TAURON POLSKA ENERGIA S.A.

FINANCIAL STATEMENTS

PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS,

AS ENDORSED BY THE EUROPEAN UNION FOR THE YEAR ENDED 31 DECEMBER 2016

TABLE OF CONTENTS

STATEMENT OF COMPREHENSIVE INCOME ... 5
STATEMENT OF FINANCIAL POSITION ... 6
STATEMENT OF FINANCIAL POSITION – CONTINUED ... 7
STATEMENT OF CHANGES IN EQUITY ... 8
STATEMENT OF CASH FLOWS ... 9

INFORMATION ABOUT TAURON POLSKA ENERGIA S.A. AND THE BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS ... 10
1. General information about TAURON Polska Energia S.A. ... 10
2. Shares in related parties ... 11
3. Statement of compliance ... 12
4. Going concern ... 12
5. Functional and presentation currency ... 12
6. Material values based on professional judgment and estimates ... 12
7. New standards and interpretations ... 13
8. Changes in the accounting policies ... 15
9. Significant accounting policies ... 17
   9.1. Property, plant and equipment ... 17
   9.2. Investment property ... 17
   9.3. Intangible assets ... 17
   9.4. Shares in subsidiaries ... 17
   9.5. Shares in jointly-controlled entities ... 17
   9.6. Bonds ... 18
   9.7. Loans granted ... 18
   9.8. Impairment of financial assets ... 18
   9.9. Derivative financial instruments ... 19
   9.10. Hedge accounting ... 19
   9.11. Other non-financial assets ... 19
   9.12. Inventories ... 20
   9.13. Receivables from buyers and other financial receivables ... 20
   9.14. Cash and cash equivalents ... 20
   9.15. Issued capital ... 20
   9.16. Debt ... 21
   9.17. Provisions for employee benefits ... 21
   9.18. Other provisions ... 21
   9.19. Liabilities to suppliers and other financial liabilities ... 21
   9.20. Receivables / Liabilities due to taxes and charges ... 22
   9.21. Current and deferred income tax ... 22
   9.22. Sales revenue ... 22
   9.23. Operating expenses ... 23
   9.24. Finance income and costs ... 23
   9.25. Translation of items denominated in foreign currencies ... 24
   9.26. Business combinations ... 24
   9.27. Statement of cash flows ... 25

OPERATING SEGMENTS ... 26
10. Information on operating segments ... 26
   10.1. Operating segments ... 26
   10.2. Geographic areas of operations ... 28

IMPAIRMENT OF FINANCIAL ASSETS ... 29
11. Impairment of financial assets ... 29

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME ... 32
12. Sales revenue ... 32
13. Expenses by type ... 32
14. Employee benefits expenses ... 33
15. Other operating income and expenses ... 33
16. Finance income and costs ... 33
17. Income tax ... 34
   17.1. Tax expense in the statement of comprehensive income ... 34
   17.2. Reconciliation of the effective tax rate ... 35
   17.3. Deferred income tax ... 35
   17.4. Tax Capital Group ... 36
18. Earnings per share ... 36

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION ... 37
19. Property, plant and equipment ... 37
20. Investment property ... 37
21. Intangible assets ... 38
22. Shares ... 38
23. Bonds ... 40
24. Derivative instruments ... 41
25. Other financial assets ... 42
26. Loans granted ... 43
27. Inventories ... 44
28. Receivables from buyers ... 44
29. Receivables due to taxes and charges ... 44
30. Other non-financial assets ... 45
31. Cash and cash equivalents ... 45
32. Issued capital and other capitals ... 45
    32.1. Issued capital ... 45
    32.2. Major shareholders ... 46
    32.3. Reserve capital ... 46
    32.4. Revaluation reserve from valuation of hedging instruments ... 46
    32.5. Retained earnings and dividend limitation ... 47
33. Dividends paid ... 47
34. Debt ... 48
    34.1. Bonds issued ... 48
    34.2. Loans from the European Investment Bank ... 51
    34.3. Loans from a subsidiary ... 51
    34.4. Cash pool service ... 51
    34.5. Overdraft facilities ... 52
    34.6. Finance lease liabilities ... 52
    34.7. Operating lease liabilities ... 52
35. Provisions for employee benefits ... 53
36. Other provisions ... 54
37. Accruals, deferred income and government grants ... 56
38. Liabilities to suppliers ... 56
39. Other financial liabilities ... 56
40. Liabilities due to taxes and charges ... 57

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS ... 58
41. Significant items of the statement of cash flows ... 58
    41.1. Cash flows from operating activities ... 58
    41.2. Cash flows from investing activities ... 58
    41.3. Cash flows from financing activities ... 59

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT ... 60
42. Financial instruments ... 60
    42.1. Carrying amount and fair value of financial instrument classes and categories ... 60
    42.2. Revenue, expenses, gain and loss items included in the statement of comprehensive income by category of financial instruments ... 61
43. Financial risk management ... 62
    43.1. Credit risk ... 63
    43.1.1 Credit risk related to receivables from buyers and other financial receivables ... 63
    43.1.2 Credit risk related to other financial assets ... 64
    43.2. Liquidity risk ... 64
    43.3. Market risk ... 66
    43.3.1 Interest rate risk ... 66
    43.3.2 Currency risk ... 67
    43.3.3 Commodity price risk related to commodity derivative instruments and changes in the prices of units in investment funds ... 68
    43.3.4 Market risk – sensitivity analysis ... 68
44. Operational risk ... 71

OTHER INFORMATION ... 72
45. Contingent liabilities ... 72
46. Collateral against liabilities ... 75
47. Capital commitments ... 76
48. Related-party disclosures ... 76
    48.1. Transactions with related parties and State Treasury companies ... 76
    48.2. Executive compensation ... 78
49. Finance and capital management ... 79
50. Employment structure ... 79

51. Fee of the certified auditor or the entity authorized to audit financial statements 79
52. Structure of financial statements broken down by business activity type in line with Article 44 of the Energy Law . 79
53. Events after the end of the reporting period 81

(in PLN '000)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016	Year ended 31 December 2015 *(restated figures)*
Sales revenue	**12**	7 995 328	9 062 246
Cost of sales	**13**	(7 837 567)	(9 073 869)
Gross profit (loss)		**157 761**	**(11 623)**
Selling and distribution expenses	**13**	(19 326)	(21 372)
Administrative expenses	**13**	(81 368)	(96 341)
Other operating income and expenses	**15**	(91 670)	4 969
Operating profit (loss)		**(34 603)**	**(124 367)**
Dividend income	**16**	1 485 152	1 510 624
Interest income on bonds and loans	**16**	503 897	449 437
Interest expense on debt	**16**	(356 947)	(357 055)
Revaluation of shares and loans	**16**	(1 610 396)	(4 931 147)
Other finance income and costs	**16**	(136 237)	1 714
Profit (loss) before tax		**(149 134)**	**(3 450 794)**
Income tax expense	**17**	(17 119)	(3 114)
Net profit (loss)		**(166 253)**	**(3 453 908)**
Measurement of hedging instruments	**32.4**	127 252	85 932
Income tax expense	**17**	(24 178)	(16 327)
Other comprehensive income subject to reclassification to profit or loss		**103 074**	**69 605**
Actuarial gains/(losses)		1 173	142
Income tax expense	**17**	(223)	(27)
Other comprehensive income not subject to reclassification to profit or loss		**950**	**115**
Other comprehensive income, net of tax		**104 024**	**69 720**
Total comprehensive income		**(62 229)**	**(3 384 188)**
Earnings per share (in PLN):			
- basic and diluted, for net profit (loss)	**18**	(0.09)	(1.97)

(in PLN '000)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2016	As at 31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	**19**	1 276	3 436
Investment property	**20**	25 318	28 935
Intangible assets	**21**	2 191	3 299
Shares	**22**	14 870 418	15 933 194
Bonds	**23**	9 615 917	7 451 601
Loans granted	**26**	1 292 800	1 417 165
Derivative instruments	**24**	35 814	16
Other financial assets	**25**	5 524	5 263
Other non-financial assets	**30**	6 071	23 461
		25 855 329	**24 866 370**
Current assets			
Inventories	**27**	284 799	249 492
Receivables from clients	**28**	840 656	579 446
Receivables arising from taxes and charges	**29**	120 586	43 763
Bonds	**23**	242 465	215 040
Loans granted	**26**	30 966	165 093
Derivative instruments	**24**	20 603	5 668
Other financial assets	**25**	55 354	109 205
Other non-financial assets	**30**	23 528	71 824
Cash and cash equivalents	**31**	198 090	168 255
		1 817 047	**1 607 786**
TOTAL ASSETS		**27 672 376**	**26 474 156**

(in PLN '000)

STATEMENT OF FINANCIAL POSITION – CONTINUED

	Note	As at 31 December 2016	As at 31 December 2015
EQUITY AND LIABILITIES			
Equity			
Issued capital	**32.1**	8 762 747	8 762 747
Reserve capital	**32.3**	7 823 339	11 277 247
Revaluation reserve from valuation of hedging instruments	**32.4**	29 660	(73 414)
Retained earnings / (Accumulated losses)	**32.5**	(85 478)	(3 374 083)
		16 530 268	**16 592 497**
Non-current liabilities			
Debt	**34**	8 754 047	4 876 546
Other financial liabilities	**39**	27 918	5 739
Derivative instruments	**24**	-	15 156
Deferred income tax liabilities	**17.3**	32 364	385
Provisions for employee benefits	**35**	2 534	7 843
Other provisions	**36**	152 943	163 449
Accruals, deferred income and government grants	**37**	170	-
		8 969 976	**5 069 118**
Current liabilities			
Debt	**34**	1 433 929	4 057 048
Liabilities to suppliers	**38**	473 637	493 936
Other financial liabilities	**39**	111 759	23 284
Derivative instruments	**24**	560	96 942
Liabilities arising from taxes and charges	**40**	20 209	101 670
Provisions for employee benefits	**35**	299	722
Other provisions	**36**	110 406	19 443
Accruals, deferred income and government grants	**37**	21 333	19 496
		2 172 132	**4 812 541**
Total liabilities		**11 142 108**	**9 881 659**
TOTAL EQUITY AND LIABILITIES		**27 672 376**	**26 474 156**

(in PLN '000)

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2015		**8 762 747**	**10 393 686**	**(143 019)**	**1 226 153**	**20 239 567**
Dividends	**33**	**-**	**-**	**-**	(262 882)	**(262 882)**
Appropriation of prior years profits		**-**	883 561	**-**	(883 561)	**-**
Transactions with shareholders		**-**	**883 561**	**-**	**(1 146 443)**	**(262 882)**
Net profit (loss)		-	-	-	(3 453 908)	**(3 453 908)**
Other comprehensive income		-	-	69 605	115	**69 720**
Total comprehensive income		**-**	**-**	**69 605**	**(3 453 793)**	**(3 384 188)**
As at 31 December 2015		**8 762 747**	**11 277 247**	**(73 414)**	**(3 374 083)**	**16 592 497**
Coverage of prior years loss	**32.3**	-	(3 453 908)	-	3 453 908	**-**
Transactions with shareholders		**-**	**(3 453 908)**	**-**	**3 453 908**	**-**
Net profit (loss)		-	-	-	(166 253)	**(166 253)**
Other comprehensive income		-	-	103 074	950	**104 024**
Total comprehensive income		**-**	**-**	**103 074**	**(165 303)**	**(62 229)**
As at 31 December 2016		**8 762 747**	**7 823 339**	**29 660**	**(85 478)**	**16 530 268**

(in PLN '000)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Profit before taxation (loss)		(149 134)	(3 450 794)
Depreciation and amortization		7 722	7 945
Interest and dividends, net		(1 625 894)	(1 609 826)
Impairment losses on shares and loans		1 610 396	4 931 147
Other adjustments of profit before tax	**41.1**	85 355	(1 137)
Change in working capital	**41.1**	(130 749)	284 609
Income tax paid		(30 583)	(4 335)
Net cash from operating activities		**(232 887)**	**157 609**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(1 344)	(2 008)
Purchase of bonds	**41.2**	(2 770 000)	(4 155 000)
Purchase of shares	**41.2**	(543 603)	(53 377)
Loans granted	**41.2**	(23 575)	(168 124)
Purchase of investment fund units		(25 000)	-
Total payments		**(3 363 522)**	**(4 378 509)**
Sale of property, plant and equipment and intangible assets		1	15
Redemption of bonds	**41.2**	540 000	2 267 266
Repayment of loans granted	**41.2**	142 024	14 500
Dividends received		1 485 152	1 510 624
Interest received	**41.2**	474 126	267 464
Sale of shares		102 676	-
Total proceeds		**2 743 979**	**4 059 869**
Net cash from (used in) investing activities		**(619 543)**	**(318 640)**
Cash flows from financing activities			
Payment of finance lease liabilities		(3 208)	(2 990)
Repayment of loans and borrowings	**41.3**	(132 818)	(132 818)
Dividends paid		-	(262 882)
Redemption of debt securities	**41.3**	(3 300 000)	(450 000)
Interest paid	**41.3**	(351 147)	(344 332)
Commission paid		(11 411)	(26 415)
Total payments		**(3 798 584)**	**(1 219 437)**
Issue of debt securities	**41.3**	4 284 607	310 000
Proceeds from loans and borrowings		-	322 358
Other proceeds		141	-
Total proceeds		**4 284 748**	**632 358**
Net cash from (used in) financing activities		**486 164**	**(587 079)**
Net increase / (decrease) in cash and cash equivalents		**(366 266)**	**(748 110)**
Net foreign exchange difference		1 179	1 147
Cash and cash equivalents at the beginning of the period	**31**	**(679 175)**	**68 935**
Cash and cash equivalents at the end of the period, *of which:*	**31**	**(1 045 441)**	**(679 175)**
restricted cash	**31**	56 787	70 927

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

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

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

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

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

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

The scope of the core business of TAURON Polska Energia S.A. includes:

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

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

The financial statements prepared by the Company cover the financial year ended 31 December 2016 and include comparable data for the year ended 31 December 2015. These financial statements were approved for publication by the Management Board on 13 March 2017.

The consolidated financial statements for the year ended 31 December 2016 prepared by the Company were approved for publication 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 TAURON Polska Energia S.A. for the 2016 financial year (section 6.11.1).

(in PLN '000)

2. Shares in related parties

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

Item	Company name	Registered office	Core business	Share of TAURON Polska Energia S.A. in the entity's capital and governing body
1	TAURON Wydobycie S.A.[1]	Jaworzno	Hard coal mining	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation, transmission and distribution of electricity and heat	100.00%
3	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%
4	Marselwind Sp. z o.o.	Katowice	Production, transmission and sale of electricity	100.00%
5	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100.00%
6	TAURON Serwis Sp. z o. o.[2]	Katowice	Services	95.61%
7	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.72%
8	TAURON Dystrybucja Serwis S.A.[3]	Wrocław	Services	99.72%
9	TAURON Dystrybucja Pomiary Sp. z o.o.[3]	Tarnów	Services	99.72%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%
12	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%
13	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%
14	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Limestone quarrying and stone quarrying	100.00%
15	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation[4]	Warszawa	Sale of electricity	100.00%
16	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Services	100.00%
17	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Sourcing of and trading in biomass	100.00%
18	KOMFORT - ZET Sp. z o.o.[3]	Tarnów	Services	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 22 to these financial statements.
[2] On 2 November 2016, the business combination under common control of TAURON Serwis Sp. z o.o. and TAURON Wytwarzanie Serwis Sp. z o.o. was registered, which has been discussed in more detail in Note 22 to these financial statements.
[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. 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 Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation adopted a resolution on annulment of the liquidation 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:

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

[1]TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. 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 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.

4. Going concern

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

5. Functional and presentation currency

These 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 policies 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 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.

Items of the financial statements exposed to the 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 financial statements, in line with the table below.

Item	Value of item to which the estimate figure applies		Details regarding assumptions made and calculation of significant estimates
	As at 31 December 2016	As at 31 December 2015	
Shares	14 870 418	15 933 194	• As a result of impairment test performed as of 31 December 2016 the impairment loss was recognized on shares in TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o. amounting to PLN 415 392 thousand. During 2016 the Company also recognized the results of impairment test performed as of 30 June 2016. The Company recognized impairment losses on shares in TAURON Ekoenergia Sp. z o.o. and TAURON Wytwarzanie S.A. of PLN 1 440 303 thousand and derecognized an impairment loss on shares in TAURON Ciepło Sp. z o.o. in the amount of PLN 443 252 thousand. Note 11, 22
Loan granted to a subsidiary	1 051 849	1 195 362	• Impairment The impairment tests performed as at 31 December 2016 for shares, bonds and loans in subsidiaries identified the necessity to recognize an impairment loss on a loan to a subsidiary in the amount of PLN 197 953 thousand. • Classification as non-current assets. Note 11, 26
Provision for onerous contracts	198 844	182 877	• Provision valuation and description. Note 36
Deferred tax assets	50 115	62 691	• Unrecognised deferred tax assets; • Realisation of deferred tax assets. Note 17.3
Derivative instruments:			• Fair value measurement.
Assets	56 417	5 684	Note 24
Liabilities	560	112 098	
Intragroup bonds	9 858 382	7 666 641	• Classification as non-current or current assets. Note 23
Loan received from a subsidiary	29 286	28 198	• Classification as non-current liabilities. Note 34.3

7. New standards and interpretations

The Company did not choose an early application of any standard, interpretation or change, which was published, but is 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 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.

Impact on the financial statements

The amendments to classification and measurement of financial assets will lead to changes in the classification of financial assets in the Company's financial statements, however, this will not have a material impact on the measurement as well as the Company's profit/loss and capitals. An analysis of the financial assets held by the Company as at 31 December 2016 has shown that, provided that the Company 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 measurment. The Company 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 Company in entities not quoted in active markets, which cannot be reliably measured and therefore are currently measured at cost less any impairment. An analysis of the impact of IFRS 9 on the financial statements as regards this group of assets has not yet been completed.

As far as the expected credit losses on receivables from buyers are concerned, the new impairment model should not have a material impact on the financial statements in the way that additional allowance for expected credit losses is recognised. Other material financial assets of the Company − bonds and borrowings − are related to intra-group transactions and joint-venture transactions. Those instruments should not require recognition of expected credit losses.

As at 31 December 2016 the Company 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. It is not expected that amendments to IFRS 9 will have a material impact on the Company's financial statements as regards applied 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.

Impact on the financial statements

A preliminary analysis of the impact of IFRS 15 *Revenue from Contracts with Customers* 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 happens rarely in the Company. The new guidelines of IFRS 15 are not expected to result in the need to change the systems, but before the standard enters into force the Company intends to carry out an analysis of contracts with customers including contract identification, indication of individual liabilities, determining prices, assigning them to individual liabilities and revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements.

- **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 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, 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. 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.

Impact on the financial statements

A preliminary analysis of the impact of IFRS 16 on the accounting principles has shown a change material for the Company, i.e. the need to recognize lease assets and liabilities for leases currently classified as operating leases in the financial statements. The Company 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 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 Company 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.

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

(in PLN '000)

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
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 financial statements are consistent with those used for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 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 due to volatility of market prices 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.

Standard	Effective in the EU as of *(annual periods beginning on or after the date provided)*
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 J*oint 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

(in PLN '000)

Presentation change

The Company 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 the inventory of 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 trading in 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 or 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 more accurately.

The effect of the presentation change on the 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 Company's profit/loss.

	Year ended 31 December 2015 *(authorised figures)*	Change in presentation of gains/losses on trading in emission allowances and on commodity derivative instruments	Year ended 31 December 2015 *(adjusted figures)*
Sales revenue	9 173 030	(110 784)	9 062 246
Cost of sales	(9 185 682)	111 813	(9 073 869)
Gross profit (loss)	**(12 652)**	**1 029**	**(11 623)**
Selling and distribution expenses	(20 268)	(1 104)	(21 372)
Operating profit (loss)	**(124 292)**	**(75)**	**(124 367)**
Other finance income and costs	1 639	75	1 714
Net profit (loss)	**(3 453 908)**	**-**	**(3 453 908)**

(in PLN '000)

9. Significant accounting policies

9.1. Property, plant and equipment — Note 19

Items of property, plant and equipment are measured at cost less depreciation and impairment losses. The initial value of fixed assets includes their cost increased by all expenses directly related to the purchase and bringing the asset to a usable condition. Depreciation is calculated by reference to the cost of the asset less its residual value. The depreciation method applied by the Company reflects the pattern of the entity's consumption of economic benefits generated by the asset.

Average residual useful lives by fixed asset group:

Tangible fixed assets by type	Average remaining depreciation period in years
Plant and machinery	-
Motor vehicles	1 year
Other tangible fixed assets	1 year

The depreciation method and rate, as well as the residual value of fixed assets are reviewed at least at the end of each financial year. Any changes resulting from the review are recognized as changes in estimates. Depreciation is recognized in profit or loss in an appropriate cost category corresponding to the function of the non-current asset.

9.2. Investment property — Note 20

The Company owns real property which is a source of rental income. This property is rented to a subsidiary.

At initial recognition investment property is measured at cost including transaction costs. After initial recognition all investment properties held are measured in line with IAS 16 *Property, Plant and Equipment*, i.e. at cost. This means that the Company gradually depreciates the real property throughout its useful life.

9.3. Intangible assets — Note 21

Intangible assets include mainly computer software, licenses and copyright and related titles.

Intangible assets are measured at cost at initial recognition. After initial recognition intangible assets are measured at cost less accumulated amortization and impairment losses.

The Company assesses whether the useful life of an intangible asset is finite or indefinite and, if finite, estimates its duration or another measure providing the basis for determination of the useful life.

Intangible assets with a finite useful life are amortized over the period of their estimated use and tested for impairment each time when impairment indications occur. The period and method of amortization of intangible assets with a finite useful life are reviewed at least at the end of each financial year. Changes in the estimated useful life or the pattern of consumption of economic benefits derived from an intangible asset are regarded as changes in estimates. Amortization of intangible assets with a finite useful life is recognized in profit or loss in an appropriate cost category corresponding to the function of the intangible asset.

The Company does not have any intangible assets with an indefinite useful life.

Average residual useful lives by intangible asset group:

Intangible assets by type	Average remaining amortization period in years
Software	1 year
Other intangible assets	3 years

9.4. Shares in subsidiaries — Note 22

Shares in subsidiaries are measured at cost less impairment losses. Impairment losses are recognized in line with IAS 36 *Impairment of Assets*, where the carrying amount is compared to the higher of the fair value less costs to sell and the value in use.

9.5. Shares in jointly-controlled entities — Nota 22

The Company recognizes its shares in jointly-controlled entities at cost less impairment losses.

9.6. Bonds — Note 23

Under the central funding model, the Company acquires bonds issued by the TAURON Group companies. The bonds are classified to loans and receivables, i.e. financial assets with fixed or determinable payments. Bonds with maturity of up to 12 months as of the end of the reporting period are classified to current assets and those with maturity of over 12 months as of the end of the reporting period − to non-current assets, however, it is not only the maturity, but also the Company's plans with respect to the rollover that matter.

Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management over a medium and long term.

9.7. Loans granted — Note 26

Loans given by the Company are loans to subsidiaries and include cash pooling loans and loans to joint ventures. Loans classified to loans and receivables and measured at amortized cost Loans maturing within 12 months as of the end of the reporting period are classified to current assets and those maturing in more than 12 months as of the end of the reporting period to − to non-current assets considering the expectations as regards the loan repayment as at the end of the reporting period.

9.8. Impairment of financial assets — Note 11

As at the end of each reporting period, the Company verifies whether there is any objective indication that a financial asset or a group of financial assets may be impaired.

Shares in subsidiaries and intra-group loans and bonds

The main item in the Company's financial assets are shares in subsidiaries and intra-group loans and bonds. The assets are tested for impairment, if there is any objective indication that the assets may be impaired. The amount of the impairment loss is the difference between the carrying amount of a financial asset or group of financial assets and the recoverable amount, which is the fair value less costs of disposal or the value in use, whichever is higher. The value in use is calculated as the present value of estimated future cash flows from the operations of subsidiaries and the estimated residual value discounted using the weighted average cost of capital.

Other financial assets

Other financial assets measured at amortized costs are tested for impairment, if there is any objective indication that the assets may be impaired. The amount of the impairment loss is the difference between the carrying amount of a financial asset and the present value of estimated future cash flows discounted using the initial effective interest rate (i.e. the one determined at initial recognition).

If the impairment loss decreases in the subsequent period and the decrease can be objectively related to an event taking place after the loss has been recognized, the prior impairment loss is reversed. The subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost as at the date of reversal.

9.9. Derivative financial instruments — Note 24

Derivative financial instruments falling within the scope of IAS 39 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 9.10). Other derivative instruments held by the Company as at the end of the reporting period are not subject to hedge accounting.

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

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.

9.10. Hedge accounting

In order to hedge the interest rate risk the Company 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.

9.11. Other non-financial assets — Note 30

The Company recognizes mainly prepayments and advance payments for deliveries as other non-financial assets.

Prepayments are measured at the amount of reliably estimated expenses incurred by the entity, related to future reporting periods and resulting in an inflow of economic benefits to the entity in the future. Prepaid expenses may be settled based on the elapsed time or amounts paid.

9.12. Inventories — Note 27

The Company's inventories include acquired emission allowances and certificates of energy generated using renewable sources and in CHP units, intended for trading purposes.

At initial recognition inventories are measured at cost. At the end of the reporting period inventories are measured at cost or net realizable value, whichever is lower. If the cost is higher than the net realizable value, the Company recognizes an appropriate impairment loss.

Greenhouse gas emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices are recognized within inventories. They are measured at fair value at initial recognition and at the end of each reporting period.

Release of goods and materials is measured using the weighted average method.

9.13. Receivables from buyers and other financial receivables — Note 25, 28

Receivables from buyers are recognized at originally invoiced amounts, except situations where the effect of the time value of money is material, less allowances/write-downs.

If the recoverable amount of an asset is lower than its carrying amount, the Company 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.

Other financial receivables include, among others, receivables due to the Tax Capital Group, bid bonds, deposits and collateral transferred and receivables arising from sale of fixed and intangible assets.

9.14. Cash and cash equivalents — Note 31

Cash and short-term deposits recognized in the statement of financial position include in particular cash at bank and in hand and short-term deposits with original maturity of up to three months.

The balance of cash and cash equivalents recognized in the statement of cash flows consists of the aforesaid cash and cash equivalent items. If the entity uses overdraft facilities as a cash management solution, in line with IAS 7 the balance of cash is presented in the statement of cash flows less the outstanding balance of such facilities. Additionally, cash is adjusted by the balances of loans granted and taken out in a cash pool transaction as their main objective is to manage liquidity on a day-to-day basis.

9.15. Issued capital — Note 32

In the financial statements, issued capital is presented at the amount specified in the Company's articles of association and entered in the court register.

9.16. Debt — Note 34

Loans, borrowings, bonds issued and finance lease liabilities are presented as debt in the statement of financial position of the Company.

At initial recognition, all loans, borrowings and bonds issued are measured at fair value less the cost incurred to obtain a loan or borrowing. After initial recognition interest-bearing loans and debt securities are 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 Company 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 fixed asset or the present value of the minimum lease payments.

Leases whereby the lessor retains substantially all the risk and rewards of ownership of an 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.

9.17. Provisions for employee benefits — Note 35

In accordance with the Compensation Policy the employees of the Company 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;
- benefits from the Company's Social Benefit Fund.

The present value of such liabilities is calculated by an independent actuary at the end of each reporting period. The accrued liabilities 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 post-employment benefits are fully charged to other comprehensive income.

9.18. Other provisions — Note 36

Provisions are recognized if the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

At the end of the reporting period, the Company 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. As at the end of the reporting period the Company also recognized a provision for the costs of an unfavourable decision in a pending control proceedings.

In the reporting period, the Company recognized also a provision for the obligation to surrender energy certificates.

9.19. Liabilities to suppliers and other financial liabilities — Note 38, 39

Current liabilities to suppliers are recognized at amount due. Other financial liabilities include liabilities to subsidiaries arising from the TCG' settlements, liabilities due to payroll, bid bonds, deposits and collateral received and liabilities due to purchase of fixed assets, which are measured at amount due, as the effect of discounting is immaterial.

9.20. Receivables / Liabilities due to taxes and charges — Note 29, 40

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

- CIT settlements;
- VAT and excise duty settlements;
- PIT and social security settlements;
- Environmental fees and other regulatory settlements.

9.21. Current and deferred income tax — Note 17

Current tax

Income tax recognized in profit or loss for the period includes actual tax charge for the given reporting period determined by the Company in line with provisions of the CIT Act and considering joint settlement within the Company's Tax Capital Group, any previous year tax adjustments.

Deferred tax

The entity 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 carrying amount of the deferred tax asset is reviewed at the end of each reporting period. The Company reduces the carrying amount of the deferred tax asset to the extent the generation of taxable income sufficient to use the deferred tax asset in part or in whole is not probable. Unrecognized deferred tax asset is reviewed at the end of each reporting period and recognized to the extent its use is probable following generation of taxable income in the future.

The deferred tax asset and liability are measured with the application of tax rates expected to be applicable in the period of realization of the asset or derecognition of the liability, with the consideration of tax rates (and tax regulations) that had been enacted or substantively enacted at the end of the reporting period.

Income tax related to items which are not recognized in profit or loss, i.e. items recognized in other comprehensive income or directly in equity, is recognized in other comprehensive income or in equity, respectively.

The Company offsets its deferred tax asset and deferred tax liability only if it has an enforceable legal title to offset its current tax receivables with liabilities and the deferred tax asset and liability concern the same tax authority.

9.22. Sales revenue — Note 12

Revenue is recognized in the amount it is probable that future economic benefits relating to a transaction will flow to the Company and the amount of the revenue can be measured reliably. 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 recognition criteria:

Revenue from sales of goods and materials is recognized if significant ownership-related risks and benefits from goods and materials have been transferred to the buyer and if the revenue amount can be reliably measured and incurred costs can be reliably estimated.

Revenue also includes amounts due for the sale of goods, materials and services related to the core business and determined based on the net price, adjusted by granted rebates and discounts and excise duty.

Revenue from sales of goods includes gains on the inventory of greenhouse gas emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices, including the aggregate gain 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.

Gains on change in measurement and on exercising derivative commodity instruments falling within the scope of IAS 39 and related to purchases and sales of other commodities are recognized in revenue from sales of goods.

9.23. Operating expenses — Note 13

The Company presents expenses by function.

They include:

- cost of goods, 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;
- total selling and distribution as well as administrative expenses incurred in the reporting period (disclosed separately in the statement of comprehensive income).

The cost of sales includes losses on the inventory of greenhouse gas emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices, including the aggregate 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.

Losses on change in measurement and on exercising derivative commodity instruments falling within the scope of IAS 39 and related to purchases and sales of other commodities are recognized in cost of sales.

Costs that can be assigned directly to revenue generated by the Company impact 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 Company impact the profit or loss in the portion pertaining to the given reporting period, and match the revenue or other economic benefits.

9.24. Finance income and costs — Note 16

Finance income and costs include in particular items relating to:

- revenue from profit sharing in other entities, including dividends;
- interest;
- sale/liquidation of financial assets;
- revaluation of financial instruments, except derivative commodity instruments falling within the scope of IAS 39 in the case of which gains/losses on change in measurement and on exercising are presented within operating activities where gains/losses on the related trading in goods are also recognized;
- interest related to measurement of employee benefits, in line with IAS 19 *Employee Benefits*;
- changes in the balance of a provision resulting from the nearing deadline to incur the expense (discount unwinding effect);
- foreign exchange differences resulting from transactions performed during the reporting period and balance sheet measurement of assets and liabilities at the end of the reporting period, except for differences recognized in the initial value of a fixed asset;

other items related to financing activities.

(in PLN '000)

9.25. Translation of items denominated in foreign currencies

Foreign currency transactions are translated into PLN at initial recognition at the exchange rate applicable as at the transaction date. As at the end of the reporting period:

- monetary items denominated in foreign currencies are translated at the closing rate (the average exchange rate published by the National Bank of Poland as at the date);
- non-monetary items measured at historical cost and denominated in foreign currencies are translated at the exchange rate as at the original transaction date; and
- non-monetary items measured at fair value and denominated in foreign currencies are translated at the exchange rate as at the fair value measurement date.

Exchange differences from translation are recognized within finance income (costs), or, in the cases specified in the accounting principles (policy), capitalized in the value of assets.

Exchange rates applied for the purpose of balance sheet measurement:

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

9.26. Business combinations

Business combinations of entities under common control are accounted for using the pooling of interest method.

The method is based on the assumption that the entities combined have been controlled by the same shareholder before the transaction and will be controlled by the entity after the transaction, therefore the continuity of common control is presented in the financial statements, while the changes in the net value of assets to reflect their fair value (or recognition of new assets) or goodwill measurement 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.

The following items are eliminated when a business combination is accounted for using the pooling of interest method:

- issued capital of the acquiree;
- mutual receivables and liabilities or other similar settlements of the combined entities;
- revenue and costs of business transactions executed in the period covered by the financial statements, which were effected before the business combination;
- gains or losses on business transactions concluded between the combined entities prior to the business combination, included in the amounts of the pooled assets and liabilities.

When accounting for business combinations of subsidiaries from the TAURON Group, the Company uses the consolidated financial statements as the source of the value of assets and liabilities in a subsidiary acquired. The value of the acquiree's shares in the subsidiaries was measured by reference to the entities' net asset value from the consolidated financial statements and the subsidiary's goodwill.

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

9.27. Statement of cash flows

The statement of cash flows is prepared using the indirect method.

OPERATING SEGMENTS

10. Information on operating segments

10.1. Operating segments

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

"Holding activity" segment assets include:

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

"Holding activity" segment liabilities include:

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

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

Finance income and finance costs include dividend income as well as impairment loss recognized or reversed for shares in subsidiaries, intra-group loans and bonds, net interest income and expense earned/incurred by the Company in relation to the central financing model adopted by the Group.

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

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

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

(in PLN '000)

For the year ended 31 December 2016

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 669 734	-	-	**1 669 734**
Sales within the Group	6 325 594	-	-	**6 325 594**
Segment revenue	**7 995 328**	**-**	**-**	**7 995 328**
Profit/(loss) of the segment	**79 265**	**-**	**-**	**79 265**
Unallocated expenses	-	-	(113 868)	**(113 868)**
EBIT	**79 265**	**-**	**(113 868)**	**(34 603)**
Net finance income/(costs)	-	(101 050)	(13 481)	**(114 531)**
Profit/(loss) before income tax	**79 265**	**(101 050)**	**(127 349)**	**(149 134)**
Income tax expense	-	-	(17 119)	**(17 119)**
Net profit/(loss) for the year	**79 265**	**(101 050)**	**(144 468)**	**(166 253)**
Assets and liabilities				
Segment assets	1 450 322	26 114 360	-	**27 564 682**
Unallocated assets	-	-	107 694	**107 694**
Total assets	**1 450 322**	**26 114 360**	**107 694**	**27 672 376**
Segment liabilities	785 879	10 221 533	**-**	**11 007 412**
Unallocated liabilities	-	-	134 696	**134 696**
Total liabilities	**785 879**	**10 221 533**	**134 696**	**11 142 108**
EBIT	**79 265**	**-**	**(113 868)**	**(34 603)**
Depreciation/amortization	**(7 722)**	**-**	**-**	**(7 722)**
Impairment	**197**	**-**	**-**	**197**
EBITDA	**86 790**	**-**	**(113 868)**	**(27 078)**
Other segment information				
Capital expenditure *	837	-	-	**837**

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

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

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	2 069 889	-	-	**2 069 889**
Sales within the Group	6 992 357	-	-	**6 992 357**
Segment revenue	**9 062 246**	**-**	**-**	**9 062 246**
Profit/(loss) of the segment	**(28 026)**	-	**-**	**(28 026)**
Unallocated expenses	-	-	(96 341)	**(96 341)**
EBIT	**(28 026)**	**-**	**(96 341)**	**(124 367)**
Net finance income (costs)	-	(3 348 322)	21 895	**(3 326 427)**
Profit/(loss) before income tax	**(28 026)**	**(3 348 322)**	**(74 446)**	**(3 450 794)**
Income tax expense	-	-	(3 114)	**(3 114)**
Net profit/(loss) for the year	**(28 026)**	**(3 348 322)**	**(77 560)**	**(3 453 908)**
Assets and liabilities				
Segment assets	1 191 179	25 282 574	-	**26 473 753**
Unallocated assets	-	-	403	**403**
Total assets	**1 191 179**	**25 282 574**	**403**	**26 474 156**
Segment liabilities	729 922	9 009 672	**-**	**9 739 594**
Unallocated liabilities	-	-	142 065	**142 065**
Total liabilities	**729 922**	**9 009 672**	**142 065**	**9 881 659**
EBIT	**(28 026)**	**-**	**(96 341)**	**(124 367)**
Depreciation/amortization	**(7 945)**	**-**	**-**	**(7 945)**
Impairment	**(566)**	**-**	**-**	**(566)**
EBITDA	**(19 515)**	**-**	**(96 341)**	**(115 856)**
Other segment information				
Capital expenditure *	2 923	-	-	**2 923**

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

In the financial year ended 31 December 2016, revenue from sales to two major clients from the Capital Group constituted 62% and 10% of the Company's total revenue in the "Sales" segment and amounted to PLN 4 934 454 thousand and PLN 810 728 thousand, respectively.

In the financial year ended 31 December 2015, revenue from sales to two major clients from the Capital Group constituted 56% and 11% of the Company's total revenue in the "Sales" segment and amounted to PLN 5 122 938 thousand and PLN 1 002 160 thousand, respectively.

10.2. Geographic areas of operations

The majority of the Company's business operations is carried out in Poland. In the years ended 31 December 2016 and 31 December 2015, export sales amounted to PLN 190 782 thousand and PLN 400 739 thousand, respectively. The aforesaid value of export sales includes sales of emission allowances in the trading portfolio presented as the total profit/loss on the portfolio transactions, which has been discussed in more detail in Note 9.22 to these financial statements. Gains/losses on derivative commodity instruments are not taken into account.

IMPAIRMENT OF FINANCIAL ASSETS

11. Impairment of financial assets

Considering external factors resulting in the Company's market cap being lower than its carrying amount for a long time and a drop in the prices of renewable energy certificates, the adoption of new regulations governing renewable energy sources and the overall unfavorable conditions in the coal power industry as well as an increase in the risk-free rate, the Company performed impairment tests for shares as well as intra-group loans and bonds as at 31 December 2016 and 30 June 2016. Shares and intra-group loans and bonds account for about 94% of the balance sheet total.

The recoverable amount is the value in use. The calculation method has been presented below.

The tests were conducted based on the present value of projected cash flows from operations of the key entities, by reference to detailed projections to 2026 and the estimated residual value. The projections used for the power generating units covered the entire period of their operations. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

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

The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 6.39% to 7.79% in nominal terms before tax. WACC is calculated by taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (3.63%) 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 key business assumptions affecting the estimated value in use of the tested entities are:

- 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, 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 price path of greenhouse gas emission allowances for 2017-2026. An increase in the market price by approx. 70% has been assumed by 2026; for the period 2026-2040 an increase by approx. 16% and after 2040, the price level of that year has been maintained (fixed prices);
- 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, 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 or expanding the production capacity of the existing non-current assets as a result of replacement and development investments.

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

The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.09% to 9.63% in nominal terms before tax. WACC is calculated by taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (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 key business assumptions affecting the estimated value in use of the tested entities are:

- the adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of coal will drop 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 rise of ca. 1% is assumed by 2020 with a more 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);
- other assumptions are the same as in the tests performed as at 31 December 2016.

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

Sensitivity analyses conducted by the Company reveal that the capacity market mechanism, the projected prices of electricity and coal and the adopted discount rates are the key factors exerting an effect on the estimated cash flows of the key entities.

Test results

- The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 30 June 2016 indicated impairment of the carrying amount of shares in subsidiaries of PLN 1 440 303 thousand and reversal of an impairment loss of PLN 443 252 thousand.
- The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 31 December 2016 indicated impairment of the carrying amount of shares in subsidiaries of PLN 415 392 thousand and the loan granted to a subsidiary in the amount of PLN 197 953 thousand.

The aforesaid impairment losses were recognized in the Company's finance costs and concerned the following entities:

(in PLN '000)

Company	WACC* assumed in tests as at			Recoverable amount of shares, intra-group loans and bonds as at 31 December 2016	Impairment loss recognized in the year ended 31 December 2016		Impairment loss reversed in the year ended 31 December 2016
	31 December 2016	30 June 2016	31 December 2015		Shares	Loans granted	Shares
TAURON Wytwarzanie S.A.	7.79%	7.49%	7.69%	5 437 070	(915 930)	-	-
TAURON Ciepło Sp. z o.o.	7.70%	7.39%	7.68%	4 422 219	-	-	443 252
TAURON Ekoenergia Sp. z o.o.	7.67%	7.09%	8.09%	1 051 849	(939 765)	(197 953)	-
Total					**(1 855 695)**	**(197 953)**	**443 252**

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

The impairment loss was recognized for the following reasons:

- a drop in the prices of certificates for energy produced from renewable sources;
- the continued unfavorable market conditions in the coal power industry.

A change in impairment losses of the carrying amount of shares in the year ended 31 December 2016 is presented in the following table.

Company	Impairment as at 1 January 2016	Impairment loss recognized in the year ended 31 December 2016	Impairment as at 31 December 2016
TAURON Wytwarzanie S.A.	(4 487 895)	(915 930)	(5 403 825)
TAURON Ciepło Sp. z o.o.	(443 252)	443 252	-
TAURON Ekoenergia Sp. z o.o.	-	(939 765)	(939 765)

(in PLN '000)

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

12. Sales revenue

	Year ended 31 December 2016	Year ended 31 December 2015 *(restated figures)*
Revenue from sales of goods for resale and materials, *of which*:	**7 899 621**	**8 963 672**
Electricity	7 255 819	8 558 477
Gas	236 215	119 774
Property rights arising from energy certificates	36 137	186 358
Emission allowances	363 500	94 031
Other	7 950	5 032
Rendering of services, *of which*:	**95 707**	**98 574**
Trading income	54 517	56 703
Other	41 190	41 871
Total sales revenue	**7 995 328**	**9 062 246**

The Company acts as an agent in transactions involving coal purchases for the Group companies and for jointly-controlled entities (in the comparative period, also with respect to biomass purchases). The Company purchases raw materials from third parties and from the TAURON Group companies, which are subsequently sold to related parties. It recognizes revenue from agency services.

In the year ended 31 December 2016, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 1 418 557 thousand. The Company recognized revenue from agency services of PLN 31 856 thousand.

Greenhouse gas emission allowances include:

- sales to the Group companies for purposes of allowance surrendering in fulfilment of the obligations related to greenhouse gas emissions – in the year ended 31 December 2016 sales to subsidiaries totaled PLN 363 007 thousand (versus PLN 91 555 thousand in the year ended 31 December 2015); and
- the aggregate gain on trading in emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices (trading portfolio), as described in more detail in Note 9.22 to these financial statements, amounting to PLN 493 thousand (PLN 2 476 thousand in the year ended 31 December 2015).

Other revenue from sales of goods includes also a gain on change in measurement and on exercising derivative commodity instruments related to purchases and sales of other commodities.

13. 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	(7 722)	(7 945)
Materials and energy	(1 211)	(1 235)
Consultancy services	(7 994)	(14 142)
IT services	(12 422)	(11 828)
Other external services	(18 344)	(18 555)
Taxes and charges	(3 238)	(2 439)
Employee benefits expense	(78 993)	(85 795)
Impairment loss on inventories	-	(1 371)
Allowance for receivables from clients	1 543	(1 480)
Advertising expenses	(29 198)	(33 406)
Other	(2 229)	(2 016)
Total costs by type	**(159 808)**	**(180 212)**
Selling and distribution expenses	19 326	21 372
Administrative expenses	81 368	96 341
Cost of goods for resale and materials sold	(7 778 453)	(9 011 370)
Cost of sales	**(7 837 567)**	**(9 073 869)**

(in PLN '000)

14. Employee benefits expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	(63 237)	(68 780)
Social security costs	(8 657)	(7 981)
Jubilee bonuses	526	(1 039)
Appropriations to the Social Fund	(404)	(373)
Costs of employee retirement plans	(3 075)	(3 709)
Post-employment benefits expenses - actuarial provisions	(787)	(334)
Other employee benefits expenses	(3 359)	(3 579)
Employee benefits expenses, *of which:*	**(78 993)**	**(85 795)**
Items included in cost of sales	(23 131)	(19 621)
Items included in selling and distribution expenses	(8 910)	(9 960)
Items included in administrative expenses	(46 952)	(56 214)

15. Other operating income and expenses

In the year ended 31 December 2016 the Company recognized under other operating expenses a provision for the costs of unfavourable decision in pending control proceedings. The provision totalled PLN 52,495 and has been further described in note 36.

Other operating expenses include also the cost related to the obligation of the Company to donate PLN 32,500 thousand to the Polish National Foundation in cash.

16. Finance income and costs

	Year ended 31 December 2016	Year ended 31 December 2015 *(restated figures)*
Income and costs from financial instruments, *of which:*	**(92 654)**	**(3 327 800)**
Dividend income	1 485 152	1 510 624
Interest income on bonds and loans	503 897	449 437
Other interest income	6 829	20 024
Interest expense	(356 947)	(357 055)
Commissions due to external financing	(18 814)	(12 561)
Surplus of impairment losses recognised on shares	(1 412 443)	(4 931 147)
Recognition of impairment loss on loan	(197 953)	-
Loss on disposal/liquidation of investment	(87 260)	-
Gain/loss on derivative instruments	14 127	(7 042)
Exchange gains/losses	(29 669)	(2)
Other	427	(78)
Other finance income and costs	**(21 877)**	**1 373**
Interest on discount (other provisions)	(11 502)	-
Other	(10 375)	1 373
Total finance income and costs, *including recognized in the statement of comprehensive income:*	**(114 531)**	**(3 326 427)**
Dividend income	1 485 152	1 510 624
Interest income on bonds and loans	503 897	449 437
Interest expense on debt	(356 947)	(357 055)
Revaluation of shares and loans	(1 610 396)	(4 931 147)
Other finance income and costs	(136 237)	1 714

Dividend income

As the Company carries out holding operations, it reports significant dividend income recognized under finance income as at the dates of the resolutions on dividend payment, unless such resolutions set other record dates. In the year ended 31 December 2016, the Company recognized dividend income of PLN 1 485 152 thousand, while in the prior year it was PLN 1 510 624 thousand.

(in PLN '000)

Revaluation of shares

Finance costs related to revaluation of shares arise from recognition and reversal of impairment losses on shares in subsidiaries as a result of impairment tests performed by the Company:

- Tests performed as at 31 December 2016:
  - TAURON Wytwarzanie S.A. – recognition of an impairment loss of PLN 315 862 thousand;
  - TAURON Ekoenergia Sp. z o.o. – recognition of an impairment loss of PLN 99 530 thousand.
- Tests performed as at 30 June 2016:
  - TAURON Wytwarzanie S.A. – recognition of an impairment loss of PLN 600 068 thousand;
  - TAURON Ekoenergia Sp. z o.o. – recognition of an impairment loss of PLN 840 235 thousand.
  - TAURON Ciepło Sp. z o.o. – reversal of the total impairment loss recognized in 2015 in the amount of PLN 443 252 thousand;

which has been discussed in more detail in Note 11 to these financial statements.

Impairment loss on a loan

The impairment tests performed as at 31 December 2016 for shares, bonds and loans in subsidiaries identified also the necessity to recognize an impairment loss on a loan granted to TAURON Ekoenergia Sp. z o.o. in the amount of PLN 197 953 thousand.

Loss on disposal/liquidation of investments

In the year ended 31 December 2016, the Company sold 100% of shares in its subsidiary, Nowe Brzeszcze Grupa TAURON Sp. z o.o., with the carrying amount of PLN 185 002 thousand to TAURON Wydobycie S.A. at the total price of PLN 96 691 thousand. As a result, the Company's gross profit/loss includes a loss of PLN 88 311 thousand, which constitutes the main item of the gain/loss on disposal and liquidation of shares.

Exchange differences

In the year ended 31 December 2016, exchange losses exceeded exchange gains by PLN 29 669 thousand. Exchange losses concern mainly a loan obtained in EUR from a subsidiary.

17. Income tax

17.1. Tax expense in the statement of comprehensive income

Key items of the tax expense in the statement of comprehensive income:

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax	**(9 541)**	**12 057**
Current income tax expense	(9 541)	-
Adjustments of current income tax from prior years	-	12 057
Deferred tax	**(7 578)**	**(15 171)**
Income tax expense in profit or loss	**(17 119)**	**(3 114)**
Income tax expense in other comprehensive income	**(24 401)**	**(16 354)**

(in PLN '000)

17.2. Reconciliation of the effective tax rate

	Year ended 31 December 2016	Year ended 31 December 2015
Profit/(loss) before tax	**(149 134)**	**(3 450 794)**
Tax at Poland's statutory tax rate of 19%	**28 335**	**655 651**
Adjustments to income tax from previous years	-	12 057
Tax resulting from tax non-deductible costs, *including*:	(413 933)	(949 748)
Impairment loss on shares and loans in subsidiaries	(390 193)	(936 918)
Recognition of non-deductible provisions	(19 032)	(9 816)
Other	(4 708)	(3 014)
Tax resulting from income not included in taxable base, *including*:	366 397	287 019
Dividends	282 179	287 019
Reversal of impairment loss on shares in subsidiaries	84 218	-
Settlement of the TCG	2 082	(9 682)
Other	-	1 589
Tax at the effective tax rate of -11.5 % (2015: -0.1 %)	**(17 119)**	**(3 114)**
Income tax expense in profit/(loss)	(17 119)	(3 114)

17.3. Deferred income tax

Deferred income tax results from the following items:

	As at 31 December 2016	As at 31 December 2015
due interest on bonds and loans	66 356	61 565
difference between tax base and carrying amount of other financial assets	4 861	926
valuation of hedging instruments	6 962	-
other	4 300	585
Deferred tax liabilities	**82 479**	**63 076**
provision for employee benefits	544	1 627
other provisions and accruals	31 122	28 336
difference between tax base and carrying amount of fixed and intangible assets	1 107	1 189
difference between tax base and carrying amount of financial liabilities	15 887	11 908
valuation of hedging instruments	-	18 139
other	1 455	1 492
Deferred tax assets	**50 115**	**62 691**
Deferred tax assets/(liabilities), net, *of which:*	**(32 364)**	**(385)**
Deferred tax assets/(liabilities), net - recognized in profit or loss	(25 349)	(17 771)
Deferred tax assets/(liabilities), net - recognized in other comprehensive income	(7 015)	17 386

Deferred tax asset related to deductible differences concerning investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences. According to the Company, deductible temporary differences related to recognition of impairment losses on shares in subsidiaries of PLN 6 343 590 thousand and a loan granted to a subsidiary of PLN 197 953 thousand will not be reversed in the foreseeable future, as the investments are not intended for sale. Consequently, no related deferred tax asset has been recognized.

As taxable profit is forecast for 2017 for the Tax Capital Group ("TCG") of which the Company is a member, and taxable profit is forecast for the subsequent years, the deferred tax asset related to all deductible differences, except those described above, has been recognized in these financial statements in the full amount.

(in PLN '000)

17.4. Tax Capital Group

A Tax Capital Group agreement for the years 2015-2017 was concluded on 22 September 2014. Pursuant to the previous agreement, TCG was registered for the period of three fiscal years from 1 January 2012 to 31 December 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.

As at 31 December 2016, the Tax Capital Group had income tax receivables of PLN 83 153 thousand, constituting a surplus of advance income tax payments made by the Tax Capital Group in the amount of PLN 300 053 thousand in 2016 and tax overpaid by a subsidiary before joining the Tax Capital Group in the amount of PLN 301 thousand over the Tax Capital Group's tax burden for 2016 in the amount of PLN 217 201 thousand.

The Company has presented the income tax liability of the Tax Capital Group with receivables due to withholding tax of PLN 9 thousand in the statement of financial position.

At the same time, due to the Company's settlements, as the Representative Company, with the Tax Capital Group companies, it has reported a liability to these subsidiaries arising from tax overpayment of PLN 75 662 thousand, which has been presented in the statement of financial position as *Other financial liabilities*, as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 20 945 thousand, which have been presented in the statement of financial position as *Other financial assets*.

18. Earnings per share

Earnings per share (in PLN)	Year ended 31 December 2016	Year ended 31 December 2015
Basic and diluted, for profit (loss) for the year	(0.09)	(1.97)

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

	Year ended 31 December 2016	Year ended 31 December 2015
Net profit (loss) attributable to ordinary shareholders	(166 253)	(3 453 908)
Number of ordinary shares	1 752 549 394	1 752 549 394

(in PLN '000)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

19. Property, plant and equipment

For the year ended 31 December 2016

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
COST					
Opening balance	**6 761**	**6 857**	**10 798**	**-**	**24 416**
Direct purchase	-	-	-	837	**837**
Allocation of assets under construction	-	-	837	(837)	**-**
Sale, disposal	(26)	-	-	-	**(26)**
Closing balance	**6 735**	**6 857**	**11 635**	**-**	**25 227**
ACCUMULATED DEPRECIATION					
Opening balance	**(6 438)**	**(4 771)**	**(9 771)**	**-**	**(20 980)**
Depreciation for the period	(322)	(961)	(1 714)	-	**(2 997)**
Sale, disposal	26	-	-	-	**26**
Closing balance	**(6 734)**	**(5 732)**	**(11 485)**	**-**	**(23 951)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**323**	**2 086**	**1 027**	**-**	**3 436**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1**	**1 125**	**150**	**-**	**1 276**

For the year ended 31 December 2015

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
COST					
Opening balance	**6 819**	**5 876**	**10 677**	**92**	**23 464**
Direct purchase	-	-	-	1 367	**1 367**
Allocation of assets under construction	-	1 338	121	(1 459)	**-**
Sale, disposal/Liquidation	(58)	(357)	-	-	**(415)**
Closing balance	**6 761**	**6 857**	**10 798**	**-**	**24 416**
ACCUMULATED DEPRECIATION					
Opening balance	**(6 129)**	**(4 369)**	**(7 703)**	**-**	**(18 201)**
Depreciation for the period	(367)	(759)	(2 068)	-	**(3 194)**
Sale, disposal/Liquidation	58	357	-	-	**415**
Closing balance	**(6 438)**	**(4 771)**	**(9 771)**	**-**	**(20 980)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**690**	**1 507**	**2 974**	**92**	**5 263**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**323**	**2 086**	**1 027**	**-**	**3 436**

20. Investment property

	Year ended 31 December 2016	Year ended 31 December 2015
COST		
Opening balance	**36 169**	**36 169**
Closing balance	**36 169**	**36 169**
ACCUMULATED DEPRECIATION		
Opening balance	**(7 234)**	**(3 617)**
Depreciation for the period	(3 617)	(3 617)
Closing balance	**(10 851)**	**(7 234)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**28 935**	**32 552**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**25 318**	**28 935**

The investment property is composed of buildings located in Katowice Szopienice at ul. Lwowska 23, used under a finance lease agreement with PKO Leasing S.A. The monthly lease payment is ca. PLN 318 thousand, while the monthly depreciation charge is PLN 301 thousand.

The Company is a party to a lease agreement with a subsidiary (the lessee) valid until 30 April 2018, whereby buildings and structures the rights to which result from the aforesaid lease agreement have been subleased. In the year ended 31 December 2016, rental income related to the investment property totaled PLN 5 640 thousand.

The Company estimated the fair value of the real property based on available information on offer prices for real property having similar physical features and characteristics, located in Katowice. The analysis focused on real properties used for office purposes, which are modernized on an ongoing basis. The fair value estimated by the Company is close to the carrying amount and was classified to Level 3 of the fair value hierarchy in line with IFRS 13 *Fair Value Measurement*.

(in PLN '000)

21. Intangible assets

For the year ended 31 December 2016

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST					
Opening balance	**3 539**	**-**	**4 185**	**-**	**7 724**
Liquidation	(1 280)	-	(60)	-	**(1 340)**
Closing balance	**2 259**	**-**	**4 125**	**-**	**6 384**
ACCUMULATED AMORTIZATION					
Opening balance	**(2 985)**	**-**	**(1 440)**	**-**	**(4 425)**
Amortization for the period	(341)	-	(767)	-	**(1 108)**
Liquidation	1 280	-	60	-	**1 340**
Closing balance	**(2 046)**	**-**	**(2 147)**	**-**	**(4 193)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**554**	**-**	**2 745**	**-**	**3 299**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**213**	**-**	**1 978**	**-**	**2 191**

For the year ended 31 December 2015

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST					
Opening balance	**3 560**	**5 401**	**2 676**	**-**	**11 637**
Direct purchase	-	-	-	1 556	**1 556**
Allocation of intangible assets not made available for use	-	-	1 556	(1 556)	**-**
Liquidation	(21)	-	(47)	-	**(68)**
Reclassification	-	(5 401)	-	-	**(5 401)**
Closing balance	**3 539**	**-**	**4 185**	**-**	**7 724**
ACCUMULATED AMORTIZATION					
Opening balance	**(2 646)**	**-**	**(713)**	**-**	**(3 359)**
Amortization for the period	(360)	-	(774)	-	**(1 134)**
Liquidation	21	-	47	-	**68**
Closing balance	**(2 985)**	**-**	**(1 440)**	**-**	**(4 425)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**914**	**5 401**	**1 963**	**-**	**8 278**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**554**	**-**	**2 745**	**-**	**3 299**

22. Shares

Change in shares for the year ended 31 December 2016

No.	Company	Opening balance	Increases	(Decreases)	Closing balance
1	TAURON Wydobycie S.A.	494 755	347 000	-	**841 755**
2	Nowe Brzeszcze Grupa TAURON Sp. z o.o.	2 102	182 900	(185 002)	**-**
3	TAURON Wytwarzanie S.A.	2 748 832	-	(915 930)	**1 832 902**
4	TAURON Wytwarzanie GZE Sp. z o.o. in liquidation	4 935	-	(4 935)	**-**
5	TAURON Ciepło Sp. z o.o.	884 791	443 252	-	**1 328 043**
6	TAURON Ekoenergia Sp. z o.o.	939 765	-	(939 765)	**-**
7	Marselwind Sp. z o.o.	107	-	-	**107**
8	TAURON Serwis Sp. z o.o.	-	1 268	-	**1 268**
9	TAURON Dystrybucja S.A.	9 511 628	-	-	**9 511 628**
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	-	**613 505**
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	-	**129 823**
12	TAURON Czech Energy s.r.o.	4 223	-	-	**4 223**
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	-	**41 178**
14	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	6 000	-	**55 056**
15	TAURON Sweden Energy AB (publ)	28 382	-	-	**28 382**
16	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	-	**1 269**
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	-	**39 831**
18	TAMEH HOLDING Sp. z o.o.	415 852	-	-	**415 852**
19	PGE EJ 1 Sp. z o.o.	23 046	-	-	**23 046**
20	ElectroMobility Poland S.A.	-	2 500	-	**2 500**
21	Other	114	1 203	(1 267)	**50**
	Total	**15 933 194**	**984 123**	**(2 046 899)**	**14 870 418**

Changes in the balance of long-term investments in the year ended 31 December 2016 resulted mainly from the following transactions:

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

  In the year ended 31 December 2016, the capital of Nowe Brzeszcze Grupa TAURON Sp. z o.o. was increased several times and the new shares were acquired by the Company. It was increased by the total amount of PLN 182 900 thousand:

  - on 29 January 2016: by PLN 29 000 thousand;
  - on 6 May 2016: by PLN 150 000 thousand;
  - on 25 August 2016: by PLN 3 900 thousand.

- Sales of shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o.

  On 9 September 2016, TAURON Polska Energia S.A. and its subsidiary, TAURON Wydobycie S.A., entered into a share purchase agreement whereby the Company sold 550 780 shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o. with the carrying amount of PLN 185 002 thousand, representing 100% of the issued capital of the entity, for the total amount of PLN 96 691 thousand, to TAURON Wydobycie S.A. As a result, the Company recognized a loss on disposal of investment in a subsidiary of PLN 88 311 thousand. TAURON Polska Energia S.A. retained control of Nowe Brzeszcze Grupa TAURON Sp. z o.o., exercised indirectly through 100% of shares in TAURON Wydobycie S.A. being held by the Company.

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

  On 29 April 2016, the Extraordinary General Shareholders' Meeting of TAURON Wydobycie S.A. adopted a resolution to increase the issued capital of the entity by PLN 2 500 thousand by way of issuing 250 000 shares with the nominal value of PLN 10 each, which were acquired by the Company at PLN 1 000 per share, for the total amount of PLN 250 000 thousand. The capital increase was registered on 28 June 2016.

  On 28 September 2016, the Extraordinary General Shareholders' Meeting of TAURON Wydobycie S.A. adopted a resolution to increase the issued capital of the entity by PLN 970 thousand by way of issuing 97 000 shares with the nominal value of PLN 10 each, which were acquired by the Company at PLN 1 000 per share, for the total amount of PLN 97 000 thousand. The capital increase was registered on 27 October 2016.

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

  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 entered in the National Court Register. The business combination under common control was effected in accordance with Article 492.1.1) of the Code of Commercial Companies through the transfer of all the assets, equity and liabilities of Nowe Brzeszcze Grupa TAURON Sp. z o.o. onto TAURON Wydobycie S.A. As the business combination under common control was preceded by the Company's sale of its shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o. to TAURON Wydobycie S.A., it has not had a direct effect on the financial statements of the Company.

- Business combination under common control of TAURON Serwis Sp. a o.o. and TAURON Wytwarzanie Serwis Sp. z o.o.

  On 2 November 2016, a business combination under common control of TAURON Serwis Sp. z o.o. (Acquirer) and TAURON Wytwarzanie Serwis 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 through the transfer of all the assets, equity and liabilities of TAURON Wytwarzanie Serwis Sp. z o.o. onto TAURON Serwis Sp. z o.o. In effect, the Company relocated its shares in TAURON Wytwarzanie Serwis Sp. z o.o. of PLN 1 083 thousand to the value of shares in TAURON Serwis Sp. z o.o.

- Liquidation of TAURON Wytwarzanie GZE Sp. z o.o.

  On 30 August 2016, in effect of a liquidation process, TAURON Wytwarzanie GZE Sp. z o.o. in liquidation was deregistered from the Register of Entrepreneurs of the National Court Register. The deregistration decision became final on 15 September 2016. Following a distribution of the assets of TAURON Wytwarzanie GZE Sp. z o.o. in liquidation, the Company received PLN 5 985 thousand. The surplus of the proceeds over the value of the shares held by the Company in the amount of PLN 1 050 thousand was recognized as an item of the profit/loss on financing activities.

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

  On 8 November 2016, the Extraordinary General Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation adopted a resolution concerning capital contributions to the company in the amount of PLN 6 000 thousand. The contributions are aimed to enable the company to finance its operations. The contribution was made by the Company on 9 November 2016.

(in PLN '000)

- Incorporation of ElectroMobility Poland S.A.

  On 7 December 2016, ElectroMobility Poland S.A. was entered in the National Court Register. It was incorporated on 19 October 2016 by TAURON Polska Energia S.A., PGE Polska Grupa Energetyczna S.A., ENEA S.A. and ENERGA S.A. TAURON Polska Energia S.A. acquired 2 500 shares in ElectroMobility Poland S.A. with the total nominal value of PLN 2 500 thousand, accounting for 25% of the company's issued capital.

- Impairment of shares

  In the year ended 31 December 2016 shares in subsidiaries were tested for impairment following which the impairment loss on the shares in TAURON Ciepło Sp. z o.o. totalling PLN 444,252 thousand was reversed and an impairment loss on shares in TAURON Wytwarzanie S.A. totalling PLN 915,930 thousand and TAURON Ekoenergia Sp. z o.o. totalling PLN 939,765 thousand were recognized. This has been further described in note 11.

Change in shares for the year ended 31 December 2015

No.	Company	Opening balance	Increases	(Decreases)	Closing balance
1	TAURON Wydobycie S.A.	494 755	-	-	**494 755**
2	Nowe Brzeszcze Grupa TAURON Sp. z o.o.	-	2 102	-	**2 102**
3	TAURON Wytwarzanie S.A.	7 236 727	-	(4 487 895)	**2 748 832**
4	TAURON Wytwarzanie GZE Sp. z o.o. in liquidation	4 935	-	-	**4 935**
5	TAURON Ciepło Sp. z o.o.	1 328 043	-	(443 252)	**884 791**
6	TAURON Ekoenergia Sp. z o.o.	939 765	-	-	**939 765**
7	Marselwind Sp. z o.o.	107	-	-	**107**
8	TAURON Dystrybucja S.A.	9 511 628	-	-	**9 511 628**
9	TAURON Sprzedaż Sp. z o.o.	613 505	-	-	**613 505**
10	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	-	**129 823**
11	TAURON Czech Energy s.r.o.	4 223	-	-	**4 223**
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	-	**41 178**
13	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	-	-	**49 056**
14	TAURON Sweden Energy AB (publ)	232	28 150	28 150	**28 382**
15	Biomasa Grupa TAURON Sp. z o.o.	-	1 269	-	**1 269**
16	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	-	**39 831**
17	TAMEH HOLDING Sp. z o.o.	415 852	-	-	**415 852**
18	PGE EJ 1 Sp z o.o.	-	23 046	-	**23 046**
19	Other	139	20	(45)	**114**
	Total	**20 809 799**	**54 587**	**(4 931 192)**	**15 933 194**

In the year ended 31 December 2015, changes in long-term investments resulted mainly from the following events:

- Following impairment tests for shares in subsidiaries the Company recognized impairment losses on its shares in TAURON Wytwarzanie S.A. of PLN 4 487 895 thousand and in TAURON Ciepło Sp. z o.o. of PLN 443 252 thousand.
- Acquisition of shares in PGE EJ 1 Sp. z o.o.
- Acquisition of shares in Biomasa Grupa TAURON Sp. z o.o.
- Business combination under common control of Energopower Sp. z o.o. and Biomasa Grupa TAURON Sp. z o.o.
- Capital increase in TAURON Sweden Energy AB (publ)
- Acquisition of shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o.

23. Bonds

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

The table below presents the balances of acquired bonds and interest accrued as at the end of the reporting period, i.e. 31 December 2016 and 31 December 2015, broken down by the issuer (TAURON Group company).

(in PLN '000)

Company	As at 31 December 2016		As at 31 December 2015	
	par value of purchased bonds	accrued interest	par value of purchased bonds	accrued interest
TAURON Wytwarzanie S.A.	3 548 770	55 396	2 498 770	13 260
TAURON Dystrybucja S.A.	3 800 000	62 470	2 600 000	174 565
TAURON Ekoenergia Sp. z o.o.	-	-	60 000	705
TAURON Ciepło Sp. z o.o.	1 673 260	46 848	1 603 260	18 675
TAURON Wydobycie S.A.	570 000	4 592	600 000	4 787
TAURON Obsługa Klienta Sp. z o.o.	85 000	12 046	85 000	7 619
Total bonds	**9 677 030**	**181 352**	**7 447 030**	**219 611**
Non-current	9 612 030	3 887	7 447 030	4 571
Current	65 000	177 465	-	215 040

Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements provide for the possibility to roll over the bonds. As at 31 December 2016, the par value of bonds maturing within one year, which were classified as long-term bonds, was PLN 1 050 000 thousand.

24. 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 future/forward	15 999	-	**16 559**	**(560)**	17	-	**2 225**	**(2 208)**
Currency forward	3 217	-	**3 217**	**-**	404	-	**404**	**-**
Total derivative instruments			**56 417**	**(560)**			**5 684**	**(112 098)**
Non-current			35 814	-			16	(15 156)
Current			20 603	(560)			5 668	(96 942)

The fair value of individual derivative financial 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 is as follows:

	As at 31 December 2016		As at 31 December 2015	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments - commodity	16 559	-	2 225	-
Derivative instruments - currency	-	3 217	-	404
Derivative instruments - CCIRS	-	-	-	3 055
Derivative instruments - IRS	-	36 641	-	-
Liabilities				
Derivative instruments - commodity	560	-	2 208	-
Derivative instruments - CCIRS	-	-	-	14 423
Derivative instruments - IRS	-	-	-	95 467

(in PLN '000)

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 34.1 to these 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 nominal value of PLN 2 100 000 thousand, through the entry into interest rate swap (IRS) transactions for a term of 4 to 5 years. The aforementioned transactions are subject to hedge accounting with the exception of the first interest period. This is due to the fact that the floating interest rate in the first interest period was determined in advance, hence the Company could not apply hedge accounting principles to cash flows resulting from the first interest period.

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

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 the Company's operations.

25. Other financial assets

	As at 31 December 2016	As at 31 December 2015
Receivables from the TCG	20 945	97 148
Units in investment funds	25 316	-
Bid bonds, deposits, collateral transferred	10 156	16 540
Other	4 461	780
Total	**60 878**	**114 468**
Non-current	5 524	5 263
Current	55 354	109 205

In the year ended 31 December 2016, the Company acquired units in investment funds for 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.

(in PLN '000)

26. Loans granted

	As at 31 December 2016			As at 31 December 2015		
	Principal	Interest	Total	Principal	Interest	Total
Value of items before allowance/write-down						
Loan granted to TAURON Ekoenergia Sp. z o.o.	1 120 000	129 802	1 249 802	1 120 000	75 362	1 195 362
Loans granted to EC Stalowa Wola S.A.	218 525	37 542	256 067	194 950	28 959	223 909
Granted cash pool loans including accrued interest	15 306	544	15 850	20 846	97	20 943
Other loans	-	-	-	142 024	20	142 044
Total	**1 353 831**	**167 888**	**1 521 719**	**1 477 820**	**104 438**	**1 582 258**
Allowance/write-down						
Loan granted to TAURON Ekoenergia Sp. z o.o.			(197 953)			-
Value of item net of allowance (carrying amount)			**1 323 766**			**1 582 258**
Non-current			1 292 800			1 417 165
Current			30 966			165 093

On 27 February 2015, the Company entered into an agreement with its subsidiary, TAURON Ekoenergia Sp. z o.o., whereby TAURON Polska Energia S.A. granted a one-year loan of PLN 1 120 000 thousand to TAURON Ekoenergia Sp. z o.o. The purpose of the loan was to repurchase and redeem the same amount of intra-group bonds issued by the borrower in prior years to finance construction of windfarms. On 25 February 2016, annex No. 1 to the loan agreement was entered into, extending the term of the loan to 27 February 2017. Under annex No. 2 of 22 February 2017 the term of the loan was further extended to 27 February 2018. As at the end of the reporting period the loan was classified as long-term.

The impairment tests performed as at 31 December 2016 for shares, bonds and loans in subsidiaries identified the necessity to recognize an impairment loss on a loan granted to a subsidiary in the amount of PLN 197 953 thousand.

Loans granted to Elektrociepłownia Stalowa Wola S.A.:

	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		

Detailed information on the cash pool service has been presented in Note 34.4 to these financial statements.

A decrease in the balance of other loans in the year ended 31 December 2016 was driven by the Company's resale of 4 100 thousand emission allowances (EUA) to a subsidiary, TAURON Wytwarzanie S.A., in March 2016, at the price of PLN 35.05 per EUA, i.e. the total price of PLN 143 705 thousand. The aforesaid emission allowances were purchased by the Company from TAURON Wytwarzanie S.A. under agreements entered into in December 2015, whereby the Company assumed the obligation to resell the same quantity of EUA in March 2016 at an agreed price. Due to its nature, the transaction was recognized as a loan (buy-sell-back transaction), because according to the Company it did not entail a transfer of risks and rewards, including the risk of fair value change, onto the Company. Interest earned on the aforesaid loan transaction totaled PLN 1 681 thousand. Proceeds from resale of EUA under the transaction in question have been presented in the statement of cash flows as *Loans repaid* within investing activities.

(in PLN '000)

27. Inventories

	As at 31 December 2016	As at 31 December 2015
Historical cost		
Energy certificates	250	1 720
Greenhouse gas emission allowances	271 729	248 342
Materials	23	56
Total	**272 002**	**250 118**
Write-downs to net realizable value / Revaluation		
Energy certificates	(195)	(198)
Greenhouse gas emission allowances	12 992	(428)
Total	**12 797**	**(626)**
Net realizable value / Fair value		
Energy certificates	55	1 522
Greenhouse gas emission allowances	284 721	247 914
Materials	23	56
Total	**284 799**	**249 492**

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 Company recognized a gain on measurement of PLN 13 226 thousand as at 31 December 2016 following an increase in the prices of emission allowances.

28. 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	840 665	579 605
Receivables claimed at court	890	2 423
Total	**841 555**	**582 028**
Allowance/write-down		
Receivables from clients	(9)	(159)
Receivables claimed at court	(890)	(2 423)
Total	**(899)**	**(2 582)**
Value of item net of allowance (carrying amount)		
Receivables from clients	840 656	579 446
Receivables claimed at court	-	-
Total	**840 656**	**579 446**

The ageing analysis of receivables from buyers as well as information on allowances/write-downs on receivables from buyers have been presented in Note 43.1.1 to these financial statements.

29. Receivables due to taxes and charges

	As at 31 December 2016	As at 31 December 2015
Corporate Income Tax	83 162	-
VAT receivables	35 674	42 013
Excise duty receivables	1 750	1 750
Total	**120 586**	**43 763**

An increase in receivables arising from taxes and charges results mostly from an increase in CIT receivables in the Tax Capital Group. As at 31 December 2016, the Tax Capital Group had income tax receivables of PLN 83 153 thousand, which has been discussed in more detail in Note 17.4 to these financial statements. As at 31 December 2015, the Tax Capital Group reported income tax liabilities of PLN 82 944 thousand.

(in PLN '000)

30. Other non-financial assets

	As at 31 December 2016	As at 31 December 2015
Prepayments	10 284	22 174
Advance payments for deliveries	19 315	73 111
Total	**29 599**	**95 285**
Non-current	6 071	23 461
Current	23 528	71 824

31. Cash and cash equivalents

The balance of cash and cash equivalents disclosed in the statement of cash flows includes:

	As at 31 December 2016	As at 31 December 2015
Cash at bank and in hand	198 087	168 024
Short-term deposits (up to 3 months)	3	231
Total cash and cash equivalents presented in the statement of financial position, *including*:	**198 090**	**168 255**
restricted cash	56 787	70 927
Cash pool	(1 229 639)	(839 642)
Overdraft	(15 131)	(10 206)
Foreign exchange	1 239	2 418
Total cash and cash equivalents presented in the statement of cash flows	**(1 045 441)**	**(679 175)**

The balances of loans granted and taken out in cash pool transactions do not represent cash flows from investing or financing activities as they are mainly used to manage the Group's liquidity on a day-to-day basis. They are presented as an adjustment to the balance of cash instead.

The balance of restricted cash consists mainly of:

- cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A), amounting to PLN 42 335 thousand; and
- cash held in special purpose accounts for transactions carried out on the European commodity exchanges, amounting to PLN 13 730 thousand.

Detailed information on cash pool balances has been presented in Note 34.4 to these financial statements.

32. Issued capital and other capitals

32.1. 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
		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.

(in PLN '000)

32.2. Major shareholders

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

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

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

32.3. 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.

32.4. 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 24 to these 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. In the statement of comprehensive income, the aforementioned costs of hedging IRS transactions adjusted finance costs arising from interest on bonds issued.

(in PLN '000)

32.5. Retained earnings and dividend limitation

Reserve capital – dividend limitation

	As at 31 December 2016	As at 31 December 2015
amounts subject to distribution, *including*:	**4 032 169**	**4 032 169**
amounts from distribution of prior years profits	4 032 169	4 032 169
non-distributable amounts, *including*:	**3 791 170**	**7 245 078**
decrease in the value of issued capital	3 556 290	7 010 198
settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	**7 823 339**	**11 277 247**

Retained earnings – dividend limitation

	As at 31 December 2016	As at 31 December 2015
distributable amounts or losses to be covered, *including*:	**(166 240)**	**(3 453 895)**
profit for the year	(166 253)	(3 453 908)
adjustment of prior years profit	13	13
non-distributable amounts, *including*:	**80 762**	**79 812**
actuarial gains and losses on provisions for post-employment benefits	244	(706)
settlement of mergers with subsidiaries	80 518	80 518
Total retained earnings (accumulated losses)	**(85 478)**	**(3 374 083)**

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.

33. Dividends paid

	Year ended 31 December 2016	Year ended 31 December 2015
Dividend paid in the period	-	(262 882)
Dividend per share (in 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.

(in PLN '000)

34. Debt

	As at 31 December 2016	As at 31 December 2015
Long-term portion of debt		
Subordinated hybrid bonds	839 330	-
Issued bonds	6 089 821	2 957 095
Loans received from the European Investment Bank	1 035 927	1 183 320
Loans from the subsidiary	765 450	709 170
Finance lease	23 519	26 961
Total	**8 754 047**	**4 876 546**
Short-term portion of debt		
Subordinated hybrid bonds	1 693	-
Issued bonds	11 287	3 011 922
Cash pool loans received, including accrued interest	1 245 489	860 585
Loans from the European Investment Bank	154 574	140 871
Loans from the subsidiary	2 300	30 256
Overdraft	15 131	10 206
Finance lease	3 455	3 208
Total	**1 433 929**	**4 057 048**

34.1. Bonds issued

The tables below present the balances of the Company's liabilities arising from bonds issued, together with accrued interest, as at 31 December 2016 and 31 December 2015.

Bonds as at 31 December 2016

Tranche/Bank	Maturity date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)				
			Accrued interest	Principal at amortized cost	up to 3 months	3-12 months	1 - 2 years	2 - 5 years	over 5 years
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 November 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
Total bonds			**12 980**	**6 929 151**	**-**	**-**	**-**	**4 831 804**	**2 097 347**

(in PLN '000)

Bonds as at 31 December 2015

Tranche/Bank	Maturity date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)				
			Accrued interest	Principal at amortized cost	up to 3 months	3-12 months	1 - 2 years	2 - 5 years	over 5 years
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	-
Total bonds			**12 984**	**5 956 033**	**2 249 203**	**749 735**	**-**	**2 018 702**	**938 393**

A change in the balance of bonds, excluding interest which increased the carrying amount in the year ended 31 December 2016 and in the comparable period, has been presented below.

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	**5 956 033**	**6 094 022**
Issue*	4 273 379	309 789
Redemption	(3 300 000)	(450 000)
Measurement change	(261)	2 222
Closing balance	**6 929 151**	**5 956 033**

**Costs of issue have been included.*

In the year ended 31 December 2016, the Company 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 redemptions 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 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 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.

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, which has been discussed in more detail in Note 24 to these 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 had been breached and the contractual provisions were complied with.

(in PLN '000)

34.2. Loans from the European Investment Bank

As at 31 December 2016, the balance of loans obtained from the European Investment Bank was PLN 1 190 501 thousand, including interest accrued of PLN 7 085 thousand. As at 31 December 2015, the related liability was PLN 1 324 191 thousand.

A change in the balance of loans from the European Investment Bank, excluding interest increasing their carrying amount, is presented below.

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	**1 316 061**	**1 153 996**
Granted *	-	294 705
Repaid	(132 818)	(132 818)
Measurement change	172	178
Closing balance	**1 183 415**	**1 316 061**

* Including credit cost.

In the year ended 31 December 2016, the Company repaid PLN 132 818 thousand of the principal amount and PLN 50 675 thousand of interest.

34.3. Loans from a subsidiary

As at 31 December 2016, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 767 750 thousand (EUR 173 542 thousand), including interest of PLN 2 300 thousand (EUR 520 thousand) accrued as at the end of the reporting period. As at 31 December 2015, the carrying amount of the loan from the subsidiary was PLN 739 426 thousand (EUR 173 513 thousand).

A change in the balance of the loan from the subsidiary, excluding interest increasing its carrying amount, is presented below.

	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance	**737 296**	**709 267**
Granted*	-	27 358
Measurement change	28 154	671
Closing balance	**765 450**	**737 296**

* Including the cost of the loan.

The Company's liabilities due to loans from a subsidiary result from two loan agreements:

- PLN 738 464 thousand (EUR 166 922 thousand) of a long-term loan granted under an agreement entered into in December 2014 between TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ). The interest rate on the loan is fixed and interest is paid annually, in December, until the final loan repayment date. The loan will be fully repaid on 29 November 2029.
- PLN 29 286 thousand (EUR 6 620 thousand) of a loan granted under the agreement dated 27 July 2015, whereby TAURON Sweden Energy AB (publ) granted a loan of EUR 6 600 thousand to the Company on 30 July 2015. The maturity date of the loan and interest was 30 July 2016. Pursuant to an annex executed to the loan agreement its repayment was extended by one year. Interest was repaid on 1 August 2016. As the loan is expected to be repaid within a period of more than one year of the end of the reporting period, as at 31 December 2016 the loan was presented within non-current liabilities.

34.4. Cash pool service

In order to optimize cash management, financial liquidity and finance income and costs, the TAURON Group has implemented a cash pool structure. On 18 December 2014, the Company concluded a new zero-balancing agreement with PKO Bank Polski S.A. for a 3-year term which may be extended by 12 months, with TAURON Polska Energia S.A. acting as an agent. The interest rates were determined on market terms.

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

(in PLN '000)

	As at 31 December 2016	As at 31 December 2015
Receivables from cash pool loans granted	15 306	20 846
Interest receivable on loans granted under cash pool agreement	544	97
Total Receivable	**15 850**	**20 943**
Loans received under cash pool agreement	1 244 471	859 575
Interest payable on loans received under cash pool agreement	1 018	1 010
Total Liabilities	**1 245 489**	**860 585**

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

Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand. As at 31 December 2016, the Company did not have any related liabilities.

34.5. Overdraft facilities

As at 31 December 2016, the balance of overdraft facilities reached PLN 15 131 thousand and included:

- an agreement for an overdraft in EUR with Bank Gospodarstwa Krajowego, concluded by the Company to finance transactions in emission allowances, power and gas, of EUR 3 032 thousand (PLN 13 415 thousand);
- an agreement for an overdraft in USD with mBank S.A., concluded by the Company for the purpose of financing margin deposits and commodity transactions, of USD 410 thousand (PLN 1 716 thousand).

As at 31 December 2015, the balance of overdraft facilities was PLN 10 206 thousand.

34.6. Finance lease liabilities

Future minimum finance lease payments and the present value of minimum net lease payments:

	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	4 105	3 455	4 012	3 208
Within 1 to 2 years	23 716	23 519	4 150	3 442
Within 2 to 3 years	-	-	23 728	23 519
Minimum lease payments, total	**27 821**	**26 974**	**31 890**	**30 169**
Less amounts representing finance charges	(847)	-	(1 721)	-
Present value of minimum lease payments, *of which:*	**26 974**	**26 974**	**30 169**	**30 169**
Non-current	23 519	23 519	26 961	26 961
Current	3 455	3 455	3 208	3 208

As at 31 December 2016, the finance lease liability resulted from a lease of investment property.

34.7. Operating lease liabilities

As at 31 December 2016, the Company used a real property located in Katowice at ul. ks. Piotra Ściegiennego 3, based on a lease agreement.

The Company's registered office is located at the leased premises with the usable area of 9 588.83 square meters. In 2016, the average monthly rental fee with the service charges was PLN 510 thousand.

(in PLN '000)

35. Provisions for employee benefits

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**1 547**	**1 314**	**282**	**5 422**	**8 565**
Current service costs	210	85	26	924	**1 245**
Actuarial gains and losses, *of which*:	(364)	(563)	(246)	(526)	**(1 699)**
arising from changes in financial assumptions	(30)	(304)	(32)	-	**(366)**
arising from changes in demographic assumptions	(130)	(119)	(12)	-	**(261)**
arising from other changes	(204)	(140)	(202)	(526)	**(1 072)**
Benefits paid	(9)	(4)	(1)	(693)	**(707)**
Past service costs	225	213	28	(5 280)	**(4 814)**
Interest expense	44	38	8	153	**243**
Closing balance	**1 653**	**1 083**	**97**	**-**	**2 833**
Non-current	1 361	1 077	96	-	**2 534**
Current	292	6	1	-	**299**

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**1 332**	**1 284**	**280**	**5 120**	**8 016**
Current service costs	216	90	27	1 010	**1 343**
Actuarial gains and losses, *of which*:	(25)	(86)	(31)	31	**(111)**
arising from changes in financial assumptions	(127)	(257)	(38)	(283)	**(705)**
arising from changes in demographic assumptions	(43)	(1)	2	(141)	**(183)**
arising from other changes	145	172	5	455	**777**
Benefits paid	(9)	(4)	(1)	(857)	**(871)**
Interest expense	33	30	7	118	**188**
Closing balance	**1 547**	**1 314**	**282**	**5 422**	**8 565**
Non-current	1 477	1 308	280	4 778	**7 843**
Current	70	6	2	644	**722**

As at 31 December 2016, the provision for jubilee bonuses was reversed in whole. At the same time, a provision for payments in lieu of jubilee bonuses was recognized. It is presented within short-term accrued expenses in the statement of financial position. Under the Agreement to amend the Compensation Policy applicable to employees who satisfied the conditions set out in the Agreement and would be entitled to a jubilee bonus by 31 December 2021, those employees may receive payments in lieu of the bonuses that would be received in that period otherwise. As at 31 December 2016, the value of payments in lieu of jubilee bonuses was PLN 4 356 thousand. The total effect on the profit/loss for 2016 was PLN 373 thousand, out of which PLN 526 thousand reduced operating expenses, while PLN 153 thousand was charged to finance costs (discount).

Measurement of provisions for employee benefits

Provisions for employee benefits were estimated using actuarial methods. Key actuarial assumptions made as at the end of the reporting period for purposes of calculation of the provision:

	31 December 2016	31 December 2015
Discount rate (%)	3.00%	2.75%
Estimated inflation rate (%)	2.50%	2.35%
Employee rotation rate (%)	7.94%	6.36%
Estimated salary increase rate (%)	2.50%	2.35%
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	13.06	9.80

A sensitivity analysis of measurement results as at 31 December 2016 to changes in key actuarial assumptions by 0.5 percentage point has been presented below:

(in PLN '000)

Provision	Measurement as at 31 December 2016	Financial discount rate		Planned increases in base amount	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	1 653	1 735	1 579	1 579	1 735
Employee electricity rates	1 083	1 217	969	969	1 216
Social Fund	97	107	86	86	107
Provisions, total	**2 833**	**3 059**	**2 634**	**2 634**	**3 058**

A discount rate reduction by 0.5 percentage point would result in an increase in the provision for employee benefits from PLN 2 833 thousand to PLN 3 059 thousand. A discount rate increase by 0.5 percentage point, i.e. application of a 3.50% discount rate, would result in a decrease in the provision to PLN 2 634 thousand.

The benefits were calculated based on the assumptions set out in the Compensation Policy. Reducing the planned increases of compensation bases by 0.5 percentage point would result in a decrease in the provision for employee benefits down to PLN 2 634 thousand, while their increase by 0.5 percentage point would cause an increase in the provision up to PLN 3 058 thousand.

36. Other provisions

Change in other provisions for the year ended 31 December 2016

	Provision for energy certificates	Provision for onerous contracts with a jointly-controlled entity	Other provisions	Total provisions
Opening balance	**15**	**182 877**	**-**	**182 892**
Unwinding of discount and change in discount rate	-	13 759	-	**13 759**
Recognision	15	2 221	64 494	**66 730**
Reversal	(3)	(13)	-	**(16)**
Utilisation	(16)	-	-	**(16)**
Closing balance	**11**	**198 844**	**64 494**	**263 349**
Non-current	-	152 943	-	**152 943**
Current	11	45 901	64 494	**110 406**

Change in other provisions for the year ended 31 December 2015

	Provision for energy certificates	Provision for onerous contracts with a jointly-controlled entity	Provision for energy certificates
Opening balance	**34 189**	-	**34 189**
Recognision	15	182 877	**182 892**
Reversal	(163)	-	**(163)**
Utilisation	(34 026)	-	**(34 026)**
Closing balance	**15**	**182 877**	**182 892**
Non-current	**-**	163 449	**163 449**
Current	15	19 428	**19 443**

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 revalued 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;
- 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.

Other provisions

As at 31 December 2016 the Company recognized a provision for tax risks totalling PLN 64,494 thousand related to pending control proceedings. PLN 52,495 thousand of the provision was charged to operating expenses and PLN 11,999 thousand of interest was charged to financial expenses. The Company is subject to control proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO") as regards the tax on goods and services. The period of the proceedings was extended by the Director of TIO a number of times and the new deadline is now set at 28 April 2017.

(in PLN '000)

37. Accruals, deferred income and government grants

	As at 31 December 2016	As at 31 December 2015
Unused holidays	2 577	2 433
Bonuses	10 867	10 178
Accruals relating to post-service benefits for members of the Management Board/key management personnel	2 230	5 975
Accruals relating to payments in lieu of jubilee bonuses	4 356	-
Other	1 473	910
Total accruals, deffered income and government grants	**21 503**	**19 496**
Non-current	170	-
Current	21 333	19 496

38. Liabilities to suppliers

As at 31 December 2016 and 31 December 2015 the largest liabilities to suppliers were liabilities to two subsidiaries: TAURON Wytwarzanie S.A. and TAURON Wydobycie S.A. As at 31 December 2016 they totalled PLN 106,417 thousand and PLN 98,682 thousand, respectively and as at 31 December 2015: PLN 197,459 thousand and PLN 81,684 thousand, respectively.

39. Other financial liabilities

	As at 31 December 2016	As at 31 December 2015
Liabilities arising from the TCG	75 662	6 563
Non-refundable additional deposits	13 106	3 937
Commissions related to securities	8 020	5 873
Bid bonds, deposits and collateral received	5 681	7 156
Wages and salaries, deductions on wages and salaries as well as other employee related liabilities	3 770	4 057
Contributions to Polish National Foundation	32 500	-
Other	938	1 437
Total	**139 677**	**29 023**
Non-current	27 918	5 739
Current	111 759	23 284

(in PLN '000)

40. Liabilities due to taxes and charges

	As at 31 December 2016	As at 31 December 2015
Corporate Income Tax	-	82 935
Personal Income Tax	1 484	1 580
VAT	15 850	14 539
Social security	2 846	2 594
Other	29	22
Total	**20 209**	**101 670**

A decrease in liabilities due to taxes and charges results mostly from a decrease in CIT liabilities in the Tax Capital Group. As at 31 December 2016, the Group presented receivables of PLN 83 153 thousand arising from income tax, which has been discussed in more detail in Note 17.4 to these financial statements. As at 31 December 2015, the Tax Capital Group presented an income tax liability for 2015 in the amount of PLN 82 944 thousand.

(in PLN '000)

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

41. Significant items of the statement of cash flows

41.1. Cash flows from operating activities

Other adjustments to earnings before tax

Other adjustments to earnings before tax are mainly related to the adjustment of profit/loss to include the loss on the sale of shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o. to TAURON Wydobycie S.A. totaling PLN 88 311 thousand.

Changes in working capital

	Year ended 31 December 2016	Year ended 31 December 2015
Change in receivables	(254 506)	357 524
Change in inventories	(35 307)	(72 220)
Change in payables excluding loans and borrowings	21 190	(86 001)
Change in other non-current and current assets	60 110	(71 267)
Change in deferred income, government grants and accruals	1 867	7 183
Change in provisions	75 897	149 390
Change in working capital	**(130 749)**	**284 609**

41.2. Cash flows from investing activities

Purchase of bonds

Payments to purchase bonds, in the amount of PLN 2 770 000 thousand, are related to purchases of intra-group bonds issued by the following subsidiaries:

- TAURON Dystrybucja S.A., totaling PLN 1 200 000 thousand;
- TAURON Wydobycie S.A., totaling PLN 250 000 thousand;
- TAURON Wytwarzanie S.A., totaling PLN 1 250 000 thousand;
- TAURON Ciepło Sp. z o.o., totaling PLN 70 000 thousand.

Acquisition of shares

Payments to acquire shares of PLN 543 603 thousand concern mainly the acquisition of shares in a subsidiary, Nowe Brzeszcze Grupa TAURON Sp. z o.o., amounting to PLN 182 900 thousand, as well as shares in TAURON Wydobycie S.A. in the amount of PLN 347 000 thousand, which has been discussed in more detail in Note 22 to these financial statements.

Loans granted

Payments to grant loans result from the loans disbursed to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 23 575 thousand.

Repurchase of bonds

Inflows related to repurchase of bonds, in the amount of PLN 540 000 thousand, are related to repurchase of intra-group bonds by the following subsidiaries:

- TAURON Wydobycie S.A., totaling PLN 280 000 thousand.
- TAURON Wytwarzanie S.A., totaling PLN 200 000 thousand;
- TAURON Ekoenergia Sp. z o.o., totaling PLN 60 000 thousand.

Repayment of loans granted

Proceeds from resale of 4 100 thousand emission allowances to TAURON Wytwarzanie S.A., a subsidiary, in the amount of PLN 142 024 thousand, purchased in December 2015 under the buy-sell-back transaction discussed in more detail in Note 26 to these financial statements, have been presented as repayment of loans granted in the statement of cash flows.

(in PLN '000)

Interest received

	Year ended 31 December 2016	Year ended 31 December 2015
Interest received in relation to debt securities	472 445	262 231
Interest received in relation to loans granted	1 681	60
Interest received in relation to deposits (more than 3 months)	-	5 173
Total	**474 126**	**267 464**

Sale of shares

The proceeds from sales of shares are mainly related to the payment received from subsidiary TAURON Wydobycie S.A. for the shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o. totaling PLN 96 691 thousand.

41.3. Cash flows from financing activities

Loans and borrowings repaid

Expenditures due to repayment of loans and borrowings resulted from repayment of instalments of a loan granted by the European Investment Bank of PLN 132 818 thousand in the year ended 31 December 2016.

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.

Interest paid

	Year ended 31 December 2016	Year ended 31 December 2015
Interest paid in relation to debt securities	271 220	262 077
Interest paid in relation to loans and borrowings	51 205	55 197
Interest paid in relation to borrowings	27 644	26 352
Interest paid in relation to the finance lease	603	706
Exchange differences on loans and borrowings	475	-
Total	**351 147**	**344 332**

Issue of debt securities

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

- the issue of bonds with the total par value of PLN 2 950 000 thousand under a bond issue scheme of November 2015,
- the issue of bond tranches under the agreement with Bank Gospodarstwa Krajowego in the total amount of PLN 490 000 thousand,
- the issue of subordinated hybrid bonds of PLN 844 607 thousand.

The aforesaid issues have been discussed in more detail in Note 34.1 to these financial statements.

(in PLN '000)

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

42. Financial instruments

42.1. 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 Financial assets at fair value through profit or loss, held for trading		**45 092**	**45 092**	**5 684**	**5 684**
Derivative instruments	24	19 776	19 776	5 684	5 684
Investment fund units	25	25 316	25 316	-	-
2 Financial assets available for sale		**29 703**	**-**	**30 302**	**-**
Long-term shares	22	25 703	-	30 302	-
Contributions to equity		4 000	-	-	-
3 Loans and receivables		**12 054 366**	**12 023 275**	**9 942 813**	**10 049 948**
Receivables from clients	28	840 656	840 656	579 446	579 446
Bonds	23	9 858 382	9 814 505	7 666 641	7 772 086
Loans granted under cash pool agreement	34.4	15 850	15 850	20 943	20 943
Other loans granted	26	1 307 916	1 320 702	1 561 315	1 563 005
Other financial receivables		31 562	31 562	114 468	114 468
4 Financial assets excluded from the scope of IAS 39		**14 844 715**	**-**	**15 902 892**	**-**
Shares in subsidiaries	22	14 428 863	-	15 487 040	-
Shares in jointly-controlled entities	22	415 852	-	415 852	-
5 Hedging derivative instruments	24	**36 641**	**36 641**	**-**	**-**
6 Cash and cash equivalents	31	**198 090**	**198 090**	**168 255**	**168 255**
Total financial assets, *of which in the statement of financial position:*		**27 208 607**		**26 049 946**	
Non-current assets		**25 820 473**		**24 807 239**	
Shares		14 870 418		15 933 194	
Bonds		9 615 917		7 451 601	
Loans granted		1 292 800		1 417 165	
Derivative instruments		35 814		16	
Other financial assets		5 524		5 263	
Current assets		**1 388 134**		**1 242 707**	
Receivables from clients		840 656		579 446	
Bonds		242 465		215 040	
Loans granted		30 966		165 093	
Derivative instruments		20 603		5 668	
Other financial assets		55 354		109 205	
Cash and cash equivalents		198 090		168 255	

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**	**560**	**16 631**	**16 631**
Derivative instruments	24	560	560	16 631	16 631
2 Financial liabilities measured at amortized cost		**10 774 316**	**10 808 300**	**9 426 384**	**9 445 560**
Arm's length loans, *of which:*		3 203 740	3 237 724	2 924 202	2 943 378
Liability under the cash pool loan	34.4	1 245 489	1 245 489	860 585	860 585
Loans from the European Investment Bank	34.2	1 190 501	1 193 410	1 324 191	1 346 344
Loans from the subsidiary	34.3	767 750	798 825	739 426	736 449
Overdraft	34.5	15 131	15 131	10 206	10 206
Bonds issued	34.1	6 942 131	6 942 131	5 969 017	5 969 017
Liabilities to suppliers	38	473 637	473 637	493 936	493 936
Other financial liabilities	39	139 177	139 177	28 017	28 017
Liabilities due to purchases of fixed and intangible assets	39	500	500	1 006	1 006
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**26 974**	**26 974**	**30 169**	**30 169**
Liabilities under finance leases	34.6	26 974	26 974	30 169	30 169
4 Hedging derivative instruments	24	**-**	**-**	**95 467**	**95 467**
Total financial liabilities, *of which in the statement of financial position:*		**10 801 850**		**9 568 651**	
Non-current liabilities		**8 781 965**		**4 897 441**	
Debt		8 754 047		4 876 546	
Other financial liabilities		27 918		5 739	
Derivative instruments		-		15 156	
Current liabilities		**2 019 885**		**4 671 210**	
Debt		1 433 929		4 057 048	
Liabilities to suppliers		473 637		493 936	
Derivative instruments		560		96 942	
Other financial liabilities		111 759		23 284	

(in PLN '000)

Derivative financial instruments measured at fair value as at the end of the reporting period and classified as assets and liabilities measured at fair value through profit or loss, or designated as hedging derivatives (subject to hedge accounting), have been measured in line with the method described in Note 24 to these financial statements. Disclosures regarding the fair value hierarchy have also been presented in Note 24. 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:

- fixed-rate financial instruments − bonds purchased by the Company, a loan granted to a subsidiary, loans obtained from the European Investment Bank and a loan from 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 to a given bond or loan, i.e. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy. The fair value of bonds issued in December 2016 with the par value of EUR 190 000 thousand and a fixed interest rate in the first funding period did not differ from the carrying amount as their issue date was close to the end of the reporting period.
- the fair value of other financial instruments held by the Company (except 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 Company did not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Company 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, in accordance with the Company's accounting policy, shares in subsidiaries and jointly-controlled entities (joint ventures) – financial assets excluded from the scope of IAS 39 – are also measured at cost less impairment losses.

42.2. 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	Financial assets available for sale	Loans and receivables	Financial liabilities measured at amortized cost	Hedging instruments	Financial assets / liabilities excluded from the scope of IAS 39	Total
Dividends	-	2 201	-	-	-	1 482 951	**1 485 152**
Interest income/(expense)	6 371	-	504 355	(275 686)	(80 658)	(603)	**153 779**
Commissions	-	-	-	(18 814)	-	-	**(18 814)**
Exchange differences	(2 148)	-	183	(27 704)	-	-	**(29 669)**
Impairment / revaluation	14 495	-	(197 840)	-	-	(1 412 443)	**(1 595 788)**
Gain/(loss) on disposal of investments	-	1 051	-	-	-	(88 311)	**(87 260)**
Other	(54)	-	-	-	-	-	**(54)**
Net financial income/(costs)	**18 664**	**3 252**	**306 698**	**(322 204)**	**(80 658)**	**(18 406)**	**(92 654)**
Revaluation	15 982	**-**	**1 543**	**-**	**-**	**-**	**17 525**
Gain/(loss) on realized commodity derivative instruments	(34 365)	**-**	**-**	**-**	**-**	**-**	**(34 365)**
Net operating income/(costs)	**(18 383)**	**-**	**1 543**	**-**	**-**	**-**	**(16 840)**
Remeasurement of IRS	-	-	-	-	127 252	-	**127 252**
Other comprehensive income	**-**	**-**	**-**	**-**	**127 252**	**-**	**127 252**

(in PLN '000)

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

	Assets / liabilities at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Financial liabilities measured at amortized cost	Hedging instruments	Financial assets / liabilities excluded from the scope of IAS 39	Total
Dividends	-	-	-	-	-	1 510 624	**1 510 624**
Interest income/(expense)	13 595	-	455 865	(266 969)	(89 380)	(705)	**112 406**
Commissions	-	-	-	(12 561)	-	-	**(12 561)**
Exchange differences	1 835	-	(22)	(2 628)	-	813	**(2)**
Impairment / revaluation	2 158	-	(78)	-	-	(4 931 147)	**(4 929 067)**
Other	(9 200)	-	-	-	-	-	**(9 200)**
Net financial income/(costs)	**8 388**	**-**	**455 765**	**(282 158)**	**(89 380)**	**(3 420 415)**	**(3 327 800)**
Revaluation	267	-	(1 480)	-	-	-	**(1 213)**
Gain/(loss) on realized commodity derivative instruments	762	-	-	-	-	-	**762**
Net operating income/(costs)	**1 029**	**-**	**(1 480)**	**-**	**-**	**-**	**(451)**
Remeasurement of IRS	-	-	-	-	85 932	-	**85 932**
Other comprehensive income	**-**	**-**	**-**	**-**	**85 932**	**-**	**85 932**

Impairment losses/revaluation

Following the performance of impairment tests for shares, bonds and loans as at 31 December 2016 and as at 30 June 2016, which has been discussed in more detail in Note 11 to these financial statements, the Company revalued its shares in subsidiaries in addition to recognizing an impairment loss on a loan granted to a subsidiary.

The value of the following classes of financial instruments was changed in financial revenue (expenses):

- shares in subsidiaries – impairment losses recognized by the Company exceeded those which were reversed by PLN 1 412 443 thousand;
- loans granted – an impairment loss of PLN 197 953 thousand;
- receivables from buyers and other financial receivables – allowances/write-downs reversed by the Company exceeded those which were recognized by PLN 113 thousand;
- units in investment funds – a gain on measurement of PLN 314 thousand;
- derivative instruments – a gain on measurement of PLN 14 181 thousand.

In the year ended 31 December 2016, the Company recognized interest income of PLN 54 440 thousand on a loan granted to a subsidiary, on which an impairment loss had been recognized as at the end of the reporting period, as discussed above.

Gain/loss on disposal of investments

In the year ended 31 December 2016, the Company sold 100% of shares in its subsidiary, Nowe Brzeszcze Grupa TAURON Sp. z o.o., with the carrying amount of PLN 185 002 thousand to TAURON Wydobycie S.A. at the total price of PLN 96 691 thousand. The transaction has been discussed in more detail in Note 22 to these financial statements.

Costs of derivative instruments used as hedges

In the year ended 31 December 2016, gains/losses from valuation of an IRS hedging instrument subject to hedge accounting were recognized within other comprehensive income. In 2016, the change in valuation was PLN 127 252 thousand. Gains/losses from revaluation of the hedging instrument, recognized in other comprehensive income, were recognized in profit/loss for the period as finance costs resulting from interest on issued bonds when the hedged item, i.e. interest on bonds, affected the profit/loss for the period. 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 revaluation 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 issued bonds in the statement of comprehensive income.

43. Financial risk management

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

Hedge accounting

As at 31 December 2016, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance and subject to hedge accounting. The Company hedges a portion of the interest rate risk inherent in cash flows related to issued bonds, which has been discussed in more detail in Note 24 to these financial statements.

Risks related to financial instruments which the Company is exposed to in its business operations:

- credit risk;
- liquidity risk;
- market risk, including:

  - interest rate risk;

  - currency risk;

  - commodity price risk related to commodity derivative instruments and changes in the prices of units in investment funds held by the Company.

43.1. Credit risk

Credit risk regards potential credit events that may have the form of a contractor's insolvency, partial repayment of receivables, a material payment delay or another unpredicted breach of contract terms.

The credit risk related to financial assets of the Company results from the inability to make payment by the other party to the agreement and the maximum exposure is equal to the carrying amount of these instruments.

Categories of financial assets held by the Company that give rise to credit risk exposure with different characteristics include:

- receivables from buyers and receivables from sale of non-current assets;
- bonds;
- loans granted;
- other financial receivables;
- cash and cash equivalents;
- derivatives;
- units in investment funds;
- other financial assets.

43.1.1 Credit risk related to receivables from buyers and other financial receivables

The Company monitors credit risk related to its operations on an ongoing basis. In 2016, the Company was exposed to counterparty credit risk resulting from commercial contracts. To mitigate the risk, as part of the regular analysis of reliability and financial standing of its counterparties, in justified cases the Company required security.

Receivables from buyers are receivables from subsidiaries and entities from outside the Group – corporate clients. They bear no interest and their payment term is 7-30 days, depending on a contract. Sales transactions are only entered into with clients subject to a verification procedure. This – in the opinion of the management – eliminates any additional credit risk, over the level defined by the allowance for bad debts applied to the Company's trade receivables.

As at 31 December 2016 and 31 December 2015, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 478 220 thousand and PLN 257 446 thousand, respectively.

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

(in PLN '000)

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	**(2 582)**	**(1 024)**
Recognised	(137)	(2 207)
Reversed	1 792	649
Allowance/write-down at the end of period	**(927)**	**(2 582)**
Value of item before allowance	873 145	696 496
Value of item net of allowance (carrying amount)	872 218	693 914

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

	Not past due	*Past due*			Total
		<30 days	*30-360 days*	*>360 days*	
Value of item before allowance/write-down					
Receivables from clients	840 494	172	35	854	**841 555**
Other financial receivables	31 562	-	28	-	**31 590**
Total	**872 056**	**172**	**63**	**854**	**873 145**
Allowance/write-down					
Receivables from clients	(3)	(7)	(35)	(854)	**(899)**
Other financial receivables	-	-	(28)	-	**(28)**
Total	**(3)**	**(7)**	**(63)**	**(854)**	**(927)**
Value of item net of allowance (carrying amount)					
Receivables from clients	840 491	165	-	-	**840 656**
Other financial receivables	31 562	-	-	-	**31 562**
Total	**872 053**	**165**	**-**	**-**	**872 218**

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

	Not past due	*Past due*			Total
		<30 days	*30-360 days*	*>360 days*	
Value of item before allowance/write-down					
Receivables from clients	579 311	168	573	1 976	**582 028**
Other financial receivables	114 468	-	-	-	**114 468**
Total	**693 779**	**168**	**573**	**1 976**	**696 496**
Allowance/write-down					
Receivables from clients	(15)	(18)	(573)	(1 976)	**(2 582)**
Total	**(15)**	**(18)**	**(573)**	**(1 976)**	**(2 582)**
Value of item net of allowance (carrying amount)					
Receivables from clients	579 296	150	-	-	**579 446**
Other financial receivables	114 468	-	-	-	**114 468**
Total	**693 764**	**150**	**-**	**-**	**693 914**

43.1.2 Credit risk related to other financial assets

The impairment tests performed as at 31 December 2016 for shares, bonds and loans in subsidiaries identified the necessity to recognize an impairment loss on a loan to a subsidiary in the amount of PLN 197 953 thousand.

According to the Company credit risk exposure of other categories of financial assets is insignificant. Bonds acquired by the Company and loans granted concern transactions with related parties. The items in question had not been overdue as at the end of the reporting period.

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

The entities the Company concludes derivative transactions with in order to hedge against interest rate and currency risk operate in the financial sector. They are Polish banks with high financial rating, sufficient equity and strong, stable market position.

43.2. Liquidity risk

The Company maintains a balance between continuity, flexibility and cost of financing by using various sources of funding, which enable management of liquidity risk and effective mitigation of risk consequences.

(in PLN '000)

Liquidity is managed at the Capital Group level. The TAURON Group has adopted *Liquidity management policy for the TAURON Group*, which facilitates optimization of liquidity management at the TAURON Group and reduces the risk of liquidity loss by the Group and each company from the TAURON Group.

Additionally, in order to minimize the possibility of cash flow interruption and the risk of loss of liquidity, 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 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 Company 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.

Ageing structure of financial liabilities presenting undiscounted payments under applicable agreements has been presented below.

Financial liabilities as at 31 December 2016

	Carrying amount	Contractual undiscounted payments	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3 -12 months	1 - 2 years	2 - 3 years	3 - 5 years	over 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings (including bonds issued)	**10 161 002**	**(12 283 976)**	(1 297 437)	(399 745)	(475 139)	(2 290 161)	(3 668 348)	(4 153 146)
Liabilities to suppliers	**473 637**	**(473 637)**	(473 616)	(21)	-	-	-	-
Liabilities due to purchases of fixed and intangible assets	**500**	**(500)**	(500)	-	-	-	-	-
Other financial liabilities	**139 177**	**(139 177)**	(110 621)	(638)	(7 918)	(2 500)	(5 000)	(12 500)
Liabilities under finance lease	**26 974**	**(27 821)**	(1 021)	(3 084)	(23 716)	-	-	-
Derivative financial liabilities:								
Derivate instruments - CCIRS	**560**	**(538)**	-	(538)	-	-	-	-
Total	**10 801 850**	**(12 925 649)**	**(1 883 195)**	**(404 026)**	**(506 773)**	**(2 292 661)**	**(3 673 348)**	**(4 165 646)**

Financial liabilities as at 31 December 2015

	Carrying amount	Contractual undiscounted payments*	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3 -12 months	1 - 2 years	2 - 3 years	3 - 5 years	over 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings (including bonds issued)	**8 903 425**	**(10 058 683)**	(3 165 489)	(1 068 064)	(309 686)	(317 432)	(2 584 315)	(2 613 697)
Liabilities to suppliers	**493 936**	**(493 936)**	(493 893)	(21)	(22)	-	-	-
Liabilities due to purchases of fixed and intangible assets	**1 006**	**(1 006)**	(506)	-	(500)	-	-	-
Other financial liabilities	**28 017**	**(28 017)**	(22 247)	(531)	-	(5 239)	-	-
Liabilities under finance lease	**30 169**	**(31 890)**	(977)	(3 035)	(4 150)	(23 728)	-	-
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	**9 568 651**	**(10 779 241)**	**(3 683 112)**	**(1 165 712)**	**(312 430)**	**(345 411)**	**(2 588 665)**	**(2 683 911)**

** 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 Company had granted guarantees, sureties and other forms of collateral to related parties in the total amount of PLN 1 339 567 thousand (excluding registered and financial pledges on shares) versus PLN 796 720 thousand as at 31 December 2015, which has been discussed in more detail in Note 45 to these financial statements. The key items were:

- a corporate guarantee granted to a subsidiary to collateralize bonds issued by the entity up to EUR 168 000 thousand (PLN 743 232 thousand). The guarantee is valid in the entire bond period, i.e. until the repurchase date – 3 December 2029;

(in PLN '000)

- a financing commitment totaling PLN 178 300 thousand, related to the application of TAURON Ciepło Sp. z o.o. for a grant from the Regional Fund for Environmental Protection and Water Management in Katowice. The agreement is binding until 31 December 2017;
- 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 guarantees and sureties granted by the Company constitute contingent liabilities and do not considerably affect the liquidity risk of the Company.

43.3. Market risk

Market risk results from possible adverse impact of fluctuations of the fair value of financial instruments or related future cash flows due to market price changes on the Company's performance.

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

- interest rate risk;
- currency risk;
- commodity price risk related to commodity derivative instruments and changes in the prices of units in investment funds held by the Company.

43.3.1 Interest rate risk

The Company is exposed to the risk of interest rate changes related to floating interest rate borrowings acquired and investing in assets with floating and fixed interest rates. The Company is also exposed to lost benefit risk related to a decrease in interest rates of fixed interest rate debt.

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Company's cash flows to an acceptable level and to minimize finance costs. In order to hedge interest rate risk related to floating-rate bonds issued, the Company entered into interest rate swap contracts, which has been discussed in more detail in Note 24 to these financial statements.

Carrying amounts of financial instruments of the Company exposed to the interest rate risk have been presented in tables below. Except for the hybrid bonds issued in December 2016 with a fixed interest rate in the first funding period, other bonds issued by the Company 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 fixed-rate hedging instruments.

Financial instruments by interest rate type as at 31 December 2016

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Bonds	9 858 382	-	**9 858 382**
Loans granted*	1 051 849	271 917	**1 323 766**
Cash and cash equivalents	-	198 090	**198 090**
Derivative instruments (CCIRS)	36 641	-	**36 641**
Financial liabilities			
Bank overdrafts	-	15 131	**15 131**
Arm's length loans	1 958 251	1 245 489	**3 203 740**
Bonds issued	2 938 091	4 004 040	**6 942 131**
Obligations under finance leases	-	26 974	**26 974**

**The amount of a loan granted to a subsidiary on which an impairment loss has been recognized has been presented in the table on a net basis, i.e. less the impairment loss.*

(in PLN '000)

Financial instruments by interest rate type as at 31 December 2015

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Bonds	7 575 740	90 901	**7 666 641**
Loans granted	1 337 406	244 852	**1 582 258**
Cash and cash equivalents	-	168 255	**168 255**
Derivative instruments (CCIRS)	-	3 055	**3 055**
Financial liabilities			
Bank overdrafts	-	10 206	**10 206**
Arm's length loans	2 063 617	860 585	**2 924 202**
Bonds issued	3 003 328	2 965 689	**5 969 017**
Derivative instruments (IRS)	95 467	-	**95 467**
Obligations under finance leases	-	30 169	**30 169**
Derivative instruments (CCIRS)	-	14 423	**14 423**

Other financial instruments of the Company which have not been presented in the tables above bear no interest and therefore are not exposed to the interest rate risk.

43.3.2 Currency risk

The Company's exposure to currency risk by financial instrument class as at 31 December 2016 and 31 December 2015 has been presented below.

Currency position as at 31 December 2016

	Total carrying amount in PLN	EUR		USD		GBP	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Receivables from clients and other financial receivables	872 218	354	1 568	-	-	-	-
Cash and cash equivalents	198 090	5 983	26 469	306	1 279	499	2 567
Derivatives (assets)	56 417	3 649	16 143	100	416	-	-
Total	**1 126 725**	**9 986**	**44 180**	**406**	**1 695**	**499**	**2 567**
Financial liabilities							
Arm's length loans	3 203 740	173 542	767 750	-	-	-	-
Overdraft	15 131	3 032	13 415	410	1 716	-	-
Bonds issued	6 942 131	190 105	841 023	-	-	-	-
Liabilities to suppliers and other financial liabilities	612 814	2 990	13 232	106	443	2	10
Derivatives (liabilities)	560	122	538	5	22	-	-
Total	**10 774 376**	**369 791**	**1 635 958**	**521**	**2 181**	**2**	**10**
Net currency position		**(359 805)**	**(1 591 778)**	**(115)**	**(486)**	**497**	**2 557**

Currency position as at 31 December 2015

	Total carrying amount in PLN	EUR		USD	
		in currency	in PLN	in currency	in PLN
Financial assets					
Receivables from clients and other financial receivables	693 914	801	3 414	96	376
Cash and cash equivalents	168 255	7 002	29 838	338	1 317
Derivatives (assets)	5 684	334	1 425	205	800
Total	**867 853**	**8 137**	**34 677**	**639**	**2 493**
Financial liabilities					
Arm's length loans	2 924 202	173 513	739 426	-	-
Overdraft	10 206	2 025	8 630	404	1 576
Liabilities to suppliers and other financial liabilities	521 953	1 529	6 515	1	4
Derivatives (liabilities)	112 098	242	1 032	301	1 176
Total	**3 568 459**	**177 309**	**755 603**	**706**	**2 756**
Net currency position		**(169 172)**	**(720 926)**	**(67)**	**(263)**

In 2016 and in 2015, TAURON Polska Energia S.A. used forward contracts for currency risk management purposes. The objective of these transactions is to hedge currency risk related to the operations of the Company. The Company did not use hedge accounting to hedge currency risk. As at the end of the reporting period, the Company presented an asset from valuation of FX forward contracts in the amount of PLN 3 217 thousand (versus PLN 404 thousand as at 31 December 2015).

43.3.3 Commodity price risk related to commodity derivative instruments and changes in the prices of units in investment funds

The Company concludes derivative contracts, with underlying instruments being commodities and raw materials. The Company's exposure to 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 of prices of the underlying raw materials/commodities. In most cases the Company hedged the risk by way of entering into offsetting transactions. This way the Company 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.

As at 31 December 2016, open positions included forwards and futures for emission allowances and a future contract for gas. As at 31 December 2016, the total carrying amount of all derivative contracts for emission allowances was PLN 15 012 thousand (the asset item of PLN 15 550 thousand and the liability item of PLN 538 thousand) and in case of the derivative contract for gas it was PLN 593 thousand (asset item) and as at 31 December 2015 the total carrying amount of all derivative contracts for emission allowances was PLN 433 thousand (the asset item of PLN 1 425 thousand and the liability item of PLN 992 thousand) and in case of the derivative contract for gas it was PLN 40 thousand (liability item). As at 31 December 2016 the Company held units in investment funds with the carrying amount of PLN 25 316 thousand. These instruments are measured at fair value as at the end of the reporting period and hence are exposed to the risk of price changes.

43.3.4 Market risk – sensitivity analysis

As for financial instruments held, TAURON Polska Energia S.A. is exposed mostly to the risk of EUR/PLN, USD/PLN and GBP/PLN exchange rate changes as well as changes in reference interest rates for PLN, EUR and USD.

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Company relies on expert scenarios reflecting its judgment concerning the behavior of individual market risk factors in the future.

The scenario analyses presented herein are aimed at examining the effect of changes in market risk factors on the Company's financial performance. The scope of the analysis includes only those positions which meet the IFRS definition of financial instruments.

Presented below is the sensitivity analysis for the interest rate, currency and price risks to which the Company is exposed as at the end of the reporting period, along with the effect of potential changes in individual risk factors on the gross profit/loss as well as other comprehensive income (gross), by class of financial assets and liabilities.

Interest rate risk sensitivity analysis

The interest rate risk sensitivity analysis is conducted by the Company 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 Company 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 interest rate financial instruments measured at fair value as at the end of the reporting period.

The Company 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. The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) 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/(Loss)	*Other comprehensive income*	*Profit/(Loss)*	*Other comprehensive income*
Loans granted	1 323 766	271 917	1 632	-	(1 632)	-
Cash and cash equivalents	198 090	198 090	1 007	-	(1 007)	-
Derivatives (assets)	56 417	36 641	-	40 992	-	(40 992)
Arm's length loans	3 203 740	1 245 489	(7 473)	-	7 473	-
Bonds issued	6 942 131	6 101 108	(36 607)	-	36 607	-
Obligations under finance leases	26 974	26 974	(162)	-	162	-
Total			**(41 603)**	**40 992**	**41 603**	**(40 992)**

The exposure to risk as at 31 December 2016 is representative for the Company'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/(Loss)	*Other comprehensive income*	*Profit/(Loss)*	*Other comprehensive income*
Bonds	7 666 641	90 901	600	-	(600)	-
Loans granted	1 582 258	244 852	1 616	-	(1 616)	-
Cash and cash equivalents	168 255	168 255	905	-	(905)	-
Derivatives (assets)	5 684	3 055	(3 360)	-	3 360	-
Arm's length loans	2 924 202	860 585	(5 680)	-	5 680	-
Bonds issued	5 969 017	5 969 017	(39 396)	-	39 396	-
Obligations under finance leases	30 169	30 169	(199)	-	199	-
Derivates (liabilities)	112 098	109 890	(34 443)	10 085	34 443	(10 085)
Total			**(79 957)**	**10 085**	**79 957**	**(10 085)**

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

Currency risk sensitivity analysis

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 Company identifies its exposure to foreign currency risk related to EUR/PLN, USD/PLN and GBP/PLN exchange rates. The tables below present sensitivity of the gross profit/loss to reasonably possible changes in the EUR/PLN, USD/PLN and GBP/PLN exchange 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 currency risk as at 31 December 2016					
			EUR/PLN		USD/PLN		GBP/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.8%	exchange rate EUR/PLN -7.8%	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/(Loss)		*Profit/(Loss)*		*Profit/(Loss)*	
Trade and other financial receivables	872 218	1 568	122	(122)	-	-	-	-
Cash and cash equivalents	198 090	30 315	2 065	(2 065)	177	(177)	296	(296)
Derivatives (assets)	56 417	19 776	6 624	(6 624)	57	(57)	-	-
Overdraft	15 131	15 131	(1 046)	1 046	(237)	237	-	-
Arm's length loans	3 203 740	767 750	(59 884)	59 884	-	-	-	-
Bonds issued	6 942 131	841 024	(65 600)	65 600	-	-	-	-
Trade and other financial liabilities	612 814	13 684	(1 032)	1 032	(61)	61	(1)	1
Derivatives (liabilities)	560	560	(42)	42	(3)	3	-	-
Total			**(118 793)**	**118 793**	**(67)**	**67**	**295**	**(295)**

The exposure to risk as at 31 December 2016 is representative for the Company'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 the Company's hybrid bonds issued in December 2016 with the euro as the issue and repayment currency, which has been discussed in more detail in Note 34.1 to these financial statements.

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		USD/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.15%	exchange rate EUR/PLN -7.15%	exchange rate USD/PLN +11.43%	exchange rate USD/PLN -11.43%
			Profit/(Loss)	*Profit/(Loss)*	*Profit/(Loss)*	*Profit/(Loss)*
Trade and other financial receivables	693 914	3 790	244	(244)	43	(43)
Cash and cash equivalents	168 255	31 156	2 133	(2 133)	151	(151)
Derivatives (assets)	5 684	5 684	3 078	(3 078)	92	(92)
Overdraft	10 206	10 206	(617)	617	(180)	180
Arm's length loans	2 924 202	739 426	(52 869)	52 869	-	-
Trade and other financial liabilities	521 953	6 519	(466)	466	(1)	1
Derivatives (liabilities)	112 098	16 631	21 587	(21 587)	(135)	135
Total			**(26 910)**	**26 910**	**(30)**	**30**

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

Analysis of sensitivity to commodity price risk related to commodity derivative instruments

The analysis of sensitivity to changes in emissions risk factors is conducted by the Company 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 Company'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**

(in PLN '000)

For the year ended 31 December 2015

	Carrying amount as at 31 December 2015			Increase		Decrease	
	price (EUR)	Assets	Liabilities	price (EUR)	Impact on gross profit(loss)	price (EUR)	Impact on gross 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

Analysis of sensitivity to the unit price risk

For the purposes of the analysis of sensitivity to changes in the quoted prices of the units in investment funds held by the Company, the Company 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			
	Carrying amount	Value at risk	Price change		Price change	
			1.00%	-1.00%	0.70%	-0.70%
			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)**

44. Operational risk

The Company is 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 in the open market position.

Commercial operational risk is managed at the level of the TAURON Group, which has been discussed in more detail in Note 46 and 47 to the consolidated financial statements of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2016. The Company manages its commercial risk following the Commercial risk management policy developed and adopted in the TAURON Group,

The Company's exposure to the risk of prices of goods reflects the volume of electricity and gas acquired. The volume and cost of electricity and gas acquired have been presented below.

Fuel type	Unit	2016		2015	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	41 966 994	7 152 963	49 387 348	8 420 914
Gas	k m3	3 084 545	249 878	1 240 550	119 583
Total			**7 402 841**		**8 540 497**

As for trading in coal, the Company is not exposed to the price risk, as it acts as an agent generating revenue from agency services only.

(in PLN '000)

OTHER INFORMATION

45. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees granted to related parties. They have been presented in the table below.

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	As at 31 December 2016			As at 31 December 2015	
			Validity	EUR	PLN	EUR	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	3.12.2029	168 000	743 232	168 000	715 932
blank promissory note	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022		40 000		40 000
	TAURON Ciepło Sp. z o.o.		15.12.2022		30 000		30 000
	TAURON Ciepło Sp. z o.o.				-		1 180
financing commitment	TAURON Ciepło Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Katowice	31.12.2017		178 300		-
collateral for a guarantee issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd.	Elektrociepłownia Stalowa Wola S.A.	Bank Polska Kasa Opieki S.A.	14.04.2017		74 992		-
		European Investment Bank			156 000		-
		European Bank for Reconstruction and Development			83 494		-
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028*		415 852		415 852
collateral of a loan	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	2018-2021		2 059		1 145
collateral of a lease agreement	TAURON Wydobycie S.A.	Millennium Leasing Sp. z o.o.	30.10.2017		2 900		-
collateral of a contract	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.	4.08.2019		5 000		5 000
	TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	31.03.2017		15 000		-
	TAURON Czech Energy s.r.o.	CEZ a.s.	31.12.2016	1 500	6 636	-	-
		SPP CZ a.s.		-	-	300	1 278
collateral for a guarantee issued by Powszechna Kasa Oszczędności Bank Polski S.A.	subsidiaries		31.12.2016		1 691		2 185
collateral for a guarantee issued by CaixaBank S.A.	subsidiaries		2018-2019		263		-

**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.*

The key items of contingent liabilities arising from guarantees, collateral and financing commitments are:

- Corporate guarantee

  A corporate guarantee granted to a subsidiary to collateralize bonds issued by the entity up to EUR 168 000 thousand (PLN 743 232 thousand). Bondholders are guarantee beneficiaries. The guarantee is valid until the bond repurchase date, i.e. 3 December 2029.

- Registered and financial pledges on shares

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

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

As at 31 December 2016, the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand.

- Financing commitment

  In order to enable TAURON Ciepło Sp. z o.o. to apply for a non-refundable grant for the project entitled "Low emission liquidation in the Katowice urban area" with the Regional Fund for Environmental Protection and Water Management in Katowice, TAURON Polska Energia S.A. issued financing commitment letters in the total amount of PLN 178 300 thousand.

- Guarantees issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd.

  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.

- Blank promissory notes

  The Company issued blank promissory notes along with declarations, totaling PLN 70 000 thousand, as a security for loan agreements entered into by its subsidiaries with the Regional Fund for Environmental Protection and Water Management in Katowice. The validity period corresponds to the term of the loan, which ends on 15 December 2022.

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

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

Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of Energy Regulatory Office. At present, the case is pending at the Regional Court in Warsaw.

Based on a decision of 12 October 2001, the President of the Energy Regulatory Office ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had not paid its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgment of the Court of Appeals in Warsaw, which was dismissed by the judgment of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the issue of the above decision by the President of the Energy Regulatory Office on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to power supply) GZE again suspended power supply. Therefore, Huta has sued GZE for damages.

Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office (jointly and severally) Huta claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001.

In this case, the courts of the first and second instance passed judgements favorable 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 judgment 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 ordered the court expert to prepare a supplementary opinion. On 5 September 2016, the Company received the supplementary opinion of the court expert and filed charges against the opinion on 12 and 19 September 2016. Also, the State Treasury and Huta filed charges against the opinion. 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.

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

The claims filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A. to the Regional Court in Katowice regard 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 two months, four 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 respond to the claim, which took place on 5 April 2016. On 20 June 2016 TAURON Polska Energia S.A. motioned to call ENEA Operator Sp. z o.o. to participate in the proceedings. Further, the court allowed testimony of witnesses as evidence. 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%.

- **Claims relating to termination of long-term contracts by a subsidiary**

On 18 March 2015 a subsidiary, Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. in liquidation, terminated long-term agreements regarding purchase of power and property rights from windfarms. Therefore, a claim was filed against the subsidiary and TAURON Polska Energia S.A. to reverse the risk of loss. It is claimed that the Company should revoke the liquidation of Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. A subsidiary claim is that TAURON Polska Energia S.A. should be obliged to provide security in the amount of PLN 183 391 thousand as a court deposit.

Since the court proceedings regarding the above issue are pending and are at an initial stage, the final amount of possible financial effects on the Company cannot be reliably estimated.

(in PLN '000)

46. Collateral against liabilities

Agreement/transaction	Collateral	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018 – 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
collateral of transactions made by subsidiaries	bank guarantees under the framework agreement with PKO Bank Polski S.A.for bank guarantees extended at the request of the Company to secure transactions and liabilities of subsidiaries	for the total amount of PLN 1 691 thousand (Note 45 to these financial statements), guarantees were valid until 31 December 2016
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
Framework bank guarantee agreement concluded with CaixaBank S.A.	bank guarantee extended at the request of the Company to secure transactions	for GAZ-SYSTEM S.A., up to PLN 3 664 thousand, valid until 30 November 2017
collateral of transactions made by subsidiaries	bank guarantees under the framework agreement concluded with CaixaBank S.A. for bank guarantees extended at the request of the Company to secure transactions and liabilities of subsidiaries	for the total amount of PLN 263 thousand (Note 45 to these financial statements)
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
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies.	bank guarantee extended at the request of the Company to secure stock exchange transactions made by members of IRGiT (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

(in PLN '000)

Agreement/transaction	Collateral	Collateral amount
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
securing transactions entered into on European exchanges	Deposits related to transactions entered into on European exchanges to secure transactions concluded thereon, mainly future contracts concerning emission allowances. The Company transfers margin deposits for such transactions to separate bank accounts.	as at 31 December 2016, the total amount was PLN 13 730 thousand
collateral for the Company's transactions entered into on Polish Power Exchange	Alienation agreement between TAURON Polska Energia S.A. and Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGIT")	As part of the collateral, the Company deposited 5 183 500 EUA in its account in the National Register of Allowances. The term of the agreement was extended until 15 June 2016. On that date, the agreement expired and the EUA were returned to the Company's account.
	Alienation agreement between TAURON Wytwarzanie S.A., a subsidiary and IRGiT	The agreement provided for a freeze on the CO2 emission allowances in the Register of Allowances, held by TAURON Wytwarzanie S.A. in the amount of 8 000 000 EUA. Under the alienation agreement, TAURON Wytwarzanie S.A. guaranteed the repayment of the Company's liabilities to IRGiT. The collateral was valid in the first quarter of 2016 and the agreement expired on 31 March 2016.
finance lease agreement concerning an investment property	The agreement covers an investment property. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.	As at 31 December 2016 the carrying amount of the leased asset was PLN 25 318 thousand.

47. Capital commitments

In relation to the investment made in PGE EJ 1 Sp. z o.o., in 2016 the Company planned to provide funds to increase the issued capital of PGE EJ 1 Sp. z o.o. in the total amount of PLN 34 999 thousand in accordance with the financial plan of that company. In view of the foregoing, on 21 December 2016, the Extraordinary General Shareholders' Meeting of the SPV – PGE EJ 1 Sp. z o.o. adopted a resolution to increase the issued capital from PLN 275 859 thousand to PLN 310 858 thousand, i.e. by PLN 34 999 thousand, through the creation of 248 220 new shares with the nominal value of PLN 141 each and the total nominal value of PLN 34 999 thousand. TAURON Polska Energia S.A. acquired 24 822 new shares with the nominal value of PLN 141 each and the total nominal value of PLN 3 500 thousand, which were covered by a cash contribution. The aforesaid increase had not been registered by the end of the reporting period.

48. Related-party disclosures

48.1. Transactions with related parties and State Treasury companies

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

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

(in PLN '000)

Revenue and expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue from subsidiaries, *of which*:	**9 706 997**	**10 797 524**
Revenue from operating activities	7 650 113	8 838 001
Dividend income	1 458 951	1 510 624
Revenue from sale of shares	96 691	-
Other operating income	5 345	6 746
Other finance income	495 897	442 153
Revenue from jointly-controlled entities	**126 811**	**49 599**
Revenue from State Treasury companies	**162 649**	**778 452**
Costs from subsidiaries, *of which*:	**(2 852 147)**	**(4 085 897)**
Costs of operating activities	(2 814 659)	(4 047 257)
Finance costs	(37 488)	(38 640)
Costs incurred with relation to transactions with jointly-controlled entities	**(12 521)**	**(3 536)**
Costs from State Treasury companies	**(571 124)**	**(1 129 348)**

Receivables and liabilities

	As at 31 December 2016	As at 31 December 2015
Loans granted to subsidiaries and receivables from subsidiaries, *of which*:	**11 940 640**	**9 584 859**
Receivables from clients	795 482	462 421
Loans granted under cash pool agreement plus interest accrued	15 800	20 941
Other loans granted	1 249 802	1 337 406
Receivables from the TCG	20 945	97 148
Bonds	9 858 382	7 666 641
Other financial receivables	229	302
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**274 502**	**224 046**
Receivables from State Treasury companies	**25 210**	**133 784**
Liabilities to subsidiaries, *of which*:	**2 413 451**	**1 919 518**
Liabilities to suppliers	335 344	337 087
Loans received under cash pool agreement plus interest accrued	1 229 344	831 205
Other loans received	767 750	739 426
Liabilities arising from the TCG	75 415	6 440
Other financial liabilities	5 259	5 239
Other non-financial liabilities	339	121
Liabilities to jointly-controlled entities	**1 209**	**729**
Liabilities to State Treasury companies	**55 389**	**62 372**

Revenue from subsidiaries and jointly-controlled entities includes revenue from sales of coal (in the comparative period also biomass), which is presented in the statement of comprehensive income less cost in the amount of the surplus constituting the fee for agency services, discussed in detail in Note 12 to these financial statements.

The impairment tests performed as at 31 December 2016 for shares, bonds and loans in subsidiaries identified the necessity to recognize an impairment loss on a loan to a subsidiary in the amount of PLN 197 953 thousand. The amount of loans granted to subsidiaries, as presented in the table above, does not include an impairment loss.

In the year ended 31 December 2016, PSE S.A., Energa-Obrót S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. incorporated on 1 May 2016 were the major business partners of TAURON Polska Energia S.A. among State Treasury companies in terms of sales revenue. Revenue from the aforementioned entities represented 87% of the total revenue generated in transactions with State Treasury companies.

(in PLN '000)

The highest costs were incurred on transactions with Katowicki Holding Węglowy S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. incorporated on 1 May 2016. They represented 95% of the total costs incurred in purchase transactions with State Treasury companies.

In relation to agreements entered into with a joint venture, Elektrociepłownia Stalowa Wola S.A., as at 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 36 to these financial statements.

In the year ended 31 December 2016, the Company sold its shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o. to a subsidiary, TAURON Wydobycie S.A., in exchange for the total amount of PLN 96 691 thousand, which has been discussed in more detail in Note 22 to these financial statements. The Company recognized a loss on disposal of the investment in the subsidiary of PLN 88 311 thousand arising from the sale of the shares. In the statement of comprehensive income, the loss has been presented under other finance costs.

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

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.

48.2. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Company in the year ended 31 December 2016 and in the year ended 31 December 2015 has been presented in the table below.

	Year ended 31 December 2016	Year ended 31 December 2015
Management Board	**12 858**	**11 225**
Short-term employee benefits (salaries and surcharges)	6 367	7 333
Temination benefits	5 806	2 820
Other	685	1 072
Supervisory Board	**1 159**	**1 118**
Short-term employee benefits (salaries and surcharges)	1 159	1 118
Other members of key management personnel	**13 284**	**14 588**
Short-term employee benefits (salaries and surcharges)	10 554	12 392
Temination benefits	1 696	1 134
Post-service benefits	215	-
Other	819	1 062
Total	**27 301**	**26 931**

The note does not present the cost of a provision for post-service benefits payable to Members of the Management Board in the amount of PLN 1 470 thousand, which are expected to be paid after the end of the reporting period. The provision in question has been presented in these financial statements under accruals.

As regards benefits paid to a member of the Management Board in relation to termination of employment contracts, 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, while the amount of PLN 450 thousand is the use of a provision recognized in the year ended 31 December 2016.

As regards post-service benefits paid to key executives, as presented in the table above, the amount of PLN 180 thousand was accounted for as the use of a provision recognized as at 31 December 2015.

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

(in PLN '000)

49. Finance and capital management

Finance and capital are managed at the level of the TAURON Polska Energia S.A. Capital Group. It has been discussed in more detail in Note 53 to the Consolidated Financial Statements for the year ended 31 December 2016.

50. Employment structure

The following note presents average headcount in the annual periods ended 31 December 2016 and 31 December 2015.

	Year ended 31 December 2016	Year ended 31 December 2015
Management	5	5
Administration	249	237
Sales department	115	98
Total	**369**	**340**

51. 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 TAURON Polska Energia S.A. for the 2016 financial year (Section 4.12).

52. Structure of financial statements broken down by business activity type in line with Article 44 of the Energy Law

Under Article 44.2 of the Energy Law, TAURON Polska Energia S.A., as an energy company, is obliged to disclose specific items of the balance sheet and the statement of profit or loss broken down by individual types of business activities in notes to these financial statements.

The Company has identified the following types of business activities in accordance with Article 44.2 of the Energy Law:

- Trade in gaseous fuels,
- Other activity.

The principles of preparing a statement of comprehensive income (statement of profit or loss) broken down by type of business activity

The Company keeps accounting records which enable separate calculation of expense and revenue and the profit/loss for individual types of activities.

The Company has directly separated sales revenue and cost of sales related to individual types of activities.

Costs to sell related to the entire sales process carried out by the Company have been divided proportionally to the sales revenue generated by the Company.

Other operating and financing activities have been identified as those related to other business activities of the Company.

Administrative expenses of the Company are incurred for the benefit of the entire Capital Group, hence they have been recognized in the statement of comprehensive income as unallocated items and are not directly attributable to a specific business activity, as such attribution would be unjustified. Also CIT charged to profit or loss has been presented under unallocated items.

(in PLN '000)

Statement of comprehensive income by type of activity for the 2016 financial year

	Gas	Other activity	Unallocated items	Total
Sales revenue	242 615	7 752 713	-	**7 995 328**
Cost of sales	(233 922)	(7 603 645)	-	**(7 837 567)**
Gross profit (loss)	**8 693**	**149 068**	**-**	**157 761**
Selling and distribution expenses	(586)	(18 740)	-	**(19 326)**
Administrative expenses	**-**	**-**	(81 368)	**(81 368)**
Other operating expenses	-	(59 170)	(32 500)	**(91 670)**
Operating profit (loss)	**8 107**	**71 158**	**(113 868)**	**(34 603)**
Dividend income	-	1 485 152	-	**1 485 152**
Interest income on bonds and loans	-	503 897	-	**503 897**
Interest expense on debt	-	(356 947)	-	**(356 947)**
Revaluation of shares and loans	-	(1 610 396)	-	**(1 610 396)**
Other finance income and costs	-	(136 237)	-	**(136 237)**
Profit (loss) before tax	**8 107**	**(43 373)**	**(113 868)**	**(149 134)**
Income tax expense	**-**	**-**	(17 119)	**(17 119)**
Net profit (loss) for the year	**8 107**	**(43 373)**	**(130 987)**	**(166 253)**

Statement of comprehensive income by type of activity for the 2015 financial year

	Gas	Other activity	Unallocated items	Total
Sales revenue	122 835	8 939 411	-	**9 062 246**
Cost of sales	(120 041)	(8 953 828)	-	**(9 073 869)**
Gross profit (loss)	**2 794**	**(14 417)**	**-**	**(11 623)**
Selling and distribution expenses	(271)	(21 101)	-	**(21 372)**
Administrative expenses	**-**	**-**	(96 341)	**(96 341)**
Other operating income and expenses	-	4 969	-	**4 969**
Operating profit (loss)	**2 523**	**(30 549)**	**(96 341)**	**(124 367)**
Dividend income	-	1 510 624	-	**1 510 624**
Interest income on bonds and loans	-	449 437	-	**449 437**
Interest expense on debt	-	(357 055)	-	**(357 055)**
Other finance income	-	(4 931 147)	-	**(4 931 147)**
Finance costs	-	1 714	-	**1 714**
Profit (loss) before tax	**2 523**	**(3 356 976)**	**(96 341)**	**(3 450 794)**
Income tax expense	**-**	**-**	(3 114)	**(3 114)**
Net profit (loss) for the year	**2 523**	**(3 356 976)**	**(99 455)**	**(3 453 908)**

The principles of preparing a statement of financial position (balance sheet) broken down by type of business activity

The Company has directly separated receivables from buyers and liabilities to suppliers and other receivables and other liabilities related to individual types of its business activities.

Equity, provisions for employee benefits, cash and income tax receivables and liabilities have been presented as unallocated items in the statement of financial position.

The remaining assets and liabilities are related to other activities of the Company.

(in PLN '000)

Statement of financial position by type of activity as at 31 December 2016

	Gas	Other activity	Unallocated items	Total
ASSETS				
Non-current assets, *of which:*	**1 109**	**25 854 220**	**-**	**25 855 329**
Shares	-	14 870 418	-	**14 870 418**
Bonds	-	9 615 917	-	**9 615 917**
Loans granted	-	1 292 800	-	**1 292 800**
Other financial assets	984	4 540	-	**5 524**
Current assets, *of which*:	**24 292**	**1 474 079**	**318 676**	**1 817 047**
Receivables from clients	23 230	817 426	-	**840 656**
Receivables arising from taxes and charges	-	-	120 586	**120 586**
Bonds	-	242 465	-	**242 465**
Loans granted	-	30 966	-	**30 966**
Other financial assets	594	54 760	-	**55 354**
Cash and cash equivalents	-	-	198 090	**198 090**
TOTAL ASSETS	**25 401**	**27 328 299**	**318 676**	**27 672 376**
EQUITY AND LIABILITIES				
Equity	**-**	**-**	**16 530 268**	**16 530 268**
Non-current liabilities, *of which:*	**-**	**8 935 078**	**34 898**	**8 969 976**
Debt	-	8 754 047	-	**8 754 047**
Deferred income tax liability	-	-	32 364	**32 364**
Provisions for employee benefits	-	-	2 534	**2 534**
Current liabilities, *of which:*	**3 591**	**2 148 033**	**20 508**	**2 172 132**
Debt	-	1 433 929	-	**1 433 929**
Liabilities to suppliers	3 173	470 464	-	**473 637**
Liabilities arising from taxes and charges	-	-	20 209	**20 209**
Provisions for employee benefits	-	-	299	**299**
Other financial liabilities	418	111 341	-	**111 759**
TOTAL EQUITY AND LIABILITIES	**3 591**	**11 083 111**	**16 585 674**	**27 672 376**

Statement of financial position by type of activity as at 31 December 2015

	Gas	Other activity	Unallocated items	Total
ASSETS				
Non-current assets, *of which:*	**-**	**24 866 370**	**-**	**24 866 370**
Shares	-	15 933 194	-	**15 933 194**
Bonds	-	7 451 601	-	**7 451 601**
Loans granted	-	1 417 165	-	**1 417 165**
Current assets, *of which*:	**28 489**	**1 367 279**	**212 018**	**1 607 786**
Receivables from clients	25 848	553 598	-	**579 446**
Receivables arising from taxes and charges	-	-	43 763	**43 763**
Bonds	-	215 040	-	**215 040**
Loans granted	-	165 093	-	**165 093**
Other financial assets	2 641	106 564	-	**109 205**
Cash and cash equivalents	-	-	168 255	**168 255**
TOTAL ASSETS	**28 489**	**26 233 649**	**212 018**	**26 474 156**
EQUITY AND LIABILITIES				
Equity	**-**	**-**	**16 592 497**	**16 592 497**
Non-current liabilities, *of which:*	**-**	**5 060 890**	**8 228**	**5 069 118**
Debt	-	4 876 546	-	**4 876 546**
Deferred income tax liability	-	-	385	**385**
Provisions for employee benefits	-	-	7 843	**7 843**
Current liabilities, *of which:*	**4 807**	**4 705 342**	**102 392**	**4 812 541**
Debt	-	4 057 048	-	**4 057 048**
Liabilities to suppliers	4 767	489 169	-	**493 936**
Liabilities arising from taxes and charges	-	-	101 670	**101 670**
Provisions for employee benefits	-	-	722	**722**
Other financial liabilities	-	23 284	-	**23 284**
TOTAL EQUITY AND LIABILITIES	**4 807**	**9 766 232**	**16 703 117**	**26 474 156**

53. Events after the end of the reporting period

Annulment of liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

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

These financial statements of TAURON Polska Energia S.A., 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 82 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 …………………………………..