credit risk is managed by way of steering the credit risk exposure generated at the time of the entry into contracts by each TAURON Group company. The Group has a decentralized risk management system, but credit risk control, credit risk limits and reporting are managed centrally at the Company's level. The value of the credit risk which the TAURON Group is exposed to is monitored using the Value at Risk method. The Group manages the counterparty credit risk mainly through the application of the following mechanisms and techniques: • evaluation of counterparty's financial standing and assignment of credit limits; • the requirement to provide specific collateral, imposed on clients with a poor financial standing; • standardization of contractual clauses relating to the credit risk and of collateral; • ongoing monitoring of payments and an early collection system; • regular measurement of the credit risk arising from trading operations; • credit risk diversification through a reduction of a high credit exposure both to a single counterparty and a counterparty's related parties.	Credit risk management policy for the TAURON Group
	Liquidity risk	
Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities.	The liquidity situation of the TAURON Group is monitored on an ongoing basis for any differences versus the plans, while availability of external sources of funding, whose value exceeds the expected demand in the short term substantially, mitigates the liquidity risk. The Liquidity management policy for the TAURON Group implemented by the Group lays down the principles applicable to determination of the liquidity position of each company and the TAURON Group as a whole, which enables it to secure funds that may be necessary for purposes of closing a liquidity gap if it is identified, both through the allocation of funds among the companies (cash pool mechanism) and through the use of external funding, including overdrafts.	Liquidity management policy for the TAURON Group
	Market risk – interest rate and currency risks	
The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates.	The key objective of financial risk management is to minimize the sensitivity of the TAURON Group's cash flows to financial risks and to minimize finance costs as well as the costs of hedging with the use of derivative instruments. The policy adopted by the Group has also introduced hedge accounting principles, including a definition of the types of cash flow hedges and the accounting treatment of hedging instruments and hedged items in accordance with the International Financial Reporting Standards. In line with the policy, wherever possible and commercially viable, the TAURON Group uses derivative instruments in the case of which hedge accounting may be applied.	Specific risk management policy in the area of finance for the TAURON Group
	Market risk – price risk	
The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in market prices. At the end of the reporting period, the Group identifies the raw material and commodity price risk for its commodity derivative instruments as well as the price risk for its units in investment funds.	The policy has introduced an early warning system as well as a system of limits related to the exposure to risk in each commercial area. Value at Risk is the key operational measure of the market risk used by the TAURON Group. The Company concludes derivative contracts, with underlying instruments being commodities and raw materials. The Group's exposure to the price risk inherent in commodity derivative instruments is related to a risk of changes in the fair value of the said instruments, driven by fluctuations in the prices of the underlying raw materials/commodities. In most cases the Group hedges the risk by entering into offsetting transactions. This way the Group hedges the price risk related to commodity derivative instruments. The risk is limited to open long and short positions concerning a given commodity or raw material.	Commercial risk management policy for the TAURON Group

(in PLN '000)

46.1. Credit risk

Key classes of financial instruments that give rise to credit risk exposure have been presented in the table below. The maximum credit risk exposures related to financial assets of the TAURON Group equals their carrying amounts.

Classes of financial instruments	As at 31 December 2016	As at 31 December 2015
Receivables from clients	1 894 065	1 830 033
Cash and cash equivalents	384 881	364 912
Loans granted	256 117	223 911
Deposits	38 472	39 724
Other financial receivables	56 379	57 250

46.1.1. Credit risk related to receivables from buyers and other financial receivables

The Group has receivables from two groups of buyers: institutional and individual clients. The percentage share of individual groups in the total amount of receivables from buyers and other financial receivables has been presented below:

	As at 31 December 2016	As at 31 December 2015
Institutional clients	73.20%	75.39%
Individual clients	26.80%	24.61%
Total	**100%**	**100%**

No material concentration of credit risk related to the core activity occurs in the Group. Amounts due from PSE S.A. represent the key item of receivables, while the share in the balance of receivables from buyers and other financial receivables was 4.64% as at 31 December 2016 and 6.97% as at 31 December 2015.

Sales to institutional clients are made only to buyers who have undergone an appropriate verification procedure. As a result, the management believes that there is no additional credit risk that would exceed the allowance for bad debts recognized for trade receivables of the Group.

The ageing analysis of and allowances/write-downs on receivables from buyers and other financial receivables have been presented below.

Allowances/write-downs on receivables from buyers and other financial receivables

	Year ended 31 December 2016	Year ended 31 December 2015
Allowance/write-down at the beginning of period	**(280 898)**	**(282 848)**
Recognised	(99 945)	(106 039)
Utilized	23 334	18 438
Reversed	94 988	89 435
Other movements	(119)	116
Allowance/write-down at the end of period	**(262 640)**	**(280 898)**
Value of item before allowance	2 213 084	2 168 181
Value of item net of allowance (carrying amount)	1 950 444	1 887 283

As at the end of the reporting period, the Group did not have any material non-collectible items not covered with an allowance.

Ageing analysis of receivables from buyers and other financial receivables as at 31 December 2016

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Before allowance/write-down	1 716 782	169 842	45 281	20 079	26 184	234 916	**2 213 084**
Allowance/write-down	(5 715)	(12 265)	(3 697)	(6 357)	(23 112)	(211 494)	**(262 640)**
After allowance/write-down	**1 711 067**	**157 577**	**41 584**	**13 722**	**3 072**	**23 422**	**1 950 444**

(in PLN '000)

Ageing analysis of receivables from buyers and other financial receivables as at 31 December 2015

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Before allowance/write-down	1 643 946	173 145	36 604	22 435	40 656	251 395	**2 168 181**
Allowance/write-down	(1 753)	(3 298)	(3 060)	(8 037)	(29 922)	(234 828)	**(280 898)**
After allowance/write-down	**1 642 193**	**169 847**	**33 544**	**14 398**	**10 734**	**16 567**	**1 887 283**

46.1.2. Credit risk related to cash and cash equivalents

The Group manages credit risk related to cash by diversifying banks where it deposits its cash surplus. All entities the Group concludes deposit transactions with operate in the financial sector. They include high-rating banks with sufficient equity and stable, strong market position.

As at 31 December 2016, the share of three banks where the Group's largest cash balances were deposited was 68%.

46.1.3. Credit risk related to loans granted

Loans granted to joint ventures have been recognized under loans granted by the Group. The loans in question had not been overdue as at the end of the reporting period or before. According to the Group, credit risk due to originated loans was insignificant as at the balance sheet date. The key item was a subordinated loan of PLN 213 381 thousand, secured with a blank promissory note and a promissory note agreement.

46.2. Liquidity risk

The Group maintains a balance between continuity and flexibility of funding through the use of a variety of funding sources, such as overdraft facilities, bank loans, other loans, bonds and finance leases. Such use of the funding sources enables liquidity risk management and effective mitigation of its possible negative effects.

In order to minimize the possibility of cash flow disruption and liquidity risk, the TAURON Group, as in previous years, used the cash pooling mechanism. Regardless of funds collected by its individual members, cash pooling is linked to a flexible credit facility in the form of an overdraft. Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand.

Apart from an overdraft made available under the cash pool agreement, the Group is entitled to use foreign currency overdrafts:

- up to USD 2 000 thousand, with the outstanding amount of USD 410 thousand as at the end of the reporting period;
- up to EUR 25 000 thousand, with the outstanding amount of EUR 3 032 thousand as at the end of the reporting period.

The following tables present the Group's financial liabilities based on non-discounted contractual payments by maturity as at 31 December 2016 and 31 December 2015.

Financial liabilities as at 31 December 2016

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within (after the balance sheet date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments:								
Interest-bearing loans and borrowings and issued bonds	**8 944 681**	**(11 054 364)**	(69 029)	(405 917)	(452 691)	(2 296 657)	(3 680 323)	(4 149 747)
Liabilities to suppliers	**829 729**	**(829 729)**	(829 693)	(36)	–	–	–	–
Capital commitments	**1 034 103**	**(1 034 103)**	(1 033 711)	(93)	(113)	(113)	(73)	–
Other financial liabilities	**327 810**	**(327 810)**	(245 697)	(10 038)	(14 069)	(4 567)	(40 789)	(12 650)
Obligations under finance leases	**34 848**	**(35 772)**	(5 313)	(6 713)	(23 718)	(2)	(4)	(22)
Derivative financial liabilities:								
Derivate instruments – commodity	**560**	**(538)**	–	(538)	–	–	–	–
Total	**11 171 731**	**(13 282 316)**	**(2 183 443)**	**(423 335)**	**(490 591)**	**(2 301 339)**	**(3 721 189)**	**(4 162 419)**

(in PLN '000)

Financial liabilities as at 31 December 2015

Classes of financial instruments	Carrying amount	Non-discounted contractual payments*	of which non-discounted contractual payments maturing within (after the balance sheet date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments:								
Interest-bearing loans and borrowings and issued bonds	**8 092 209**	**(9 236 101)**	(2 335 274)	(1 046 480)	(316 908)	(324 752)	(2 596 757)	(2 615 930)
Liabilities to suppliers	**790 706**	**(790 706)**	(790 655)	(29)	(22)	–	–	–
Capital commitments	**767 759**	**(767 759)**	(766 749)	(93)	(613)	(113)	(191)	–
Other financial liabilities	**329 346**	**(329 346)**	(231 380)	(12 332)	(9 184)	(40 662)	(35 647)	(141)
Obligations under finance leases	**46 438**	**(48 625)**	(4 799)	(9 110)	(10 958)	(23 730)	(4)	(24)
Derivative financial liabilities:								
Derivate instruments – IRS	**95 467**	**(96 559)**	–	(96 559)	–	–	–	–
Derivate instruments – CCIRS	**14 423**	**(68 165)**	–	2 749	2 662	988	(4 350)	(70 214)
Derivate instruments – commodity	**2 208**	**(985)**	–	(251)	(734)	–	–	–
Total	**10 138 556**	**(11 338 246)**	**(4 128 857)**	**(1 162 105)**	**(335 757)**	**(388 269)**	**(2 636 949)**	**(2 686 309)**

** Negative values indicate a cash outflow. Estimations of future payments to be made in selected periods may be positive for some derivatives, i.e. they may indicate a cash inflow, but the value resulting from measurement of such instruments during the entire term to maturity is negative (liability).*

As at 31 December 2016, the Group had a contingent liability relating to guarantees issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd. at the request of the Company, totaling PLN 314 486 thousand, where the institutions financing Elektrociepłownia Stalowa Wola S.A. are the beneficiaries. All these bank guarantees are valid from 30 October 2016 to 14 April 2017. The said guarantees constitute contingent liabilities and do not considerably affect the liquidity risk of the Group.

46.3. Market risk

The Group identifies the following types of market risk it is exposed to:

- interest rate risk;
- currency risk;
- raw material and commodity price risk related to commodity derivative instruments and risk of price change related to units held.

46.3.1. Interest rate risk

The Group's interest rate risk results mainly from debt, concluded IRS contracts, cash deposits and loans granted to joint ventures.

Due to floating interest rate items the Group is exposed to cash flow changes resulting from interest rate fluctuations. As a result of fixed interest rate items the Group is exposed to changes in the fair value of items measured at amortized cost. The risk of fair value changes resulting from interest rate changes also relates to IRS contracts. The Group is also exposed to the risk of lost benefits related to a decrease in interest rates in the case of fixed-rate debt or to an increase in interest rates in the case of fixed-rate assets, although the changes are not disclosed in the financial statements.

In order to hedge interest rate risk related to floating-rate bonds issued, the Group entered into interest rate swap (IRS) contracts, which has been discussed in more detail in Note 45.3.

The carrying amounts of financial instruments of the Group exposed to the interest rate risk have been presented in the tables below. Except hybrid bonds issued in December 2016, bearing fixed interest rate in the first financing period, other bonds issued by the Parent bear floating interest. As the Company has adopted a dynamic financial risk management strategy where the hedged item is cash flows relating to the exposure to the floating WIBOR 6M interest rate, the interest rate risk for a portion of interest cash flows has been reduced by the hedging Interest Rate Swap transactions. Thus, a portion of the carrying amount of bonds with interest cash flow fluctuations hedged with interest rate swaps has been presented in the tables below together with valuation of these hedging instruments as fixed-rate items.

(in PLN '000)

Financial instruments by interest rate type as at 31 December 2016

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Deposits	–	38 472	**38 472**
Loans granted	–	256 117	**256 117**
Cash and cash equivalents	–	384 881	**384 881**
Derivative instruments (CCIRS)	36 641	–	**36 641**
Financial liabilities			
Bank overdrafts	–	15 156	**15 156**
Preferential loans	–	41 748	**41 748**
Arm's length loans	1 190 501	16 148	**1 206 649**
Bonds issued	3 677 088	4 004 040	**7 681 128**
Obligations under finance leases	141	34 707	**34 848**

Financial instruments by interest rate type as at 31 December 2015

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Deposits	–	39 724	**39 724**
Loans granted	–	223 911	**223 911**
Cash and cash equivalents	–	364 912	**364 912**
Derivative instruments (CCIRS)	–	3 055	**3 055**
Financial liabilities			
Bank overdrafts	–	10 206	**10 206**
Preferential loans	–	47 999	**47 999**
Arm's length loans	1 324 191	29 380	**1 353 571**
Bonds issued	3 714 744	2 965 689	**6 680 433**
Derivative instruments (IRS)	95 467	–	**95 467**
Obligations under finance leases	–	46 438	**46 438**
Derivative instruments (CCIRS)	–	14 423	**14 423**

Interest rate of floating-rate financial instruments is updated on a regular basis, more frequently than once a year. Interest on fixed-rate financial instruments is fixed throughout the entire term of the contract until maturity or until a specified point in time where the interest rates are verified and may be changed – this applies to loans from the European Investment Bank as well as hybrid bonds, which bear fixed interest in the first period and floating interest in the second period, which has been discussed in more detail in Notes 33.1 and 33.2.

Sensitivity analysis

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Group relies on expert scenarios reflecting its judgment concerning the behavior of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

The interest rate risk sensitivity analysis is conducted by the Group using the parallel shift in the yield curve by the potential change in reference interest rates within a horizon until the date of the next financial statements. The interest rate risk sensitivity analysis has been carried out based on average reference interest rates in the year. The scale of potential changes in interest rates has been estimated on the basis of implied volatility for interest rate options quoted on the interbank market for currencies which expose the Group to the interest rate risk as at the end of the reporting period.

In the interest rate risk sensitivity analysis, the effect of changes in risk factors has been determined for interest income/expense related to financial instruments measured at amortized cost and for the fair value of floating-rate financial instruments measured at fair value as at the end of the reporting period.

The Group identifies its exposure to the risk of changes in WIBOR, EURIBOR and LIBOR USD interest rates. As at 31 December 2016 and 31 December 2015, its exposure to changes in EURIBOR and LIBOR USD rates was immaterial. Debt to be repaid in the euro, except an overdraft facility, bears fixed interest. The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group to reasonably possible changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

(in PLN '000)

For the year ended 31 December 2016

Classes of finacial instruments	31 December 2016		Sensitivity analysis for interest rate risk as at 31 December 2016	
			WIBOR	
	Carrying amount	Value at risk	WIBOR + 60 bp	WIBOR -60 bp
			Profit or loss / other comprehensive income	
Deposits	38 472	38 472	231	(231)
Loans granted	256 117	256 117	1 537	(1 537)
Cash and cash equivalents	384 881	384 881	1 995	(1 995)
Derivatives (assets)	56 417	36 641	40 992	(40 992)
Preferential loans	41 748	41 748	(250)	250
Arm's length loans	1 206 649	16 148	(97)	97
Issued bonds	7 681 128	6 101 108	(36 607)	36 607
Obligations under finance leases	34 848	34 707	(208)	208
Total			**7 593**	**(7 593)**

The exposure to risk as at 31 December 2016 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

For the year ended 31 December 2015

Classes of finacial instruments	31 December 2015		Sensitivity analysis for interest rate risk as at 31 December 2015	
			WIBOR	
	Carrying amount	Value at risk	WIBOR + 66 bp	WIBOR -66 bp
			Profit or loss / other comprehensive income	
Deposits	39 724	39 724	262	(262)
Loans granted	223 911	223 911	1 478	(1 478)
Cash and cash equivalents	364 912	364 912	2 152	(2 152)
Derivatives (assets)	5 684	3 055	(3 360)	3 360
Preferential loans	47 999	47 999	(317)	317
Arm's length loans	1 353 571	29 380	(194)	194
Issued bonds	6 680 433	5 969 017	(39 396)	39 396
Obligations under finance leases	46 438	46 438	(306)	306
Derivatives (liabilities)	112 109	109 890	(24 358)	24 358
Total			**(64 039)**	**64 039**

The exposure to risk as at 31 December 2015 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

46.3.2. Currency risk

The TAURON Group companies are exposed to transaction and translation currency risk. The Group companies are exposed to the risk of EUR/PLN, CZK/PLN, USD/PLN and GBP/PLN exchange rate changes in relation to their operating and financing activities. The Group's exposure to currency risk by financial instrument class in 2016 and in 2015 has been presented below.

Currency position as at 31 December 2016

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK		USD		GBP	
		in currency	in PLN	in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets									
Receivables from clients and other financial receivables	1 950 444	1 279	5 658	63 250	10 354	–	–	–	–
Cash and cash equivalents	384 881	7 456	32 986	95 406	15 618	306	1 280	499	2 566
Derivatives (assets)	56 417	3 649	16 143	–	–	100	416	–	–
Total		**12 384**	**54 787**	**158 656**	**25 972**	**406**	**1 696**	**499**	**2 566**
Financial liabilities									
Bank overdrafts	15 156	3 032	13 415	–	–	410	1 716	–	–
Issued bonds	7 681 128	357 147	1 580 020	–	–	–	–	–	–
Liabilities to suppliers and other financial liabilities	988 112	4 800	21 234	10 073	1 649	106	444	2	10
Derivatives (liabilities)	560	122	538	–	–	5	22	–	–
Total		**365 101**	**1 615 207**	**10 073**	**1 649**	**521**	**2 182**	**2**	**10**
Net currency position		**(352 717)**	**(1 560 420)**	**148 583**	**24 323**	**(115)**	**(486)**	**497**	**2 556**

(in PLN '000)

Currency position as at 31 December 2015

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK		USD	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Receivables from clients and other financial receivables	1 887 283	1 586	6 759	57 819	9 118	96	376
Cash and cash equivalents	364 912	8 184	34 876	16 988	2 679	338	1 317
Derivatives (assets)	5 684	334	1 425	–	–	205	800
Total		**10 104**	**43 060**	**74 807**	**11 797**	**639**	**2 493**
Financial liabilities							
Bank overdrafts	10 206	2 025	8 630	–	–	404	1 576
Issued bonds	6 680 433	166 941	711 417	–	–	–	–
Liabilities to suppliers and other financial liabilities	947 946	3 173	13 523	13 139	2 072	1	4
Derivatives (liabilities)	112 109	242	1 032	70	11	301	1 176
Total		**172 381**	**734 602**	**13 209**	**2 083**	**706**	**2 756**
Net currency position		**(162 277)**	**(691 542)**	**61 598**	**9 714**	**(67)**	**(263)**

In 2016 and in 2015, in line with its currency risk management strategy, the TAURON Group used forward contracts as hedges against currency risk related to its operations. The Group did not use hedge accounting to hedge currency risk. As at the end of the reporting period, the Group presented an asset from valuation of FX forward contracts in the amount of PLN 3 217 thousand.

Sensitivity analysis

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Group relies on expert scenarios reflecting its judgment concerning the behavior of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

The potential changes in foreign exchange rates have been determined within a horizon until the date of the next financial statements and calculated on the basis of annual implied volatility for FX options quoted on the interbank market for a given currency pair as at the end of the reporting period or, in the absence of quoted market prices, on the basis of historical volatility for a period of one year preceding the end of the reporting period.

The Group identifies its exposure to currency risk related to EUR/PLN, CZK/PLN, USD/PLN and GBP/PLN exchange rates. The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group to reasonably possible changes in foreign exchange rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

For the year ended 31 December 2016

Classes of finacial instruments	31 December 2016		Sensitivity analysis for currency risk as at 31 December 2016							
			EUR/PLN		CZK/PLN		USD/PLN		GBP/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.8%	exchange rate EUR/PLN -7.8%	exchange rate CZK/PLN +9.98%	exchange rate CZK/PLN -9.98%	exchange rate USD/PLN +13.8%	exchange rate USD/PLN -13.8%	exchange rate GBP/PLN +11.55%	exchange rate GBP/PLN -11.55%
			Profit or loss / other comprehensive income		*Profit or loss / other comprehensive income*		*Profit or loss / other comprehensive income*		*Profit or loss / other comprehensive income*	
Receivables from clients and other financial receivables	1 950 444	16 012	441	(441)	1 034	(1 034)	–	–	–	–
Cash and cash equivalents	384 881	52 450	2 573	(2 573)	1 559	(1 559)	177	(177)	296	(296)
Derivatives (assets)	56 417	19 776	6 624	(6 624)	–	–	57	(57)	–	–
Overdrafts	15 156	15 131	(1 046)	1 046	–	–	(237)	237	–	–
Bonds issued	7 681 128	1 580 020	(123 242)	123 242	–	–	–	–	–	–
Liabilities to suppliers and other financial liabilities	988 112	23 337	(1 657)	1 657	(165)	165	(2)	2	(1)	1
Derivatives (liabilities)	560	560	(42)	42	–	–	(3)	3	–	–
Total			**(116 349)**	**116 349**	**2 428**	**(2 428)**	**(8)**	**8**	**295**	**(295)**

The exposure to risk as at 31 December 2016 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date, except for a transaction made at the end of 2016. It concerned a class of hybrid bonds issued by the Company in December 2016 with the euro as the issue and repayment currency, which has been discussed in more detail in Note 33.2 to these consolidated financial statements.

(in PLN '000)

For the year ended 31 December 2015

Classes of finacial instruments	31 December 2015		Sensitivity analysis for currency risk as at 31 December 2015					
			EUR/PLN		CZK/PLN		USD/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.15%	exchange rate EUR/PLN -7.15%	exchange rate CZK/PLN +8.22%	exchange rate CZK/PLN -8.22%	exchange rate USD/PLN +11.43%	exchange rate USD/PLN -11.43%
			Profit or loss / other comprehensive income		*Profit or loss / other comprehensive income*		*Profit or loss / other comprehensive income*	
Receivables from clients and other financial receivables	1 887 283	16 253	483	(483)	749	(749)	43	(43)
Cash and cash equivalents	364 912	38 872	2 494	(2 494)	220	(220)	151	(151)
Derivatives (assets)	5 684	5 684	3 078	(3 078)	–	–	91	(91)
Overdrafts	10 206	10 206	(617)	617	–	–	(180)	180
Bonds issued	6 680 433	711 417	(50 866)	50 866	–	–	–	–
Liabilities to suppliers and other financial liabilities	947 946	15 599	(966)	966	(170)	170	–	–
Derivatives (liabilities)	112 109	16 642	21 587	(21 587)	(1)	1	(135)	135
Total			**(24 807)**	**24 807**	**798**	**(798)**	**(30)**	**30**

The exposure to risk as at 31 December 2015 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

46.3.3. Raw material and commodity price risk related to commodity derivative instruments held

As at 31 December 2016, open positions included forwards and futures for emission allowances and a futures contract for gas. As at 31 December 2016, the total carrying amount of all derivative instruments related to emission allowances was PLN 15 012 thousand (the asset item of PLN 15 550 thousand and the liability item of PLN 538 thousand) and of the derivative contract for gas: PLN 593 thousand (the asset item) and as at 31 December 2015, the total carrying amount of all derivative instruments related to emission allowances was PLN 433 thousand (the asset item of PLN 1 425 thousand and the liability item of PLN 992 thousand) and of the derivative contract for gas: PLN 40 thousand (the liability item).

Sensitivity analysis

The analysis of sensitivity to changes in emissions risk factors is conducted by the Group by means of a scenario analysis. The scenarios reflect the Group's assessment of individual risk factors in the future and are aimed to analyze the effect of changes in risks on the Group's financial performance.

For the year ended 31 December 2016

	Carrying amount as at 31 December 2016			Increase		Decrease	
	price (EUR)	Assets	Liabilities	price (EUR)	Impact on gross profit	price (EUR)	Impact on gross profit
Derivative instruments – commodity (emission allowances):							
EUA Dec17	6.57–6.58	5 410	319	10.18	(10 381)	4.14	6 988
EUA Jan 17	6.54	10 140	–	10.14	(21 421)	4.12	14 400
EUA Apr 17	6.55	–	219	10.15	(780)	4.13	524
EUA inventory – measurement to fair value	6.54	13 226	–	10.14	32 553	4.12	(21 883)
Total		**28 776**	**538**		**(29)**		**29**

For the year ended 31 December 2015

	Carrying amount as at 31 December 2015			Increase		Decrease	
	price (EUR)	Assets	Liabilities	price (EUR)	Impact on profit (loss)	price (EUR)	Impact on profit (loss)
Derivative instruments – commodity (emission allowances)	8.25–8.29	1 425	992	8.53–8.57	(122)	4.83–4.85	1 490

(in PLN '000)

46.3.4. Unit price risk

As at 31 December 2016, the Group held units in investment funds with the carrying amount of PLN 25 316 thousand. As they are measured at fair value at the end of the reporting period, they are exposed to the price risk.

Sensitivity analysis

For purposes of the analysis of sensitivity to changes in the quoted prices of the units in investment funds held by the Group, the Group relies on a scenario analysis. The potential changes in the quoted prices are determined within a horizon until the date of the next financial statements and calculated by reference to the funds' monthly quoted prices within one year preceding the end of the reporting period.

For the year ended 31 December 2016

Investment fund units	31 December 2016		Sensitivity analysis for price risk as at 31 December 2016			
			Price change		Price change	
	Carrying amount	Value at risk	+1.0%	-1.0%	+0.7%	-0.7%
			Impact on gross profit			
UniKorona Pieniężny/UniFundusze FIO	2 519	2 519	25	(25)		
UniWIBID Plus/UniFundusze SFIO	22 797	22 797			160	(160)
Total	**25 316**	**25 316**	**25**	**(25)**	**160**	**(160)**

47. Operational risk

Commercial operational risk is managed at the level of the TAURON Group, which has been discussed in more detail in Section 3 of the Management Board's Report on the Activities of the TAURON Polska Energia S.A. Capital Group for the 2016 financial year. The Company manages its commercial risk following the Commercial risk management policy developed and adopted in the TAURON Group, which introduces an early warning system and a system of limiting risk exposure in each trade area.

The TAURON Polska Energia S.A. Group companies are exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in prices of goods. The Group's exposure to the commodity price risk is reflected in the volume of purchases of the key raw materials and commodities, including hard coal, gas and energy. The volume and cost of purchases of the key raw materials from third-party suppliers have been presented in the table below.

Fuel type	Unit	2016		2015	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	3 522 216	608 619	4 821 241	947 360
Gas	MWh	2 928 639	241 432	1 235 889	122 189
Electricity	MWh	33 138 013	5 602 272	33 993 308	5 703 158
Heat energy	GJ	6 095 393	232 603	6 028 877	227 926
Total			**6 684 926**		**7 000 633**

(in PLN '000)

OTHER INFORMATION

48. Contingent liabilities

Item	Description
Use of real estate without contract	Entities of the Group do not hold legal titles to all plots of land where distribution networks, heating installation and the related devices are located. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential not submitted claims of owners of land with unregulated legal status, since their detailed records do not exist. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.
Amount	As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 92 143 thousand (Note 37).
Claims filed by Huta Łaziska S.A.	Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of Energy Regulatory Office (ERO). At present, the case is pending at District Court in Warsaw. Based on a decision of 12 October 2001, the President of the Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had failed to pay its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006 the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgement of the Court of Appeals in Warsaw, which was dismissed by the judgement of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the above decision issued by the President of ERO on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages. Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office Huta has claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of ERO dated 12 October 2001. In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the judgement of the Regional Court and remanded the case for re-examination by the latter. The first hearing before the first instance court was held on 27 November 2012. In May 2015, a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by the parties as evidence. After the issue of the decision, the Company tried to change the proceeding concept adopted by the Court stating that taking evidence from a court expert opinion is unacceptable. Finally, the Court commissioned an additional opinion to be prepared by the court expert. On 5 September 2016, the additional opinion by the court expert was delivered to the Company. The Company filed charges against the said opinion on 12 and 19 September 2016. Charges were also brought by the State Treasury and Huta. The next hearing is to be held on 24 March 2017 in order to continue the questioning of the court expert with respect to the aforesaid opinions, which began during the hearing conducted on 21 December 2016. Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.
Amount	Claim regarding payment of damages of PLN 182 060 thousand.
Litigation related to termination of long-term contracts	On 18 March 2015 Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. in liquidation terminated long-term agreements regarding purchase of power and property rights from windfarms. Court proceedings were instigated against the Company to consider the termination notices invalid. In 2016 the claims against the company were changed through the incorporation of claims for damages related to termination of the agreements in the total amount of ca. PLN 40 074 thousand. Since the court proceedings regarding the above issues are pending, the final amount of possible financial effects on the Company and the Group cannot be reliably estimated. In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both in terms of the termination notes being declared invalid and of securing both non-monetary claims and the claims for damages does not exceed 50%. Therefore, no provision for the related costs has been recognized.

(in PLN '000)

Item	Description
Claim filed by ENEA S.A.	The claim filed by ENEA S.A. ("ENEA") to the District Court in Katowice regards the payment of PLN 17 086 thousand with statutory interest calculated from 31 March 2015 until the payment date for unjust enrichment of the Company arising from settlement of balances on the Balancing Market performed with Polskie Sieci Elektroenergetyczne S.A. in the period from January to December 2012. The claim was delivered to the Company on 11 January 2016. As stated by ENEA, the improper settlement was caused by inconsistency in measurement data collected by ENEA Operator Sp. z o.o. (as the Distribution System Operator, DSO) and made available to the Balancing Market participants (PSE S.A., ENEA S.A. and the Company) for the settlement purposes. The error resulted in PSE S.A. assigning to ENEA S.A. (as the official seller in the distribution area of ENEA Operator Sp. z o.o.) the amount of consumed power that should have been assigned to the Company (as the entity in charge of trade balances of power sellers operating in the distribution area of ENEA Operator Sp. z o.o.). The dispute concerns the fact that pursuant to the Power Transmission Grid Traffic and Operation Instruction (IRiESP) binding all participants of the Balancing Market, settlements regarding trade balances for a given period may be adjusted within 2 months, 4 months and 15 months after the settlement period. According to IRiESP, after 15 months the settlements become final. ENEA Operator Sp. z o.o. informed TAURON Polska Energia S.A. about the necessity to adjust measurement data and the entire settlement after the permitted adjustment period. Therefore, settlements between PSE S.A. and ENEA S.A. and between PSE S.A. and the Company have not been adjusted. TAURON Polska Energia S.A. responded to the claim with a series of charges. The Court obliged ENEA to reply to the response, which was done on 5 April 2016. On 20 June 2016, TAURON Polska Energia S.A. filed a petition for inviting ENEA Operator Sp. z o.o. to take part in the litigation. The Court also admitted evidence from the witnesses' testimonies. On 4 July 2016 TAURON Polska Energia S.A. filed a process document with the court. The last hearing was conducted on 6 March 2017. During that hearing the Court following the motion filed by ENEA S.A. (expressed in its pleading of 8 December 2016) ruled to summon before the Court (in accordance with Article 194.1 of the Code of Civil Procedure) seven sellers for which TARON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The case is pending. The hearing was deferred with the deadline ex officio. No provision has been recognized as the Company believes that the risk of losing the case is below 50%.
Amount	The claim regards the payment of PLN 17 086 thousand.
Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o	On 15 May 2015 TAURON Polska Energia S.A. established a financial pledge and registered pledges of 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o., with the unit face value of PLN 100 and the total face value of PLN 329 340 thousand, constituting ca. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company established a first lien registered pledge of shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge of shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges of new shares acquired or taken. Moreover, the Company assigned the rights to dividend and other payments. Agreement on establishing registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as original borrowers, TAMEH HOLDING Sp. z o.o. as the parent and the guarantor, and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. Registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until a release by the pledgee, not later than on 31 December 2028. On 15 September 2016, Annex 1 was executed to the aforesaid agreement, whereby the maximum amount of the collateral was changed to PLN 1 370 000 thousand.
Amount	As at 31 December 2016 the carrying amount of investments in joint venture recognized using the equity method in the TAMEH HOLDING Sp. z o.o. capital group was PLN 442 869 thousand.
Bank guarantees issued at the request of TAURON Polska Energia S.A. to secure the payment of liabilities of a joint venture	Following the entry into agreements setting out the terms of further implementation of the gas and steam unit construction project in Elektrociepłownia Stalowa Wola S.A. on 27 October 2016, and with a view to enforcing the standstill agreement entered into by the Company, Elektrociepłownia Stalowa Wola S.A., PGNiG S.A., the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. aimed to ensure that the financing institutions will refrain from accelerating the loans granted to the company and satisfying their claims through the use of the related collateral, at the request of the Company The Bank of Tokyo-Mitsubishi UFJ, Ltd. issued three bank guarantees for: – the European Investment Bank – in the amount of PLN 156 000 thousand; – the European Bank for Reconstruction and Development – in the amount of PLN 83 494 thousand; – Bank Polska Kasa Opieki S.A. – in the amount of PLN 74 992 thousand. All these bank guarantees are valid from 30 October 2016 to 14 April 2017. A notarized declaration of voluntary submission to enforcement is a security under the Agreement.
Amount	The total value of guarantees issued PLN 314 486 thousand.

(in PLN '000)

Item	Description
Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	President of UOKiK instigated the following procedures against the Sales segment companies: – Proceedings instigated on 17 September 2013 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 and therefore constitutes a breach of the Act on competition and consumer protection of 16 February 2007 (Journal of Laws of 2007 No. 50, item 331 as amended; "Act on competition and consumer protection"). The company committed to discontinue practices violating the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. On 22 December 2014 the company received a decision of UOKiK closing the evidentiary proceedings. On 14 December 2015 the President of UOKiK requested the company to demonstrate whether the practices have been discontinued. The company responded to the request in February 2016 informing that the practices have been discontinued and motioned for a decision not to charge a fine. No such decision had been issued by the date of the financial statements. – Under a decision of 19 December 2014 anti-trust proceedings were instigated regarding the alleged abuse of the dominant position by TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. on the reserve electricity distribution market. In 2015 the companies applied for a decision requesting the entities to discontinue activities violating the Act on competition and consumer protection and to take steps preventing the alleged violations. In July 2015 the President of the Office for Competition and Consumer Protection, issued a decision requesting the entities to take appropriate steps to prevent the alleged infringements within four months from the date when the decision becomes final and binding. The entities were obliged to report on fulfilling the obligations within 6 months from the date the decision becomes final and binding. On 22 February 2016 the companies informed the office that the obligation had been fulfilled and filed the required reports. – On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydroelectric power stations constitute a breach of the Act on competition and consumer protection. The actions in question include enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement. By a decision of 15 October 2015 the President of UOKiK instigated anti-trust proceedings. On 1 February 2016 UOKiK accepted the company's decision regarding presentation of a specific commitment. On 24 August 2016, the President of UOKiK issued a decision obliging the company to fulfil the obligation to take steps to prevent the alleged violations through the employment of specific measures within two months of the said decision becoming final. On 29 September 2016, the company filed an appeal against the decision with the Court of Competition and Consumer Protection. On 2 December 2016, the President of the Office of Competition and Consumer Protection issued a decision amending the statement of reasons supporting the previous decision. The companies do not recognize provisions for fines related to the above proceedings, since their management boards believe the risk of losing the cases and paying the fines is low.
Explanatory proceedings instigated by the President of UOKiK	Explanatory proceedings have been instigated against companies from the Sales segment to preliminarily determine whether their actions have been in breach of the Act on competition and consumer protection. The companies provided requested documents and explanations and responded to statements included in the letters of UOKiK. The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low; hence no provision has been recognized for these events.
Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)	In a notice of 5 April 2016, the President of the Energy Regulatory Office informed TAURON Dystrybucja S.A. of the instigation of administrative proceedings to impose a fine for a failure to maintain facilities, installations and equipment in a proper technical condition and for non-compliance with the terms of the electricity distribution license. The company does not recognize a provision for potential fines related to the aforesaid proceedings, as the Management Board is of the opinion that the risk of an unfavorable ruling and imposition of a fine is low.

49. Contingent assets and liabilities related to tax returns

Tax returns may be inspected within five years, starting from the end of the year when the tax was paid. As a result of such inspections the Group's tax settlements may be increased by additional tax liabilities. According to the Group, as at 31 December 2016 appropriate provisions had been recognized for identified and measurable tax risk.

As at the date of the consolidated financial statements, the following proceedings regarding settlements under public law were pending in the Capital Group companies:

(in PLN '000)

Item	Description
Excise duty	In view of the differences between the Polish and EU regulations concerning excise duty on electricity, following the judgment of the European Court of Justice ("ECJ") in Luksemburg of 12 February 2009 power and heat and power plants from the TAURON Capital Group filed tax return correction and applications to acknowledge excise tax excess payment for the years 2006–2008 and for January and February 2009. In the judgment in question ECJ conceded that Polish regulations determining the timing of recognition for excise tax purposes were not adjusted to the requirements of the Energy Directive neither before nor after the transition period. Proceedings concerning individual companies from the TAURON Capital Group (TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o.) have been carried out before competent tax authorities and Administrative Courts. As the final outcome of this dispute is highly unpredictable, the Group has not recognized any effects of possible reimbursement of excise duty overpayment or claims and possible claims of electricity buyers in these consolidated financial statements. On 5 January 2017 and 23 January 2017 unfavorable decisions were issued by the Regional Administrative Court in Gliwice with respect to another application for ascertainment of overpayment for the period from July to December 2007. The Company will decide on the further course of the proceedings.
Amount	The overpaid amounts claimed by the Group approximate PLN 908 500 thousand.
Income tax – an increase in tax-deductible costs by the amount of component repair cost	In accordance with the tax ruling, companies in the Tax Capital Group ("TCG") (TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o.) expensed costs incurred on component repairs over time. At the same time the Company, representing the TCG, appealed against the tax ruling, as in its opinion the repairs in question should be expensed when incurred, on one-off basis, irrespective of the way they are accounted for in the accounting records. Such position was confirmed by the Regional Administrative Court in Gliwice in its decision dated 18 September 2014. On 30 December 2014 the Company filed an application to acknowledge tax excess payment and a tax return correction for 2013, where the component repairs were recognized in tax-deductible expense on one-off basis. At the same time, an impairment loss for income tax receivable has been recognized with relation to the excess payment. In 2015, TCG received an overpayment refund of PLN 22 250 thousand. The impairment loss has been reversed, thus reducing the tax expense for 2015. Following a cassation appeal filed by the Minister of Finance the case was dismissed by the Supreme Administrative Court on 24 January 2017, which supported the position taken by the Company.
Amount	The refunded overpayment of PLN 22 250 thousand.
Real estate tax	There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities and on equipment used in underground excavations. Since the tax is imposed on the local self-government level, there is no unified approach and in several cases, the tax base calculation has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation and transmission facilities, as well as on underground excavations, may change in future.
Amount	As at the end of the reporting period, provisions were recognized for costs of disputes regarding real estate tax and for the related business risk (totaling PLN 35 008 thousand).

50. Collateral against liabilities

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

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

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

	As at 31 December 2016	As at 31 December 2015
Real estate	81 363	82 250
Plant and machinery	14 059	614
Cash	13 740	22 067
Total	**109 162**	**104 931**

Other forms of collateral

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 31 December 2016 concerned the following contracts concluded by the Parent:

(in PLN '000)

Agreement	Collateral form	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C (repaid), Tranche D and Tranche E (not disbursed)
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Framework bank guarantee agreement with PKO Bank Polski S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies (limit amounted to PLN 100 000 thousand).	authorization to debit the bank account maintained by PKO Bank Polski S.A.	up to PLN 125 000 thousand
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 25 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 110 600 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to PLN 221 200 thousand (EUR 50 000 thousand) valid until 31 December 2019
overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 12 538 thousand (USD 3 000 thousand) valid until 31 March 2019

Other forms of collateral against liabilities of the Group

As at 31 December 2016, other significant collateral for the liabilities of the TAURON Group included:

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Capital Group company that has issued a blank promissory note	As at 31 December 2016
Agreements concerning loans granted to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000
Performance bonds to include co-funding of engagements carried out	TAURON Dystrybucja S.A.	170 888
Performance bonds related to co-funding agreements concluded with the National Fund for Environmental Protection and Water Management	TAURON Ciepło Sp. z o.o.	87 251
Agreements for connecting to the industrial network, agreements for power transmission services and agreements for partial loan cancelling concluded with the National Fund for Environmental Protection and Water Management	TAURON Wytwarzanie S.A.	66 844

(in PLN '000)

- Collateral under finance lease agreements

Finance lease agreement	Lessee	Carrying amount of the leased asset as at 31 December 2016	Collateral
Leaseback agreement concerning real estate, plant and machinery	TAURON Ciepło Sp. z o.o.	22 857	Blank promissory note for PLN 92 215 thousand. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate, plant and machinery and authorization to debit bank accounts.
Finance lease agreement concerning real estate in Katowice	TAURON Polska Energia S.A.	25 318	The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

- The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ), a subsidiary, to secure bonds issued by the entity in December 2014. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand.
- Under the bank guarantee agreement made with Bank Zachodni WBK S.A., the bank issued guarantees to secure stock exchange transactions resulting from the membership in the Commodity Clearing House. As at 31 December 2016, the guarantees issued by the bank totaled PLN 100 000 thousand and were valid until January 2017.
- Under the bank guarantee agreement made with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland ("CaixaBank S.A."), at the request of the Company the bank issued bank guarantees to secure liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 263 thousand and to secure the transactions performed by the Company for GAZ-SYSTEM S.A. up to PLN 3 664 thousand, valid until 30 November 2017.
- Under the framework agreement for bank guarantees entered into with PKO Bank Polski S.A., at the request of the Company the bank issued bank guarantees securing liabilities of TAURON Polska Energia S.A. subsidiaries totaling PLN 1 691 thousand.
- Collateral for transactions on the Polish Power Exchange.

  In the year ended 31 December 2016, emission allowances held by the Group were frozen in the National Registry of Allowances in order to collateralize transactions concluded at Polish Power Exchange. The alienation agreements expired during 2016.

Mining companies from the Capital Group have established a Mine Decommissioning Fund to ensure funds for covering future decommissioning costs. Detailed information is provided in Note 35.1.

51. Related-party disclosures

51.1. Transactions with joint ventures

The Group has the following joint ventures: Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa Sp. z o.o. in liquidation and TAMEH HOLDING Sp. z o.o. with subsidiaries, which have been discussed in more detail in Note 22 to these consolidated financial statements.

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

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	117 451	58 013
Costs	(46 321)	(36 002)

The key income item arises from transactions with the TAMEH HOLDING Sp. z o.o. Capital Group, a joint venture. In the year ended 31 December 2016 and 31 December 2015, transactions with the joint venture amounted to PLN 106 703 thousand and PLN 48 483 thousand, respectively.

The key item of receivables from and liabilities to jointly-controlled entities is a loan granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 23 to these consolidated financial statements.

The Company has also pledged collateral for the benefit of joint ventures, in the form of a pledge on the shares in TAMEH HOLDING Sp. z o.o., which has been discussed in more detail in Note 48 to these consolidated financial statements.

(in PLN '000)

In relation to agreements entered into with a joint venture, Elektrociepłownia Stalowa Wola S.A., in the year ended 31 December 2015, the Company recognized provisions for onerous contracts totaling PLN 182 877 thousand. In the year ended 31 December 2016, the Company remeasured the provisions due to the unwinding of discount as at the end of the reporting period by the total amount of PLN 11 502 thousand and recognized additional provisions of PLN 4 465 thousand net, which has been discussed in more detail in Note 35 to these consolidated financial statements.

51.2. Transactions with State Treasury companies

The State Treasury of the Republic of Poland is the Group's major shareholder; 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

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	2 293 142	2 558 894
Costs	(2 527 466)	(3 018 993)

Receivables and liabilities

	As at 31 December 2016	As at 31 December 2015
Receivables	356 595	367 207
Payables	298 786	270 429

As at 31 December 2016, receivables presented in the table above comprised advance payments of PLN 109 364 thousand, including advance payments for deliveries of coal of PLN 99 607 thousand and advance payments for purchases of fixed assets of PLN 9 757 thousand. As at 31 December 2015, receivables comprised advance payments totaling PLN 128 650 thousand, including advance payments for deliveries of coal of PLN 124 996 thousand and advance payments for purchases of fixed assets of PLN 3 649 thousand.

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

In the year ended 31 December 2016, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. incorporated on 1 May 2016 were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. Total sales to these contracting parties accounted for 83% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. Purchases from these contracting parties accounted for 87% of the value of purchases from State Treasury companies during the year ended 31 December 2016.

In the year ended 31 December 2015, KGHM Polska Miedź S.A., PSE S.A., PKP Energetyka S.A., Jastrzębska Spółka Węglowa S.A. and Kompania Węglowa S.A. were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. Total sales to these contracting parties accounted for 79% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these contracting parties accounted for 80% of the value of purchases from State Treasury companies during the year ended 31 December 2015.

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

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

(in PLN '000)

51.3. Executive compensation

The amount of compensation and other benefits paid and/or due to the Management Board, Supervisory Boards and other key executives of the Parent and the subsidiaries in the year ended 31 December 2016 and in the comparative period has been presented in the table below.

	Year ended 31 December 2016		Year ended 31 December 2015	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	**12 858**	**24 604**	**11 225**	**22 152**
Short-term employee benefits (salaries and surcharges)	6 367	19 051	7 333	19 640
Post-employment benefits	–	–	–	599
Employment termination benefits	5 806	4 990	2 820	1 544
Other	685	563	1 072	369
Supervisory Board	**1 159**	**641**	**1 118**	**990**
Short-term employee benefits (salaries and surcharges)	1 159	612	1 118	927
Other	–	29	–	63
Other key management personnel	**13 284**	**39 375**	**14 588**	**40 541**
Short-term employee benefits (salaries and surcharges)	10 554	38 242	12 392	38 580
Jubilee bonuses	–	391	–	1 001
Post-employment benefits	–	16	507	607
Employment termination benefits	1 911	511	627	125
Other	819	215	1 062	228
Total	**27 301**	**64 620**	**26 931**	**63 683**

As regards termination benefits paid to members of the Management Board, as presented in the table above, the amount of PLN 4 585 thousand was accounted for as the use of a provision recognized as at 31 December 2015 by the Parent and the amount of PLN 1 435 thousand as the use of provisions recognized as at 31 December 2015 by the subsidiaries.

Additionally, in the year ended 31 December 2016, the Group companies recognized provisions for termination benefits payable to members of the Management Board, in the amount of PLN 2 592 thousand. The aforesaid benefits have not become due yet. The table does not present the aforesaid costs of recognition of provisions which have not been paid.

52. Operating leases

Under lease agreements, the Parent uses a real property located in Katowice at ul. ks. Piotra Ściegiennego 3, where its registered office is located. The usable area is 9 588.83 square meters and in 2016, the average monthly rental fee with the service charges was PLN 510 thousand.

Moreover, TAURON Wydobycie S.A. uses mining machines and equipment based on lease agreements. The annual cost of lease in the years 2016 and 2015 reached PLN 34 027 thousand and PLN 28 987 thousand, respectively.

53. Finance and capital management

The key tools enabling effective management of financial resources include the central financing model and the TAURON Group's liquidity management policy along with a cash pooling arrangement made by the Group. Additionally, the finance management system is supported by the Group's central specific risk management policy and central insurance policy with the Company acting as a manager directing activities, thus allowing relevant risk exposure limits to be established.

Detailed information regarding finance management has been provided in Section 4.10 of the Management Board's report on the activities of the TAURON Polska Energia S.A Capital Group.

In 2016, the TAURON Group was fully able to pay its liabilities at maturity.

The key objective of the capital management policy developed by the Group is maintaining a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value. The Group manages its capital structure and modifies it in accordance with changes in economic conditions. In order to maintain or adjust the capital structure, the Group may establish a dividend policy for its shareholders, return equity to them, issue new shares or influence external debt level accordingly.

The Group focuses primarily on monitoring the debt ratio, which is defined as net financial debt relative to EBITDA.

(in PLN '000)

Net financial debt is the financial debt of the TAURON Group arising from loans, borrowings and debt securities as well as finance leases, except the liability arising from the issue of subordinated bonds in December 2016 with the par value of EUR 190 000 thousand, less cash and short-term investments maturing within one year. EBITDA is the operating profit or loss of the TAURON Group increased by amortization/depreciation and impairment of non-financial assets. Financial debt means the obligation to pay or refund money (both principal and interest). The value of the ratio is also monitored by the institutions providing financing to the Company and rating agencies and has a measurable impact on the Company's ability to obtain funding and its cost, as well as on evaluation of its credit standing.

As at the end of the reporting period, the debt ratio was 2.3, which is regarded as safe according to the market standards and enables the entity to take on further financial liabilities.

	Year ended 31 December 2016	Year ended 31 December 2015 (*restated figures*)
Loans and borrowings	1 070 162	1 223 814
Bonds*	6 826 751	3 666 590
Finance lease	23 546	33 723
Non-current debt liabilities	**7 920 459**	**4 924 127**
Loans and borrowings	193 391	187 962
Bonds*	13 354	3 013 843
Finance lease	11 302	12 715
Short-term debt liabilities	**218 047**	**3 214 520**
Total debt	**8 138 506**	**8 138 647**
Cash and cash equivalents	384 881	364 912
Short-term investments maturing within one year	50 023	9 772
Net debt	**7 703 602**	**7 763 963**
EBITDA	**3 336 814**	**3 523 228**
Operating profit (loss)	801 522	(1 901 216)
Depreciation/amortization	(1 668 726)	(1 832 690)
Impairment	(866 566)	(3 591 754)
Net debt / EBITDA	**2.3**	**2.2**

** Debt does not include liabilities arising from subordinated bonds.*

(in PLN '000)

Change in the balance of debt has been presented below.

	Debt liabilities
As at 1 January 2015	**8 113 766**
Proceeds arising from debt taken out	**604 494**
financing received	605 000
transaction costs	(506)
Interest accrued	**344 378**
charged to profit or loss	275 218
capitalized to property, plant and equipment and intangible assets	69 160
Debt related payments	**(950 476)**
principal repaid	(605 011)
interest paid	(276 305)
interest paid, capitalized to investment projects	(69 160)
Change in the balance of overdraft facility and cash pooling	**23 184**
Change in debt measurement	**3 143**
Other non-monetary changes	**158**
As at 31 December 2015	**8 138 647**
Proceeds arising from debt taken out	**4 274 293**
financing received	4 285 521
transaction costs	(11 228)
Interest accrued	**350 399**
charged to profit or loss	254 428
capitalized to property, plant and equipment and intangible assets	95 971
Debt related payments	**(3 806 689)**
principal repaid	(3 455 602)
interest paid	(255 116)
interest paid, capitalized to investment projects	(95 971)
Change in the balance of overdraft facility and cash pooling	**(8 332)**
Change in debt measurement	**27 772**
Other non-monetary changes	**3 439**
As at 31 December 2016	**8 979 529**
subordinated bonds	(841 023)
As at 31 December 2016 – debt in the calculation of debt ratio	**8 138 506**

54. Fee of the certified auditor or the entity authorized to audit financial statements

Information concerning the fee of the certified auditor has been presented in the Management Board's Report on the Activities of the TAURON Polska Energia S.A. Capital Group for the 2016 financial year (Section 4.12).

55. Events after the end of the reporting period

Termination of agreements by TAURON Sprzedaż Sp. z o.o., a subsidiary

On 28 February 2017, TAURON Sprzedaż Sp. zo.o., a subsidiary, submitted termination notices regarding long-term agreements for purchase of property rights resulting from green certificates. The agreements have been terminated with immediate effect, since the parties thereto failed to reach an agreement under contract renegotiation procedures provided for therein. The financial effect of the termination for TAURON Sprzedaż Sp. z o.o. is avoiding the loss calculated as a difference between contractual and market prices of green certificates. The estimated amount of the net contractual loss on the performance of these agreements until the end of their assumed term (i.e. by 2023) approximated PLN 343 million, including current market prices of green certificates. The total value of contractual liabilities of the company estimated for the years 2017–2023 approximates PLN 417 million. The call to renegotiate the agreements resulted from amendments to the law, which could not have been predicted by the company despite taking due care, and which affected the supply of green certificates and resulted in a significant and long-lasting decrease in their prices, at the same time dramatically changing the system of subsidies to power generation from renewable sources. The system had been the key reason underlying the conclusion of these agreements. Its modification constitutes a substantial change in legal environment and exerts a direct and decisive impact on their profitability.

Annulment of the liqudation of the company Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

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

These consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the year ended 31 December 2016 in accordance with the International Financial Reporting Standards, as endorsed by the European Union, have been presented on 100 consecutive pages.

Management Board of the Company

Katowice, 13 March 2017

Filip Grzegorczyk	– President of the Management Board	....
Jarosław Broda	– Vice-President of the Management Board	....
Kamil Kamiński	– Vice-President of the Management Board	....
Marek Wadowski	– Vice-President of the Management Board	....
Piotr Zawistowski	– Vice-President of the Management Board	....
Oliwia Tokarczyk	– Executive Director for Taxes and Accounting	....