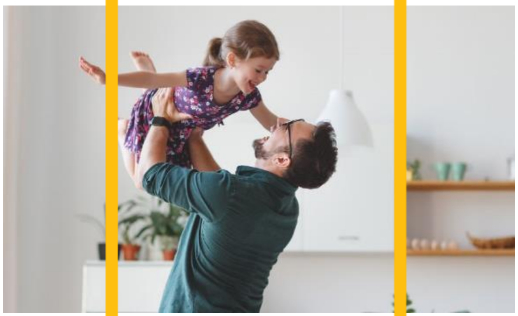
TAURON



CONSOLIDATED FINANCIAL STATEMENTS

in accordance with the International Financial Reporting Standards, as endorsed by the European Union for the year ended 31 December 2018

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(in PLN '000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2018	Year ended 31 December 2017 (*restated figures*)
Sales revenue	**11**	18 121 748	17 424 551
Cost of sales, of which:	**12**	(16 437 147)	(14 512 207)
Impairment of non-financial non-current assets	***12.3***	*(815 796)*	*(40 857)*
Profit on sale		**1 684 601**	**2 912 344**
Selling and distribution expenses	**12**	(477 794)	(491 629)
Administrative expenses	**12**	(631 487)	(610 365)
Other operating income and expenses	**13**	160 519	(4 079)
Share in profit/(loss) of joint ventures	**21**	54 890	73 050
Operating profit		**790 729**	**1 879 321**
Interest expense on debt	**14**	(147 372)	(209 322)
Other finance income and costs	**14**	(138 710)	87 653
Profit before tax		**504 647**	**1 757 652**
Income tax expense	**15.1**	(297 602)	(374 706)
Net profit		**207 045**	**1 382 946**
Measurement of hedging instruments	**30.5**	(24 297)	(8 159)
Foreign exchange differences from translation of foreign entity		7 240	(2 425)
Income tax	**15.1**	4 617	1 550
Other comprehensive income subject to reclassification to profit or loss		**(12 440)**	**(9 034)**
Actuarial gains/(losses)	**33.1**	(14 830)	19 653
Income tax	**15.1**	2 819	(3 734)
Share in other comprehensive income of joint ventures	**21**	(71)	(519)
Other comprehensive income not subject to reclassification to profit or loss		**(12 082)**	**15 400**
Other comprehensive income, net of tax		**(24 522)**	**6 366**
Total comprehensive income		**182 523**	**1 389 312**
Net profit:			
Attributable to equity holders of the Parent		204 880	1 380 663
Attributable to non-controlling interests		2 165	2 283
Total comprehensive income:			
Attributable to equity holders of the Parent		180 398	1 386 996
Attributable to non-controlling interests		2 125	2 316
Basic and diluted earnings per share (in PLN):	**16**	0.12	0.79

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

(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2018	As at 31 December 2017 (*restated figures*)
ASSETS			
Non-current assets			
Property, plant and equipment	**17**	29 238 051	28 079 886
Goodwill	**18**	26 183	40 156
Energy certificates and emission allowances for surrender	**19.1**	661 603	303 130
Other intangible assets	**20**	1 287 703	1 254 077
Investments in joint ventures	**21**	543 913	499 204
Loans granted to joint ventures	**22**	217 402	240 767
Other financial assets	**23**	254 677	238 354
Other non-financial assets	**24.1**	282 228	346 846
Deferred tax assets	**15.3**	30 105	46 122
		32 541 865	**31 048 542**
Current assets			
Energy certificates and emission allowances for surrender	**19.2**	201 663	652 260
Inventories	**25**	509 801	295 463
Receivables from buyers	**26**	2 229 363	2 032 813
Income tax receivables	**27**	14 497	2 128
Receivables arising from other taxes and charges	**28**	209 746	241 998
Loans granted to joint ventures	**22**	5	329 665
Other financial assets	**23**	443 033	219 933
Other non-financial assets	**24.2**	110 068	87 055
Cash and cash equivalents	**29**	823 724	909 249
Non-current assets classified as held for sale		13 712	15 910
		4 555 612	**4 786 474**
TOTAL ASSETS		**37 097 477**	**35 835 016**

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

(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 December 2018	As at 31 December 2017 (*restated figures*)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**30.1**	8 762 747	8 762 747
Reserve capital	**30.3**	8 511 437	7 657 086
Revaluation reserve from valuation of hedging instruments	**30.5**	3 371	23 051
Foreign exchange differences from translation of foreign entities		14 016	6 776
Retained earnings/(Accumulated losses)	**30.4**	1 004 253	1 586 786
		18 295 824	**18 036 446**
Non-controlling interests	30.6	**132 657**	**31 367**
Total equity		**18 428 481**	**18 067 813**
Non-current liabilities			
Debt	**32**	8 488 210	9 501 414
Provisions for employee benefits	**33**	1 114 191	1 380 650
Provisions for disassembly of fixed assets, land restoration and other provisions	**34**	396 513	351 138
Accruals, deferred income and government grants	**37**	440 309	541 318
Deferred tax liabilities	**15.3**	823 754	871 865
Other financial liabilities	**41**	107 770	91 879
Other non-financial liabilities		11 507	1 588
		11 382 254	**12 739 852**
Current liabilities			
Debt	**32**	2 475 167	351 382
Liabilities to suppliers	**38**	1 127 738	1 042 427
Capital commitments	**39**	794 917	797 304
Provisions for employee benefits	**33**	117 287	134 273
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	**35**	495 472	948 946
Other provisions	**36**	559 365	353 271
Accruals, deferred income and government grants	**37**	200 097	296 576
Income tax liabilities		426	38 446
Liabilities arising from other taxes and charges	**40**	405 654	411 714
Other financial liabilities	**41**	773 571	342 162
Other non-financial liabilities	**42**	337 048	310 850
		7 286 742	**5 027 351**
Total liabilities		**18 668 996**	**17 767 203**
TOTAL EQUITY AND LIABILITIES		**37 097 477**	**35 835 016**

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

(in PLN '000)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent							
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total	Non-controlling interests	Total equity
As at 1 January 2017		**8 762 747**	**7 823 339**	**29 660**	**9 200**	**24 320**	**16 649 266**	**30 052**	**16 679 318**
Dividends	**30.6**	–	–	–	–	–	**–**	(564)	**(564)**
Other transactions with non-controlling shareholders	**30.6**	–	–	–	–	184	**184**	(437)	**(253)**
Coverage of prior years loss		–	(166 253)	–	–	166 253	**–**	–	**–**
Transactions with shareholders		**–**	**(166 253)**	**–**	**–**	**166 437**	**184**	**(1 001)**	**(817)**
Net profit		–	–	–	–	1 380 663	**1 380 663**	2 283	**1 382 946**
Other comprehensive income		–	–	(6 609)	(2 424)	15 366	**6 333**	33	**6 366**
Total comprehensive income		**–**	**–**	**(6 609)**	**(2 424)**	**1 396 029**	**1 386 996**	**2 316**	**1 389 312**
As at 31 December 2017		**8 762 747**	**7 657 086**	**23 051**	**6 776**	**1 586 786**	**18 036 446**	**31 367**	**18 067 813**
Impact of IFRS 9	**8.1**	**–**	**–**	**–**	**–**	**(100 422)**	**(100 422)**	**(14)**	**(100 436)**
Impact of IFRS 15	**8.1**	**–**	**–**	**–**	**–**	**179 426**	**179 426**	**411**	**179 837**
As at 1 January 2018		**8 762 747**	**7 657 086**	**23 051**	**6 776**	**1 665 790**	**18 115 450**	**31 764**	**18 147 214**
Dividends	**30.6**	–	–	–	–	–	**–**	(879)	**(879)**
Other transactions with non-controlling shareholders	**30.6**	–	–	–	–	(24)	**(24)**	99 647	**99 623**
Distribution of prior years profits	**30.3**	–	854 351	–	–	(854 351)	**–**	–	**–**
Transactions with shareholders		**–**	**854 351**	**–**	**–**	**(854 375)**	**(24)**	**98 768**	**98 744**
Net profit		–	–	–	–	204 880	**204 880**	2 165	**207 045**
Other comprehensive income		–	–	(19 680)	7 240	(12 042)	**(24 482)**	(40)	**(24 522)**
Total comprehensive income		**–**	**–**	**(19 680)**	**7 240**	**192 838**	**180 398**	**2 125**	**182 523**
As at 31 December 2018		**8 762 747**	**8 511 437**	**3 371**	**14 016**	**1 004 253**	**18 295 824**	**132 657**	**18 428 481**

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

(in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities			
Profit before taxation		**504 647**	**1 757 652**
Share in (profit)/loss of joint ventures		(54 890)	(73 050)
Depreciation and amortization		1 721 783	1 693 468
Impairment losses on non-financial non-current assets		862 209	45 604
Exchange differences		78 542	(130 543)
Interest and commissions		145 136	203 653
Other adjustments of profit before tax		24 065	(7 351)
Change in working capital	**43.1**	(832 542)	212 451
Income tax paid	**43.1**	(392 184)	(143 217)
Net cash from operating activities		**2 056 766**	**3 558 667**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**43.2**	(3 575 711)	(3 561 758)
Loans granted	**43.2**	(52 110)	(307 132)
Purchase of investment fund units		–	(75 000)
Purchase of financial assets		(29 965)	(15 055)
Total payments		**(3 657 786)**	**(3 958 945)**
Proceeds from sale of property, plant and equipment and intangible assets		29 000	36 668
Repayment of loans granted	**43.2**	301 225	–
Dividends received	**43.2**	23 608	24 636
Redemption of investment fund units		77 742	–
Other proceeds		4 664	25 965
Total proceeds		**436 239**	**87 269**
Net cash used in investing activities		**(3 221 547)**	**(3 871 676)**
Cash flows from financing activities			
Redemption of debt securities		–	(1 650 000)
Repayment of loans and borrowings	**43.3**	(168 874)	(154 918)
Interest paid	**43.3**	(160 170)	(184 550)
Grants returned		(10 000)	–
Other payments		(42 208)	(31 865)
Total payments		**(381 252)**	**(2 021 333)**
Issue of debt securities	**43.3**	1 350 000	2 707 462
Proceeds from non-controlling interests	**43.3**	100 000	–
Proceeds from contracted loans/borrowings		293	–
Subsidies and amends received	**43.3**	102 359	73 500
Total proceeds		**1 552 652**	**2 780 962**
Net cash from financing activities		**1 171 400**	**759 629**
Net increase / (decrease) in cash and cash equivalents		**6 619**	**446 620**
Net foreign exchange difference		(422)	1 820
Cash and cash equivalents at the beginning of the period	**29**	**801 353**	**354 733**
Cash and cash equivalents at the end of the period, of which:	**29**	**807 972**	**801 353**
restricted cash	**29**	231 987	68 828

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

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

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

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

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

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

The core business of the TAURON Group includes the following segments: Mining, Generation (encompassing generation of electricity from conventional and renewable sources and generation of heat), Distribution, Sales and other operations, including customer service, which has been discussed in more detail in Note 9 to these consolidated financial statements.

These consolidated financial statements have been prepared for the financial year ended 31 December 2018 and contain comparative information for the year ended 31 December 2017.

These consolidated financial statements were approved for publication by the Management Board on 29 March 2019.

Composition of the Management Board

As at 31 December 2018, 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.

In the financial year ended 31 December 2018 the Management Board's composition did not change. As at the date of approval of these financial statements for publication the composition of the Management Board had not changed.

(in PLN '000)

2. Composition of the TAURON Capital Group and joint ventures

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

Item	Company name	Registered office	Operating segment	Interest in the share capital by TAURON Polska Energia S.A.	Interest in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.[1]	Jaworzno	Generation	97.89%	97.89%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Generation	100.00%	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%	100.00%
7	TAURON Serwis Sp. z o.o.	Katowice	Generation	95.61%	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution	99.74%	99.75%
9	TAURON Dystrybucja Serwis S.A.	Wrocław	Distribution	100.00%	100.00%
10	TAURON Dystrybucja Pomiary Sp. z o.o.[2]	Tarnów	Distribution	99.74%	99.75%
11	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
12	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%	100.00%
13	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%	100.00%
16	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Other	100.00%	100.00%
17	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%	100.00%
18	Bioeko Grupa TAURON Sp. z o.o.[3]	Stalowa Wola	Other	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o.[2]	Tarnów	Other	99.74%	99.75%

[1] *On 20 December 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital. The new shares were assumed by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The aforesaid increase in the issued capital of the company was registered on 15 January 2019. The transaction resulted in a change in the interests held by TAURON Polska Energia S.A. in the issued capital and decision-making body of the subsidiary (a decrease from 100% to 97.89%).*
[2] *TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses shares in TAURON Dystrybucja Pomiary Sp. z o.o.*
[3] *On 8 October 2018 the name of the company was changed from Biomasa Grupa TAURON Sp. z o.o. to Bioeko Grupa TAURON Sp. z o.o.*

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

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

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

As at 31 December 2018 the interest of TAURON Polska Energia S.A. in the issued capital and decision-making bodies of the above material subsidiaries and co-subsidiaries did not change vs. 31 December 2017, except for the share in Nowe Jaworzno Grupa TAURON Sp. z o.o., as described in detail in Note 53 hereto.

3. Statement of compliance

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

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

The Group companies and the Parent keep their accounting records and prepare financial statements in compliance with the International Financial Reporting Standards ("IFRS") as endorsed by the EU, except for TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ), which keep their accounting records and prepare their financial statements in line with accounting policies applicable in the Czech Republic and Sweden, respectively.

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

4. Going Concern

The consolidated financial statements have been prepared in accordance with the going concern principle regarding the Group companies. As at the date of approving these consolidated financial statements no circumstances have been detected that could put the going concern operation of the Group's companies at risk.

The Group identifies and actively manages liquidity risk understood as a possible loss or restriction of its ability to cover current expenses. Despite negative working capital recognized as at the reporting period end, the Group has retained full ability to timely pay its liabilities. As at the reporting period end, the Group had access to financing in the form of overdraft facilities and bond issue schemes.

5. Functional and Presentation Currency

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

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

6. Accounting principles (policy) and material values based on professional judgment and estimates

Accounting principles (policy)

Significant accounting principles are presented in notes to these consolidated financial statements, except consolidation principles and the methods of accounting for business acquisitions (including jointly-controlled entities), which have been presented below.

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

Consolidation

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

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

Business acquisitions

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

Goodwill is measured as the excess of the aggregate of the consideration transferred for the acquisition, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed.

Acquisition of businesses under common control of the State Treasury

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

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

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

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

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

Material values based on professional judgment and estimates

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

The items of the consolidated financial statements which are exposed to the risk of material adjustment of the carrying amounts of assets and liabilities have been presented in notes to these consolidated financial statements. Material estimates include allowances for property, plant and equipment, recognized as a result of impairment tests, as described in detail in Note 10 to these consolidated financial statements.

Additionally, the Group's material estimates include contingent liabilities recognized, in particular, in relation to legal proceedings to which the Group companies are parties. Contingent liabilities have been presented in detail in Note 47 hereto.

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

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

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

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

IFRS 16 *Leases*

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

Under IFRS 16 *Leases*, the lessee recognizes the right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee uses the incremental borrowing rate. Determination of the lease term under IFRS 16 *Leases* requires an assessment which was not needed before for operating leases as it did not affect the recognition of expenditure in the financial statements. Variable lease payments should be taken into account of in the determination of lease payments where their variability depends on an index or an interest rate or where they are, in fact, fixed payments.

Lessors continue to classify leases as operating or finance leases, i.e. in line with IAS 17 *Leases*. A 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. In finance lease a lessor recognizes finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Impact on the consolidated financial statements

The Group has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 16 *Leases*, i.e. with the cumulative effect of initially applying this Standard recognized at the date of 1 January 2019.

As at 1 January 2019, the Group will recognize the right-of-use assets in the amount equal to the leasing liability in the current value of other lease payments discounted by applying the incremental borrowing rate adjusted by the amount of any prepayment or accumulated lease payments relating to that lease, recognized in the statement of financial position before the date of first adoption.

The Group will apply the portfolio approach to similar leases regarding unified assets with similar use. When accounting for leases under the portfolio approach, the Group will apply estimates and assumptions corresponding to the size and composition of the portfolio, including estimates of the weighted average lease term. The Group shall apply the portfolio approach in particular to rents and other contracts that may be classified as leases, regarding premises and land for the purpose of assembling heat and power infrastructure.

A preliminary analysis of the impact of IFRS 16 Leases on the accounting policies has shown a change material for the Group, i.e. the need to recognize lease right-of-use assets and liabilities for leases currently classified as operating leases in the financial statements. The analysis included in particular developing a methodology of determining the incremental interest rate, asset identification, verification of control of its use and determining the lease term.

The Group completed the review of all concluded contracts aimed at identification of the ones falling under IFRS 16 *Leases* and identified key areas where effects of IFRS 16 *Leases* are most important, i.e. perpetual usufruct rights to land as well as rent and lease of locations for construction of heating substations and transformer stations.

The Group decided that the right-of-use assets are presented in the statement of financial position separately from other assets. The Group decided to reclassify the perpetual usufruct rights to land that are within the scope of IFRS 16 *Leases* from other intangible assets to rights of use assets, whose estimated total value as at 1 January 2019 is PLN 745 648 thousand.

(in PLN '000)

Estimated impact of the application of IFRS 16 *Leases* as at 1 January 2019

	As at 31 December 2018	Reclassification from other intangible assets to right-of-use assets	Recognition of right-of-use assets and lease liabilities	As at 1 January 2019
ASSETS				
Non-current assets	**32 541 865**	**–**	**616 737**	**33 158 602**
Other intangible assets	1 287 703	(745 648)	–	542 055
Right-of-use assets	–	745 648	616 737	1 362 385
Current assets	**4 555 612**	**–**	**12 282**	**4 567 894**
Non-current assets classified as held for sale	13 712	–	12 282	25 994
TOTAL ASSETS	**37 097 477**	**–**	**629 019**	**37 726 496**
EQUITY AND LIABILITIES				
Total equity	**18 428 481**	**–**	**–**	**18 428 481**
Non-current liabilities	**11 382 254**	**–**	**596 785**	**11 979 039**
Debt	8 488 210	–	596 785	9 084 995
Current liabilities	**7 286 742**	**–**	**32 234**	**7 318 976**
Debt	2 475 167	–	32 234	2 507 401
TOTAL EQUITY AND LIABILITIES	**37 097 477**	**–**	**629 019**	**37 726 496**

Estimated classification of right-of-use assets as at 1 January 2019

Right-of-use assets	As at 1 January 2019
Perpetual usufruct rights to land	1 080 494
Right of use arising from leases, rents and similar	269 450
Other	12 441
Total	**1 362 385**

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

Reconciliation IAS 17 *Leases* to IFRS 16 *Leases*	
Future minimum operating lease payments as at 31 December 2018 in line with IAS 17 *Leases*	1 436 911
Discount using the incremental borrowing rate	(807 892)
Lease liabilities under IFRS 16 *Leases* as at 1 January 2019	**629 019**

Estimated classification of lease liabilities as at 1 January 2019 to payment periods:

		Mature in the period (*after 1 January 2019*):			
		up to 5 years	5–10 years	10–20 years	over 20 years
Value as at 1 January 2019	**629 019**	39 812	60 606	56 809	471 792

The following practical expedients have been applied as at the date of first-time adoption of IFRS 16 *Leases*, i.e. as at 1 January 2019:

- IFRS 16 *Leases* was applied solely to contracts not completed as at the first-time adoption date;
- a single discount rate was adopted for the portfolio of similar leases;
- the requirements of IFRS 16 *Leases* were not applied to leases whose term expires within 12 months of the first-time adoption date;
- initial direct costs were not included in measurement of right-of-use assets;
- the knowledge of effective leases, in particular regarding the use of the contractual extension/termination option, was applied;
- if the non-lease component could not be separated for a base asset class, both the lease and non-lease components were recognized as a single lease;

(in PLN '000)

- it was decided to apply the requirements of IFRS 16 *Leases* to leases of intangible assets other than arising from license agreements included in IAS 38 *Intangible Assets*;
- it was decided not to apply IFRS 16 *Leases* to leases whose base asset's value does not exceed PLN 20 thousand and does not include perpetual usufruct right to land.

The data presented above, which according to the Group, comply with the requirements of IFRS 16 *Leases* in all material respects, were estimated. Consequently, the final figures disclosed in the consolidated financial statements for 2019 may differ from those presented in these consolidated financial statements.

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

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

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

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

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

8. Changes in the accounting policies

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

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

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

(in PLN '000)

IFRS 9 *Financial Instruments*

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

Key changes introduced by IFRS 9 *Financial Instruments*:

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

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

– financial assets measured at amortized cost;

– financial assets measured at fair value through other comprehensive income;

– financial assets measured at fair value through profit or loss.

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

– cash flow characteristics (SPPI test; Solely Payments of Principal and Interest);

– business model for managing the financial asset.

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

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

Impact on the consolidated financial statements as at 1 January 2018

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

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

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

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

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

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

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

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

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

Following an analysis, transferred collateral, amounting to PLN 26 315 thousand as at 1 January 2018, was classified as other financial receivables measured at fair value through profit or loss, since the classification provides the best reflection of the nature of these financial assets. The remaining other financial receivables are classified as measured at amortized cost.

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

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

– receivables from buyers; and

– loans granted.

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

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

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

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

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

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

- **Hedge accounting**

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

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

- **Measurement of financial guarantee liabilities**

The Group has analyzed the impact of IFRS 9 *Financial Instruments* on the measurement of financial guarantee liabilities. The analysis did not reveal any significant impact of IFRS 9 *Financial Instruments* on the measurement of liabilities in the loss allowance for expected credit losses.

IFRS 15 *Revenue from Contracts with Customers*
Clarifications to IFRS 15 *Revenue from Contracts with Customers*
Effective date in the EU: annual periods beginning on or after 1 January 2018.

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

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

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

IFRS 15 *Revenue from Contracts with Customers* requires significantly extended disclosures regarding sales and revenue to enable users of financial statements to understand the nature, timing, amount as well as risk and uncertainty of revenue and cash flows arising from contracts with customers. In particular, an entity has to disclose quantitative and qualitative information about: its contracts with customers, its material judgments and estimates and capitalized costs of contract acquisition and performance.

(in PLN '000)

Impact on the consolidated financial statements as at 1 January 2018

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

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

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

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

In the Distribution segment, the Group analyzed contracts constituting the basis for recognition of revenue from the connection of new buyers as well as distribution and comprehensive services contracts in light of IFRS 15 *Revenue from Contracts with Customers* so as to identify separate services as required by the standard. Considering the findings of this analysis, the Group decided that, in accordance with IFRS 15 *Revenue from Contracts with Customers*, the distribution and comprehensive services contracts and the connection contracts are not a single obligation and should not be recognized together. Consequently, the Group recognizes revenue from the connection contracts on a non-recurring basis when the promised service, i.e. connection to the grid, has been performed. Such recognition is consistent with the Group's accounting policy and will not change its profit/loss.

As far as the recognition of revenue from connection fees for services performed before 1 July 2009 is concerned, the Group has concluded that, if a retrospective approach is adopted, as at 1 January 2018 PLN 195 666 thousand of deferred income will be transferred to the Group's equity and revenue from the recognition of the above deferred income in the Group's future profit or loss will not be recognized.

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

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

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

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

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

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

- Multiple-element arrangements – contracts whereby the buyer is offered multiple products of the Group which guarantees more favorable terms and conditions than if the products were sold under separate contracts. This applies mainly to combined sales of gaseous fuels and electricity. The Group assumed that the prices set in the contracts with buyers may be applied directly to separate recognition of revenue from the supplies of electricity and gas and no further reallocation of the discount is necessary.
- Agreements to sell the Group's products and services combined with after-sale services – the Group has made an agreement with a buyer to sell products/services with additional after-sale services (e.g. electrician services) and a property insurance contract with a business partner (insurer) whereby the insurer provides the additional service directly to the buyer. The fee for the ancillary service has been included in the commercial fee. The Group is of the opinion that it performs the role of an intermediary under the said agreements. In view of the above, in accordance with IFRS 15 *Revenue from Contracts with Customers*, the Group recognizes revenue from the above services at the amount of consideration net of the fee paid to the third party for the services provided by the party.
- Heat sales contracts in the Generation segment – in the opinion of the Group, the customer who is party to a contract cannot derive benefits from individual chargeable elements listed in the contract. This means that individual elements of a contract do not meet the criteria necessary for being treated as separate performance obligations. Therefore, every contract with a customer contains one performance obligation in the form of a comprehensive heat supply service.
- Transitional fees – charged by the Group from end users of electricity and transferred to the Transmission System Operator in line with IFRS 15 *Revenue from Contracts with Customers* should not be treated as revenue. After the effective date of IFRS 15 *Revenue from Contracts with Customers*, the Group recognizes these fees in net consideration amount.

As the Group has decided to apply the modified retrospective approach with the cumulative effect of initially applying IFRS 15 *Revenue from Contracts with Customers* recognized as at 1 January 2018, the consolidated statement of financial position as at 31 December 2018 has been compared with the statement of financial position prepared as at the same date in line with the accounting principles applicable before IFRS 15 *Revenue from Contracts with Customers* was endorsed, i.e. in accordance with IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and other interpretations related to revenue recognition.

(in PLN '000)

	As at 31 December 2018	Restatement to comply with the principles applicable before IFRS 15 was endorsed	As at 31 December 2018 (*restated figures*)
ASSETS			
Non-current assets	**32 541 865**	**(16 544)**	**32 525 321**
Other non-financial assets	282 228	(19 985)	262 243
Deferred tax assets	30 105	3 441	33 546
Current assets	**4 555 612**	**(14 047)**	**4 541 565**
Income tax receivables	14 497	3 734	18 231
Other non-financial assets	110 068	(17 781)	92 287
TOTAL ASSETS	**37 097 477**	**(30 591)**	**37 066 886**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent	**18 295 824**	**(163 942)**	**18 131 882**
Retained earnings/(Accumulated losses)	1 004 253	(163 942)	840 311
Non-controlling interests	**132 657**	**(365)**	**132 292**
Total equity	**18 428 481**	**(164 307)**	**18 264 174**
Non-current liabilities	**11 382 254**	**116 037**	**11 498 291**
Accruals, deferred income and government grants	440 309	148 955	589 264
Deferred tax liabilities	823 754	(32 918)	790 836
Current liabilities	**7 286 742**	**17 679**	**7 304 421**
Accruals, deferred income and government grants	200 097	17 679	217 776
Total liabilities	**18 668 996**	**133 716**	**18 802 712**
TOTAL EQUITY AND LIABILITIES	**37 097 477**	**(30 591)**	**37 066 886**

The table below presents the comparison of the consolidated statement of comprehensive income for the year ended 31 December 2018 with the statement of comprehensive income prepared for the same period in line with the principles applicable before IFRS 15 *Revenue from Contracts with Customers* was endorsed.

	Year ended 31 December 2018	Restatement to comply with the principles applicable before IFRS 15 was endorsed	Year ended 31 December 2018 (*restated figures*)
Sales revenue	18 121 748	798 681	18 920 429
Cost of sales	(16 437 147)	(757 243)	(17 194 390)
Profit on sale	**1 684 601**	**41 438**	**1 726 039**
Selling and distribution expenses	(477 794)	(23 817)	(501 611)
Operating profit	**790 729**	**17 621**	**808 350**
Profit before tax	**504 647**	**17 621**	**522 268**
Income tax expense	(297 602)	(2 090)	(299 692)
Net profit	**207 045**	**15 531**	**222 576**
Other comprehensive income, net of tax	**(24 522)**	**–**	**(24 522)**
Total comprehensive income	**182 523**	**15 531**	**198 054**
Net profit:			
Attributable to equity holders of the Parent	204 880	15 484	220 364
Attributable to non-controlling interests	2 165	47	2 212
Total comprehensive income:			
Attributable to equity holders of the Parent	180 398	15 484	195 882
Attributable to non-controlling interests	2 125	47	2 172
Basic and diluted earnings per share (in PLN):	0.12	–	0.12

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

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

(in PLN '000)

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

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

The Group has analyzed the methods of measuring the release of energy certificates and emission allowances allowed by the law and used in the competitive environment. In the opinion of the Group, the release of energy certificates and emission allowances measured using the FIFO method helps to measure the Group's inventories and intangible assets at the most valid prices, which may be significant considering fluctuations in the market prices of such assets. The analysis has also revealed that the FIFO method is the most commonly used method in the power sector to measure the release of energy certificates and emission allowances. Considering the above, the Group decided to change the method of measuring the release of energy certificates and emission allowances as of 1 January 2018. After the change, the release of energy certificates and emission allowances has been measured using the FIFO method. Previously, the release was measured using the weighted average cost formula.

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

- **A change in the presentation of a share of profit or loss of joint ventures measured using the equity method in the consolidated statements of comprehensive income**

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

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

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

As of 1 January 2018, the Group has been presenting the effects of measurement i.e. asset or liability due to positive or negative valuation on forwards and futures (derivative financial instruments) separately, disclosing a gain or loss on a single contract. Previously, the Group applied a simplified approach involving the recognition of the effects of measurement on contracts taking into account thier positions.

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

The impact of the changes in question on the consolidated statement of comprehensive income for the year ended 31 December 2017 and the statement of financial position as at 31 December 2017 has been presented in the tables below.

	Year ended 31 December 2017 (*authorised figures*)	Change of the method of measuring the release of energy certificates and emission allowances	Change of the method of presenting the share in profit (loss) of joint ventures	Year ended 31 December 2017 (*restated figures*)
Sales revenue	17 416 029	8 522	–	17 424 551
Cost of sales	(14 503 685)	(8 522)	–	(14 512 207)
Profit on sale	**2 912 344**	**–**	**–**	**2 912 344**
Share in profit/(loss) of joint ventures	–	–	73 050	73 050
Operating profit	**1 806 271**	**–**	**73 050**	**1 879 321**
Share in profit/(loss) of joint ventures	73 050	–	(73 050)	–
Profit before tax	**1 757 652**	**–**	**–**	**1 757 652**
Net profit	**1 382 946**	**–**	**–**	**1 382 946**

(in PLN '000)

	As at 31 December 2017 (*authorised figures*)	Change of the method of measuring the release of energy certificates and emission allowances	Change of the method of presenting derivative instruments	As at 31 December 2017 (*restated figures*)
ASSETS				
Non-current assets	**31 049 127**	**(844)**	**259**	**31 048 542**
Other financial assets	238 095	–	259	238 354
Deferred tax assets	46 966	(844)	–	46 122
Current assets	**4 742 894**	**(4 443)**	**48 023**	**4 786 474**
Energy certificates and emission allowances for surrender	656 703	(4 443)	–	652 260
Other financial assets	171 910	–	48 023	219 933
TOTAL ASSETS	**35 792 021**	**(5 287)**	**48 282**	**35 835 016**
EQUITY AND LIABILITIES				
Total equity	**18 067 813**	**–**	**–**	**18 067 813**
Non-current liabilities	**12 739 593**	**–**	**259**	**12 739 852**
Other financial liabilities	91 620	–	259	91 879
Current liabilities	**4 984 615**	**(5 287)**	**48 023**	**5 027 351**
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	953 389	(4 443)	–	948 946
Income tax liabilities	39 290	(844)	–	38 446
Other financial liabilities	294 139	–	48 023	342 162
Total liabilities	**17 724 208**	**(5 287)**	**48 282**	**17 767 203**
TOTAL EQUITY AND LIABILITIES	**35 792 021**	**(5 287)**	**48 282**	**35 835 016**

BUSINESS SEGMENTS

9. Information on operating segments

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

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

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

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

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

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

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

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

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

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

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

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

* *Entities recognized with the equity method.*

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

(in PLN '000)

9.1. Operating segments

Year ended 31 December 2018

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	548 247	2 812 080	3 178 113	11 485 966	97 342	–	**18 121 748**
Inter-segment sales	717 777	1 826 414	2 980 102	2 588 149	760 120	(8 872 562)	**–**
Segment revenue	**1 266 024**	**4 638 494**	**6 158 215**	**14 074 115**	**857 462**	**(8 872 562)**	18 121 748
Profit/(loss) of the segment	**(1 053 469)**	**141 768**	**1 417 102**	**306 481**	**46 023**	**(34 489)**	**823 416**
Share in profit/(loss) of joint ventures	–	54 890	–	–	–	–	**54 890**
Unallocated expenses	–	–	–	–	–	(87 577)	**(87 577)**
EBIT	**(1 053 469)**	**196 658**	**1 417 102**	**306 481**	**46 023**	**(122 066)**	**790 729**
Net finance income (costs)	–	–	–	–	–	(286 082)	**(286 082)**
Profit/(loss) before income tax	**(1 053 469)**	**196 658**	**1 417 102**	**306 481**	**46 023**	**(408 148)**	**504 647**
Income tax expense	–	–	–	–	–	(297 602)	**(297 602)**
Net profit/(loss) for the year	**(1 053 469)**	**196 658**	**1 417 102**	**306 481**	**46 023**	**(705 750)**	**207 045**
Assets and liabilities							
Segment assets	1 589 823	12 168 948	18 345 603	3 379 688	581 497	–	**36 065 559**
Investments in joint ventures	–	543 913	–	–	–	–	**543 913**
Unallocated assets	–	–	–	–	–	488 005	**488 005**
Total assets	**1 589 823**	**12 712 861**	**18 345 603**	**3 379 688**	**581 497**	**488 005**	**37 097 477**
Segment liabilities	851 497	1 299 850	2 152 473	1 753 298	410 567	–	**6 467 685**
Unallocated liabilities	–	–	–	–	–	12 201 311	**12 201 311**
Total liabilities	**851 497**	**1 299 850**	**2 152 473**	**1 753 298**	**410 567**	**12 201 311**	**18 668 996**
EBIT	**(1 053 469)**	**196 658**	**1 417 102**	**306 481**	**46 023**	**(122 066)**	**790 729**
Depreciation/amortization	**(113 478)**	**(415 810)**	**(1 097 259)**	**(7 215)**	**(88 021)**	**–**	**(1 721 783)**
Impairment	**(732 810)**	**(118 904)**	**(3 104)**	**(6 847)**	**(749)**	**–**	**(862 414)**
EBITDA	**(207 181)**	**731 372**	**2 517 465**	**320 543**	**134 793**	**(122 066)**	**3 374 926**
Other segment information							
Capital expenditure*	247 493	1 299 817	2 044 029	7 425	73 241	–	**3 672 005**

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

For the year ended 31 December 2017 *(restated)*

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	719 373	1 834 166	3 271 933	11 506 781	92 298	–	**17 424 551**
Inter-segment sales	822 052	2 702 836	3 448 010	2 061 106	712 262	(9 746 266)	**–**
Segment revenue	**1 541 425**	**4 537 002**	**6 719 943**	**13 567 887**	**804 560**	**(9 746 266)**	**17 424 551**
Profit/(loss) of the segment	**(211 070)**	**16 595**	**1 210 925**	**832 216**	**35 902**	**801**	**1 885 369**
Share in profit/(loss) of joint ventures	–	73 050	–	–	–	–	**73 050**
Unallocated expenses	–	–	–	–	–	(79 098)	**(79 098)**
EBIT	**(211 070)**	**89 645**	**1 210 925**	**832 216**	**35 902**	**(78 297)**	**1 879 321**
Net finance income (costs)	–	–	–	–	–	(121 669)	**(121 669)**
Profit/(loss) before income tax	**(211 070)**	**89 645**	**1 210 925**	**832 216**	**35 902**	**(199 966)**	**1 757 652**
Income tax expense	–	–	–	–	–	(374 706)	**(374 706)**
Net profit/(loss) for the year	**(211 070)**	**89 645**	**1 210 925**	**832 216**	**35 902**	**(574 672)**	**1 382 946**
Assets and liabilities							
Segment assets	2 085 538	11 298 814	17 409 160	3 090 248	508 825	–	**34 392 585**
Investments in joint ventures	–	499 204	–	–	–	–	**499 204**
Unallocated assets	–	–	–	–	–	943 227	**943 227**
Total assets	**2 085 538**	**11 798 018**	**17 409 160**	**3 090 248**	**508 825**	**943 227**	**35 835 016**
Segment liabilities	849 728	1 858 246	2 339 080	1 406 589	386 693	–	**6 840 336**
Unallocated liabilities	–	–	–	–	–	10 926 867	**10 926 867**
Total liabilities	**849 728**	**1 858 246**	**2 339 080**	**1 406 589**	**386 693**	**10 926 867**	**17 767 203**
EBIT	**(211 070)**	**89 645**	**1 210 925**	**832 216**	**35 902**	**(78 297)**	**1 879 321**
Depreciation/amortization	**(128 036)**	**(401 246)**	**(1 073 621)**	**(8 494)**	**(82 071)**	**–**	**(1 693 468)**
Impairment	**2**	**(46 133)**	**1 861**	**(512)**	**(70)**	**–**	**(44 852)**
EBITDA	**(83 036)**	**537 024**	**2 282 685**	**841 222**	**118 043**	**(78 297)**	**3 617 641**
Other segment information							
Capital expenditure*	165 978	1 516 492	1 693 016	751	97 911	–	**3 474 148**

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

(in PLN '000)

In the years ended 31 December 2018 and 31 December 2017 the Group did not identify individual customers that would generate sales revenue in excess of 10% of total sales revenue of the TAURON Group.

9.2. Geographic areas of operations

The majority of the Group's business operations is carried out in Poland. The table below presents export sales classified by countries.

	Year ended 31 December 2018	Year ended 31 December 2017
Czech Republic	220 397	206 434
Slovakia	16 650	27 210
UK	–	14 279
Luxembourg	2 058	6 412
Austria	2 042	890
Hungary	896	1 602
Other	48	49
Total	**242 091**	**256 876**

Sales to foreign buyers include mostly power, which accounted for 92% and 97%, respectively, of revenue generated by foreign buyers as at 31 December 2018 and 31 December 2017.

(in PLN '000)

IMPAIRMENT OF NON-FINANCIAL ASSETS

10. Impairment of Non-Financial Assets

SELECTED ACCOUNTING PRINCIPLES

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

Impairment tests include estimation of the recoverable amount of an asset or the cash-generating unit (CGU) to which the asset belongs. In order to carry out an impairment test, goodwill acquired under a business combination or M&A transaction is assigned to CGU or CGU groups upon acquisition. Information concerning identification of CGU which goodwill is allocated to has been presented in Note 18.

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

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

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

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each reporting period end, the Group assesses whether objective indication of impairment occurs in relation to non-financial non-current assets. The analysis includes both internal and external indication.

In the course of impairment tests, the Group estimates the recoverable amount.

Estimation of the value in use of cash generating units is based on their future cash flows discounted to the current value with a discount rate. The value in use calculation is based on a series of assumptions as discussed below.

In the year ended 31 December 2018, the Group recognized and reversed recognized before impairment losses on non-financial assets as a result of impairment tests performed as at 31 December 2018 and 30 June 2018.

The impairment loss and its reversal on property, plant and equipment, mining assets and intangible assets resulting from the tests performed in the year ended 31 December 2018 are related to the following cash-generating units:

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

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

As at 31 December 2018, impairment tests were performed for property, plant and equipment based on the following indications:

- the market value of the Company's net assets remaining below their carrying amount for a long period;
- changes in global prices of commodities, energy and greenhouse gas emission allowances;
- material fluctuations of energy prices on the future/forward market and continuing liquidity problems;
- an increase in power price limits on the current wholesale market and on the balancing market;
- regulatory activities aimed at the limiting of end user price increases;
- the continuing high volatility in the mining and geological industries;
- disadvantageous excavation front structure (short face runs), which generates additional costs of reinforcements;
- limited competition in the market of mining materials and services, which results in price increases;
- the outcome of auctions carried out on the power market in relation to 2021, 2022 and 2023;
- proceeding winter package provisions (including emission standards) that adversely impact the capability of coal-based units to participate in the power market after 1 July 2025;
- persisting unfavorable market conditions for the conventional power industry;
- the Act on Promoting Power from Highly Effective Cogeneration of 14 December 2018 coming into force;
- an increase in the risk-free rate.

The tests conducted as at 31 December 2018 and 30 June 2018 required estimating the value in use of cash generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

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

- TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o. resulting in identification of two cash generating units: CGU Wytwarzanie Węgiel and CGU Wytwarzanie Biomasa. Key indications included: the occurrence of the new Power Market mechanism, launching a new product: net disposable capacity; the strategy of joining the Power Market consisting in the portfolio approach, where maximizing the total Power Market revenue matters; allocating power to suppliers; determining the reserve sources level for the other power contracted at the power market and high dependence of cash proceeds among generators;
- TAURON Ekoenergia Sp. z o.o. where the test was carried out for a single CGU, Hydropower plants, including power generation in such plants and for a single CGU Windfarms, in relation to generating power from wind energy;
- TAURON Ciepło Sp. z o.o. – where separated generation of heat and electricity and transmission and distribution of heat. Additional tests were carried out for generation segment for individual generation units: CGU ZW Katowice, CGU ZW Tychy, CGU ZW Bielsko Biała, CGU Local Generators. During tests performed as at 31 December 2018 in generation segment, CGU ZW Bielsko Biała was divided into two separate units, ZW BB EC1 in Bielsko Biała and ZW BB EC2 in Czechowice Dziedzice. Following the effective date of the Act on Power Market of 8 December 2017 and Act on Promoting Power from Highly Effective Cogeneration of 14 December 2018, the working characteristics of these sources changed vs. 30 June 2018: ZW BB EC1 shall work as a CHP source, generating revenue mostly from sales of heat, while ZW BB EC2 will operate based on condensation, generating revenue mostly from sales of power. Such a modification allows using separate power generation supporting systems:
    - ZW BB EC1 as a plant operating a back pressure turbine (its key generation unit) shall use the cogeneration premium during the heating season in 2019–2030;
    - ZW BB EC2 as a plant operating the heating and condensation unit used all year round won key auctions on the power market for the years 2021 and 2022. In 2023–2030 it will obtain support from the secondary power market and from additional auctions. Further, the BC50 unit in ZW BB EC2 does not qualify for cogeneration support; therefore, this mode of operation is optimal under the current conditions.

Key assumptions made for purposes of tests performed as at 31 December 2018:

- Coal prices projected for the coming years are stable as global prices will remain high and cost of transport will increase. According to international institutions, after 2023 and in the long run, coal prices will insignificantly decrease as a result of the implementation of climate policy and the strategy to replace coal with energy from renewable sources followed by a growing number of countries. Prices forecast by international institutions by 2030 show a downward trend. It has been assumed that in the years 2021–2040 the prices of power coal will decrease by 12%;
- The electricity wholesale price path for the years 2019–2027 with the perspective by 2040 has been adopted, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring greenhouse gas emission allowances. The price growth assumed for 2019 vs. the average SPOT price in the second half of 2018 is 17%. It has been assumed that power prices will decrease by 4.5% by 2021 vs. 2019, among others as a result of a capacity balance improvement resulting from the commissioning of new power units in Jaworzno and Opole and the power market startup. An increase of 3.7% is assumed after 2021 and by 2027 (vs. 2021) followed by a drop by 7.2% between 2028 and 2040 (fixed prices) vs. 2027;
- The operating reserve capacity mechanism is to remain in place until the end of 2020, i.e. until the Capacity Market has been implemented;
- The Capacity Market mechanism implementation has been taken into account (in line with the adopted and notified Act on the Capacity Market and the Capacity Market Regulations). With regard to the operating coal-based units that do not meet the EPS 550 criterion, commencement of payments for power in 2021 to be continued to 2025 has been assumed. For entities that won or will win long-term contracts by 31 December 2019 and do not meet the EPS 550 criterion, payments have been assumed to be continued until the contract expiration date;
- Greenhouse gas emission limits for heat generation have been set in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat;
- The greenhouse gas emission allowance price growth path for the years 2019–2027 with the perspective by 2040 has been adopted. It has been assumed that the market price will increase by ca. 23% by 2027, comparing to 2019 and by ca. 212% vs. the average price observed in 2018, with slight but serial greenhouse gas price decreases in 2028–2040 vs. 2027 (fixed prices), totaling 10%. This results from the assumed increase in decarbonization of the economy and the resultant drop in demand for emission allowances for the years 2030–2040;
- The price path assumed for emission certificates and the obligatory redemption in the subsequent years are based on the amended Act on Renewable Energy Sources;
- Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network;
- In line with the amended Energy Law and certain other acts, the applicable CHP support system settlements for 2018 will be carried out until 30 June 2019. No support for CHP has been assumed thereafter for the existing coal based units;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed. The return on capital is conditional on the Regulatory Asset Value. In 2019, the effect of losing profit, resulting from no tariffs introduced, has been recognized;
- The electricity retail price path has been adopted based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin. In 2019 effects of changes in the Excise Duty Act and certain other acts of 28 December 2018, introducing regulations regarding electricity prices and fees included in tariffs, considering an excise duty reduction;
- End-user sales volumes taking into account GDP growth and increased market competition have been applied;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed;
- Maintaining the production capacity of the existing non-current assets as a result of replacement investments has been assumed;

– The weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 6.46% to 11.58% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (4.04%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is 2.5% and it corresponds to the estimated long-term inflation rate. As at 31 December 2018, WACC did not change compared to 31 December 2017.

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

Justification of recognition/reversal of impairment allowances in the year ended 31 December 2018:

The impairment loss on assets in the Mining CGU was recognized in year 2018 for the following reasons:

– high volatility of mining and geological conditions in mines owned by the TAURON Group;

– disadvantageous excavation front structure (short face runs), which generates additional costs of reinforcements;

– limited competition in the market of mining materials and services, which results in the price growth.

The impairment loss on assets in the Coal Mining CGU was recognized in year 2018 for the following reasons:

– finalizing the first three Power Market auctions regarding deliveries for 2021–2023;

– including provisions of the projected Energy Regulation, which (on the EU level) shall eliminate units that emit more than 550kgCO_2/MWh or, on average, more than 350kgCO_2/kW of the installed power per year from the use of power mechanisms after 1 July 2025;

– an increase on greenhouse gas emission allowances costs.

The impairment loss on assets in the ZW BB EC1 CGU and ZW BB EC2 CGU was recognized as at 31 December 2018 for the following reasons:

– finalizing the first three Power Market auctions regarding deliveries for 2021–2023;

– an increase on greenhouse gas emission allowances costs.

The reversal of impairment of assets of ZW Tychy CGU as at 31 December 2018 was possible for the following reasons:

– in the second half of 2018 wholesale power prices grew significantly as a result from increased costs of greenhouse gas emission rights, related to the introduction of EU ETS Legislation Phase 4, activation of the stabilization reserve mechanism and introduction of MIFID II. Pursuant to Article 38.2 of Commission Regulation (EU) No 601/2012 of 21 June 2012 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/78/EC of the European Parliament and of the Council, the BC35 biomass unit is the one with the zero greenhouse gas emissions coefficient and does not necessitate the purchase of greenhouse gas emission allowances. This results in a material increase in profitability since the electric power has the same price whether generated in the biomass unit or in coal-fueled units charged with the costs of greenhouse gas emission allowances;

– for CGU ZW Tychy, the electricity generation from biomass, not charged with the costs of greenhouse gas emission allowances, has been increased. The manner of operating the biomass unit changed significantly compared to the period when the impairment had been recognized: production increased due to lack of greenhouse gas emission allowances (former use had been based on condensation, which has been replaced by cogeneration).

The reversal of the impairment loss on assets in Windfarms and Water CGU's recognized in year 2018 was possible for the following reasons:

– changes regarding renewable energy sources (the manner of calculating a substitution fee and taxes on wind farms) that positively affect financial performance of assets based on renewable energy sources;

– a fundamental change in market factors related to energy generation from renewable sources, meaning a competitive advantage over conventional generation.

A sensitivity analysis performed for each CGU revealed that the value in use of the tested assets was mainly affected by the forecast electricity prices, greenhouse gas emission allowance prices, discount rates and hard coal prices. The estimated changes in impairment losses on Mining and Generation assets, considering also the effect of their reversal as at 31 December 2018 as a result of changes in the key assumptions, have been presented below.

Parameter	Change	Impact on impairment loss (*in PLN million*)	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	–	531
	-1%	531	–
Change of coal prices in the forecast period	+1%	71	–
	-1%	–	71
Change of gas emission allowances prices in the forecast period	+1%	212	–
	-1%	–	212
Change of WACC (net)	+0.1 p.p.	165	–
	-0.1 p.p.	–	168

Impairment of goodwill

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

The test was performed based on the present value of projected cash flows from operations. The calculations were based on detailed projections for the period from 2019 to 2028 and the estimated residual value. For the Mining segment detailed projections by the date of depletion of the available coal resources were used. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

The key assumptions affecting the estimated value in use and the discount rates applied during tests:

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

The weighted average cost of capital (WACC) used in the calculations as of 31 December 2018, ranges in the projection period from 7.61% to 7.69% (regarding to Distribution and Other segments) in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (4.04%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is 2.5% and it corresponds to the estimated long-term inflation rate. As at 31 December 2018, WACC decreased compared to 31 December 2017.

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

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

(in PLN '000)

Change in goodwill in the year ended 31 December 2018 allocated to each segment is presented in the following table.

	Year ended 31 December 2018	Year ended 31 December 2017
Opening balance	**40 156**	**40 156**
Impairment loss	(13 973)	–
Closing balance, of which operating segments:	**26 183**	**40 156**
Mining	–	13 973
Distribution	25 602	25 602
Other segments	581	581

NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2018

The Group has introduced five steps of revenue recognition: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to each performance obligation; and recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognized when (or as) the performance obligation is fulfilled in the form of transferring the promised goods, products, materials (i.e. assets) or rendering the service to a client. The asset transfer takes place when a client obtains control over an asset. For sales of electricity, gaseous fuels and heat, the energy is deemed sold when delivered to a consumer.

Revenue should be recognized at the amount expected by the Group, following reduction by VAT, excise duty, other sales taxes, charges and discounts.

Revenue includes only economic proceeds received or due on the entity's bank account. Amounts obtained on behalf of third parties, with the Group acting as an agent, such as taxes on sales or VAT do not constitute economic benefits of the Company and do not result in equity increases. Therefore, they are not recognized in revenue. Similarly, the transitional fee and renewable energy sources fee charged by the Group from the end users of power and then transferred to the Transmission System Operator is recognized in the net amount of consideration.

For goods and materials, revenue is recognized when the Group ceases to be involved in permanent management of the goods sold to the extent the function is usually performed in relation to owned goods, and when it ceases to effectively control these items.

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

Revenue from sales of electricity distribution services in the Distribution segment

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

Electricity distribution services are considered sold upon service provision to the client, as registered by the electricity meter, including the projected use and assessed additional revenue, not measured and charged yet due to specifics of the applied buyer settlement system.

The Group's revenue from sales of services includes also:

- revenue relating to fixed assets received free of charge measured at fair value, due to rendering services by the companies of removing power or heat infrastructure collision in sales revenue. Revenue is recognized when assets have been received from clients;
- revenue relating to fixed assets received from clients free of charge measured at fair value and used for connecting such clients to the infrastructure and providing them with constant access to supplies of services, or revenue relating to cash received from clients for acquisition or development of the said fixed assets (connection fees). Recognition of revenue from sales of services occur in the period when these customers are connected to the grid. The Group identifies contracts for distribution and comprehensive services, as well as connection contracts concluded with these users, as separate obligations. Following the effective date of IFRS 15 *Revenue from Contracts with Customers* (1 January 2018), the TAURON Group decided to reclassify the deferred income of PLN 195 666 thousand falling into the scope of IFRIC 18 *Transfer of Assets from Customers* to its equity.

Revenue from sales of electricity, gas and distribution services in the Sales segment

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

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

Additional assessment type	Description
Additional assessment of sales to buyers, unbilled as at the end of the reporting period	Measurement and billing systems showing the electricity volume sold to retail buyers are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales of electricity and distribution services at the end of each reporting period. For clients that are party to complex contracts and sales contracts, the additional assessment is made in the billing systems on the basis of the average daily consumption of electricity between the last actual reading date and the end of the reporting period.
Additional assessment regarding buyers with projection-based settlement	As at each reporting period end, buyers with six and 12-month periods of projection-based settlement are subject to additional assessment during periods between meter system readings. The additional assessment of sales of electricity and distribution services is based on data regarding sales of electricity obtained from the billing system and on the additional assessment ratio. The additional assessment ratio is based on the number of days passing between the reading date (for settlement invoices) or the payment date (for projection invoices) and the month end compared to the actual number of days in a given calendar month. The assessment is based on the difference in days between the reading date and the actual number of days in a given month.

Additional assessment type	Description
Additional assessment of revenue regarding buyers charged based on the balancing market prices	The additional assessment includes buyers whose sales of the electricity are priced in line with the balancing market according to the concluded agrrements. As at each reporting period end, buyers with additional assessment charged on unbilled sales of power in the billing system are charged with amounts equal to the difference between prices adopted for additional assessment calculation purposes and those to be used for billing purposes.
Additional assessment of sales resulting from reconciliation of the energy balance	The Group companies from the Sales segment reconcile the energy balance by estimating the non-balancing sales or purchase volume at the end of each reporting period. Under the additional assessment, an amount increasing or reducing revenue from sales of electricity, determined as the product of the estimated non-balancing sales and the weighted average purchase price of electricity on the balancing market is also accounted for.

Revenue from sales of gas fuel and distribution services provided to retail and wholesale buyers (balancing market sales) is classified to the Sales segment. Revenue from sales is determined on the basis of the billed volume and price, including additional assessments. Revenue from sales of gas fuel and distribution services is estimated using two methods: additional assessment for buyers unbilled as at a given reporting period end and arising from reconciliation of gaseous fuels. In principle, the additional amounts are assessed in a similar manner as revenue from sales of electricity and distribution services.

Revenue from wholesale of electricity in the Generation segment

Wholesale of electricity from the generation units managed centrally and as part of trading operations requires the client and the supplier's notification of the volume of electricity declared per each hour to the Transmission System Operator, which volume a Generation segment company is obliged to provide a supplier or ensure its provision and the client is obliged to accept. Both the price and volume per each hour is determined on the basis of transactions signed in advance or (in the case of the Polish Power Exchange) recorded electronically. The Transmission System Operator, which somewhat guarantees volume settlements, ensures reliability of data concerning the supplied volume of energy. As billing is based on reports generated by the Transmission System Operator.

Sales invoices relating to electricity supplied to the Balancing Market are raised on the basis of reports from the centralized system balancing sales in the Polish National Power System. Such settlements are made every decade.

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

Revenue from sales of heat in the Generation segment

Revenue is measured based on current heat tariffs, the billed thermal power ordered, heat, heat carrier, costs of providing the Seller with premises, the excess consumption, other actual consumption of products at rates and prices included in the current tariffs.

Heat is sold by reference to readings of the measurement and settlement systems taken on specified working days of each calendar month. Therefore, an additional assessment of sales is made for accounting purposes from the reading date to the end of the month. Additional assessments of sales are made separately for each reading point.

Revenue from sales of coal in the Mining segment

Sales of fine coal and coal slurry supplied to power and heat and power stations of the TAURON Group represent the intragroup market for the Mining segment. Coal sales outside the Group is performed to the entities operating in the sales network of the company as well as under agreements with final buyers, mostly from the industrial sector, in the form of Intracommunity Delivery of Goods and export, as well as retail sales.

Sales are made on a continuous basis in the form of railroad and truck sales. Sales are made when coal is handed over to the carrier. Revenue from sales of coal is measured on the basis of sales values resulting from the billed volume and price. Revenue from sales of coal is adjusted, in particular, based on discounts, price reductions as well as accepted volume and quality complaints.

SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2017

Revenue is recognized in the amount equal to the value of probable economic benefits to be gained by the Group in relation to the transaction and when the amount of the revenue can be reliably measured. 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 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.

In the year ended 31 December 2017, TAURON Group companies recognized their revenue as revenue specific for each segment in line with the above principles, except for:

- settlement of the connection fee

The connection fee was recognized on a one-off basis upon connecting buyers to the grid, which did not change following the application of IFRS 15 *Revenue from Contracts with Customers*. Further, the Group recognized deferred income, i.e. the transition fee for tasks completed prior to 1 July 2009, i.e. before the effective date of IFRIC 18 *Transfer of Assets from Customers.*

- transitional fee

The Group recognized sales revenue from the transitional fee under sales of distribution services. The cost of purchasing the transitional fee from the Transmission System Operator was charged to operating expenses of the Group.

(in PLN '000)

PROFESSIONAL JUDGMENT AND ESTIMATES

The TAURON Group estimates revenue as described above. The most important estimate regards the additional assessment of revenue from sales of electricity and distribution services in the Sales segment.

As at 31 December 2018, additionally assessed revenue from sale of electricity and distribution services in the Sales segment totaled PLN 609 292 thousand and, when reversed estimations from the prior year have been accounted for, the impact on the profit or loss for the 2018 year was PLN 152 320 thousand.

	Year ended 31 December 2018	Year ended 31 December 2017 (*restated figures*)
Sale of goods for resale, finished goods and materials without elimination of excise	**12 191 450**	**10 959 325**
Excise	(409 243)	(415 318)
Sale of goods for resale, finished goods and materials	**11 782 207**	**10 544 007**
Electricity	10 138 940	8 795 256
Heat energy	628 178	661 038
Energy certificates	85 654	63 222
Coal	485 366	662 305
Gas	262 366	182 636
Other goods for resale, finished goods and materials	181 703	179 550
Rendering of services	**6 277 623**	**6 819 034**
Distribution and trade services	5 941 258	6 467 258
Connection fees	82 070	110 948
Maintenance of road lighting	121 650	115 265
Other services	132 645	125 563
Other revenue	**61 918**	**61 510**
Total	**18 121 748**	**17 424 551**

The decrease in revenue from sale of distribution and trade services in the year ended 31 December 2018 vs. the comparable period is related mostly to transitional fees charged by the Group from end users and transferred to the Transmission System Operator, recognized at the net consideration amount since 1 January 2018 in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transitional fee purchase costs in the year ended 31 December 2018, which, pursuant to IFRS 15 *Revenue from Contracts with Customers* reduced the revenue from sale of distribution and trade services amounted to PLN 743 853 thousand. In the comparable period, the transitional fee purchases were recognized under costs of sales.

An increase in revenue from sales of electricity vs. the comparative period results mostly from an increase in electricity prices in the current reporting period, and from a slight growth in the electricity sales volume in the TAURON Group.

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

Year ended 31 December 2018

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**516 980**	**2 580 352**	**4 600**	**8 601 609**	**78 666**	**11 782 207**
Electricity	242	1 861 379	–	8 277 319	–	**10 138 940**
Heat energy	–	628 178	–	–	–	**628 178**
Energy certificates	–	84 442	396	816	–	**85 654**
Coal	485 366	–	–	–	–	**485 366**
Gas	–	–	–	262 366	–	**262 366**
Other goods for resale, finished goods and materials	31 372	6 353	4 204	61 108	78 666	**181 703**
Rendering of services	**29 606**	**217 182**	**3 139 576**	**2 884 188**	**7 071**	**6 277 623**
Distribution and trade services	63	204 595	2 854 068	2 882 532	–	**5 941 258**
Connection fees	–	953	81 117	–	–	**82 070**
Maintenance of road lighting	–	–	121 650	–	–	**121 650**
Other services	29 543	11 634	82 741	1 656	7 071	**132 645**
Other revenue	**1 661**	**14 546**	**33 937**	**169**	**11 605**	**61 918**
Total	**548 247**	**2 812 080**	**3 178 113**	**11 485 966**	**97 342**	**18 121 748**

(in PLN '000)

For the year ended 31 December 2017 *(restated)*

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**686 151**	**1 599 675**	**21 153**	**8 164 831**	**72 197**	**10 544 007**
Electricity	277	866 349	–	7 928 630	–	**8 795 256**
Heat energy	–	661 038	–	–	–	**661 038**
Energy certificates	–	60 598	847	1 777	–	**63 222**
Coal	662 273	–	–	32	–	**662 305**
Gas	–	–	–	182 636	–	**182 636**
Other goods for resale, finished goods and materials	23 601	11 690	20 306	51 756	72 197	**179 550**
Rendering of services	**31 859**	**218 875**	**3 218 892**	**3 341 847**	**7 561**	**6 819 034**
Distribution and trade services	97	212 131	2 914 434	3 340 596	–	**6 467 258**
Connection fees	–	127	110 821	–	–	**110 948**
Maintenance of road lighting	–	–	115 265	–	–	**115 265**
Other services	31 762	6 617	78 372	1 251	7 561	**125 563**
Other revenue	**1 363**	**15 616**	**31 888**	**103**	**12 540**	**61 510**
Total	**719 373**	**1 834 166**	**3 271 933**	**11 506 781**	**92 298**	**17 424 551**

Revenue from sales of electricity by sales market is presented in the following tables.

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue from sales of electricity	**10 138 940**	**8 795 256**
Retail sale	**6 907 841**	**6 554 881**
Strategic clients	1 367 676	1 304 108
Business clients	3 035 259	2 758 902
Mass clients, including:	2 871 328	2 878 570
G group	2 329 686	2 345 167
Other	42 821	28 619
Excise duty	(409 243)	(415 318)
Wholesale	**1 007 904**	**1 084 035**
Commodity exchange	**889 399**	**407 737**
Balancing market	**636 281**	**188 189**
Operational capacity reserve	**212 473**	**88 368**
Other	**485 042**	**472 046**

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

SELECTED ACCOUNTING PRINCIPLES

The Group presents costs by function.

Operating expenses include:

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

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

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

(in PLN '000)

12.1. Expenses by type

	Year ended 31 December 2018	Year ended 31 December 2017 (*restated figures*)
Depreciation of property, plant and equipment and amortization of intangible assets	(1 721 783)	(1 693 468)
Impairment of property, plant and equipment and intangible assets	(862 209)	(45 604)
Materials and energy	(1 672 652)	(1 392 788)
Maitenance and repair services	(278 696)	(241 147)
Distribution services	(1 432 389)	(2 084 153)
Other external services	(819 945)	(910 786)
Cost of obligation to remit the emission allowances	(611 586)	(326 255)
Other taxes and charges	(718 516)	(731 278)
Employee benefits expense	(2 723 940)	(2 805 162)
Allowance for trade receivables expected credit losses	(20 079)	(25 170)
Other	(121 164)	(98 708)
Total costs by type	**(10 982 959)**	**(10 354 519)**
Change in inventories, prepayments, accruals and deferred income	89 857	(102 890)
Cost of goods produced for internal purposes	578 486	488 649
Selling and distribution expenses	477 794	491 629
Administrative expenses	631 487	610 365
Cost of goods for resale and materials sold	(7 231 812)	(5 645 441)
Cost of sales	**(16 437 147)**	**(14 512 207)**

An increase in the value of impairment losses on non-financial non-current assets in the year ended 31 December 2018 year-on-year resulted mainly from the recognition of the effects of impairment tests performed as at 30 June 2018 and 31 December 2018, as a consequence of which the Group recognized a net impairment loss of PLN 854 629 thousand, covering the following items:

- property, plant and equipment – a net loss of PLN 763 085 thousand;
- other non-financial assets – a loss of PLN 76 266 thousand;
- goodwill – a loss of PLN 13 973 thousand;
- intangible assets – a loss of PLN 1 305 thousand.

Impairment tests have been discussed in Note 10 to these consolidated financial statements.

The decrease in the value of distribution services in the year ended 31 December 2018 vs. the comparable period is related to transitional fees charged by the Group from end users and transferred to the Transmission System Operator, recognized at the net consideration amount in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transitional fee purchase costs in the year ended 31 December 2018, which, pursuant to principles binding prior to the adoption of IFRS 15 *Revenue from Contracts with Customers*, would be recognized under distribution services, amounted to PLN 743 853 thousand.

An increase in the value of goods and materials sold in the year ended 31 December 2018 vs. the comparative period results mostly from:

- an increase of electricity prices in the current reporting period;
- a higher volume of electricity purchased from outside the Group as a result of an increase in the volume sold by the Generation segment companies on the commodity exchange, caused by law amendments that increased the electricity trading obligation on the Polish Power Exchange to 30% and a reduced volume of electricity produced by the generation entities;
- provisions for onerous contracts of PLN 213 756 thousand, recognized in the current period by the Sales segment companies in relation to the effective date of the Act Amending the Excise Duty Act and Certain Other Acts, as described in detail in Note 36.2 hereto;
- the recognition of the effects of the Company's reversal of provisions for onerous contracts with a joint venture in the net amount of PLN 201 174 thousand in the comparative period, as described in Note 36.2 to these consolidated financial statements.

(in PLN '000)

12.2. Employee benefits expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Wages and salaries	(2 113 679)	(2 092 398)
Social security costs	(410 981)	(407 702)
Jubilee bonuses	80 449	(28 932)
Social Fund	(53 087)	(51 160)
Post-employment benefit expenses, of which:	(30 926)	(93 543)
Provision for retirement, disability and similar benefits	(16 490)	(29 622)
Coal allowances and special electricity rates and charges	40 063	(10 202)
Social Benefits Fund	2 246	(6 562)
Contributions to employee retirement plans	(56 745)	(47 157)
Voluntary termination scheme	(4 350)	(22 798)
Other employee benefit expenses	(191 366)	(108 629)
Total	**(2 723 940)**	**(2 805 162)**
Items included in cost of sales	(1 769 108)	(1 880 817)
Items included in selling and distribution expenses	(198 685)	(210 428)
Movement in stock of finished goods	(121 904)	(113 366)
Items included in administrative expenses	(366 765)	(399 783)
Items included in cost of goods produced for internal purposes	(267 478)	(200 768)

A decrease in employee benefit costs in the year ended 31 December 2018 versus the comparative period results mainly from the recognition of the effects of the reversal of actuarial provisions for the employee tariff and the Company's Social Benefits Fund in the part related to the existing employees as future pensioners by a company in the Generation segment in the current period, in the amount of PLN 49 270 thousand and PLN 5 469 thousand, respectively, and the reversal of provisions for jubilee bonuses of PLN 121 172 thousand. Additionally, following the reversal of provisions for jubilee bonuses, the company paid PLN 79 316 thousand in compensation to employees, which was charged to the Group's employee benefit costs (recognized as other employee benefit expenses in the table above). The above transactions have been described in detail in Note 33.1 hereto.

12.3. Depreciation and amortization charges and impairment losses

	Year ended 31 December 2018	Year ended 31 December 2017
Items included in cost of sales	**(2 443 585)**	**(1 650 147)**
Depreciation of property, plant and equipment	(1 574 413)	(1 558 790)
Impairment of property, plant and equipment	(739 193)	(30 546)
Amortization of intangible assets	(53 762)	(49 144)
Impairment of intangible assets	(337)	(10 311)
Impairment of mining assets	(76 266)	–
Other	386	(1 356)
Items included in selling and distribution expenses	**(49 316)**	**(35 712)**
Depreciation of property, plant and equipment	(16 366)	(16 694)
Impairment of property, plant and equipment	(2 910)	–
Amortization of intangible assets	(23 193)	(18 506)
Other	(6 847)	(512)
Items included in administrative expenses	**(71 969)**	**(39 440)**
Depreciation of property, plant and equipment	(20 573)	(21 713)
Impairment of property, plant and equipment	(22 085)	802
Amortization of intangible assets	(14 354)	(13 819)
Impairment of intangible assets	(984)	(8)
Impairment of goodwill	(13 973)	–
Other	–	(4 702)
Items included in cost of goods produced for internal purposes	**(19 122)**	**(13 773)**
Depreciation of property, plant and equipment	(17 095)	(13 246)
Impairment of property, plant and equipment	–	1 155
Amortization of intangible assets	(2 027)	(1 556)
Impairment of intangible assets	–	(126)
Total	**(2 583 992)**	**(1 739 072)**
Depreciation and amortization	(1 721 783)	(1 693 468)
Impairment	(862 209)	(45 604)

(in PLN '000)

In the year ended 31 December 2018, the Group recognized impairment losses in the Generation and Mining segments, in addition to reversing in part the impairment losses recognized before in the Generation segment, which was due to impairment tests performed as at 31 December 2018 and 30 June 2018. The total effect on the Group's gross profit for 2018 was PLN 854 629 thousand (excess of recognition over reversal) included PLN 815 796 thousand was recognized in costs of sales. The tests and their results have been discussed in more detail in Note 10 to these consolidated financial statements.

Additionally, in the year ended 31 December 2018 the Group's companies recognized and reversed impairment losses on individual assets and non-current assets classified as held for sale which resulted in the Group's operating expenses being charged with PLN 7 580 thousand.

13. Other operating revenue and expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Surplus of (recognition)/reversal of actuarial provisions for the existing pensioners and disability pensioners	139 402	(1 025)
Penalties, fines, compensations received or receivable	35 851	27 161
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges	33 011	29 411
Surplus of other provisions (recognized)/derecognized	(19 594)	(35 167)
Costs of court proceedings, fines and damages	(8 749)	(10 808)
Loss on the disposal or liquidation of property, plant and equipment / intangible assets and costs of damages to non-current assets	(7 704)	(10 226)
Write-off for abandoned investments and production as well as liquidated materials	(342)	(3 645)
Other operating income	19 401	18 477
Other operating expenses	(30 757)	(18 257)
Total	**160 519**	**(4 079)**

In the year ended 31 December 2018, the company from the Generation segment released a provision for employee tariff and the Company's Social Benefit Fund in the portion related to pensioners. The effect of the said reversal on an increase in the Group's other operating revenue was PLN 127 051 thousand and PLN 12 419 thousand, respectively.

14. Finance income and costs

SELECTED ACCOUNTING PRINCIPLES

Finance income and costs include mainly items relating to:

- interest;
- revenue from profit sharing in other entities;
- revaluation of financial instruments, except financial assets measured at fair value where the effects are recognized in other comprehensive income and charged to revaluation reserve and derivative commodity instruments falling within the scope of IFRS 9 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;
- 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, to the extent they are classified as adjustment to interest expenses;
- disposal/liquidation of financial assets;
- changes in the balance of a provision resulting from the nearing deadline to incur the expense (discount unwinding effect);
- interest expenses for measurement of employee benefits under IAS 19 *Employee benefits*;
- other items related to financing activities.

Foreign currency transactions

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

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

(in PLN '000)

Exchange rates applied for the purpose of balance sheet measurement:

Currency	31 December 2018	31 December 2017
USD	3.7597	3.4813
EUR	4.3000	4.1709
CZK	0.1673	0.1632

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

	Year ended 31 December 2018	Year ended 31 December 2017
Income and costs from financial instruments	**(238 323)**	**(61 756)**
Dividend income	7 348	9 136
Interest income	28 086	47 266
Interest costs	(147 372)	(209 322)
Commission relating to borrowings and debt securities	(22 945)	(19 020)
Gain/loss on derivative instruments	(4 052)	(18 042)
Foreign exchange gains/losses	(83 455)	127 390
Remeasurement of loans granted	(4 309)	–
Other	(11 624)	836
Other finance income and costs	**(47 759)**	**(59 913)**
Interest on employee benefits	(33 394)	(40 764)
Interest on discount of other provisions	(12 683)	(14 328)
Other	(1 682)	(4 821)
Total, including recognized in the statement of comprehensive income:	**(286 082)**	**(121 669)**
Interest expense on debt	(147 372)	(209 322)
Other finance income and costs	(138 710)	87 653

In the year ended 31 December 2018, exchange losses exceeded exchange gains by PLN 83 455 thousand. Exchange losses are mainly exchange differences related to the Company's debt in the Euro, i.e. a loan obtained from a subsidiary, subordinated bonds and eurobonds. On that basis, exchange losses exceeded exchange gains by PLN 113 013 thousand. In the comparative period, exchange gains exceeded exchange losses. In the year ended 31 December 2018, the Group capitalized exchange differences of PLN 35 577 thousand in relation to investment projects.

15. Income tax

SELECTED ACCOUNTING PRINCIPLES

Current tax

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

Deferred tax

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

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

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

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

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each balance sheet date, the Group analyzes realizability of deferred tax asset and assesses its unrecognized items.

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

(in PLN '000)

15.1. Tax expense in the statement of comprehensive income

	Year ended 31 December 2018	Year ended 31 December 2017 (*restated figures*)
Current income tax	**(341 630)**	**(260 334)**
Current income tax expense	(331 740)	(255 869)
Adjustments to current income tax from previous years	(9 890)	(4 465)
Deferred tax	**44 028**	**(114 372)**
Income tax expense in profit/(loss)	**(297 602)**	**(374 706)**
Income tax expense relating to other comprehensive income	**7 436**	**(2 184)**

15.2. Reconciliation of the effective tax rate

	Year ended 31 December 2018	Year ended 31 December 2017
Profit before taxation	**504 647**	**1 757 652**
Tax at Poland's statutory tax rate of 19%	**(95 883)**	**(333 954)**
Adjustments to income tax from previous years	(9 890)	(4 465)
Tax effects of the following items:	(173 382)	(14 139)
Recognition of non-deductible provisions and write-downs/allowances	(1 460)	9 277
National Disabled Persons Rehabilitation Fund (PFRON)	(5 141)	(4 927)
Permanent differences on costs related to tangible assets	(4 459)	2 733
Impairment of goodwill	(2 655)	–
Other tax non-deductible costs	(7 806)	(24 624)
Share in profit/loss of joint ventures	10 429	13 880
Changes in deferred tax estimates caused by revenue with a different tax point	(181 469)	(29 407)
Other income not included in taxable base	19 179	18 929
Other	(18 447)	(22 148)
Tax at the effective rate of 59.0% (2017 – 21.3%)	**(297 602)**	**(374 706)**
Income tax (expense) in profit/(loss)	(297 602)	(374 706)

An increase in the effective tax rate in the year ended 31 December 2018 vs. the comparative period is related mostly to the recognized change in deferred tax estimates, arising from a difference in the tax point and the recognition of the estimated revenue from supplies of electricity and gas documented with advance payment invoices.

In the year ended 31 December 2018, certain IT solutions were implemented to support the determination of revenue with regard to settlement periods to be closed in the subsequent accounting period. Effects of estimate changes were charged to profit or loss for the year ended 31 December 2018.

15.3. Deferred income tax

	As at 31 December 2018	As at 31 December 2017 (*restated figures*)
difference between tax base and carrying amount of fixed and intangible assets	1 503 445	1 546 630
difference between tax base and carrying amount of financial assets	65 366	46 806
different timing of recognition of sales revenue for tax purposes	360 507	107 511
difference between tax base and carrying amount of energy certificates	10 227	7 964
other	52 929	47 841
Deferred tax liabilities	**1 992 474**	**1 756 752**
provisions	490 191	579 336
difference between tax base and carrying amount of fixed and intangible assets	194 224	167 531
power infrastructure received free of charge and received connection fees	12 039	46 669
difference between tax base and carrying amount of financial assets and financial liabilities	145 497	63 336
different timing of recognition of cost of sales for tax purposes	312 824	41 842
tax losses	15 358	13 386
other	28 692	18 909
Deferred tax assets	**1 198 825**	**931 009**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**30 105**	**46 122**
Deferred tax liability	**(823 754)**	**(871 865)**

(in PLN '000)

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

An increase in deferred tax assets and liabilities arising from a different tax point for recognition of sales revenue and cost of goods and services sold is related to the fact that in the current financial year the Group implemented IT solutions supporting the determination of revenue and costs directly related to the revenue, pertaining to the settlement periods to be closed in the future accounting period. Consequently, due to an increase in the value of revenue and expenses with different tax points, the Group recognized a higher deferred tax asset and liability.

Change in deferred tax liability

	Year ended 31 December 2018	Year ended 31 December 2017 (*restated figures*)
Opening balance	**1 756 752**	**1 666 304**
Effects of implementing IFRS 9 and IFRS 15	9 634	–
Restated opening balance	**1 766 386**	**1 666 304**
Change in the balance:		
corresponding to profit/(loss)	230 635	91 981
corresponding to other comprehensive income	(4 617)	(1 550)
other changes	70	17
Closing balance	**1 992 474**	**1 756 752**

Change in deferred tax asset

	Year ended 31 December 2018	Year ended 31 December 2017 (*restated figures*)
Opening balance	**931 009**	**957 118**
Effects of implementing IFRS 9 and IFRS 15	(10 525)	–
Restated opening balance	**920 484**	**957 118**
Change in the balance:		
corresponding to profit/(loss)	274 663	(22 391)
corresponding to other comprehensive income	2 819	(3 734)
other changes	859	16
Closing balance	**1 198 825**	**931 009**

16. Earnings per share

SELECTED ACCOUNTING PRINCIPLES

Earnings (loss) per share for each period is calculated by dividing the net profit (loss) attributable to equity holders of the Parent for a given reporting period by the weighted average number of shares existing in that period.

Earnings per share (in PLN)	Year ended 31 December 2018	Year ended 31 December 2017
Basic and diluted, for profit for the year attributable to equity holders of the Parent	0.12	0.79

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 2018	Year ended 31 December 2017
Net profit for the year attributable to equity holders of the Parent	204 880	1 380 663
Number of ordinary shares	1 752 549 394	1 752 549 394

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

17. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

Key fixed assets by segment:

- Generation:
  - boilers with accessories, turbines with generators, transformers and thermal stations as well as equipment used for purposes of fuel unloading, storage and transportation, pumping stations and sulfur-recovery facilities, steam generators, landfills, storage and other buildings;
  - thermal stations, equipment used for purposes of fuel unloading and transportation as well as pumping stations and water treatment facilities;
  - wind farms, water turbine, hydro power plant buildings, sets as well as weirs and dams and hydrotechnical devices.
- Distribution:
  - power lines and stations. Power lines are located on the area of 57 thousand square meters, with the total length of ca. 271 thousand km;
  - electrical substations (approximately 60 thousand items);
- Mining: mechanized lining, pit shafts and dip-headings and fixed assets located in the mine walls and the coal processing plant.

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

- acquisition price or manufacturing cost;
- costs directly attributable to the purchase and bringing the asset to a usable condition;
- the expected cost of disassembly and removal of items of property, plant and equipment, and restoration of their current location to its original condition (the accounting policy on provisioning for these costs has been presented in Note 34);
- borrowing costs.

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

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

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

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

Borrowing costs

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

Borrowing costs include mainly interest on specific and general borrowings calculated using the effective interest rate method and forex differences related to foreign currency financing to the extent of being classified as interest cost adjustments. The effective portion of the hedge for contracts that satisfy the hedge accounting criteria and are entered into in connection with financing the development of non-current assets is also capitalized.

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

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

Fixed assets received free of charge, connection fees and subsidies to assets

Fixed assets received free of charge and connection fees are initially recognized at cost, corresponding to the estimated fair value or the amount of cash received in the form of subsidies to assets.

Revenue from fixed assets received free of charge, funded with subsidies, are reported in the statement of financial position as deferred income and recognized as other operating revenue in correspondence to depreciation of the received or acquired property, plant and equipment.

(in PLN '000)

PROFESSIONAL JUDGMENT AND ESTIMATES

Impairment

As at each reporting period end, the Group assesses whether objective indication of impairment occurs in relation to property, plant and equipment. Impairment tests for property, plant and equipment are carried out in line with the accounting policy presented in Note 10.

Useful lives

Average residual useful lives by fixed asset group:

Asset group	Average remaining depreciation period (number of years)
Buildings, premises, civil and water engineering structures	18 years
Plant and machinery	11 years
Other tangible fixed assets	4 years

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 with possible adjustments to depreciation charges recognized as at the beginning of the reporting period when the review was completed.

A review of the estimated useful lives of fixed assets and intangible assets, conducted in 2018, had the most material effect on the amortization and depreciation expense in the Distribution segment – a decrease of amortization and depreciation expense of PLN 8 000 thousand. The effect on other segments was not material.

Year ended 31 December 2018

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**122 780**	**22 580 965**	**18 647 127**	**895 144**	**4 856 088**	**47 102 104**
Direct purchase	–	–	–	–	3 280 447	**3 280 447**
Borrowing costs	–	–	–	–	163 766	**163 766**
Transfer of assets under construction	4 012	1 235 535	691 115	92 894	(2 023 556)	**–**
Sale	(43)	(1 511)	(65 888)	(29 575)	–	**(97 017)**
Liquidation	(48)	(63 612)	(135 253)	(10 662)	(36)	**(209 611)**
Received free of charge	437	22 482	77	–	–	**22 996**
Transfers to/from assets held for sale	(987)	(2 204)	(7 650)	(2 087)	–	**(12 928)**
Overhaul expenses	–	–	–	–	65 920	**65 920**
Items generated internally	–	–	–	–	38 825	**38 825**
Cost of disassembly of wind farms and decommissioning of mines	–	5 093	106	–	–	**5 199**
Other movements	(282)	(1 686)	3 837	(2 388)	(4 963)	**(5 482)**
Foreign exchange differences from translation of foreign entities	–	–	9	14	–	**23**
Closing balance	**125 869**	**23 775 062**	**19 133 480**	**943 340**	**6 376 491**	**50 354 242**
ACCUMULATED DEPRECIATION						
Opening balance	**(407)**	**(8 553 035)**	**(9 866 322)**	**(565 315)**	**(37 139)**	**(19 022 218)**
Depreciation for the period	–	(804 815)	(742 385)	(81 249)	–	**(1 628 449)**
Increase of impairment	(16)	(705 630)	(1 150 860)	(8 628)	(102 383)	**(1 967 517)**
Decrease of impairment	19	406 718	795 176	1 397	20	**1 203 330**
Sale	–	1 038	62 855	28 699	–	**92 592**
Liquidation	–	54 121	130 336	10 607	–	**195 064**
Transfers to/from assets held for sale	–	1 479	7 215	1 699	–	**10 393**
Other movements	–	228	(1 140)	1 538	–	**626**
Foreign exchange differences from translation of foreign entities	–	–	(6)	(6)	–	**(12)**
Closing balance	**(404)**	**(9 599 896)**	**(10 765 131)**	**(611 258)**	**(139 502)**	**(21 116 191)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**122 373**	**14 027 930**	**8 780 805**	**329 829**	**4 818 949**	**28 079 886**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**125 465**	**14 175 166**	**8 368 349**	**332 082**	**6 236 989**	**29 238 051**
of which operating segments:						
Mining	**3 118**	**501 042**	**408 867**	**11 654**	**336 587**	**1 261 268**
Generation	**42 721**	**2 213 878**	**3 436 115**	**30 644**	**4 787 752**	**10 511 110**
Distribution	**62 766**	**11 374 311**	**4 413 999**	**272 722**	**1 099 073**	**17 222 871**
Other segments and other operations	**16 860**	**85 935**	**109 368**	**17 062**	**13 577**	**242 802**

(in PLN '000)

Year ended 31 December 2017

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**121 980**	**21 603 044**	**18 164 046**	**850 102**	**3 261 173**	**44 000 345**
Direct purchase	–	23	–	–	3 137 677	**3 137 700**
Borrowing costs	–	–	–	–	105 346	**105 346**
Transfer of assets under construction	1 086	1 005 444	662 139	82 815	(1 751 484)	**–**
Sale	(154)	(10 012)	(61 733)	(27 922)	–	**(99 821)**
Liquidation	(3)	(41 759)	(117 786)	(7 726)	–	**(167 274)**
Received free of charge	–	7 724	161	–	–	**7 885**
Transfers to/from assets held for sale	(30)	(14 916)	(2 394)	(15)	(11)	**(17 366)**
Overhaul expenses	–	–	–	–	66 910	**66 910**
Items generated internally	–	–	–	–	39 122	**39 122**
Cost of disassembly of wind farms and decommissioning of mines	–	32 152	1 059	–	–	**33 211**
Other movements	(99)	(735)	1 636	(2 109)	(2 645)	**(3 952)**
Foreign exchange differences from translation of foreign entities	–	–	(1)	(1)	–	**(2)**
Closing balance	**122 780**	**22 580 965**	**18 647 127**	**895 144**	**4 856 088**	**47 102 104**
ACCUMULATED DEPRECIATION						
Opening balance	**(433)**	**(7 825 966)**	**(9 268 038)**	**(517 062)**	**(33 657)**	**(17 645 156)**
Depreciation for the period	–	(796 822)	(729 235)	(84 387)	–	**(1 610 444)**
Increase of impairment	(4)	(134 345)	(355 224)	(693)	(3 495)	**(493 761)**
Decrease of impairment	30	155 913	309 848	810	22	**466 623**
Sale	–	5 660	58 996	27 292	–	**91 948**
Liquidation	–	32 724	114 214	7 568	–	**154 506**
Transfers to/from assets held for sale	–	9 536	2 101	15	–	**11 652**
Other movements	–	265	1 016	1 142	(9)	**2 414**
Closing balance	**(407)**	**(8 553 035)**	**(9 866 322)**	**(565 315)**	**(37 139)**	**(19 022 218)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**121 547**	**13 777 078**	**8 896 008**	**333 040**	**3 227 516**	**26 355 189**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**122 373**	**14 027 930**	**8 780 805**	**329 829**	**4 818 949**	**28 079 886**
of which operating segments:						
Mining	**2 774**	**785 380**	**667 412**	**16 301**	**292 435**	**1 764 302**
Generation	**41 256**	**2 322 835**	**3 753 162**	**35 962**	**3 595 630**	**9 748 845**
Distribution	**61 483**	**10 829 553**	**4 244 598**	**261 693**	**918 501**	**16 315 828**
Other segments and other operations	**16 860**	**90 162**	**115 633**	**15 873**	**12 383**	**250 911**

In the year ended 31 December 2018, the Group acquired property, plant and equipment of PLN 3 444 213 thousand (including capitalized borrowing costs). The major purchases were made in connection with investments in the following operating segments:

Operating segment	Year ended 31 December 2018	Year ended 31 December 2017
Distribution	1 964 960	1 637 114
Generation	1 202 401	1 421 493
Mining	237 515	153 795

The average capitalization rate of the borrowing costs in the year ended 31 December 2018 was 3.57% vs. 3.17% in the year ended 31 December 2017.

Key investment projects carried out by the Group in the financial year 2018 have been described in item 1.5.1. Management Board's reports on the activities of TAURON Polska Energia S.A. and the TAURON Polska Energia S.A. Capital Group for 2018.

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

Year ended 31 December 2018

	Generation	Mining	Distribution	Other	Total
Increase of impairment	(1 321 783)	(641 552)	(3 842)	(340)	**(1 967 517)**
Decrease of impairrment	1 203 095	–	235	–	**1 203 330**
Total impact on the profit (loss) for the period	**(118 688)**	**(641 552)**	**(3 607)**	**(340)**	**(764 187)**

(in PLN '000)

Year ended 31 December 2017

	Generation	Distribution	Other	Total
Increase of impairment	(493 181)	(569)	(11)	**(493 761)**
Decrease of impairrment	462 787	3 803	33	**466 623**
Total impact on the profit (loss) for the period	**(30 394)**	**3 234**	**22**	**(27 138)**

18. Goodwill

SELECTED ACCOUNTING PRINCIPLES

Goodwill is carried at its initial amount (determined in line with the accounting policy presented in Note 6) less accumulated impairment losses. Goodwill is not amortized but it is tested for impairment on an annual basis or more frequently if any indications of impairment occur.

As at the acquisition date, goodwill acquired is allocated to each cash-generating unit ("CGU") that may derive benefits from synergy effects. An operating segment is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group (except the Generation segment).

PROFESSIONAL JUDGMENT AND ESTIMATES

Goodwill is tested for impairment on an annual basis and as at each reporting period end, if appropriate indications occur. Impairment tests for goodwill are performed in line with the accounting principles presented in Note 10.

Operating segment	As at 31 December 2018	As at 31 December 2017
Mining	–	13 973
Distribution	25 602	25 602
Other segments	581	581
Total	**26 183**	**40 156**

19. Energy certificates and gas emission allowances

SELECTED ACCOUNTING PRINCIPLES

Energy certificates and gas emission allowances classified as intangible assets include:

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

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

- current intangible assets – energy certificates and gas emission allowances designated for internal purposes, where the Group has the intention to surrender them so as to fulfil the obligation for the current year;
- non-current intangible assets – energy certificates and gas emission allowances designated for internal purposes, where they are intended to be used for purposes of the fulfilment of the surrendering obligation for the following years.

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

	Acquired	Granted/Received free of charge	Release
Energy certificates	Acquisition cost	Fair value as at the receipt date	FIFO "First In First Out"
Greenhouse gas emission allowances	Acquisition cost	Nominal value (i.e. zero)	Obtained free of charge in the first place, subsequently acquired ones (FIFO "First In First Out")

The energy certificates and the emission allowances are surrendered (in correspondence with settlement of the provision amount) at the date of their being redeemed. The principles applicable to the recognition of provisions relating to the energy certificate surrendering obligation and for liabilities arising from gas emissions have been presented in Note 35.

(in PLN '000)

19.1. Long-term energy certificates and gas emission allowances

Year ended 31 December 2018

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**95 795**	**207 335**	**303 130**
Direct purchase	194 948	381 116	**576 064**
Reclassification	(82 158)	(135 433)	**(217 591)**
Closing balance	**208 585**	**453 018**	**661 603**

Year ended 31 December 2017

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**110 430**	**15 830**	**126 260**
Direct purchase	87 880	198 635	**286 515**
Reclassification	(102 515)	(7 130)	**(109 645)**
Closing balance	**95 795**	**207 335**	**303 130**

19.2. Short-term energy certificates and gas emission allowances

Year ended 31 December 2018

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**327 324**	**324 936**	**652 260**
Direct purchase	327 991	476 145	**804 136**
Generated internally	86 531	–	**86 531**
Cancellation	(733 256)	(825 118)	**(1 558 374)**
Reclassification	81 677	135 433	**217 110**
Closing balance	**90 267**	**111 396**	**201 663**

Year ended 31 December 2017 *(restated figures)*

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**543 536**	**423 847**	**967 383**
Direct purchase	273 404	103 611	**377 015**
Generated internally	47 907	–	**47 907**
Cancellation	(640 596)	(209 652)	**(850 248)**
Reclassification	103 073	7 130	**110 203**
Closing balance	**327 324**	**324 936**	**652 260**

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

Balance of emission allowances	Year ended 31 December 2018	Year ended 31 December 2017
Allowances recorded at the beginning of the financial year	**24 649 436**	**19 482 951**
Allowances surrendered:		
in the installations of TAURON Wytwarzanie S.A. (previous year's emissions)	(14 656 752)	(5 864 561)
in the installations of TAURON Ciepło Sp. z o.o. (previous year's emissions)	(1 878 114)	(1 529 737)
in the installations of TAURON Wytwarzanie S.A. (current year's emissions)	(11 494 000)	–
Allocation of free-of-charge allowances	379 609	2 150 783
Allowances purchased on the secondary market	17 547 000	16 968 000
Allowances sold on the secondary market	(3 077 500)	(6 558 000)
Allowances recorded at the end of the financial year, of which:	**11 469 679**	**24 649 436**
Allowances intended for surrender for a given year:	(3 048 547)	(16 454 964)
in the installations of TAURON Wytwarzanie S.A.	(1 132 025)	(14 574 412)
in the installations of TAURON Ciepło Sp. z o.o.	(1 916 522)	(1 880 552)

In 2018 the TAURON Group companies received free-of-charge emission allowances pursuant to Article 10a of Directive of the European Parliament and the Council 2009/29/EC of 23 April 2009, in the amount of 379 609 EUA for heat production. The other allowances, necessary to balance the emission needs, were purchased on the secondary market.

(in PLN '000)

20. Other Intangible Assets

SELECTED ACCOUNTING PRINCIPLES

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

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

Other intangible assets, except those which have not been made available for use, are amortized over their estimated useful lives. Amortization is calculated by reference to the initial value less the residual value. Residual value is included in determining the basis for calculation of depreciation charges, if for a given asset, an active market exists or a third party has committed to buy the asset upon completion of its useful life. For the right to perpetual usufruct of land, the residual value has been determined on the basis of market prices. As the residual value is similar to the carrying amount, the said right has not been amortized.

PROFESSIONAL JUDGMENT AND ESTIMATES

Impairment

As at each reporting period end, the Group assesses whether objective indication of impairment occurs in relation to intangible assets. Impairment tests for intangible assets are carried out in line with the accounting policy presented in Note 10.

Useful lives

Average residual useful lives by other intangible asset group:

Asset group	Average remaining amortization period (number of years)
Development expenses	3 years
Software, concessions, patents, licenses and similar items	4 years
Other	10 years

Amortization method and rate, as well as the residual value are verified at least at the end of each financial year. Any changes arising from the verification are recognized as changes in estimates, with adjustments to amortization charges (if any) effective as of the beginning of the reporting period when the verification was completed.

Year ended 31 December 2018

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**6 403**	**773 287**	**644 480**	**236 548**	**148 502**	**1 809 220**
Direct purchase	–	3 926	–	–	119 121	**123 047**
Transfer of intangible assets not made available for use	–	1 341	154 045	32 545	(187 931)	**–**
Sale/ Liquidation	–	(863)	(22 363)	(1 102)	(4)	**(24 332)**
Transfers to/from assets held for sale	–	(3 640)	–	–	–	**(3 640)**
Other movements	–	631	242	3 345	5 798	**10 016**
Foreign exchange differences from translation of foreign entities	–	–	30	–	–	**30**
Closing balance	**6 403**	**774 682**	**776 434**	**271 336**	**85 486**	**1 914 341**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 265)**	**(25 371)**	**(439 639)**	**(84 861)**	**(7)**	**(555 143)**
Amortization for the period	(257)	–	(75 408)	(17 669)	–	**(93 334)**
Increase of impairment	(375)	(43)	(1 313)	(121)	(58)	**(1 910)**
Decrease of impairment	153	27	331	21	58	**590**
Sale/ Liquidation	–	–	22 361	795	–	**23 156**
Other movements	–	–	32	–	–	**32**
Foreign exchange differences from translation of foreign entities	–	–	(29)	–	–	**(29)**
Closing balance	**(5 744)**	**(25 387)**	**(493 665)**	**(101 835)**	**(7)**	**(626 638)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**1 138**	**747 916**	**204 841**	**151 687**	**148 495**	**1 254 077**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**659**	**749 295**	**282 769**	**169 501**	**85 479**	**1 287 703**

(in PLN '000)

Year ended 31 December 2017

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**5 434**	**786 283**	**610 578**	**211 873**	**93 060**	**1 707 228**
Direct purchase	–	–	–	–	125 070	**125 070**
Transfer of intangible assets not made available for use	–	1 803	52 171	16 195	(70 169)	**–**
Sale/ Liquidation	(15)	(1 909)	(12 181)	–	–	**(14 105)**
Transfers to/from assets held for sale	–	(12 949)	–	–	–	**(12 949)**
Other movements	984	59	(6 084)	8 480	541	**3 980**
Foreign exchange differences from translation of foreign entities	–	–	(4)	–	–	**(4)**
Closing balance	**6 403**	**773 287**	**644 480**	**236 548**	**148 502**	**1 809 220**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 120)**	**(25 617)**	**(387 075)**	**(64 982)**	**(7)**	**(482 801)**
Amortization for the period	(85)	–	(65 844)	(17 095)	–	**(83 024)**
Increase of impairment	(177)	(9 920)	(690)	(24)	–	**(10 811)**
Decrease of impairment	117	307	10	54	–	**488**
Sale/Liquidation	15	–	11 805	–	–	**11 820**
Transfers to/from assets held for sale	–	9 859	–	–	–	**9 859**
Other movements	(15)	–	2 154	(2 814)	–	**(675)**
Foreign exchange differences from translation of foreign entities	–	–	1	–	–	**1**
Closing balance	**(5 265)**	**(25 371)**	**(439 639)**	**(84 861)**	**(7)**	**(555 143)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**314**	**760 666**	**223 503**	**146 891**	**93 053**	**1 224 427**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1 138**	**747 916**	**204 841**	**151 687**	**148 495**	**1 254 077**

21. Interests in joint ventures

SELECTED ACCOUNTING PRINCIPLES

Joint arrangements of the Group classified as joint ventures are recognized using the equity method.

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

PROFESSIONAL JUDGMENT AND ESTIMATES

The Group determines the type of a joint arrangement it is a party to depending on contractual rights and obligations. Following an analysis of such rights and obligations, the Group assesses its joint control over joint arrangements and rights to their net assets. Consequently, shares in the TAMEH Holding Sp. z o.o. Capital Group and in Elektrociepłownia Stalowa Wola S.A. are classified as joint ventures.

Impairment

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

(in PLN '000)

Investments in joint ventures measured using the equity method as at 31 December 2018 and for the year then ended have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2018
Non-current assets	1 398 743	2 027 410	**3 426 153**
Current assets, including:	35 509	775 825	**811 334**
cash and cash equivalents	*3 376*	*336 462*	***339 838***
Non-current liabilities (-) including:	(1 422 139)	(849 842)	**(2 271 981)**
debt	*(1 368 531)*	*(768 011)*	***(2 136 542)***
Current liabilities (-) including:	(81 497)	(783 951)	**(865 448)**
debt	*(6 481)*	*(122 628)*	***(129 109)***
Total net assets	(69 384)	1 169 442	**1 100 058**
Share in net assets	(34 692)	584 721	**550 029**
Investment in joint ventures	–	**543 913**	**543 913**
Share in revenue of joint ventures	86	861 206	**861 292**
Share in profit/(loss) of joint ventures	–	**54 890**	**54 890**
Share in other comprehensive income of joint ventures	–	**(71)**	**(71)**

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

Investments in joint ventures measured using the equity method as at 31 December 2017 and for the year then ended have been presented below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2017
Non-current assets	1 219 954	1 658 016	**2 877 970**
Current assets, including:	3 830	552 456	**556 286**
cash and cash equivalents	*2 673*	*197 401*	***200 074***
Non-current liabilities (-) including:	(538 278)	(670 240)	**(1 208 518)**
debt	*(488 440)*	*(588 368)*	***(1 076 808)***
Current liabilities (-) including:	(726 070)	(460 096)	**(1 186 166)**
debt	*(659 374)*	*(49 415)*	***(708 789)***
Total net assets	(40 564)	1 080 136	**1 039 572**
Share in net assets	(20 282)	540 068	**519 786**
Investment in joint ventures	–	**499 204**	**499 204**
Share in revenue of joint ventures	20	628 145	**628 165**
Share in profit/(loss) of joint ventures	–	**72 950**	**72 950**
Share in other comprehensive income of joint ventures	–	**(519)**	**(519)**

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

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A. The entity was registered to carry out an investment project, i.e. construction of a gas and steam unit fuelled with natural gas in Stalowa Wola with the gross maximum electrical capacity of 450 MWe and the net heat capability of 240 MWt.

On 31 March 2017 the agreement to set out the key boundary conditions for project restructuring entered into force along with an annex to the electricity sales contract made among the Company, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A., and an annex to the gaseous fuel supply contract made between PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. which resulted in the reversal of the provisions for onerous contracts, as described more detail in Note 36.2 hereto.

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

(in PLN '000)

Additionally, the Company has receivables arising from loans extended to Elektrociepłownia Stalowa Wola S.A. with the carrying amount of PLN 217 407 thousand, which has been discussed in more detail in Note 22 to these consolidated financial statements.

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014 a shareholders' agreement was concluded by and between the TAURON Group and the ArcelorMittal Group regarding TAMEH HOLDING Sp. z o.o., which is responsible for investment and operational projects related to the industrial power sector. The duration of the agreement is 15 years and may be extended. Each capital group holds 50% of shares in TAMEH HOLDING Sp. z o.o.

TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH POLSKA Sp. z o.o., incorporated by the following entities contributed by the TAURON Group: Zakład Wytwarzania Nowa and Elektrownia Blachownia along with Kraków Heat and Power Plant contributed by the ArcelorMittal Group. Moreover, TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH Czech s.r.o., based on the Ostrava Heat and Power Plant.

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

22. Loans to joint ventures

SELECTED ACCOUNTING PRINCIPLES

Loans granted to a joint venture do not satisfy the criteria to be recognized as a net investment in a joint venture.

PROFESSIONAL JUDGMENT AND ESTIMATES

- ***YEAR ENDED 31 DECEMBER 2018***

Pursuant to IFRS 9 *Financial Instruments* the Group classifies and measures loans, estimating allowances for expected credit losses for items classified as assets measured at amortized cost.

As at the reporting period end, the loan granted under a debt consolidation agreement of 28 February 2018 was classified as a financial asset measured at fair value through profit or loss, since its cash flows are not limited to principal and interest repayment. Fair value was estimated accordingly. The fair value calculation methodology is presented in Note 44 hereto.

Other loans are measured at amortized cost, with expected credit losses estimated as at each reporting period end. Calculation methodology and amounts of expected credit losses are presented in Notes 45.1.4 hereto.

- ***YEAR ENDED 31 DECEMBER 2017***

Pursuant to IAS 39 *Financial Instruments: Recognition and Measurement* the Group classified and measured originated loans and estimated impairment losses. All loans were classified as "loans and receivables" and measured at amortized cost, including impairment losses.

Loans to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 31 December 2018:

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

** The repayment date of principal of PLN 310 851 thousand with interest falls on 30 June 2033. The principal of PLN 299 100 thousand was repaid on 30 April 2018.*

(in PLN '000)

Loans to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 31 December 2017:

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

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

In accordance with the consolidation agreement in question, on 30 April 2018 a portion of the principal amount of the loan of PLN 299 100 thousand was repaid, while the remaining portion of the debt of PLN 310 851 thousand with interest accrued since 1 March 2018 will be repaid by 30 June 2033. The loan bears a fixed interest rate and is secured with a blank promissory note and a promissory note agreement.

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

On 8 March 2018 Elektrociepłownia Stalowa Wola S.A. entered into a loan agreement with Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., whereby Bank Gospodarstwa Krajowego and PGNiG S.A. provided a loan of up to PLN 450 000 thousand each to Elektrociepłownia Stalowa Wola S.A. The loan matures on 14 June 2030. The exposure of Bank Gospodarstwa Krajowego is secured with a bank guarantee issued upon request of the Company on 11 April 2018, as discussed in detail in Note 48 to these consolidated financial statements.

In view of the aforementioned agreement, on 8 March 2018 Elektrociepłownia Stalowa Wola S.A. as a borrower, Polskie Górnictwo Naftowe i Gazownictwo S.A., PGNiG Termika S.A., TAURON Polska Energia S.A., TAURON Wytwarzanie S.A. as subordinated creditors and Bank Gospodarstwa Krajowego as the Agent, entered into a debt subordination agreement. Pursuant to the agreement, the debt of Elektrociepłownia Stalowa Wola S.A. owed to the Company under the debt consolidation agreement of 28 February 2018 for a total amount of PLN 609 951 thousand constitutes "subordinated debt". As at the date of approval of these consolidated financial statements for publication, the par value of the loan, constituting subordinated debt owed to the Company, was PLN 310 851 thousand and as at the balance sheet date was measured at fair value in the amount of PLN 199 256 thousand.

Apart from the debt consolidating loan described above, in the year ended 31 December 2018, the Company originated the following loans to Elektrociepłownia Stalowa Wola S.A.:

- On 30 March 2018, the Company and Elektrociepłownia Stalowa Wola S.A. signed a loan agreement of up to PLN 7 290 thousand to be used for the operations of the borrower.

(in PLN '000)

- On 11 April 2018 Polskie Górnictwo Naftowe i Gazownictwo S.A., TAURON Polska Energia S.A. and the borrower – Elektrociepłownia Stalowa Wola S.A. concluded a VAT loan agreement up to the total amount of PLN 13 000 thousand, to finance the borrower's VAT obligations related to completion of the construction of the gas and steam unit in Stalowa Wola. Under the agreement, the Company will grant a loan of up to PLN 6 500 thousand to Elektrociepłownia Stalowa Wola S.A.
- On 19 December 2018, the Company and Elektrociepłownia Stalowa Wola S.A. concluded a loan agreement for the amount up to PLN 9 500 thousand, to be used for payments arising from mutual construction contracts in order to continue the investment including the gas and steam unit in Stalowa Wola.

All of the above loans are collateralized with borrower's promissory note with a promissory note agreement.

23. Other financial assets

SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2018

Other financial assets include e.g. shares, units in investment funds, bid bonds, deposits and collateral, derivatives and loans to unrelated entities.

Upon initial recognition, financial assets are classified to an appropriate class and measured accordingly. Financial assets classification and measurement principles under IFRS 9 *Financial Instruments* are presented in Note 44 hereto.

PROFESSIONAL JUDGMENT AND ESTIMATES

To measure financial assets at fair value, the Group must estimate their fair value at each reporting period end. The fair value calculation methodology is presented in Note 44 hereto.

To measure financial assets at amortized cost, the Group must estimate expected credit losses as at each reporting period end. Calculation methodology and amounts of expected credit losses for loans granted are presented in Note 45.1.4 hereto.

SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2017

In the year ended 31 December 2017 the Group classified and measured financial assets under IAS 39 *Financial Instruments: Recognition and Measurement.* Financial assets classification and measurement principles under IAS 39 are presented in Note 44 hereto.

	As at 31 December 2018	As at 31 December 2017 *(restated figures)*
Shares	138 492	141 698
Derivative instruments	220 343	81 698
Initial margins	163 495	11 140
Bid bonds, deposits and collateral transferred	89 498	61 817
Deposits and term deposits for Mining Decommissioning Fund	47 126	39 756
Investment fund units	26 063	104 077
Loans granted	10 145	10 547
Other	2 548	7 554
Total	**697 710**	**458 287**
Non-current	254 677	238 354
Current	443 033	219 933

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

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

An increase in the value of assets resulting from a positive measurement of derivatives in the amount of PLN 138 645 thousand is mostly related to transactions regarding greenhouse gas emission allowances and results from a growth in both their price and in the number of concluded contracts. An increase in the value of assets from a positive measurement of concluded transactions on emission allowances amounts to PLN 130 116 thousand.

(in PLN '000)

Initial margins are related mostly to futures transactions on the greenhouse emissions allowances concluded on foreign regulated markets.

24. Other non-financial assets

SELECTED ACCOUNTING PRINCIPLES

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

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

Under IFRS 15 *Revenue from Contracts with Customers* the Group has capitalized costs of acquiring new contracts and costs of rebates since 1 January 2018. Costs of acquiring new contracts are capitalized if the Group expects them to be refunded. Such costs can be immediately charged to expenses if the period of depreciation of the related asset is up to one year. The asset is depreciated over the period when the goods are transferred or services provided. If the costs are related to more than one contract, depreciation should include both current and projected contracts.

24.1. Other non-current non-financial assets

	As at 31 December 2018	As at 31 December 2017
Prepayments for assets under construction and intangible assets including:	101 755	163 906
related to project realization: Construction of 910 MW Power Unit in Jaworzono III Power Plant	*98 114*	*162 589*
Costs of preparing production in hard coal mines	114 177	144 061
Prepayments for debt charges	14 307	12 252
Contract acquisition costs and costs of discounts	13 496	–
Other prepayments	38 493	26 627
Total	**282 228**	**346 846**

Production preparation costs incurred by coal mines include an impairment loss on the related long-term assets totaled PLN 61 570 thousand, recognised as a result of impairment tests.

24.2. Other current non-financial assets

	As at 31 December 2018	As at 31 December 2017
Costs settled over time	**104 860**	**79 935**
Costs of preparing production in hard coal mines	54 439	52 123
IT, telecom and postal services	21 062	15 074
Contract acquisition costs and costs of discounts	10 624	–
Property and tort insurance	8 012	3 010
Prepayments for debt charges	3 414	3 917
Other prepayments	7 309	5 811
Other current non-financial assets	**5 208**	**7 120**
Advance payments for deliveries	3 218	4 858
Other current assets	1 990	2 262
Total	**110 068**	**87 055**

Social Benefit Fund

The Group entities offset the Fund assets with their liabilities to the Fund as the assets are not classified as separate assets of the Group. As at 31 December 2018, the surplus of assets over liabilities to the Social Benefits Fund was PLN 3 thousand (presented in the following table under other current assets). Presented below is an analysis of the fund.

(in PLN '000)

	As at 31 December 2018	As at 31 December 2017
Loans granted to employees	28 181	29 718
Cash	17 364	17 703
Other Fund assets and liabilities	(3 209)	2 316
Social Fund liabilities	(42 333)	(49 828)
Net balance	**3**	**(91)**
Transfers made to the Social Fund during the period	(55 101)	(55 624)

25. Inventories

SELECTED ACCOUNTING PRINCIPLES

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

Inventory releases are measured using the weighted average method, except for energy certificates of origin and greenhouse gas emission allowances, whose releases are measured using the FIFO method.

The Group's inventories include mainly the inventory of fuels.

PROFESSIONAL JUDGMENT AND ESTIMATES

Measurement of inventories requires estimation of net realizable value. Net realizable value is the difference between the estimated sale price in the ordinary course of business and the estimated costs of completion with the estimated costs necessary to make the sale. Fair value measurement of the greenhouse emission allowances held as described above is based on prices quoted on active markets.

	As at 31 December 2018	As at 31 December 2017
Gross value		
Coal, of which:	377 119	189 464
Raw materials	*188 876*	*33 260*
Semi-finished goods and work-in-progress	*184 833*	*155 180*
Gas emission allowances	2 762	382
Other inventories	138 920	114 450
Total	**518 801**	**304 296**
Measurement to fair value		
Emission allowances	46	8
Measurement to net realisable value		
Other inventories	(9 046)	(8 841)
Total	**(9 000)**	**(8 833)**
Fair value		
Gas emission allowances	2 808	390
Net realisable value		
Coal, of which:	377 119	189 464
Raw materials	*188 876*	*33 260*
Semi-finished goods and work-in-progress	*184 833*	*155 180*
Other inventories	129 874	105 609
Total	**509 801**	**295 463**

Change in the balance of impairment losses on inventories / Inventory revaluation

	Year ended 31 December 2018	Year ended 31 December 2017
Opening balance	**(8 833)**	**3 633**
Recognition	(1 179)	(4 109)
Reversal	350	623
Utilization	624	4 238
Fair value measurement of emission allowances	38	(13 218)
Closing balance	**(9 000)**	**(8 833)**

26. Receivables from buyers

SELECTED ACCOUNTING PRINCIPLES

Receivables from buyers include amounts due which have been billed and those which have been recognized on account of revenue but have not been measured and billed due to the buyer settlement system used. The accounting policy applicable to accrued revenue has been presented in Note 11.

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

SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2018

Impairment allowances are recognized for both overdue and current receivables based on probability-weighted credit loss to be incurred should any of the following events occur:

- material payment delay;
- a debtor is put in liquidation, declared bankrupt or undergoes restructuring procedures;
- receivables are claimed at administrative or common court, or undergo enforcement.

Amounts receivable from buyers are divided into the portfolios of strategic and other counterparties.

For the portfolio of strategic counterparties, it is expected that the historical performance does not provide full information on the expected credit losses that the Group may be exposed to. The risk of insolvency on the part of strategic counterparties is assessed based on ratings assigned to the counterparties using an internal scoring model and appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, is calculated based on the estimated potential recoveries from security interests.

It is expected that the historical performance information concerning receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for this group of counterparties have been estimated through an analysis of ageing of receivables and percentage ratios assigned to individual ranges and groups (such as receivables claimed at court, receivables from counterparties in bankruptcy) which help estimate the value of receivables from buyers which are not expected to be paid.

In order to consider future factors, the Company adjusts the historical probability of default using the probability level implied by quotings of annual Credit Default Swap (CDS) instruments for each rating.

Impairment of receivables is recognized in classes of expenses corresponding to each asset's function, i.e. as operating or financial expenses, depending on the related type of amount receivable.

SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2017

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

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

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

PROFESSIONAL JUDGMENT AND ESTIMATES

Under IFRS 9 *Financial Instruments* the Group estimates impairment losses on receivables from buyers attributable to expected credit losses. The allowance calculation methodology is presented above.

(in PLN '000)

	As at 31 December 2018	As at 31 December 2017
Value of items before allowance/write-down		
Receivables from buyers	1 586 686	1 521 554
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	657 352	499 601
Receivables claimed at court	207 121	205 025
Total	**2 451 159**	**2 226 180**
Allowance/write-down		
Receivables from buyers	(38 833)	(12 849)
Receivables claimed at court	(182 926)	(180 518)
Total	**(221 759)**	**(193 367)**
Value of item net of allowance (carrying amount)		
Receivables from buyers	1 547 853	1 508 705
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	657 352	499 601
Receivables claimed at court	24 195	24 507
Total	**2 229 400**	**2 032 813**

As at 31 December 2018, long-term receivables from buyers of PLN 37 thousand were presented in the consolidated statement of financial position under other financial assets.

According to the described above model the Group estimates allowances for expected credit losses.

Aging of receivables from buyers as at 31 December 2018

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down	2 016 850	174 830	34 120	17 093	24 989	183 277	**2 451 159**
Percentage of allowance/write-down	1%	3%	24%	76%	94%	87%	**–**
Allowance/write-down	(12 292)	(5 008)	(8 255)	(12 980)	(23 564)	(159 660)	**(221 759)**
Net Value	**2 004 558**	**169 822**	**25 865**	**4 113**	**1 425**	**23 617**	**2 229 400**

Aging of receivables from buyers as at 31 December 2017

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down	1 793 241	169 931	34 941	17 012	32 769	178 286	**2 226 180**
Percentage of allowance/write-down	0%	1%	6%	34%	90%	87%	**–**
Allowance/write-down	(151)	(1 224)	(2 256)	(5 814)	(29 590)	(154 332)	**(193 367)**
Net Value	**1 793 090**	**168 707**	**32 685**	**11 198**	**3 179**	**23 954**	**2 032 813**

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

Impairment allowances on receivables from buyers

	Year ended 31 December 2018	Year ended 31 December 2017
Opening balance	**(193 367)**	**(205 647)**
Effects of implementing IFRS 9	(31 471)	–
Restated opening balance	**(224 838)**	**(205 647)**
Recognised	(3 815)	(106 052)
Utilized	2 553	9 282
Reversed	2 539	52 296
Other movements	1 802	56 754
Closing balance	**(221 759)**	**(193 367)**

27. Income tax receivables

Income tax receivables of PLN 14 497 thousand include mostly receivables of the Tax Capital Group in the amount of PLN 13 921 thousand.

(in PLN '000)

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

Since 1 January 2018 the Tax Capital Group has comprised the following companies: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

As at 31 December 2018, the Tax Capital Group had an income tax asset of PLN 13 921 thousand. The entire amount relates to 2018 and constitutes a surplus of advance income tax payments of PLN 342 734 thousand over the tax charge of the Tax Capital Group in the amount of PLN 328 813 thousand.

28. Receivables arising from other taxes and charges

SELECTED ACCOUNTING PRINCIPLES

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

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

	As at 31 December 2018	As at 31 December 2017
VAT receivables	165 310	211 520
Excise duty receivables	39 764	29 718
Other	4 672	760
Total	**209 746**	**241 998**

29. Cash and cash equivalents

SELECTED ACCOUNTING PRINCIPLES

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

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

Unpaid overdraft facilities that constitute an integral part of cash management are classified as "Cash and cash equivalents" for the purposes of statement of cash flows. In the statement of financial position, such facilities are presented in debt liabilities.

	As at 31 December 2018	As at 31 December 2017
Cash at bank and in hand	602 592	703 202
Short-term deposits (up to 3 months)	178 132	205 889
Other	43 000	158
Total cash and cash equivalents presented in the statement of financial position, of which:	**823 724**	**909 249**
restricted cash	231 987	68 828
Bank overdraft	(767)	(93 503)
Cash pool	(14 690)	(13 676)
Foreign exchange	(295)	(717)
Total cash and cash equivalents presented in the statement of cash flows	**807 972**	**801 353**

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

(in PLN '000)

As at 31 December 2018, the balance of restricted cash consisted mainly of:

– the balance of cash securing the settlement with Izba Rozliczeniowa Giełd Towarowych S.A. totaling PLN 84 431 thousand;

– the balance of cash on bank accounts arising from subsidies of PLN 80 060 thousand;

– the balance of cash on VAT accounts (split payment) totaling PLN 67 149 thousand.

30. Equity

SELECTED ACCOUNTING PRINCIPLES

Issued capital

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

Reserve capital

Supplementary capital is created, to which at least 8% of profit for each financial year is appropriated in order to offset the loss of the joint stock company, until its amount equals at least one-third of the share capital.

Revaluation reserve from valuation of hedging instruments

Revaluation reserve arising from hedging instruments is related to the measurement of Interest Rate Swaps hedging interest rate risk of issued bonds. Its amount is determined as the fair value of the effective portion of cash flow hedging instruments, including deferred tax.

Exchange differences from translation of a foreign entities

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

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

exchange differences from translation have been recognized in other comprehensive income.

Retained earnings / (accumulated losses)

Retained earnings / (accumulated losses) include:

- prior years' retained earnings/uncovered losses;
- reserve and supplementary capital of subsidiaries that occurred after the control assuming date;
- acquisition/business combination of entities being under common control, accounted for using the pooling of interests method;
- actuarial gains and losses regarding provisions for post-employment benefits recognized through other comprehensive income;
- effects of adjustments related to the application of exemptions provided for in IFRS 1 *First-time Adoption of International Financial Reporting Standards* or to adoption of IFRS, such as differences resulting from fair value measurement of fixed assets as cost assumed as at the IFRS adoption date.

Non-controlling interest

Non-controlling interests are a separate equity item. Its initial value is determined as the corresponding fair value of net assets or as fair value of non-controlling interests as at the control commencement date and increased/decreased by respective changes in net assets of the subsidiaries. Decisions regarding initial measurement of non-controlling interests are made on a case-by-case basis.

30.1. Issued capital

Issued capital as at 31 December 2018

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

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

(in PLN '000)

Shareholding structure as at 31 December 2018 (to the best of the Company's knowledge)

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

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

30.2. Shareholder rights

The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Shareholders' Meeting of the Company.

The voting right limitation mentioned above does not apply to the State Treasury and State Treasury owned companies in the period when the State Treasury and State Treasury owned companies hold shares in the Company entitling to not less than 25% of the total votes in the Company.

Detailed information regarding the voting right limitations is presented in section 9.6. Management Board's reports on the activities of TAURON Polska Energia S.A. and the TAURON Polska Energia S.A. Capital Group for 2018.

30.3. Reserve capital

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

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

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

As at 31 December 2018 and as at the date of approving these consolidated financial statements for publication no other dividend restriction occurred.

30.5. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2018	Year ended 31 December 2017
Opening balance	**23 051**	**29 660**
Remeasurement of hedging instruments	(24 290)	(8 159)
Remeasurement of hedging instruments charged to profit or loss	(7)	–
Deferred income tax	4 617	1 550
Closing balance	**3 371**	**23 051**

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 44.3 to these consolidated financial statements.

As at 31 December 2018 the Company recognized PLN 3 371 thousand of revaluation reserve from valuation of hedging instruments. It represents an asset arising from valuation of interest rate swaps as at the end of the reporting period, totaling PLN 4 178 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

(in PLN '000)

30.6. Non-controlling interest

	Year ended 31 December 2018	Year ended 31 December 2017
Opening balance	**31 367**	**30 052**
Effects of implementing IFRS 9 and IFRS 15	397	–
Restated opening balance	**31 764**	**30 052**
Shareholder contributions related to the assumption of shares	100 000	–
Share in subsidiaries' net profit or loss	2 165	2 283
Dividends for non-controlling interests	(879)	(564)
Acquisition of non-controlling interests by the Group and mandatory squeeze-out	(353)	(437)
Share in actuarial gains/(losses) related to provisions for post-employment benefits	(40)	33
Closing balance	**132 657**	**31 367**

Contributions of NCI holders of PLN 100 000 thousand for the assumption of shares include payments made by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych to assume shares in the increased issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. as described in detail in Note 53 hereto.

31. Dividends paid

	Year ended 31 December 2018	Year ended 31 December 2017
Dividends paid by subsidiaries	(817)	(595)

In the year ended 31 December 2018 and in the year ended 31 December 2017 the Parent did not pay dividends.

32. Debt

SELECTED ACCOUNTING PRINCIPLES

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

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

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

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

PROFESSIONAL JUDGMENT AND ESTIMATES

When measuring liabilities at amortized cost using the effective interest rate method, the Group estimates future cash flows considering all contractual terms of a given financial instrument, including the early repayment option. As at the reporting period end, early buy-back of bonds was included in the measurement of liabilities arising from issue of hybrid bonds under agreements concluded with the European Investment Bank, in relation to the intention to buy-back the bonds after the end of the first financing period.

	As at 31 December 2018	As at 31 December 2017
Loans and borrowings	886 285	1 191 388
Bonds issued	10 077 067	8 637 435
Finance lease	25	23 973
Total	**10 963 377**	**9 852 796**
Non-current	8 488 210	9 501 414
Current	2 475 167	351 382

(in PLN '000)

32.1. Loans and borrowings

Loans and borrowings taken out as at 31 December 2018

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

Loans and borrowings taken out as at 31 December 2017

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

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

	Year ended 31 December 2018	Year ended 31 December 2017
Opening balance	**1 185 231**	**1 256 467**
Effects of implementing IFRS 9	(33 055)	–
Restated opening balance	**1 152 176**	**1 256 467**
Movement in bank overdrafts and cash pool loans received	**(96 683)**	**83 471**
Movement in loans (excluding bank overdrafts and cash pool loans):	**(173 911)**	**(154 707)**
Repaid	(168 874)	(154 918)
Taken	293	–
Forgiveness	(11 138)	–
Change in valuation	5 808	211
Closing balance	**881 582**	**1 185 231**

(in PLN '000)

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

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 December 2018	As at 31 December 2017
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	59 116	84 039
		Construction and start-up of a co-generation unit at EC Bielsko Biała	Fixed	15.12.2021	84 613	120 061
		Modernization and extension of power grid	Fixed	15.06.2024	212 219	266 139
			Fixed	15.09.2024	107 353	128 711
			Fixed	15.09.2024	134 738	160 819
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	252 637	282 341
Overdraft facility	Bank Gospodarstwa Krajowego	Financing of transactions involving emission allowance, energy and gas	Floating	31.12.2019	–	92 048
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	16 000	20 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	30.04.2019	792	13 881
Other loans and borrowings					18 817	23 349
Total					**886 285**	**1 191 388**

Concluding a loan agreement with Bank Gospodarstwa Krajowego

On 19 December 2018 the Company and Bank Gospodarstwa Krajowego ("BGK") concluded a loan agreement for PLN 1 000 000 thousand, to be used for:

- financing of Company's bonds assumed by BGK in 2014–2015 maturing in 2019–2020 (totaling PLN 270 000 thousand);
- financing capital expenditure of the TAURON Group.

Under the agreement, the funds shall be provided by 31 December 2020, and repaid in equal installments from 2024 to 2033. The interest shall be based on a floating rate (WIBOR 6M) increased by BGK's margin.

As at the balance sheet date, the Company did not contract any liability related to the above agreement concluded with BGK. After the reporting period end, in January and February 2019, tranches of the loan totaling PLN 730 000 thousand were availed.

(in PLN '000)

32.2. Bonds issued

Bonds issued as at 31 December 2018

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

[1] *Bond Issue Scheme dated 24 November 2015.*
[2] *In relation to hybrid (subordinate) financing two periods occur. The Company cannot early buy-back the bonds in the first (non-call) period, nor can EIB early sell them to third parties (in both cases except for cases indicated in the subscription agreement). In this period, the interest is fixed, while after the non-call period, it is floating and refers to the base rate (EURIBOR/WIBOR) increased by a determined margin.*

(in PLN '000)

Bonds issued as at 31 December 2017

Issuer	Tranche/ Bank	Interest	Currency	Bonds at nominal value in currency	Redemption date	As at balance sheet date		of which maturing within (*after the balance sheet date*):		
						Interest accrued	Principal at amortised cost	up to 2 years	2–5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	100 000	20.12.2019	107	99 869	99 869	–	–
				100 000	20.12.2020	107	99 838	–	99 838	–
				100 000	20.12.2021	107	99 817	–	99 817	–
				100 000	20.12.2022	107	99 800	–	99 800	–
				100 000	20.12.2023	107	99 787	–	–	99 787
				100 000	20.12.2024	107	99 778	–	–	99 778
				100 000	20.12.2025	107	99 770	–	–	99 770
				100 000	20.12.2026	107	99 761	–	–	99 761
				100 000	20.12.2027	107	99 756	–	–	99 756
				100 000	20.12.2028	107	99 752	–	–	99 752
				70 000	20.12.2020	74	69 963	–	69 963	–
				70 000	20.12.2021	74	69 961	–	69 961	–
				70 000	20.12.2022	74	69 959	–	69 959	–
				70 000	20.12.2023	74	69 958	–	–	69 958
				70 000	20.12.2024	74	69 957	–	–	69 957
				70 000	20.12.2025	74	69 956	–	–	69 956
				70 000	20.12.2026	74	69 956	–	–	69 956
				70 000	20.12.2027	74	69 955	–	–	69 955
				70 000	20.12.2028	74	69 955	–	–	69 955
				70 000	20.12.2029	74	69 955	–	–	69 955
	Banks (issue scheme underwriters)[1]	floating, based on WIBOR 6M	PLN	1 600 000	29.12.2020	389	1 597 188	–	1 597 188	–
	Domestic investors TPEA1119	floating, based on WIBOR 6M	PLN	1 750 000	4.11.2019	7 609	1 749 277	1 749 277	–	–
	European Investment Bank	fixed[2]	EUR	190 000	16.12.2034	1 597	791 355	–	–	791 355
	Eurobonds	fixed	EUR	500 000	5.07.2027	24 425	2 069 193	–	–	2 069 193
TAURON Sweden Energy AB (publ)	German market investors	fixed	EUR	168 000	3.12.2029	1 950	695 139	–	–	695 139
Total						**37 780**	**8 599 655**	**1 849 146**	**2 106 526**	**4 643 983**

[1] *Bond Issue Scheme dated 24 November 2015.*
[2] *In relation to hybrid (subordinate) financing two periods occur. The Company cannot early buy-back the bonds in the first (non-call) period, nor can EIB early sell them to third parties (in both cases except for cases indicated in the subscription agreement). In this period, the interest is fixed, while after the non-call period, it is floating and refers to the base rate (EURIBOR) increased by a determined margin.*

The Company has issued unsecured coupon bonds priced at the nominal value, except for Eurobonds with the issue price accounting for 99.438% of the nominal value.

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

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

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

	Year ended 31 December 2018	Year ended 31 December 2017
Opening balance	**8 599 655**	**7 666 081**
Issue*	1 347 943	2 703 643
Redemption	–	(1 650 000)
Change in valuation	87 306	(120 069)
Closing balance	**10 034 904**	**8 599 655**

* *Costs of issue and discount have been included.*

(in PLN '000)

In the year ended 31 December 2018, the Company issued (par value) the following bonds:

Date of issue	Agreement/ Scheme	Description	Year ended 31 December 2018
			Par value of issue
9.11.2018	Bond Issue Scheme dated 24 November 2015	Issue of bonds maturing on 9 November 2020	200 000
14.12.2018		Issue of bonds maturing on 14 March 2019	400 000
17.12.2018	Agreement with the European Investment Bank	Issue of bonds maturing on 17 December 2030	400 000
19.12.2018		Issue of bonds maturing on 19 December 2030	350 000
		Total	**1 350 000**

After the reporting period end, as part of the Bond Issue Scheme dated 24 November 2015:

– on 14 March 2019, the Company redeemed bonds with a nominal value of PLN 400 000 thousand according to the maturity date;

– on 25 March 2019, the Company issued bonds with a nominal value of PLN 100 000 thousand, with maturity date of 25 March 2020.

In addition, as part of the subordinated bond program of BGK concluded on 6 September 2017, the Company submitted a proposal to purchase on 29 March 2019 subordinated bonds with a nominal value of PLN 400 000 thousand with a maturity of 29 March 2031, and BGK confirmed the acceptance of this proposal.

Concluding hybrid financing agreements with the European Investment Bank

On 11 December 2018 the Company and the European Investment Bank (EIB) concluded a subscription and project agreements regarding the issue of hybrid bonds with the total par value of PLN 400 000 thousand. Funds raised from the issue shall be used to cover expenses of TAURON Dystrybucja S.A., a subsidiary, related to development and improvement of the power grid infrastructure in 2018–2022.

On 17 December 2018 the Company issued bonds under the above agreement. These are unsecured subordinated coupon bearer securities. 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 12 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 7 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 subscription agreement). The bonds bear fixed interest during the 1st Funding Period and during the next 5-year funding period ("2nd Funding Period") interest will be floating and determined by reference to WIBOR 6M increased by an agreed margin. Under the agreement, interest payment deadlines may be postponed until the buyback date or until the fifth day following the date of deciding on dividend payment at the latest.

As the bonds are subordinated, any claims arising therefrom will have priority of satisfaction only before the amounts due to the issuer's shareholders in the event of its bankruptcy or liquidation.

The bond issue positively affects TAURON Group's financial stability, since the bonds are excluded from the debt ratio calculation, a covenant underlying some financing programs. 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. They were rated "BB+" by the Fitch rating agency.

Additionally, on 13 December 2018, the Company and EIB signed another subscription and project agreements, that underlay the issue of hybrid bonds with the total par value of PLN 350 000 thousand ("B" Issue). The B Issue complements the A Issue. Therefore, in December 2018, the Company and EIB concluded agreements on the issue of subordinated bonds totaling PLN 750 000 thousand.

On 19 December 2018 the Company issued bonds under the above agreements. The remaining terms and parameters of the bonds comply with those of the A Issue.

Extension of the Bond Issue Scheme of 24 November 2015

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

(in PLN '000)

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

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

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

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 44.3 to these consolidated financial statements.

32.3. Debt agreement covenants

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. The key covenant is the net debt to EBITDA ratio (for the domestic bond issue schemes) which sets the debt less cash in relation to generated EBITDA. The maximum permissible value of the net debt/EBITDA ratio is 3.5, except for TPEA1119 series bonds, for which it is 3.0.

As at 31 December 2018, the net debt/EBITDA ratio calculated in line with the definition included in the issue terms regarding TPEA1119 series bearer bonds issued on 4 November 2014 for the total amount of PLN 1 750 000 thousand reached the level of 3.04, thus exceeding the maximum permissible level of 3.0 as determined in the issue terms regarding TPEA1119 series. This event may provide the basis to demand early buyback of the bonds, provided the bondholders' meeting approves such an action. The approval may take the form of a resolution passed by a majority of 66 and 2/3 percent of votes cast by bondholders present at the meeting. In March 2016 the Company signed an agreement with a group of bondholders that as at 31 December 2018 was entitled to exercise 41.93% of votes at the bondholders' meeting. Pursuant to the agreement, the bondholders being parties thereto are obliged to maintain the number of bonds held, to participate in each bondholders' meeting and to vote against a resolution approving the early buyback demand related to the net debt/EBITDA ratio having exceeded the 3.0 level. The contractual obligations remain valid provided that the net debt/EBITDA ratio does not exceed 3.5 (the ratio definition included in the agreement does not consider subordinated bond liabilities, i.e. it complies with the definitions included in other financing agreements concluded by the Issuer).

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

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

32.4. Finance lease

	As at 31 December 2018		As at 31 December 2017	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within 1 year	2	1	24 145	23 947
Within 1 to 5 years	8	8	8	8
More than 5 years	18	16	20	18
Minimum lease payments, total	**28**	**25**	**24 173**	**23 973**
Less amounts representing finance charges	(3)	–	(200)	–
Present value of minimum lease payments	**25**	**25**	**23 973**	**23 973**
Non-current	23	23	25	25
Current	2	2	23 948	23 948

(in PLN '000)

As at 31 December 2017, liability arising from the lease of a building in Katowice of PLN 23 945 thousand was the key finance lease item. In the year ended 31 December 2018 the liability expired in line with contractual terms, and the Group purchased the leased property.

33. Provisions for employee benefits

SELECTED ACCOUNTING PRINCIPLES

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

- retirement and disability benefits – paid on a one-off basis, when an employee retires or is vested with the right to receive disability benefits;
- death benefits;
- cash equivalent resulting from special tariff for energy sector employees;
- benefits from the Company's Social Benefit Fund.

The above provisions are included in the post-employment defined benefit plans.

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

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

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

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

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

PROFESSIONAL JUDGMENT AND ESTIMATES

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

	31 December 2018	31 December 2017
Discount rate (%)	3.00%	3.00%
Estimated inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	1.13% – 8.69%	1.15% – 8.64%
Estimated salary increase rate (%)	2.50%	1.80% – 2.50%
Estimated electricity price increase rate (%)	3.50%	3.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%	3.50%
Remaining average employment period	11.06 – 20.67	9.89 – 20.40

	As at 31 December 2018	As at 31 December 2017
Provision for post-employment benefits and jubilee bonuses	1 188 829	1 469 108
Provision for employment termination benefits and other provisions for employee benefits	42 649	45 815
Total	**1 231 478**	**1 514 923**
Non-current	1 114 191	1 380 650
Current	117 287	134 273

(in PLN '000)

33.1. Provisions for post-employment benefits and jubilee bonuses

Change in provisions for employee benefits for the year ended 31 December 2018

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**321 894**	**530 215**	**106 321**	**510 678**	**1 469 108**
Current service costs	16 273	9 207	2 735	22 342	**50 557**
Actuarial gains and losses, of which:	5 961	8 297	572	19 068	**33 898**
arising from changes in financial assumptions	13	–	–	10	**23**
arising from other changes	5 948	8 297	572	19 058	**33 875**
Benefits paid	(21 867)	(12 242)	(3 237)	(45 486)	**(82 832)**
Past service costs	217	(176 322)	(17 332)	(121 859)	**(315 296)**
Interest expense	8 792	11 112	2 661	10 829	**33 394**
Closing balance	**331 270**	**370 267**	**91 720**	**395 572**	**1 188 829**
Non-current	297 363	357 052	88 587	349 732	**1 092 734**
Current	33 907	13 215	3 133	45 840	**96 095**

Past service costs, which decreased the provisions in the year ended 31 December 2018 by PLN 315 296 thousand, result mainly from the release of the following provisions in the Generation segment:

– provision for the employee tariff in the part related to pensioners, in the amount of PLN 127 051 thousand, and to employees as future pensioners, in the amount of PLN 49 270 thousand, based on the Management Board's agreement with the social side and approved amendments to the Collective Labor Agreement;

– provision for jubilee bonuses of PLN 121 172 thousand based on arrangements amending employment contracts under which the bonuses will not be paid out;

– provision for the Company's Social Benefits Fund in the part related to pensioners, in the amount of PLN 12 419 thousand, and to employees as future pensioners, in the amount of PLN 5 469 thousand.

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

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

Change in provisions for employee benefits for the year ended 31 December 2017

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**307 281**	**532 184**	**112 469**	**526 209**	**1 478 143**
Current service costs	16 933	13 878	2 854	32 622	**66 287**
Actuarial gains and losses, of which:	1 452	(7 880)	(13 225)	4 082	**(15 571)**
arising from changes in financial assumptions	(5 572)	–	–	(7 750)	**(13 322)**
arising from changes in demographic assumptions	–	–	(18)	(167)	**(185)**
arising from other changes	7 024	(7 880)	(13 207)	11 999	**(2 064)**
Benefits paid	(25 382)	(19 663)	(3 750)	(58 243)	**(107 038)**
Past service costs	13 442	(2 802)	4 736	(8 013)	**7 363**
Interest expense	8 168	15 338	3 237	14 021	**40 764**
Other changes	–	(840)	–	–	**(840)**
Closing balance	**321 894**	**530 215**	**106 321**	**510 678**	**1 469 108**
Non-current	293 043	510 172	102 495	454 107	**1 359 817**
Current	28 851	20 043	3 826	56 571	**109 291**

(in PLN '000)

Sensitivity analysis

As at 31 December 2018 the Group analyzed sensitivity of measurement results to changes in the financial discounting rates and changes in the planned increases in the base amounts in the range of -0.5 p.p./+0.5 p.p.

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

Provision title	Carrying amount as at 31 December 2018	Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	331 270	345 694	317 851	317 711	345 711
Employee electricity rates	370 267	400 143	343 792	343 792	399 838
Costs of appropriation to Social Benefits Fund	91 720	99 197	85 088	85 088	99 121
Jubilee bonuses	395 572	408 544	383 352	386 572	405 040
Total		**1 253 578**	**1 130 083**	**1 133 163**	**1 249 710**

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

Provision title	Carrying amount as at 31 December 2018	Deviations			
		Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	331 270	14 424	(13 419)	(13 559)	14 441
Employee electricity rates	370 267	29 876	(26 475)	(26 475)	29 571
Costs of appropriation to Social Benefits Fund	91 720	7 477	(6 632)	(6 632)	7 401
Jubilee bonuses	395 572	12 972	(12 220)	(9 000)	9 468
Total		**64 749**	**(58 746)**	**(55 666)**	**60 881**
effect on profit/loss		12 972	(12 220)	(9 000)	9 468
effect on other comprehensive income		51 777	(46 526)	(46 666)	51 413

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

Provisions for employee benefits by maturity

Year	Retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
2019	33 907	13 215	3 133	45 840	**96 095**
2020	20 407	14 335	3 324	35 649	**73 715**
2021	22 106	14 019	3 276	34 565	**73 966**
2022	15 398	13 731	3 230	30 578	**62 937**
2023	16 612	13 513	3 200	29 271	**62 596**
Other years	222 840	301 454	75 557	219 669	**819 520**
Total	**331 270**	**370 267**	**91 720**	**395 572**	**1 188 829**

33.2. Provisions for employment termination benefits and other provisions for employee benefits

Year ended 31 December 2018

	Voluntary redundancy schemes			Other provisions	Total
	Segment Generation	Segment Distribution	Other		
Opening balance	**29 567**	**10 542**	**5 706**	**–**	**45 815**
Recognition	10 198	5 100	–	18 619	**33 917**
Reversal	(2 245)	(7 917)	–	(338)	**(10 500)**
Utilization	(10 629)	(2 625)	(5 706)	(7 623)	**(26 583)**
Closing balance	**26 891**	**5 100**	**–**	**10 658**	**42 649**
Non-current	21 457	–	–	–	**21 457**
Current	5 434	5 100	–	10 658	**21 192**

(in PLN '000)

Year ended 31 December 2017

	Voluntary redundancy schemes			Other provisions	Total
	Segment Generation	Segment Distribution	Other		
Opening balance	**17 599**	**17 062**	**16 561**	**2 248**	**53 470**
Recognition	24 076	10 025	244	–	**34 345**
Reversal	(1 940)	(4 982)	–	–	**(6 922)**
Utilization	(10 168)	(11 563)	(11 099)	(2 248)	**(35 078)**
Closing balance	**29 567**	**10 542**	**5 706**	**–**	**45 815**
Non-current	20 833	–	–	–	**20 833**
Current	8 734	10 542	5 706	–	**24 982**

In the year ended 31 December 2018 a Mining segment company recognized a provision for the employee tariff equivalent for pensioners and a provision for appropriation to the Social Benefits Fund for pensioners and other eligible individuals in order to provide funds for these performances for 2018 and 2019 (presented in other provisions for employee benefits).

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

SELECTED ACCOUNTING PRINCIPLES

Provision for mine decommissioning costs

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

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

For coal mines a corresponding entry is made in line with IAS 16 *Property, plant and equipment* as a fixed asset of a mine and changes in estimates are disclosed in line with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, i.e. as adjustments to the provision and capitalized future mine decommissioning costs. The unwinding of discount is recognized in profit or loss.

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

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

PROFESSIONAL JUDGMENT AND ESTIMATES

The Group estimates the amount of provisions recognized based on assumptions, methodology and calculations appropriate for a given type of provisions, evaluating the probability of spending funds that incorporate economic benefits and determining the reliable level of funds necessary to perform the obligation. Provisions are recognized if probability of spending funds that incorporate economic benefits is higher than 50%.

Year ended 31 December 2018

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
Opening balance	**191 975**	**124 091**	**316 066**
Interest cost (discounting)	5 759	3 711	**9 470**
Recognition/(reversal), net	4 865	10 232	**15 097**
Utilisation	–	(2 156)	**(2 156)**
Closing balance	**202 599**	**135 878**	**338 477**
Non-current	202 599	102 378	**304 977**
Current	–	33 500	**33 500**
Other provisions, long-term portion			**91 536**
Total			**396 513**

(in PLN '000)

Year ended 31 December 2017

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
Opening balance	**146 885**	**115 302**	**262 187**
Interest cost (discounting)	5 141	3 713	**8 854**
Discount rate adjustment	39 830	5 012	**44 842**
Recognition/(reversal), net	119	64	**183**
Closing balance	**191 975**	**124 091**	**316 066**
Non-current	191 975	99 214	**291 189**
Current	–	24 877	**24 877**
Other provisions, long-term portion			**59 949**
Total			**351 138**

34.1. Provision for mine decommissioning costs

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

The provision balance as at 31 December 2018 was PLN 202 599 thousand.

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

Mine Decommissioning Fund financial assets

	Year ended 31 December 2018	Year ended 31 December 2017
Assets as at 1 January	**42 475**	**41 163**
Contributions made	4 150	4 441
Interest	2 133	973
Use	(1 632)	(4 102)
Assets as at 31 December	**47 126**	**42 475**
Transfers made to the MDF in the period	(4 037)	(4 155)

Provision for mine decommissioning costs

	Year ended 31 December 2018	Year ended 31 December 2017
Mine Decommissioning Fund	50 931	46 348
Surplus of discounted estimated decommissioning costs	151 668	145 627
Total	**202 599**	**191 975**

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

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

– provision for ash pile reclamation costs, which totaled PLN 42 150 thousand as at 31 December 2018 (versus PLN 40 990 thousand as at 31 December 2017);

– provision for windfarm dismantling costs, which totaled PLN 60 033 thousand as at 31 December 2018 (versus PLN 57 887 thousand as at 31 December 2017);

(in PLN '000)

– provision for costs of liquidation of fixed assets – a chimney in Elektrownia Jaworzno as well as cooling towers and a unit in Elektrownia Łagisza, which totaled PLN 33 695 thousand as at 31 December 2018 (versus PLN 25 214 thousand as at 31 December 2017).

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

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

Year ended 31 December 2018

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**324 937**	**624 009**	**948 946**
Recognition	611 668	676 682	**1 288 350**
Reversal	(81)	(8 984)	**(9 065)**
Utilisation	(825 118)	(907 641)	**(1 732 759)**
Closing balance	**111 406**	**384 066**	**495 472**

For the year ended 31 December 2017 *(restated)*

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**209 736**	**742 120**	**951 856**
Recognition	324 937	653 531	**978 468**
Reversal	(84)	(10 471)	**(10 555)**
Utilisation	(209 652)	(761 171)	**(970 823)**
Closing balance	**324 937**	**624 009**	**948 946**

35.1. Provision for gas emission liabilities

SELECTED ACCOUNTING PRINCIPLES

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

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

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

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

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

As at 31 December 2018, the provision for gas emission liability pertaining to the year ended 31 December 2018 was PLN 111 406 thousand and included the following companies:

– TAURON Wytwarzanie S.A.: PLN 64 450 thousand;

– TAURON Ciepło Sp. z o.o.: PLN 46 956 thousand.

(in PLN '000)

A change in provision for liability arising from gas emissions in the year ended 31 December 2018 allocated to obligations pertaining to 2018 and 2017 is presented in the following table.

	Fulfill the obligation to surrender for 2018	Fulfill the obligation to surrender for 2017	Total
Opening balance	**–**	**324 937**	**324 937**
Recognition	609 775	1 893	**611 668**
Reversal	–	(81)	**(81)**
Utilisation	(498 369)	(326 749)	**(825 118)**
Closing balance	**111 406**	**–**	**111 406**

35.2. Provision for the obligation to surrender energy certificates

SELECTED ACCOUNTING PRINCIPLES

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

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

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

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

The provision is charged to operating expenses.

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

As at 31 December 2018, the short-term provision for the obligation to surrender energy certificates for 2018 was estimated at PLN 384 066 thousand, including PLN 90 267 thousand covered by the certificates held as at the end of the reporting period, PLN 224 218 thousand planned to be covered by the payment of the substitution fee and PLN 69 581 thousand by the purchase of property rights.

In the year ended 31 December 2018, the Group fulfilled the obligation to surrender certificates of electricity generated using renewable sources, in CHP units and energy efficiency certificates for 2017 and partly for 2018. Therefore, a provision of PLN 907 641 thousand was used.

36. Other provisions

SELECTED ACCOUNTING PRINCIPLES

Other provisions include:

- A provision for use of real estate without contract

  The Group recognizes provisions for all claims filed by owners of real estate on which power or technology facilities, distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period (with accrued interest, if it can be reliably estimated). The Group does not establish a provision for possible claims of owners of land with unregulated status, which have not been lodged, including real and transmission easement. Recognition and reversal of the provision is charged to other operating revenue or other operating expenses and interest accrued is charged to finance income or finance costs.
- Provision for onerous contracts

  If the Group is a party to a contract pursuant to which unavoidable costs of fulfilling the contractual obligations exceed the expected contractual benefits, the present contractual obligation is recognized and measured as a provision. Unavoidable contractual costs include at least the net cost of contract closing, corresponding to the lower of the contract performance cost and the cost of all damages arising from a failure to perform the contract. Unavoidable obligation fulfilling costs are increased by due interest if it can be reliably estimated.

(in PLN '000)

- Other provisions relate to court cases, counterparty claims or other claims, possible fines resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office of Competition and Consumer Protection and tax settlements.

PROFESSIONAL JUDGMENT AND ESTIMATES

The Group estimates the amount of provisions recognized based on assumptions, methodology and calculations appropriate for a given type of provisions, evaluating the probability of spending funds that incorporate economic benefits and determining the reliable level of funds necessary to perform the obligation. Provisions are recognized if probability of spending funds that incorporate economic benefits is higher than 50%.

Year ended 31 December 2018

	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**92 030**	**–**	**296 313**	**388 343**
Unwinding of discount	–	–	3 213	**3 213**
Recognition/(reversal), net	937	213 996	25 880	**240 813**
Utilisation	(857)	–	(14 111)	**(14 968)**
Closing balance	**92 110**	**213 996**	**311 295**	**617 401**
Non-current	–	11 759	79 777	**91 536**
Current	92 110	202 237	231 518	**525 865**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions				**33 500**
Total				**559 365**

Year ended 31 December 2017

	Provision for use of real estate without contract	Provision for onerous contracts with a jointly-controlled entity and provision for costs	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**92 143**	**198 844**	**262 592**	**553 579**
Unwinding of discount	–	2 330	3 144	**5 474**
Recognition/(reversal), net	1 141	(201 174)	55 122	**(144 911)**
Utilisation	(531)	–	(25 270)	**(25 801)**
Other changes	(723)	–	725	**2**
Closing balance	**92 030**	**–**	**296 313**	**388 343**
Non-current	–	–	59 949	**59 949**
Current	92 030	–	236 364	**328 394**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions				**24 877**
Total				**353 271**

36.1. Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 31 December 2018, the relevant provision amounted to PLN 92 110 thousand and was related to the following segments:

– Generation – PLN 51 119 thousand;

– Distribution – PLN 40 991 thousand.

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

36.2. Provisions for onerous contracts

Provisions for onerous contracts related to the Act Amending the Excise Duty Act and Certain Other Acts coming into effect

The Act on the amendment to the act on the excise tax and some other acts ("Act") came into force on 28 December 2018. In accordance with the Act, in its version applicable as of 31 December 2018, energy companies (electric utilities) dealing with electricity trading were obligated to apply in 2019 gross prices and fee rates not higher than the gross prices and fee rates included in the tariff or electricity price list in force on 30 June 2018, taking into account the reduction of the excise tax rate for electricity. In the Group's understanding the term tariff is in accordance with the definition provided in art. 3, clause 17 of the act of 10 April 1997 – Energy Law. According to this regulation a tariff shall be understood as a set of prices and fee rates, as well as the conditions for the application thereof, prepared by an energy company (electric utility) and introduced as applicable for the consumers specified therein in accordance with the procedure defined in the Energy Law. In accordance with the Act, in its version announced on 31 December 2018, the electricity price list, in the Group's interpretation, was a set of prices and fee rates for electricity, prepared by an energy company (electric utility) and introduced as applicable for the consumers specified therein. Thus, it was a counterpart of a tariff, but it did not require an approval by the President of the Energy Regulatory Office. Within such meaning, according to the legal status as of 31 December 2018, the term electricity price list, in the understanding of TAURON Group's companies, did not include agreements based on an individually negotiated price of electricity or agreements concluded in accordance with the procedure defined in the act of 29 January 2004 – Public procurement law. Therefore, the term electricity price list included the general price lists and the product price lists applied by the trading companies with respect to groups of final consumers.

Due to the Act coming into force the Group recognized, in the Supply segment, a provision for the contracts creating net liabilities in the amount of PLN 213 756 thousand. The provision was calculated based on the unavoidable costs in the understanding of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The Group recognizes, as unavoidable costs, the costs of implementing such contracts, i.e. a loss on the contracts, namely the occurrences of a negative difference between the electricity sales prices and the costs of electricity purchases, in accordance with the forward contracts concluded, increased by the excise tax and the costs of redeeming (retiring) property rights. At the same time, the act introduced a system of compensations that envisages covering the difference between the price indicated in the tariff or in the electricity price list and the weighted average electricity price on the wholesale market. However, the act does not include detailed guidelines with respect to calculating the compensations. Due to the inability to determine the value of the compensations as of the balance sheet day, their potential effect was not taken into account in the report.

After the reporting period end, on 20 March 2019, the Act Amending the Act on Excise Duty and Certain Other Acts of 21 February 2019 came into effect (the "amendment"). Under the amendment, the obligation to apply tariffs and price lists used as at 30 June 2018 is replaced by the obligation to apply an individual price charged to a given buyer as at 30 June 2018. As far as the compensation is concerned, the refund of the difference between the weighted average wholesale price (determined in line with principles included in the regulation that has not been issued) and the revenue arising from the price list shall be replaced with compensation of the difference between the revenue for electricity trade determined based on costs arising from the average volume-weighted electricity price on the wholesale market, total costs incurred by the enterprise, costs of property rights package and margin and the revenue arising from the application of individual prices binding as at 30 June 2018. According to the Group, the above amendment is, under IAS 10 *Events after the Reporting Period*, an event triggering conditions that occur after the reporting period end and thus does not require any adjustments to be made in relation to the reporting period. Thus, the effects of the amendment were not considered in the provision recognized as at 31 December 2018. Pursuant to the statutory authorization included in Article 7.2.2) of the amended Act, the Minister of Energy shall issue a regulation determining the manner to calculate electricity prices for end buyers applicable after 30 June 2018 and shall make a public announcement of certain parameters referred to in the amendment. The above regulations shall clarify the legal status determined by the amended Act and crucially affect the Group's ability to reliably estimate the compensation receivable and recognize it in subsequent reporting periods. Based on the amended Act, regulation and announcement of the Minister of Energy, the Group shall re-estimate the provision and shall be entitled (and able) to reliably calculate and recognize the compensation revenue in the reporting periods beginning after 31 December 2018.

Provisions for onerous contracts with a joint venture and for costs

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

(in PLN '000)

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

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

Material provisions recognized as other provisions have been discussed below:

Item	Operating segment	Description	As at 31 December 2018	As at 31 December 2017
Provisions for penalties fixed by the contracts	Generation	Considering the risk that the projects listed below will not be continued (their continuity is required under the subsidy contracts): • construction of a biomass boiler in Elektrownia Jaworzno III; • construction of a system of power generation from renewable sources in Stalowa Wola; in 2016 a provision has been recognised for the costs of returning the subsidy totalling PLN 52 297 thousand. The revalued provision as at 31 December 2018 amounted to PLN 58 493 thousand.	58 493	55 358
Provision for increased transmission easement charges	Distribution	The provision is related to the risk of an increase in regular fees for transmission easement related to power infrastructure located in areas controlled by the Regional Directorate of State Forests in Wrocław and results from a change in the status of land: from forestry to business purposes. In the year ended 31 December 2018, the provision was increased by PLN 21 250 thousand.	68 900	47 650
Provision for a fine to the Energy Regulatory Office	Distribution	The provision was recognized due to the risk of violation of the Energy Law of 10 April 1997 by misleading the President of the Energy Regulatory Office, following his demand for information.	6 000	6 000
Provision for real estate tax	Distribution	Provision for the business risk regarding tax on real property classified as power grid assets.	39 356	39 356
	Mining	In the year ended 31 December 2018, a Mining sector company used the provision for proceedings regarding real property tax on underground structures of PLN 746 thousand. The remaining balance was derecognized.	–	3 446
Provision for VAT	Sales	The provision was recognized in connection with pending inspection proceedings instituted by the Director of the Tax Inspection Office in Warszawa ("TIO Director") in relation to the value added tax. The duration of these proceedings was several times extended by the TIO Director and by the Head of Mazowiecki Customs and Tax Office. The new inspection completion dates have been determined at 22 and 28 April 2019 as well as 23 May 2019. As at 31 December 2018, the relevant provision amounted to PLN 72 894 thousand. An increase in the provision by PLN 4 200 thousand is attributable to interest accrued for the year ended 31 December 2018.	72 894	68 694

(in PLN '000)

37. Accruals, deferred income and government grants

SELECTED ACCOUNTING PRINCIPLES

Deferred income and government grants

- **FOR THE YEAR ENDED 31 DECEMBER 2018**

The Group's deferred income and government grants include mainly grants and subsidies received to acquire property, plant and equipment, as well as subsidies to R&D activities.

Grants and subsidies received to acquire property, plant and equipment are recognized at the value of cash received as other operating revenue matching the corresponding depreciation expense related to items of property, plant and equipment. This regards in particular partly canceled debt and accounting treatment of preferential loans measurement.

- **FOR THE YEAR ENDED 31 DECEMBER 2017**

Until 31 December 2017, under deferred income the Group recognized deferred connection fees regarding transactions which fall within the scope of IFRIC 18 *Transfers of Assets from Customers* and were received before 1 July 2009. After 1 July 2009, in accordance with IFRIC 18 *Transfers of Assets from Customers*, the said connection fees were recognized within revenue from sales of services.

Accrued expenses

Accruals are liabilities regarding goods / services received / performed but not paid for, billed or formally agreed with suppliers, including amounts payable to employees. Although sometimes the amount or maturity of accruals must be estimated, usually the uncertainty level is much lower than that regarding provisions.

37.1. Deferred income and government grants

	As at 31 December 2018	As at 31 December 2017
Deferred income	**56 822**	**259 220**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	52 431	62 342
Connection fees	–	195 666
Other	4 391	1 212
Government grants	**415 162**	**333 556**
Subsidies obtained from EU funds	311 285	235 065
Forgiven loans from environmental funds	37 464	26 258
Measurement of preferential loans	34 053	36 251
Other	32 360	35 982
Total	**471 984**	**592 776**
Non-current	440 206	541 318
Current	31 778	51 458

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

37.2. Accrued expenses

	As at 31 December 2018	As at 31 December 2017
Unused holidays	51 445	54 679
Bonuses	60 524	105 072
Environmental protection charges	33 113	45 133
Other	23 340	40 234
Total	**168 422**	**245 118**
Non-current	103	–
Current	168 319	245 118

(in PLN '000)

38. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

The Group measures financial liabilities with simplified methods, usually at amortized cost, if this does not result in a misstatement of data presented in the financial statements, in particular if the time remaining to the date of payment is short. Liabilities to which the simplified approach is applied are measured upon initial recognition and in subsequent periods, including at the end of the reporting period, at amount due. Liabilities to suppliers, investment liabilities (Note 39) and selected other financial liabilities (Note 41) are therefore measured at amount due since the effect of discount is insignificant.

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

Operating segment	As at 31 December 2018	As at 31 December 2017
Distribution, including:	312 053	355 374
Polskie Sieci Elektroenergetyczne S.A.	*227 095*	*231 973*
Sales	429 501	265 660
Mining	168 076	172 758
Generation	150 731	164 980
Other	67 377	83 655
Total	**1 127 738**	**1 042 427**

39. Capital commitments

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

Operating segment	As at 31 December 2018	As at 31 December 2017
Distribution	453 887	438 492
Generation	219 849	227 084
Mining	88 001	74 682
Sales and other	33 180	57 046
Total	**794 917**	**797 304**

Long-term capital commitments have been presented in the consolidated statement of financial position within other financial liabilities. As at 31 December 2018, the related liability was PLN 59 thousand. As at 31 December 2017, the related liability was PLN 10 666 thousand.

Commitments to incur capital expenditure

As at 31 December 2018 and 31 December 2017, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 403 880 thousand and PLN 3 891 230 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 31 December 2018	As at 31 December 2017
Generation	Constructin new capacity in Jaworzno III Power Plant (910 MW)	1 593 273	2 277 479
Distribution	Construction of new electrical connections	497 276	594 627
	Modernization and reconstruction of existing networks	671 960	451 907
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	210 314	235 377
	Construction of the 800 m drift at "Janina" Mining Plant	102 134	112 065
	Investment Program in "Brzeszcze" Mining Plant	32 781	25 617

(in PLN '000)

40. Liabilities arising from other taxes and charges

	As at 31 December 2018	As at 31 December 2017 (*restated figures*)
Personal Income Tax	58 898	54 161
Excise	44 693	43 760
VAT	81 227	110 867
Social security	210 940	190 443
Other	9 896	12 483
Total	**405 654**	**411 714**

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

Tax reports and other matters (e.g. customs or foreign currency transactions) may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities assessed during such audits have to be paid together with interest.

Consequently, the figures presented and disclosed in these consolidated financial statements may change in the future if a final decision is issued by tax inspection authorities.

41. Other financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other financial liabilities classified as measured at amortized cost are initially recognized at fair value adjusted by transaction costs. Following initial recognition, other financial liabilities are measured at amortized cost using an effective interest rate. If the discount effect is insignificant, they are measured at amount due.

Derivatives are financial liabilities measured at fair value.

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each reporting period end, the Group estimates fair value of liabilities measured at fair value. The fair value calculation methodology is presented in Note 44 hereto.

	As at 31 December 2018	As at 31 December 2017 (*restated figures*)
Wages, salaries	225 829	203 544
Bid bonds, deposits and collateral received	81 492	86 233
Insurance contracts	8 380	3 246
Derivative instruments	240 922	62 466
Margin deposits arising from stock exchange transactions	248 480	7 163
Other	76 238	71 389
Total	**881 341**	**434 041**
Non-current	107 770	91 879
Current	773 571	342 162

An increase in the value of liabilities resulting from a negative measurement of derivatives in the amount of PLN 178 456 thousand is mostly related to transactions regarding greenhouse gas emission allowances and results from a growth in both their price and in the number of concluded contracts. An increase in the value of liabilities from negative measurement of concluded transactions on emission allowances amounts to PLN 147 726 thousand.

Variation margins are related mostly to futures transactions on the greenhouse emissions allowances concluded on foreign regulated markets. Margin deposits are funds received by the Group due to current stock exchange settlements, due to a change in the valuation of open futures contracts as at the balance sheet date.

(in PLN '000)

42. Other current non-financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other non-financial liabilities include in particular overpayments received from clients and liabilities arising from advance payments received, which shall be offset with deliveries of goods, services or tangible assets. Other non-financial liabilities are recognized at amount due.

	As at 31 December 2018	As at 31 December 2017
Payments from customers relating to future periods	**335 483**	**309 207**
Amounts overpaid by customers	279 205	253 182
Prepayments for connection fees	17 583	16 741
Other	38 695	39 284
Other current non-financial liabilities	**1 565**	**1 643**
Total	**337 048**	**310 850**

(in PLN '000)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

43. Significant items of the consolidated statement of cash flows

SELECTED ACCOUNTING PRINCIPLES

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

43.1. Cash flows from operating activities

Changes in working capital

	Year ended 31 December 2018	Year ended 31 December 2017 *(restated figures)*
Change in receivables	**(402 821)**	**(171 885)**
Change in receivables from buyers in statement of financial position	(196 587)	(138 748)
Change in other financial receivables	(174 993)	(28 132)
Adjustment due to change in receivables due to disposal of property, plant and equipment and financial assets	(3 153)	(3 636)
Adjustment accounting for impairment allowances recognized in correspondence with retained earnings following the endorsement of IFRS 9 *Finanical Instruments*	(31 471)	–
Other adjustments	3 383	(1 369)
Change in inventories	**(222 443)**	**188 060**
Change in inventories in statement of financial position	(214 338)	190 657
Adjustment related to transfer of invetories to/from property, plant and equipment	(8 105)	(2 597)
Change in payables excluding loans and borrowings	**387 953**	**233 303**
Change in liabilities to suppliers in statement of financial position	85 311	212 698
Change in payroll, social security and other financial liabilities	279 451	33 099
Change in non-financial liabilities in statement of financial position	36 117	9 671
Change in liabilities arising from taxes excluding income tax	(6 060)	4 730
Adjustment of VAT change related to capital commitments	(2 563)	(29 255)
Other adjustments	(4 303)	2 360
Change in other non-current and current assets	**47 223**	**137 779**
Change in other current and non-current non-financial assets in statement of financial position	41 605	173 507
Change in receivables arising from taxes excluding income tax	32 252	(61 612)
Change in non-current and current gas emission allowances	(32 143)	(92 594)
Change in non-current and current energy certificates	124 267	230 847
Change in advance payments for property, plant and equipment and intangible assets	(62 394)	(110 152)
Adjustment accounting for costs of acquiring new contracts and bonuses capitalized in correspondence with retained earnings as a result of endorsement of IFRS 15 *Revenue from Contracts with Customers*	26 355	–
Adjustment by impairment losses on other non-financial assets	(83 113)	–
Other adjustments	394	(2 217)
Change in deferred income, government grants and accruals	**(130 315)**	**(29 351)**
Change in deferred income, government grants and accruals in statement of financial position	(197 488)	15 939
Adjustmet related to property, plant and equipment and intangible assets received free of charge	(26 351)	(9 413)
Adjustment related to subsidies received	(91 003)	(35 877)
Adjustment accounting for recognizing deferred income from connection fees in retained earnings following the endorsement of IFRS 15 *Revenue from Contracts with Customers*	195 666	–
Other adjustments	(11 139)	–
Change in provisions	**(512 139)**	**(145 455)**
Change of short term and long term provisions in statement of financial position	(489 893)	(130 957)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	(14 830)	19 653
Adjustment for the change in provisions for land reclamation and dismantling recognized under property, plant and equipment	(5 199)	(33 212)
Other adjustments	(2 217)	(939)
Total	**(832 542)**	**212 451**

(in PLN '000)

Income tax paid

Income taxes paid totaled PLN 392 184 thousand and included PLN 389 078 thousand relating to the Tax Capital Group and resulting from payment by the Tax Capital Group income tax advance payments of PLN 342 734 thousand paid in the year ended 31 December 2018 as well as the TCG's payment of income tax for 2017 in the amount of PLN 46 344 thousand.

In the year ended 31 December 2017, income taxes paid totaled PLN 143 217 thousand and included PLN 136 824 thousand relating to the Tax Capital Group and resulting from the paid income tax advance payments of PLN 215 848 thousand as well as the TCG's receipt of overpaid income tax for 2016 in the amount of PLN 79 024 thousand.

43.2. Cash from/used in investing activities

Purchase of property, plant and equipment and intangible assets

	Year ended 31 December 2018	Year ended 31 December 2017
Purchase of property, plant and equipment	(3 408 636)	(3 243 046)
Purchase of intangible assets	(123 047)	(125 070)
Change in the balance of VAT-adjusted capital commitments	(10 431)	(196 878)
Change in the balance of advance payments	62 394	110 152
Costs of overhaul and internal manufacturing	(104 745)	(106 032)
Other	8 754	(884)
Total	**(3 575 711)**	**(3 561 758)**

Loans granted

The Company's expenses related to loan granting include:

- a loan disbursed to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 47 310 thousand, which has been discussed in more detail in Note 22 to these consolidated financial statements and
- a loan granted to PGE EJ 1 Sp. z o.o. of PLN 4 800 thousand.

Repayment of loans granted

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

Dividends received

Proceeds from dividends received in the amount of PLN 23 608 thousand concern mainly the dividends received by the Company from a jointly-controlled entity, TAMEH HOLDING Sp. z o.o., in the amount of PLN 16 260 thousand.

43.3. Cash from/used in financing activities

Loans and borrowings repaid

Cost of repaying loans and borrowings of PLN 168 874 thousand disclosed in the consolidated statement of cash flows result mainly from the Parent's repayment of installments of a loan obtained from the European Investment Bank in the amount of PLN 162 318 thousand in the year ended 31 December 2018.

Interest paid

	Year ended 31 December 2018	Year ended 31 December 2017
Interest paid in relation to debt securities	(258 358)	(246 790)
Interest paid in relation to loans and borrowings	(30 355)	(42 978)
Interest paid in relation to the finance lease	(196)	(727)
Total	**(288 909)**	**(290 495)**
investment expenditure	(128 739)	(105 945)
financial expenditure	(160 170)	(184 550)

The Group's consolidated statement of cash flows presents incurred borrowing costs which were capitalized in the current period in the value of assets as payments to acquire property, plant and equipment and intangible assets in cash flows from investing activities. In the year ended 31 December 2018, interest constituting borrowing costs which were capitalized in the value of property, plant and equipment and intangible assets amounted to PLN 128 739 thousand.

Issue of debt securities

Proceeds from the issue of debt securities in the year ended 31 December 2018 are related to:

- the issue of bonds with the total par value of PLN 600 000 thousand under a Bond Issue Scheme of 24 November 2015, which has been discussed in more detail in Note 32.2 to these consolidated financial statements;
- the issue of tranches of hybrid bonds with the total nominal value of PLN 750 000 thousand under agreements with the European Investment Bank, concluded in December 2018, as described in more detail in Note 32.2 to these consolidated financial statements.

Proceeds from non-controlling interests

Proceeds from non-controlling interests of PLN 100 000 thousand are related to cash contribution paid by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with the registered office in Warsaw to assume shares in the increased share capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. as described in detail in Note 53 hereto.

Subsidies and compensations received

Subsidies and compensations of PLN 102 359 thousand are related mostly to the advance payment of PLN 75 135 thousand received by TAURON Obsługa Klienta Sp. z o.o. as a part of funding granted by European Regional Development Fund to carry out seven projects during the "Digital Poland" competition.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

44. Financial instruments

SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2018

Financial assets held by the Group in line with IFRS 9 *Financial Instruments* are divided into the following classes of financial instruments:

- financial assets measured at amortized cost;
- financial assets measured at fair value through profit or loss.

As at the reporting period end, the Group had no financial assets measured at fair value through other comprehensive income.

Pursuant to IFRS 9 *Financial Instruments*, financial assets are classified upon initial recognition based on cash flow characteristics (SPPI test) and a business model underlying the management of a given financial asset.

The above equity instruments are measured at fair value through profit or loss in line with IFRS 9 *Financial Instruments*.

Classes of financial liabilities in the TAURON Group:

- financial liabilities measured at fair value through profit or loss;
- other financial liabilities measured as at each subsequent reporting period end at amortized cost.

SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2017

In the year ended 31 December 2017 the Group classified and measured financial assets under IAS 39 *Financial Instruments: Recognition and Measurement* in the following classes of financial assets:

- financial assets measured at fair value through profit or loss;
- financial assets available for sale;
- loans and receivables.

The Group did not have any financial assets classified as held to maturity.

Accounting principles regarding liabilities did not materially differ from those applied in the year ended 31 December 2018, except for recognition of effects of contractual cash flows modification, as described in detail in Note 8.1 hereto.

PROFESSIONAL JUDGMENT AND ESTIMATES

The Group makes judgments regarding classification of financial instruments.

As at each reporting period end, the Group measures the fair value of assets and liabilities classified as measured at fair value and discloses the fair value of other financial instruments. The methodology underlying fair value measurement is presented below.

The Group recognizes an impairment loss upon initial recognition of a financial asset and then remeasures the loss amount as at each reporting period end. The recognized allowance for expected credit losses on financial assets measured at amortized cost includes mostly receivables from buyers and originated loans. The measurement methodology is presented in Notes 26 and 45.1.4 hereof.

(in PLN '000)

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

Categories and classes of financial assets	As at 31 December 2018		Categories and classes of financial assets	As at 31 December 2017 (*restated figures*)	
	Carrying amount	Fair value		Carrying amount	Fair value
1 Financial assets measured at amortized cost	**2 337 094**		**1 Assets at fair value through profit or loss, held for trading**	**154 574**	
Receivables from buyers	2 229 400	2 229 400	Derivative instruments	53 216	53 216
Deposits	47 126	47 126	Investment fund units	101 358	101 358
Loans granted	28 296	28 296	**2 Financial assets available for sale**	**144 417**	
Other financial receivables	32 272	32 272	Shares (non-current)	141 656	
2 Financial assets measured at fair value through profit or loss (FVTPL)	**1 626 932**		Shares (current)	42	
Derivative instruments	216 165	216 165	Investment fund units	2 719	2 719
Shares (non-current)	138 450	138 450	**3 Loans and receivables**	**2 734 059**	
Shares (current)	42	42	Receivables from buyers	2 032 813	2 032 813
Loans granted	199 256	199 256	Deposits	39 756	39 756
Other financial receivables	223 232	223 232	Loans granted	580 979	491 171
Investment fund units	26 063	26 063	Other financial receivables	80 511	80 511
Cash and cash equivalents	823 724	823 724	**4 Financial assets excluded from the scope of IAS 39**	**499 204**	
3 Derivative hedging instruments	**4 178**	**4 178**	Investments in joint ventures	499 204	
4 Financial assets excluded from the scope of IFRS 9	**543 913**		**5 Derivative hedging instruments**	**28 482**	**28 482**
Investments in joint ventures	543 913		**6 Cash and cash equivalents**	**909 249**	**909 249**
Total financial assets, of which in the statement of financial position:	**4 512 117**		**Total financial assets, of which in the statement of financial position:**	**4 469 985**	
Non-current assets	**1 015 992**		**Non-current assets**	**978 325**	
Investments in joint ventures	543 913		Investments in joint ventures	499 204	
Loans granted to joint ventures	217 402		Loans granted to joint ventures	240 767	
Other financial assets	254 677		Other financial assets	238 354	
Current assets	**3 496 125**		**Current assets**	**3 491 660**	
Receivables from buyers	2 229 363		Receivables from buyers	2 032 813	
Loans granted to joint ventures	5		Loans granted to joint ventures	329 665	
Other financial assets	443 033		Other financial assets	219 933	
Cash and cash equivalents	823 724		Cash and cash equivalents	909 249	

Following an analysis, transferred collateral, amounting to PLN 223 232 thousand as at 31 December 2018, was classified as other financial receivables measured at fair value through profit or loss, since the classification provides the best reflection of the nature of these financial assets. The remaining other financial receivables are classified as measured at amortized cost.

The Group classifies a loan granted to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2018 to assets measured at fair value though profit or loss, as discussed in detail in Note 22 to these consolidated financial statements.

Categories and classes of financial liabilities	As at 31 December 2018		Categories and classes of financial liabilities	As at 31 December 2017 (*restated figures*)	
	Carrying amount	Fair value		Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**13 526 426**		**1 Financial liabilities measured at amortized cost**	**12 040 129**	
Preferential loans	17 521	17 521	Preferential loans	34 506	34 506
Arm's length loans	867 997	892 832	Arm's length loans	1 063 379	1 065 694
Bank overdrafts	767	767	Bank overdrafts	93 503	93 503
Bonds issued	10 077 067	10 204 721	Bonds issued	8 637 435	8 695 096
Liabilities to suppliers	1 127 738	1 127 738	Liabilities to suppliers	1 042 427	1 042 427
Other financial liabilities	406 151	406 151	Other financial liabilities	154 119	154 119
Capital commitments	794 976	794 976	Capital commitments	807 970	807 970
Salaries and wages	225 829	225 829	Salaries and wages	203 544	203 544
Insurance contracts	8 380	8 380	Insurance contracts	3 246	3 246
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**240 922**		**2 Financial liabilities at fair value through profit or loss, held for trading**	**62 466**	
Derivative instruments	240 922	240 922	Derivative instruments	62 466	62 466
3 Financial liabilities excluded from the scope of IFRS 9	**25**		**3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39**	**23 973**	
Liabilities under finance leases	25		Obligations under finance leases	23 973	
Total financial liabilities, of which in the statement of financial position:	**13 767 373**		**Total financial liabilities, of which in the statement of financial position:**	**12 126 568**	
Non-current liabilities	**8 595 980**		**Non-current liabilities**	**9 593 293**	
Debt	8 488 210		Debt	9 501 414	
Other financial liabilities	107 770		Other financial liabilities	91 879	
Current liabilities	**5 171 393**		**Current liabilities**	**2 533 275**	
Debt	2 475 167		Debt	351 382	
Liabilities to suppliers	1 127 738		Liabilities to suppliers	1 042 427	
Capital commitments	794 917		Capital commitments	797 304	
Other financial liabilities	773 571		Other financial liabilities	342 162	

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

(in PLN '000)

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

Financial asset classes	Fair value measurement level	Fair value measurement methodology
Financial assets measured at fair value		
Derivatives, including:		Derivatives have been measured in line with the methodology presented in Note 44.3 hereto.
IRS	2	
CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Non-current shares	3	The Group estimated the fair value of shares held in not listed companies using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments or the discounted dividend method. As the key factors affecting the value of the assumed shares had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Group assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk.
Units in investment funds	1	Fair value measurement of units is referred to current quotings of the units.

Financial liability class	Fair value measurement level	Fair value measurement methodology
Financial liabilities measured at fair value		
Derivatives, including:		Derivatives have been measured in line with the methodology presented in Note 44.3 hereto.
IRS	2	
CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Financial liabilities whose fair value is disclosed		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt, i.e. loans contracted from the European Investment Bank, issued subordinated bonds and eurobonds, as well as bonds issued by a subsidiary are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates.

The fair value of other financial instruments as at 31 December 2018 and 31 December 2017 (except from those excluded from the scope of IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*) did not differ considerably from the amounts presented in the financial statements for the following reasons:

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

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

Since 1 January 2018, following the effective date of IFRS 9 *Financial Instruments*, the Group has measured and disclosed the fair value of shares in entities not quoted on the regulated market. In the comparable period, the fair value was not disclosed due to limited access to data, and the investments were measured at cost, reduced by impairment allowances, if any. As at 1 January 2018 fair value of all measured companies was estimated using the adjusted net assets approach. As at 31 December 2018, the methodology of measuring shares in non-quoted companies did not change, except for one company to which the discounted dividend method was applied. The application of that measurement method resulted from the stable amount of dividend paid and a material change in the company's equity in 2018. In the year ended 31 December 2018 no changes occurred in the measurement methodology applied to the other financial instruments as presented above.

(in PLN '000)

Change in the balance of financial assets whose measurement is classified on the 3rd level of the fair value hierarchy

	Not quoted shares	Loans granted
As at 31 December 2017	**141 698**	**–**
Effects of implementing IFRS 9	(26 031)	150 960
As at 1 January 2018	**115 667**	**150 960**
Gains/(losses) for the period recognized in financial revenue/expenses	1 754	(11 581)
Purchased/contracted	21 083	–
Sold/repaid	(12)	(299 100)
Settlement of the debt consolidation arrangement	–	358 977
As at 31 December 2018	**138 492**	**199 256**

In the year ended 31 December 2018 and 31 December 2017 no reclassification occurred between level 1 and 2 of the fair value hierarchy; nor did such reclassification occur from or to level 3 of that hierarchy.

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

Year ended 31 December 2018

	Assets/ liabilities at fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Hedging instruments	Financial assets/liabilities excluded from the scope of IFRS 9	Total
Dividends and shares in profits	7 348	–	–	–	–	**7 348**
Interest income / (expense)	5 554	21 675	(147 521)	1 202	(196)	**(119 286)**
Currency translation differences	(7 416)	1 406	(77 445)	–	–	**(83 455)**
Impairment / revaluation	(7 815)	7 170	(11 994)	–	–	**(12 639)**
Commission relating to borrowings and debt securities	–	–	(22 945)	–	–	**(22 945)**
Gain/(loss) on disposal of investments	(25)	(1 243)	–	–	–	**(1 268)**
Gain/(loss) on exercised derivative instruments*	(6 078)	–	–	–	–	**(6 078)**
Net financial income (costs)	**(8 432)**	**29 008**	**(259 905)**	**1 202**	**(196)**	**(238 323)**
Revaluation	(17 534)	(20 079)	–	–	–	**(37 613)**
Gain/(loss) on exercised derivative instruments*	16 910	–	–	–	–	**16 910**
Net operating income/(costs)	**(624)**	**(20 079)**	**–**	**–**	**–**	**(20 703)**
Remeasurement	–	–	–	(24 297)	–	**(24 297)**
Other comprehensive income	**–**	**–**	**–**	**(24 297)**	**–**	**(24 297)**

** The Group recognizes revenue and expenses related to commodity instruments in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.*

Year ended 31 December 2017

	Assets/ liabilities at fair value through profit or loss, held for trading	Financial assets available for sale	Loans and receivables	Financial liabilities at amortized cost	Hedging instruments	Financial assets/ liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	9 136	–	–	–	–	**9 136**
Interest income / (expense)	20 318	–	26 713	(209 885)	1 525	(727)	**(162 056)**
Currency translation differences	(2 688)	–	1 692	128 386	–	–	**127 390**
Impairment / revaluation	(11 820)	503	(117)	–	–	–	**(11 434)**
Commission relating to borrowings and debt securities	–	–	–	(19 020)	–	–	**(19 020)**
Gain/(loss) on disposal of investments	–	(103)	(803)	–	–	–	**(906)**
Gain/(loss) on exercised derivative instruments*	(4 866)	–	–	–	–	–	**(4 866)**
Net financial income (costs)	**944**	**9 536**	**27 485**	**(100 519)**	**1 525**	**(727)**	**(61 756)**
Revaluation	(13 514)	–	(25 170)	–	–	–	**(38 684)**
Gain/(loss) on exercised derivative instruments*	8 737	–	–	–	–	–	**8 737**
Net operating income/(costs)	**(4 777)**	**–**	**(25 170)**	**–**	**–**	**–**	**(29 947)**
Remeasurement	–	–	–	–	(8 159)	–	**(8 159)**
Other comprehensive income	**–**	**–**	**–**	**–**	**(8 159)**	**–**	**(8 159)**

** The Group recognizes revenue and expenses related to commodity instruments in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.*

44.3. Derivative instruments and hedge accounting

SELECTED ACCOUNTING PRINCIPLES

Derivative financial instruments falling within the scope of IFRS 9 *Financial Instruments* 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 for purchase and sales of non-financial assets acquired and held for internal purposes as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at the end of the reporting period. Accounting principles applied in the year ended 31 December 2017 based on IAS 39 *Financial Instruments: Recognition and Measurement* are consistent with those resulting from IFRS 9 *Financial Instruments.*

At the end of the reporting period, the Group held the following derivative instruments included in IFRS 9 *Financial instruments:*

Classification	Instruments type	Recognition in consolidated statment of comprehensive income
Derivatives subject to hedge accounting	Interest Rate Swaps (IRS) concluded to hedge against interest rate risk related to issued bonds. Subject to hedge accounting.	– measurement (effective portion of the hedge) in other comprehensive income, reclassified to profit or loss when the hedged item affects profit or loss for the period; – measurement (non-effective portion of the hedge) in profit or loss for the period
Derivatives not subject to hedge accounting, classified as "assets/liabilities measured at fair value through profit or loss"	• forward contracts concluded in order to hedge against risk related to foreign exchange rate fluctuations;	– finance income/ (costs)
	• forwards and futures for purchase and sales of emission allowances, energy and other commodities, concluded and maintained for speculation purposes;	– operating income/ (costs)
	• Coupon Only Cross Currency Swap (fixed-fixed-CCIRS) entered into in order to hedge against currency risk.	– finance income/ (costs)

Derivatives covered by the scope of IFRS 9 *Financial instruments* are classified as assets when their value is positive and as liabilities – when their value is negative.

Hedge accounting

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

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

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

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

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

For IRS, interest costs arising from debt are adjusted accordingly.

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each reporting period end, the Group carries out fair value estimation. The methodology is presented below.

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

As at each reporting period end, the Group checks the hedge effectiveness. In the year ended 31 December 2018 and 31 December 2017 the hedge was effective in its entirety.

(in PLN '000)

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

	As at 31 December 2018				As at 31 December 2017 (*restated figures*)			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
CCIRS	(5 140)	–	**–**	**(5 140)**	(9 299)	–	**–**	**(9 299)**
IRS	16	4 162	**4 178**	**–**	23	28 459	**28 482**	**–**
Commodity forwards/futures	(17 138)	–	**216 165**	**(233 303)**	395	–	**53 216**	**(52 821)**
Currency forwards	(2 479)	–	**–**	**(2 479)**	(346)	–	**–**	**(346)**
Total			**220 343**	**(240 922)**			**81 698**	**(62 466)**
Non-current			43 844	(37 930)			26 704	(5 217)
Current			176 499	(202 992)			54 994	(57 249)

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

	As at 31 December 2018		As at 31 December 2017 (*restated figures*)	
	Level 1	Level 2	Level 1	Level 2
Assets				
Derivative instruments – commodity	216 165	–	53 216	–
Derivative instruments – IRS	–	4 178	–	28 482
Total	**216 165**	**4 178**	**53 216**	**28 482**
Liabilities				
Derivative instruments – commodity	233 303	–	52 821	–
Derivative instruments – currency	–	2 479	–	346
Derivative instruments – CCIRS	–	5 140	–	9 299
Total	**233 303**	**7 619**	**52 821**	**9 645**

Derivative instruments (subject to hedge accounting)

In 2016 the Company hedged a portion of its interest rate risk for cash flows relating to the exposure to WIBOR 6M, designated under the dynamic risk management strategy, i.e. interest on debt securities with the par value of PLN 2 100 000 thousand, through the entry into interest rate swap (IRS) transactions for a term of 4 to 5 years. The aforementioned transactions are subject to hedge accounting.

Effects of hedge accounting on revaluation reserve regarding hedging instruments are presented in Note 30.5 hereto.

In the year ended 31 December 2018 revaluation resulted in a drop by PLN 24 297 thousand in other comprehensive income. The amount of PLN 1 202 thousand was recognized in profit/loss for the current period, which reduced financial expenses arising from interest on issued bonds.

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

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

– CCIRSs that hedge foreign currency cash flows resulting from the payment of interest on the issued eurobonds;

– commodity derivatives (futures, forward) including emission allowance and other commodity purchase and sale transactions;

– FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

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

45. Principles and objectives of financial risk management

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

Risk exposure	Risk management	Regulation
	Credit risk	
Possible loss resulting from the counterparty default on contractual obligations. The credit exposure involves a default risk (the amount that may be lost if a counterparty defaults on its obligations) and a replacement risk (the amount that may be lost if a delivery is not made or a service is not provided).	Credit risk is managed through the control of the credit exposure at the time when companies in the TAURON Group sign contracts. As a rule, before a contract is signed, every entity is examined in terms of their financial position and is assigned a limit which determines the maximum exposure allowed. The credit exposure in this case is understood as the amount which may be lost, if the counterparty defaults on their obligations at a given time (considering the value of security they have lodged). The credit exposure is calculated at a given day and comprises a default risk and replacement risk. The TAURON Group has a decentralized credit risk management system in place, however, the control, mitigation and reporting are managed centrally at a Company-wide level. The TAURON Group's Credit Risk Management Policy sets out the credit risk management procedures for the entire Group with the view to reduce the impact of the risk on the Group's objectives. Based on the value of exposure and assessment of financial standing of each client, the value of credit risk to which the TAURON Group is exposed is calculated using statistical methods to determine value at risk based on the total loss probability distribution.	Credit risk management policy for the TAURON Group
	Liquidity risk	
Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities.	The TAURON Group's liquidity is reviewed on an ongoing basis to detect any deviation from plans and the availability of external sources of funds, in the case of which the amount materially exceeds the expected short-term demand, mitigates the liquidity risk. To this end the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies (cash-pooling) as well as using external financing, including overdraft facilities. The Company manages the financing risk, understood as no capability to obtain new funding, an increase in funding costs and the risk of terminating the existing funding agreements. To minimize the financing risk, TAURON's policy assumes obtaining funding for the Group in advance of the planned time of use, i.e. up to 24 months prior to the planned demand. The key objective of the policy is to ensure flexible selection of funding source, use favorable market conditions and reduce the risk related to the necessity to contract new debt on adverse terms.	Liquidity management policy for the TAURON Group
	Market risk – interest rate and currency risks	
The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates.	The TAURON Group manages the currency and interest rate risk based on the developed and approved Financial Risk Management Policy in the TAURON Group. The key objective of such risk management is to minimize the cash flow sensitivity of the TAURON Group to financial risks and to minimize finance cost and costs of hedging with the use of derivative instruments. Wherever possible and commercially viable, derivative instruments are used, whose nature allows for the application of hedge accounting. The financial risk management policy of the TAURON Group has also introduced hedge accounting principles which set out the terms and conditions and types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS.	Financial risk management policy for the TAURON Group
	Market risk – price risk	
Unplanned volatility of the operating profit/loss of the TAURON Group resulting from fluctuations of prices in the commodity markets and deviations in volumes in individual areas of commercial activities of the TAURON Group.	Effective management is ensured by a commercial risk management system linked in terms of organization and information with the TAURON Group's strategy of hedging trading positions. The policy has introduced an early-warning system and risk-exposure limiting system in various trading areas. The basic operational measure of the market risk at the TAURON Group is the Value at Risk measure which determines the maximum allowed change in the value of the position over a given time period and with a given probability.	Commercial risk management policy for the TAURON Group

(in PLN '000)

45.1. Credit risk

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

Classes of financial instruments	As at 31 December 2018	As at 31 December 2017
Receivables from buyers	2 229 400	2 032 813
Cash and cash equivalents	823 724	909 249
Loans granted	227 552	580 979
Derivative instruments	220 343	81 698
Deposits	47 126	39 756
Other financial receivables	255 504	80 511

45.1.1. Credit risk related to receivables from buyers

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

	As at 31 December 2018	As at 31 December 2017
Institutional clients	70.88%	70.25%
Individual clients	29.12%	29.75%
Total	**100%**	**100%**

No material concentration of credit risk related to the core activity occurs in the Group. Amounts due from PSE S.A. constitute the largest item of receivables from buyers with a share of 6.55% and 4.78% as at 31 December 2018 and 31 December 2017, respectively.

The Group monitors credit risk related to its operations on an ongoing basis, in line with the Credit Risk Management Policy adopted by the TAURON Group. Following the analysis of credit standing of counterparties with material credit and replacement exposure, in justified cases the Group required appropriate collateral.

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

The aging analysis of receivables from buyers as well as information on allowances/write-downs on receivables from buyers have been presented in Note 26 hereto.

45.1.2. Credit risk related to other financial receivables

Other financial receivables of the Group as at 31 December 2018 and as at 31 December 2017 relate mainly to institutional clients (share of 99.89% and 97.61%, respectively). As at 31 December 2018, the main item of other financial receivables are margin deposits resulting from collaterals provided in respect of transactions entered into on stock exchange markets. Stock exchange trading mechanisms and applied hedge in the assessment of the Company basically eliminate the credit risk. In addition to stock exchange collaterals, there is no significant concentration of credit risk associated with other financial receivables.

Regarding other financial receivables measured at amortized cost as at the balance sheet date, the Group estimates an impairment loss.

Aging analysis of other financial receivables measured at amortized cost as at 31 December 2018

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down	42 580	780	1 292	23 103	5 813	78 006	**151 574**
Percentage of allowance/write-down	25%	67%	98%	100%	100%	100%	–
Allowance/write-down	(10 668)	(522)	(1 262)	(23 064)	(5 808)	(77 978)	**(119 302)**
Net Value	**31 912**	**258**	**30**	**39**	**5**	**28**	**32 272**

(in PLN '000)

Aging analysis of other financial receivables measured at amortized cost as at 31 December 2017

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down	80 017	2 670	40 653	1 879	1 885	68 193	**195 297**
Percentage of allowance/write-down	2%	29%	99%	90%	99%	100%	**–**
Allowance/write-down	(1 951)	(771)	(40 332)	(1 691)	(1 867)	(68 174)	**(114 786)**
Net Value	**78 066**	**1 899**	**321**	**188**	**18**	**19**	**80 511**

Change in allowances/write-downs on other financial receivables measured at amortized cost

	Year ended 31 December 2018	Year ended 31 December 2017
Opening balance	**(114 786)**	**(56 993)**
Recognised	(8 705)	(13 149)
Utilized	511	551
Reversed	1 860	4 087
Other movements	1 818	(49 282)
Closing balance	**(119 302)**	**(114 786)**

45.1.3. Credit risk related to cash and cash equivalents and derivatives instruments

Credit risk management related to cash is carried out by the Group through the diversification of banks in which surpluses of cash are deposited. These banks receive investment rating. The share of three banks in which the Group has the largest cash balances as at 31 December 2018 amounted to 82%.

The entities the Company concludes derivative transactions with in order to hedge against interest rate and currency risk operate in the financial sector. These banks receive investment rating. The Company diversifies banks with whom derivative transactions are concluded.

Derivatives for which the basic assets are non-financial assets, which are in the scope of IFRS 9 *Financial Instruments*, apply to futures and forwards. Exchange markets apply appropriate mechanisms to protect transaction parties in the form of margin and supplementary deposits. Under supplementary deposits, the Company provides and receives cash arising from changes in the measurement of the underlying instruments on an ongoing basis, which means that as at the end of the reporting period, credit risk does not occur in relation to futures transactions. Over-the-counter transactions regard mostly sales of non-financial assets and their measurement as at 31 December 2018 was recognized in liabilities.

45.1.4. Credit risk related to loans granted

Loans measured at amortised cost

As far as originated loans measured at amortized cost are concerned, the Company assesses the risk of insolvency on the part of the borrowers based on the ratings assigned to the counterparties using an internal scoring model, appropriately restated to account for the probability of default. The expected credit loss is calculated based on the time value of money.

For the purposes of determining the calculation horizon for expected credit losses, material credit risk increases related to certain financial assets are analyzed beginning from the initial recognition of a given asset.

When analyzing a significant increase in credit risk related to such assets, the Group considers the following indications:

– counterparty's internal or external rating as at the reporting period end having deteriorated by more than two rating levels compared to its rating upon initial recognition;

– counterparty's probability of insolvency projected within one-year horizon as at the reporting period end being at least twice higher than as at the initial recognition date;

– receivables related to a given asset being overdue by more than 30 days.

(in PLN '000)

If a given counterparty's receivables are overdue by more than 90 days, they are classified as bad debt, i.e. the 100% probability of insolvency is assigned to that counterparty.

Change in the balance of originated loans and impairment allowances measured at amortized cost

	Level 1: allowance equal to 12 monthly expected credit losses (no impairment)	Level 2: allowance for expected credit losses over the economic life period (no impairment)	Total
Gross value			
As at 1 January 2018	**340 212**	**–**	**340 212**
Accruing interest on the debt of EC Stalowa Wola S.A. as at the consolidation arrangement date	2 312	–	**2 312**
Discontinued recognition of loans to EC Stalowa Wola S.A. due to the consolidation arrangement	(358 977)	–	**(358 977)**
Other loans originated to/paid by EC Stalowa Wola S.A.	45 185	–	**45 185**
Loan originated to PGE EJ 1 Sp. z o.o.	4 800	–	**4 800**
Interest accrued	601	37	**638**
Change in the balance of loans originated under the cash pool arrangement	(7 533)	2 595	**(4 938)**
As at 31 December 2018	**26 600**	**2 632**	**29 232**
Impairment loss			
As at 1 January 2018	**(8 207)**	**–**	**(8 207)**
Recognition for loans originated	(496)	(424)	**(920)**
Derecognition following the consolidation arrangement with EC Stalowa Wola S.A.	8 191	–	**8 191**
As at 31 December 2018	**(512)**	**(424)**	**(936)**
Net value as at 31 December 2018	**26 088**	**2 208**	**28 296**

Originated loans measured at amortized cost as rated by the Group as at 31 December 2018

Group's internal rating	Level 1: allowance equal to 12 monthly expected credit losses (no impairment)	Level 2: allowance for expected credit losses over the economic life period (no impairment)	Total
AAA do A	–	–	**–**
A- do BBB-	–	–	**–**
BB+ do BB	7 989	–	**7 989**
BB- do B	18 611	–	**18 611**
B- do D	–	2 632	**2 632**
Gross value as at 31 December 2018	**26 600**	**2 632**	**29 232**
impairment loss	(512)	(424)	**(936)**
Net value as at 31 December 2018	**26 088**	**2 208**	**28 296**

The Company did not originate loans for which impairment losses are calculated over the entire life cycle of a financial instrument and which as at 31 December 2018 were impaired due to credit risk.

Loans measured at fair value

Measurement of the loan granted to Elektrociepłownia Stalowa Wola S.A., a joint venture classified as non-financial assets measured at fair value through profit or loss, with the carrying amount of PLN 199 256 thousand, includes credit risk effects. The loan is collateralized with a blank promissory note with a promissory note agreement.

45.2. Liquidity risk

The Group 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.

The TAURON Group carries out a centralized finance management policy, allowing effective management in this respect on the Capital Group level. Among others, the Group has adopted *Liquidity management policy for the TAURON Group*, which facilitates optimization of liquidity management in the Group, reduces the risk of liquidity loss in the Group and in each Group company as well as reduces financial expenses. Having implemented appropriate projection standards, the TAURON Group can precisely determine its liquidity position and optimize the time of obtaining funding, maturity and types of deposit instruments, as well as an appropriate level of the liquidity provision.

(in PLN '000)

Additionally, in order to minimize the possibility of cash flow disruption and liquidity risk, the TAURON Group, as in previous year, used the cash pooling mechanism. The cash pooling structure enables the Group companies that experience short-term shortage of funds to use cash provided by companies with cash surplus, without the need to obtain borrowings from third parties.

Overdraft facilities as at 31 December 2018

	Bank	Currency	Funding amount available	Maturity date	Balance as at 31 December 2018	
					Currency	PLN
intraday limit	PKO BP*	PLN	500 000	17.12.2020	–	–
overdraft facility	PKO BP*	PLN	300 000	29.12.2020	–	–
	BGK	EUR	45 000	31.12.2019	–	–
	mBank	USD	500	28.03.2019	204	767

** Regardless of funds collected by its individual members, cash pooling is linked to a flexible credit facility.*

The use of foreign currency loans is to mitigate forex risk related to commercial transactions denominated in foreign currencies.

The adopted financing policy provides for increased access to funding sources, reduction of borrowing costs and collateral established on the Group's assets, covenants required by financial institutions and allows a decrease in administrative expenses. The centralized financing model allows access to funding sources inaccessible for individual companies.

In 2018, the Group was fully able to pay its liabilities at maturity.

The following tables present the Group's financial liabilities based on non-discounted contractual payments by maturity as at 31 December 2018 and 31 December 2017.

Financial liabilities as at 31 December 2018

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within (*after the balance sheet date*)					
			less than 3 months	3-12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings and issued bonds	**10 963 352**	**(13 829 604)**	(464 622)	(2 324 303)	(2 438 943)	(582 418)	(1 027 403)	(6 991 915)
Liabilities to suppliers	**1 127 738**	**(1 127 738)**	(1 122 894)	(4 844)	–	–	–	–
Capital commitments	**794 976**	**(794 976)**	(784 326)	(10 590)	(59)	(1)	–	–
Other financial liabilities	**640 360**	**(640 360)**	(557 019)	(13 562)	(45 268)	(4 973)	(10 502)	(9 036)
Obligations under finance leases	**25**	**(28)**	(1)	(1)	(2)	(2)	(4)	(18)
Derivative financial liabilities								
Derivate instruments – commodity	**233 303**	**(124 112)**	(76 640)	(16 490)	(30 982)	–	–	–
Derivative instruments – currency	**2 479**	**(2 479)**	86	(2 565)				
Derivate instruments – CCIRS	**5 140**	**(50 950)**	–	(5 627)	(5 713)	(5 695)	(11 253)	(22 662)
Total	**13 767 373**	**(16 570 247)**	**(3 005 416)**	**(2 377 982)**	**(2 520 967)**	**(593 089)**	**(1 049 162)**	**(7 023 631)**

(in PLN '000)

Financial liabilities as at 31 December 2017 *(restated)*

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within (*after the balance sheet date*)					
			less than 3 months	3-12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings and issued bonds	**9 828 823**	**(12 205 838)**	(160 573)	(418 356)	(2 329 557)	(2 195 729)	(991 898)	(6 109 725)
Liabilities to suppliers	**1 042 427**	**(1 042 427)**	(1 038 477)	(3 950)	–	–	–	–
Capital commitments	**807 970**	**(807 970)**	(797 210)	(93)	(10 599)	(68)	–	–
Other financial liabilities	**360 909**	**(360 909)**	(281 066)	(3 849)	(12 503)	(47 138)	(6 050)	(10 303)
Obligations under finance leases	**23 973**	**(24 173)**	(1 475)	(22 670)	(2)	(2)	(4)	(20)
Derivative financial liabilities								
Derivate instruments – commodity	**52 821**	**(4 424)**	–	(4 424)	–	–	–	–
Derivative instruments – currency	**346**	**(346)**	(275)	(71)				
Derivate instruments – CCIRS	**9 299**	**(47 125)**	–	(4 694)	(4 694)	(4 748)	(9 427)	(23 562)
Total	**12 126 568**	**(14 493 212)**	**(2 279 076)**	**(458 107)**	**(2 357 355)**	**(2 247 685)**	**(1 007 379)**	**(6 143 610)**

45.3. Market risk

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

- interest rate risk;
- currency risk;
- raw material and commodity price risk related to commodity derivative instruments and price risk related to units held by the Group.

45.3.1. Interest rate risk

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

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group'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 Group entered into interest rate swap (IRS) contracts, described in detail in Note 44.3 hereto.

The carrying amounts of financial instruments of the Group exposed to the interest rate risk have been presented in the tables below. 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 IRS transactions. Thus, a portion of the carrying amount of bonds with floating interest cash flow fluctuations hedged with interest rate swaps has been presented in the tables below together with valuation of these hedging instruments as fixed-rate items.

(in PLN '000)

Financial instruments by interest rate type as at 31 December 2018

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Deposits	47 126	–	**47 126**
Loans granted	222 756	4 796	**227 552**
Cash and cash equivalents	–	724 078	**724 078**
Derivative instruments – IRS	4 178	–	**4 178**
Financial liabilities			
Bank overdrafts	–	767	**767**
Preferential loans	–	17 521	**17 521**
Arm's length loans	850 675	17 322	**867 997**
Bonds issued	6 519 439	3 557 628	**10 077 067**
Obligations under finance leases	25	–	**25**
Derivative instruments – CCIRS	5 140	–	**5 140**

Financial instruments by interest rate type as at 31 December 2017

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Deposits	39 756	–	**39 756**
Loans granted	2 954	578 025	**580 979**
Cash and cash equivalents	–	875 496	**875 496**
Derivative instruments – IRS	28 482	–	**28 482**
Financial liabilities			
Bank overdrafts	1	93 502	**93 503**
Preferential loans	–	34 506	**34 506**
Arm's length loans	1 042 110	21 269	**1 063 379**
Bonds issued	5 681 480	2 955 955	**8 637 435**
Obligations under finance leases	27	23 946	**23 973**
Derivative instruments – CCIRS	9 299	–	**9 299**

Other financial instruments of the Company, which are not included in the above tables, are not interest-bearing and therefore they are not subject to interest rate risk. Interest rate of floating-rate financial instruments is updated on a regular basis, more frequently than once a year. Interest on fixed-rate financial instruments is fixed throughout the entire term to maturity or until a specified point in time where the interest rates are verified and may be changed – this applies to loans from the European Investment Bank as well as to hybrid bonds, which bear fixed interest in the first period and floating interest in the second period, which has been discussed in more detail in Notes 32.1 and 32.2 hereto.

Sensitivity analysis

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

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

The Group identifies its exposure to the risk of changes in WIBOR, EURIBOR and LIBOR USD interest rates. As at 31 December 2018 and as at 31 December 2017, its exposure to the risk of changes in EURIBOR and LIBOR USD was immaterial.

The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group to reasonably possible changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

(in PLN '000)

Year ended 31 December 2018

Classes of finacial instruments	31 December 2018		Sensitivity analysis for interest rate risk as at 31 December 2018	
	Carrying amount	Value at risk	WIBOR +34 bp	WIBOR -34 bp
			Profit or loss / other comprehensive income	
Loans granted	227 552	204 052	(8 788)	9 225
Cash and cash equivalents	823 724	724 078	1 728	(1 728)
Derivatives (assets)	220 343	4 178	10 315	(10 315)
Preferential loans	17 521	17 521	(60)	60
Arm's length loans	867 997	17 322	(59)	59
Issued bonds	10 077 067	5 656 342	(19 232)	19 232
Derivatives (liabilities)	240 922	5 140	6 618	(6 618)
Total			**(9 478)**	**9 915**

The exposure to risk as at 31 December 2018 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

For the year ended 31 December 2017 *(restated)*

Classes of finacial instruments	31 December 2017		Sensitivity analysis for interest rate risk as at 31 December 2017	
	Carrying amount	Value at risk	WIBOR +43 bp	WIBOR -43 bp
			Profit or loss / other comprehensive income	
Loans granted	580 979	578 025	2 486	(2 486)
Cash and cash equivalents	909 249	875 496	3 645	(3 645)
Derivatives (assets)	81 698	28 482	21 217	(21 217)
Preferential loans	34 506	34 506	(148)	148
Arm's length loans	1 063 379	21 269	(91)	91
Issued bonds	8 637 435	5 053 775	(21 731)	21 731
Obligations under finance leases	23 973	23 946	(103)	103
Derivatives (liabilities)	62 466	9 299	5 995	(5 995)
Total			**11 270**	**(11 270)**

The exposure to risk as at 31 December 2017 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date, except for material transactions made at the end of 2017. They concern derivative instruments (liabilities), including CCIRS transactions entered into in November and December 2017, which are sensitive to both changes in WIBOR and EURIBOR rates.

45.3.2. Currency risk

The TAURON Group companies are exposed to transaction and translation currency risk. The Group companies are exposed mainly to the risk of EUR/PLN, CZK/PLN, USD/PLN and GBP/PLN exchange rate changes in relation to their operating and financing activities. The Group's exposure to currency risk by financial instrument class in 2018 and in 2017 has been presented below. A material exposure involves changes in EUR/PLN and CZK/PLN exchange rates. Group's exposure to other currencies is immaterial.

(in PLN '000)

Currency position as at 31 December 2018

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Receivables from buyers	2 229 400	1 815	7 805	55 582	9 299
Other financial receivables	255 504	38 733	166 552	20 292	3 395
Cash and cash equivalents	823 724	51 173	220 044	31 544	5 277
Derivatives (assets)	220 343	35 511	152 697	–	–
Total		**127 232**	**547 098**	**107 418**	**17 971**
Financial liabilities					
Issued bonds	10 077 067	853 686	3 670 848	–	–
Liabilities to suppliers	1 127 738	2 436	10 475	4 579	766
Other financial liabilities	406 151	57 866	248 824	–	–
Derivatives (liabilities)	240 922	39 493	169 820	–	–
Total		**953 481**	**4 099 967**	**4 579**	**766**
Net currency position		**(826 249)**	**(3 552 869)**	**102 839**	**17 205**

Currency position as at 31 December 2017 *(restated)*

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Receivables from buyers	2 032 813	1 016	4 237	46 722	7 625
Other financial receivables	80 511	3 321	13 851	20 607	3 363
Cash and cash equivalents	909 249	3 321	13 851	64 963	10 602
Derivatives (assets)	81 698	5 237	21 843	–	–
Total		**12 895**	**53 782**	**132 292**	**21 590**
Financial liabilities					
Bank overdrafts	93 503	22 069	92 048	–	–
Issued bonds	8 637 435	859 205	3 583 657	–	–
Liabilities to suppliers	1 042 427	2 117	8 830	10 208	1 666
Other financial liabilities	154 119	1 717	7 162	6	1
Derivatives (liabilities)	62 466	5 129	21 391	–	–
Total		**890 237**	**3 713 088**	**10 214**	**1 667**
Net currency position		**(877 342)**	**(3 659 306)**	**122 078**	**19 923**

The TAURON Group used forward and future transactions under its currency risk management policy. Transactions concluded in 2018 were intended to protect the Group from forex risk, related to its commercial operations, mostly to purchases of pollutant emission allowances and from currency exposure generated by interest payments on borrowings denominated in EUR.

Fair value measurement of forward foreign exchange contracts (as at 31 December 2018, a liability for a negative valuation of PLN 2 479 thousand) and CCIRS (as at 31 December 2018, a liability for a negative valuation of PLN 5 140 thousand) is exposed to the risk of changes in the EUR/PLN exchange rate. Transactions concluded to hedge against currency risk are not subject to hedge accounting.

Sensitivity analysis

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

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

(in PLN '000)

The Group identifies its exposure to currency risk related to EUR/PLN, CZK/PLN, USD/PLN, GBP/PLN exchange rates. Significant risk exposure regards EUR, mainly due to external financing contracted in EUR. Other currencies do not generate material risk for the Group. The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group to reasonably possible changes in foreign exchange rate EUR/PLN within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

Year ended 31 December 2018

Classes of finacial instruments	31 December 2018		Sensitivity analysis for currency risk as at 31 December 2018	
		EUR/PLN		
	Carrying amount	Value at risk	exchange rate EUR/PLN +5.85%	exchange rate EUR/PLN -5.85%
Receivables from buyers	2 229 400	7 805	456	(456)
Other financial receivables	255 504	166 552	9 743	(9 743)
Cash and cash equivalents	823 724	220 044	12 872	(12 872)
Derivatives (assets)	220 343	152 697	8 933	(8 933)
Bonds issued	10 077 067	3 670 848	(214 745)	214 745
Liabilities to suppliers	1 127 738	10 475	(613)	613
Other financial liabilities	406 151	248 824	(14 556)	14 556
Derivatives (liabilities)	240 922	177 439	38 838	(38 838)
Total			**(159 072)**	**159 072**

The exposure to risk as at 31 December 2018 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

For the year ended 31 December 2017 *(restated)*

Classes of finacial instruments	31 December 2017		Sensitivity analysis for currency risk as at 31 December 2017	
		EUR/PLN		
	Carrying amount	Value at risk	exchange rate EUR/PLN +6.2%	exchange rate EUR/PLN -6.2%
Receivables from buyers	2 032 813	4 237	263	(263)
Other financial receivables	80 511	13 851	859	(859)
Cash and cash equivalents	909 249	13 851	859	(859)
Derivatives (assets)	81 698	21 843	1 354	(1 354)
Overdrafts	93 503	92 048	(5 707)	5 707
Bonds issued	8 637 435	3 583 657	(222 187)	222 187
Liabilities to suppliers	1 042 427	8 830	(547)	547
Other financial liabilities	154 119	7 162	(444)	444
Derivatives (liabilities)	62 466	31 036	18 342	(18 342)
Total			**(207 208)**	**207 208**

The exposure to risk as at 31 December 2017 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date, except for material transactions made in the second half of 2017. These include eurobonds issued by the Company in July 2017 and liabilities from derivatives, consisting of CCIRS transactions entered into in November and December 2017.

45.3.3. Raw material and commodity price risk related to commodity derivative instruments and price risk related to units

Commodity derivatives

The Group concludes derivative contracts, with underlying instruments being commodities and raw materials. The Group'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. The Group limits price risk related to commodity derivatives concluding offsetting transactions. The risk is limited to open long and short positions concerning a given commodity or raw material i.e. an unbalanced position in the portfolio.

(in PLN '000)

As at 31 December 2018, the portfolio is fully balanced, including warehouse balance, i.e. allowances held in the trading portfolio. This minimizes market risk related to the commodity derivatives portfolio, as confirmed by a sensitivity analysis, which indicated immaterial effects of potential changes in the prices of emission allowances on Group's gross profit/loss.

Participation units

As at 31 December 2018, the Group held units in investment funds with the carrying amount of PLN 26 063 thousand. As they are measured at fair value through profit or loss at the end of the reporting period, they are exposed to the price risk.

A performed analysis indicated immaterial effects of potential quotation changes on Group's gross profit/loss.

46. Operational risk

Commercial operational risk is managed at the level of the TAURON Group, which has been discussed in more detail in Section 3.3.4 of the Management Board's report on the activities of the TAURON Polska Energia S.A. and TAURON Capital Group for the 2018 financial year. The Group manages its commercial risk following the Commercial risk management policy developed and adopted in the TAURON Group, which has introduced an early warning system in addition to a system of limiting the exposure to risk in various commercial areas.

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

Fuel type	Unit	2018		2017	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	4 452 901	1 115 294	3 234 079	577 465
Gas	MWh	3 075 513	290 574	2 481 078	195 393
Electricity	MWh	30 757 412	5 665 514	28 645 129	4 672 603
Heat energy	GJ	5 776 785	222 076	6 091 071	230 276
Total			**7 293 458**		**5 675 737**

(in PLN '000)

OTHER INFORMATION

47. Contingent liabilities

Item	Description
Claims related to termination of long-term contracts	**Claims relating to termination of long-term contracts against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.** In 2015 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed a case against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. to declare notices of termination submitted by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. with regard to power purchase and ownership titles concluded with these companies ineffective. In the course of court proceedings, plaintiffs extend their scope raising new contract termination related claims. As at the date of approval of these consolidated financial statements for publication, the amounts claimed were as follows: – in.ventus group companies – EUR 13 367 thousand; – Polenergia group companies – PLN 67 248 thousand; – Wind Invest group companies – PLN 125 003 thousand. All cases are held at first instance courts (including one remanded for re-examination by a second-instance court). In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation is less than 50%. Therefore, no provision for the related costs has been recognized.
	Claims relating to termination of long-term contracts against TAURON Polska Energia S.A. In 2017 and 2018 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed cases against TAURON Polska Energia S.A. regarding damages and liability for potential future losses resulting from tort, including unfair competition. According to the plaintiffs notices of termination submitted by Polska Energia Pierwsza Kompania Handlowa S.A. regarding long-term contracts for the purchase of power and property titles related to energy certificates allegedly directed by TAURON Polska Energia S.A., provided the factual basis for these claims. As at the date of approval of these consolidated financial statements for publication, the amounts claimed were as follows: – in.ventus group companies – EUR 12 286 thousand; – Polenergia group companies – PLN 78 855 thousand; – Wind Invest group companies – PLN 129 947 thousand. Further, the plaintiffs indicate the following estimated future losses: – in.ventus group companies – EUR 35 706 thousand; – Polenergia group companies – PLN 265 227 thousand; – Wind Invest group companies – PLN 1 119 363 thousand. The court competent for hearing the claims is the Regional Court for Katowice. All cases are held before the first instance courts. Those filed by Wind Invest group companies are held in camera. As at the date of approval of these consolidated financial statements for publication, the probability that the rulings will be favorable for the Company is high (70%). Further, a case filed by Dobiesław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is pending at District Court in Kraków (the first-instance court). It concerns a demand to make a court deposit of PLN 183 391 thousand to reverse the threat of a loss. Bearing in mind the current status of the case, the chances that the rulings will be favorable for the Company are considerably higher than 50%.
	Claims relating to termination of long-term contracts by a subsidiary TAURON Sprzedaż Sp. z o.o. On 28 February 2017, TAURON Sprzedaż Sp. z o.o., a subsidiary, submitted termination notices regarding long-term contracts for the purchase of property rights under green certificates by the subsidiary. The party to the contracts concluded in 2008 are companies from the in.ventus group. The contracts were terminated after the parties were unable to reach an agreement in renegotiation of the contracts in line with the terms and conditions provided for therein. Total net contractual liabilities of TAURON Sprzedaż Sp. z o.o. under the terminated contracts for the years 2017–2023, as at the date of the termination would be approx. net PLN 417 000 thousand. After the balance sheet date, of 7 March 2019, Hamburg Commercial Bank AG (former HSH Nordbank AG) instigated an action against TAURON Sprzedaż Sp. z o.o. for compensation relating to its failure to exercise contracts on sales of property rights arising from green certificates and liquidated damages charged in relation to termination of the above contracts. The plaintiff demands TAURON Sprzedaż Sp. z o.o. to pay the amount of PLN 232 879 thousand with statutory interest for the delay, calculated from the date of filing the action to the date of the payment, and including the compensation totaling PLN 36 252 thousand and liquidated damages totaling PLN 196 627 thousand. The claims of the bank arise from the acquisition of a debt initially owed, according to its statements, to the following in.ventus group companies: – in.ventus Sp. z o.o. EW Dobrzyń sp.k., – in.ventus Sp. z o.o. INO 1 sp.k., – in.ventus Sp. z o.o. EW Gołdap sp.k. The court competent for hearing the claims is the Regional Court for Kraków. TAURON Sprzedaż Sp. z o.o. has started analyzing the claim and it will respond to it in due time. Based on the preliminary analysis of the demands and the rationale, according to TAURON Sprzedaż Sp. z o.o., the claim has been found entirely unsubstantiated. In the company's view, the probability of losing the case, both in relation to the compensation and liquidated damages, is lower than the chance of winning the case. Therefore, no provisions for the costs of the case is recognized. In 2018, the subsidiary TAURON Sprzedaż Sp. z o.o. was notified of cases filed against it by two Polenergia group companies with regard to settlement related to damages in the total amount of PLN 78 855 thousand for an alleged loss incurred by the Polenergia group companies as a result of groundless termination of the long-term agreement concluded between them and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. In their motions the companies indicated that the Company, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and liquidators of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. have acted to the detriment of the Polenergia group companies and TAURON Sprzedaż Sp. z o.o. benefited on the case being fully aware of it, and thus is fully liable for this, according to the plaintiffs. TAURON Sprzedaż Sp. z o.o. considered the claims of the Polenergia group companies groundless; thus, no settlement was reached.

(in PLN '000)

Item	Description
Claim against PGE EJ 1 Sp. z o.o.	On 13 March 2015, a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (the "WorleyParsons consortium") responsible for conducting research as part of an investment project relating to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (the "agreement") demanded the payment of PLN 92 315 thousand from PGE EJ 1 Sp. z o.o. As a result, on 15 April 2015 the Company (as a holder of 10% of shares in the issued capital of PGE EJ 1 Sp. z o.o.) concluded an agreement with PGE EJ 1 Sp. z o.o. and its other shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations related to these claims, including principles of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders. In the company's view, its potential additional exposure to PGE EJ 1 Sp. z o.o. arising from the agreement shall not exceed its percentage capital exposure to that entity. In November 2015, the District Court in Warsaw served PGE EJ1 Sp. z o.o. with the claim made by the WorleyParsons consortium for the amount approximating PLN 59 million, in 2017 was increased by PLN 45 million, to approx. PLN 104 million. PGE EJ1 Sp. z o.o. did not accept the claim and believed that the probability that the court would decide in favor of the plaintiffs was remote. No provisions were recognized in relation to the above events.
Claims filed by Huta Łaziska S.A.	Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta"), against GZE and the State Treasury represented by the President of the Energy Regulatory Office. At present, the case is pending at the Regional Court in Warsaw. Based on a decision of 12 October 2001, the President of the Energy Regulatory Office ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had not paid its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the 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 judgments favorable for GZE; however, in its judgment of 29 November 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. Since 27 November 2012 the case has been heard by the court of first instance. Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.
Amount	Claim regarding payment of damages of PLN 182 060 thousand.
Claim filed by ENEA S.A.	The claim filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, regards the payment of PLN 17 086 thousand with statutory interest from 31 March 2015 until the payment date. The basis of the claim brought by ENEA is unjust enrichment of the Company due to potential errors in the calculation of aggregated measurement and billing data by ENEA Operator Sp. z o.o. (being the Distribution System Operator), which are the basis of ENEA and the Company's settlements with Polskie Sieci Elektroenergetyczne S.A., due to an imbalance in the Balancing Market between January and December 2012. During the proceedings, at the request of ENEA S.A. the court decided to extend the suit against seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. Two subsidiaries have been sued along with TAURON Polska Energia S.A.: TAURON Sprzedaż Sp. z o.o. from which ENEA S.A. demanded PLN 4 934 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment; and TAURON Sprzedaż GZE Sp. z o.o. from which ENEA S.A. demanded PLN 3 480 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment. The demand for payment of the above amounts as well as the amounts claimed from the other five sellers was submitted by the petitioner in case the claim against TAURON Polska Energia S.A. is dismissed. The case is pending before the first-instance court. The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions were recognized by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 5 483 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 3 900 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest reviewed as at 31 December 2018 and the cost of the proceedings.
Amount	As at 31 December 2018, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator sp. z o.o. during the proceedings, the values of the claims against the Company and the Group companies may be expected to change.

(in PLN '000)

<table>
<tr><th>Item</th><th>Description</th></tr>
<tr><td>Administrative proceedings instigated by the President of the Energy Regulatory Office (URE)</td><td>In 2016, administrative proceedings to impose a fine for a failure to maintain facilities, installations and equipment in a proper technical condition and for non-compliance with the terms of the electricity distribution licence were instigated against TAURON Dystrybucja S.A. By virtue of a decision of 10 July 2017, the company was fined with PLN 350 thousand. In July 2017 the company recognized a provision of PLN 351 thousand and filed an appeal against the decision to the Court of Competition and Consumer Protection. Determining the date of the subsequent hearing is expected.

In 2017 administrative proceedings regarding a fine to be imposed with respect to the alleged business activity consisting in generation of electricity in Elektrownia Wodna Dąbie and Elektrownia Wodna Przewóz without the necessary permits for special use of water of the Vistula river for energy generation, as required under the Water Law of 20 July 2017, were instigated against TAURON Ekoenergia Sp. z o.o. The company provided the President of the Energy Regulatory Office with relevant explanations in writing. In the last one, dated 29 June 2018 indicated that the Supreme Administrative Court had passed judgements on 17 May 2018 and on 27 June 2018 overruling decisions of administrative authorities (which had been disadvantageous for the company) related to permits for special use of water of the Vistula river for energy generation in Elektrownia Wodna Dąbie and Elektrownia Wodna Przewóz. By virtue of a decision of 15 February 2019, the company was fined with PLN 2 thousand. On 4 March 2019 the company filed an appeal against the decision to the Regional Court in Warsaw.According to the company, the facts underlying the procedure cannot provide the basis to a fine; therefore no provision has been recognized in relation to the case.

As at the end of the reporting period, the companies in the Sales segment have been subject to the following proceedings:
– On 21 and 27 February 2018, proceedings were instituted against the subsidiary TAURON Sprzedaż GZE Sp. z o.o. over irregularities which consisted in a failure to offer end users the choice of a specific offer or tariff group. The company has provided adequate explanations.
– On 25 June 2018 proceedings were instigated against TAURON Sprzedaż Sp. z o.o. related to the legitimacy of the decision to suspend electricity supplies to end buyers. After the reporting period end, on 7 January 2019, the company was informed that the proceedings had been closed.
– On 18 July 2018 proceedings were instigated against TAURON Sprzedaż Sp. z o.o. regarding the adjustment of the terms of the electricity distribution licence to meet the requirements of the applicable law. On 30 November 2018, the company received a decision of the President of Energy Regulatory Office regarding a change to its concession. The company appealed against the decision to the Court of Competition and Consumer Protection.
– On 19 October 2018 proceedings were instigated against TAURON Sprzedaż GZE Sp. z o.o. in relation to discontinued supply of electricity to end users. The company has been providing relevant explanations on an ongoing basis.

The companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Board of the companies the risk of adverse rulings and fines is low.</td></tr>
<tr><td>Administrative and explanatory proceedings instigated by the President of the Office for Competition and Consumer Protection</td><td>As at the end of the reporting period, the President of the Office for Competition and Consumer Protection instigated the following proceedings against the companies in the Sales segment:

– Proceedings instigated on 17 September 2013 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 and therefore constitutes a breach of the Act on competition and consumer protection of 16 February 2007 (Journal of Laws of 2007 No. 50, item 331 as amended; "Act on competition and consumer protection"). The company undertook to discontinue practices that violate the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. On 22 December 2014 the company received a decision of the Office for Competition and Consumer Protection closing the evidentiary proceedings. On 14 December 2015 the President of the Office for Competition and Consumer Protection demanded that the company answer whether the practices had been discontinued. The company responded in February 2016 informing that the practices had been discontinued and requested that the fine be waived. On 22 February 2018 the President of the Office for Competition and Consumer Protection issued a decision stating that the company had used practices violating collective consumers' interests and it had discontinued such practices on 1 February 2016. The President of the Office for Competition and Consumer Protection did not impose any fine on the company, but obliged the entity to issue a statement with the content specified in the decision. The company appealed against the decision to the Court of Competition and Consumer Protection. On 2 July 2018 the President of the Office for Competition and Consumer Protection changed his previous decision of 22 February 2018 (under the self-auditing procedure) and the company was requested to publish appropriate statements with the content and within deadlines specified in the decision. The resultant liability has been fulfilled by the company.

– Explanatory proceedings instigated on 11 May 2017 against TAURON Sprzedaż Sp. z o.o. and on 6 July 2018 against TAURON Sprzedaż GZE Sp. z o.o. with respect to the mechanism of automatic extension of the period of settling fees for the sale of electricity in line with the pricing list if a consumer does not respond to the new offer presented (renewal offer). The companies have been providing relevant explanations on an ongoing basis.

– On 13 July 2017 the explanatory proceedings were instigated against TAURON Sprzedaż GZE Sp. o.o. with respect to violation of the provisions of Article 6b.3 of the Energy Law in respect of determining additional deadlines for payment of overdue amounts specified in demands for payment. The company took remedial action, which consisted in changing the communication distributed to consumers. Documents and explanations have been provided on an ongoing basis.

– Proceedings instituted on 13 October 2017 against TAURON Sprzedaż GZE Sp. z o.o. with regard to the alleged violation of collective interests of consumers, which consisted in hindering a change of the electricity supplier. The company has been providing relevant explanations on an ongoing basis.

– Proceedings instigated on 8 November 2017 against TAURON Sprzedaż Sp. z o.o. in relation to suspected practices violating collective interests of consumers, which consisted in suggesting that termination of contracts with another supplier can be costless. The company has been providing relevant explanations on an ongoing basis.

– Explanatory proceedings instigated on 27 April 2018 against TAURON Sprzedaż Sp. z o.o. in relation to the alleged infringement of collective interest of consumers by sending out letters regarding personal data updates. The company has provided required explanations.

– Explanatory proceedings instigated on 31 December 2018 against TAURON Sprzedaż Sp. z o.o. in relation to suspected violation of collective interests of consumers through application of practices involving conclusion of electricity sales agreements on the phone. The company has provided adequate explanations.

The Companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Board of the companies the risk of adverse rulings and fines is low.</td></tr>
<tr><td>Real estate tax</td><td>With regard to taxes on devices used to generate and transmit electricity in the year ended 2018 the Supreme Administrative Court decided on the tax base of wind farms for 2017. The Supreme Administrative Court rejected the cassation appeal regarding the taxation of wind farms for 2017. In the beginning of 2018, a Generation segment company adjusted its tax returns for 2017 and paid property tax with interests, except for the municipality where no adjustment was possible due to administrative proceedings pending since 2017. The related contingent liability recognized as at the reporting period end pertains to the above administrative proceedings.</td></tr>
<tr><td>Amount</td><td>In connection with the ongoing proceedings, the company from the Generation segment recognized accruals in 2017, resulting from the difference between the amount of property tax paid and the estimated amount of tax that the company may be required to pay, amounting to PLN 2 314 thousand as at the balance sheet date.

To account for the business risk related to the real property tax, a Distribution segment company recognized a provision of PLN 39 356 thousand as at the reporting period end (Note 36.3).</td></tr>
</table>

(in PLN '000)

Item	Description
Use of real estate without contract	The Group companies do not have legal titles to all lands on which distribution networks, heating installations and related equipment are located. In the future, the Group may be required to incur costs due to use of real estate without contract, but it should be noted that the risk of losing assets is negligible. The Group recognizes provisions for all court disputes reported in this respect. The Group does not establish a provision for possible claims by land owners of land with unregulated status, which have not been lodged, due to the lack of detailed records of unsettled land and, consequently, the inability to reliably estimate the amount of potential claims. However, taking into account the previous history of lodged claims and costs incurred in this respect in previous years, the risk related to the need to incur significant costs on this account can be considered as low.
Amount	A provision in the amount of PLN 92 110 thousand was recognized for the court disputes filed as at the balance sheet date (Note 36.1).
Claim for reimbursement of expenses incurred to protect a facility against the effects of mining operations	In December 2017, a claim was filed against the subsidiary TAURON Wydobycie S.A. by Galeria Galena Sp. z o.o. with its registered office in Gliwice for the payment of PLN 22 785 thousand as reimbursement of expenses incurred to protect a facility located in Jaworzno against the effects of mining operations. Additionally, on 5 April 2018, the company received a claim for payment, lodged by Galeria Galena Sp. z o.o. against the legal successors of Kompania Węglowa S.A., along with a request to examine the case together with the one against TAURON Wydobycie S.A. The claims against the State Treasury – the Director of the Regional Mining Authority in Katowice and legal successors of Kompania Węglowa S.A. in Katowice instituted by Galeria Galena Sp. z o.o. were combined for joint consideration. The parties have been providing explanations and serving pleadings on an ongoing basis. The case is pending before District Court in Katowice (the first instance). With regard to the broadening of the scope of the claim to include other defendants, i.e. the legal successors of former Kompania Węglowa S.A. and doubts over the facts and legal uncertainties, which make it impossible to decide on the final outcome of the case heard by the Regional Court in Katowice or to estimate the amount that may be awarded by the Court no provision has been recognised for the above event.
The commitment of the Funds in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.	In the investment agreement signed by the Company and Closed-end Investment Funds managed by Polski Fundusz Rozwoju as described in detail in Note 53 to these consolidated financial statements, a number of situations were mentioned, the occurrence of which indicates a potential significant infringement of the agreement. The potential significant infringement of the agreement by the Group may lead to the potential necessity of recognizing in consolidated financial statements the capital commitment of Closed-end Investment Funds in subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. as a Group's liability and not as a non-controlling interests. As at the balance sheet date, the commitment recognized as non-controlling interests, which is the subject of above conditions amounts to PLN 100 000 thousand.

48. Security for liabilities

Key items of collateral established and binding as at 31 December 2018 in the Group are presented in the following table and regard contracts concluded by the Parent.

(in PLN '000)

Agreement	Collateral form	Collateral amount
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego dated 31 July 2013	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
Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 30 June 2034
Bank guarantee agreement dated 4 April 2018 with MUFG Bank, Ltd.	declaration of submission to enforcement	up to PLN 621 000 thousand, valid until 31 July 2019
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Santander Bank Polska S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by Santander Bank Polska S.A.	up to PLN 150 000 thousand
Overdraft agreements and an intraday limit agreement with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 17 December 2021
	declaration of submission to enforcement	up to PLN 360 000 thousand, valid until 29 December 2021
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 193 500 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 103 200 thousand (EUR 24 000 thousand) valid until 31 December 2020
	declaration of submission to enforcement	up to PLN 215 000 thousand (EUR 50 000 thousand) valid until 31 December 2020
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 11 279 thousand (USD 3 000 thousand) valid until 31 March 2019
Overdraft agreement with mBank (in USD, up to USD 500 thousand)	declaration of submission to enforcement	up to PLN 2 820 thousand (USD 750 thousand) valid until 29 March 2020

On 31 December 2018 a statement of submission to enforcement up to PLN 6 900 000 thousand, signed by the Company in relation to the Bond Issue Scheme of 16 December 2010 with annexes, expired.

After the reporting period end, on 9 January 2019, the Company signed the statement of submission to enforcement up to PLN 1 500 000 thousand, valid until 31 December 2036 and securing the repayment of liabilities of the Company related to the loan agreement of 19 December 2018 concluded with Bank Gospodarstwa Krajowego, described in detail in Note 32.1 hereto.

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

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

	As at 31 December 2018	As at 31 December 2017
Other financial receivables	163 495	11 140
Real estate	38 809	68 250
Cash	45	9
Total	**202 349**	**79 399**

Collaterals of forwards and futures (derivative financial instruments) concluded by the Company on foreign exchange markets is the key item. As at 31 December 2018 and 31 December 2017 the collateral amount was PLN 163 495 thousand and PLN 11 140 thousand, respectively.

(in PLN '000)

Other forms of collateral against liabilities of the Group

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

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

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

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

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 2018, the carrying amount of the investment in a joint venture measured using the equity method in the TAMEH HOLDING Sp. z o.o. Capital Group was PLN 543 913 thousand.

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Issuer a blank promissory note	As at 31 December 2018
Agreements concerning loans granted to subsidiary TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000*
Performance bonds under contracts and agreements concluded by the company, including co-funding of engagements being carried out.	TAURON Dystrybucja S.A.	245 957
Performance bonds under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management in Warsaw and reimbursement and performance bond under the co-funding agreements concluded with the Regional Fund for Environmental Protection and Water Management in Katowice.	TAURON Ciepło Sp. z o.o.	228 606
Performance bonds under the co-funding agreements concluded with Centrum Projektów Polska Cyfrowa in Warsaw.	TAURON Obsługa Klienta Sp. z o.o.	187 841
An agreement with PSE S.A. to provide electricity supply services, an agreement with the National Fund for Environmental Protection and Water Management in Warsaw concerning partial cancellation of a loan and an agreement with the National Centre for Research and Development in Warsaw for the funding of a project.	TAURON Wytwarzanie S.A.	49 570

** As at the balance sheet date, the outstanding amount of loans secured with the promissory notes was PLN 17 000 thousand.*

- Corporate and bank guarantees

– In 2014 the Company issued a corporate guarantee to secure the bonds issued by TAURON Sweden Energy AB (publ). The guarantee remains valid until 3 December 2029, i.e. until the date of redemption of bonds, and amounts to EUR 168 000 thousand. The beneficiaries of the guarantee are the bondholders who purchased the bonds issued by TAURON Sweden Energy AB (publ).

– On 11 April 2018, a bank guarantee of PLN 444 000 thousand was issued for the benefit of Bank Gospodarstwa Krajowego at the request of the Company. The guarantee secures bank exposure under a loan agreement concluded on 8 March 2018 among the borrower, Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., which has been described in more detail in Note 22 to these consolidated financial statements. The guarantee was issued by MUFG Bank, Ltd., and is valid until 11 April 2019. The exposure of MUFG Bank, Ltd. to the Company under a guarantee agreement dated 4 April 2018 is secured with a declaration of submission to enforcement up to PLN 621 000 thousand, valid until 31 July 2019. In relation to the guarantee issued, the Group recognized a liability equal to the projected credit losses, measured for the guarantee period and amounting to PLN 11 994 thousand as at 31 December 2018. The rating applied by the Group for Elektrociepłownia Stalowa Wola S.A. ranges from BB- to B.

(in PLN '000)

After the reporting period end, on 7 February 2019, per Company's order, an annex was issued to the above bank guarantee, pursuant to which as of 12 April 2019, the guarantee amount will be increased to PLN 517 500 thousand and the expiration date postponed to 11 April 2020. The annex to the bank guarantee agreement was concluded based on the guarantee agreement of 5 February 2019 concluded with the MUFG Bank, Ltd. and the receivables of MUFG Bank, Ltd. towards the Company are secured with a declaration of submission to enforcement signed on 6 February 2019 up to PLN 621 000 thousand valid until 31 July 2020.

– Under the bank guarantee agreement made with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, at the request of the Company the bank issued bank guarantees to secure liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. totalling PLN 14 091 thousand. On 1 January 2019 additional guarantees were concluded, issued per Company's order to a Mining segment subsidiary in the amount of PLN 105 thousand and to an Other segment subsidiary totaling PLN 413 thousand, expiring on 31 December 2019 and on 30 March 2020, respectively.

  Under the bank guarantee agreement made with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland issued a bank guarantee to secure the transactions performed by the Company for Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. up to PLN 6 100 thousand, valid until 30 November 2019.

– Per Company's order, after the reporting period end, on 27 March 2019, under the bank guarantee agreement made with Santander Bank Polska S.A. (Spółka Akcyjna) issued a bank guarantee to secure the liabilities of the Company against Izba Rozliczeniowa Giełd Towarowych S.A., totaling PLN 20 000 thousand, valid until 31 May 2019.

– Per order of TAURON Czech Energy s.r.o., a subsidiary, PKO BP S.A. Czech Branch and UniCredit Bank Czech Republic and Slovakia, a.s. issued payment guarantees of CZK 95 000 thousand and EUR 1 200 thousand to secure contracts concluded with market operators and contracts for supply of electricity and natural gas, valid in the period from 21 March 2019 until 31 January 2021.

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

49. Related-party disclosures

49.1. Transactions with joint ventures

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

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

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	52 455	52 306
Costs	(37 053)	(36 655)

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

The Company provided collateral to joint ventures in the form of pledges on shares in TAMEH HOLDING Sp. z o.o. and a bank guarantee commissioned by the Company to secure loan liabilities of Elektrociepłownia Stalowa Wola S.A., as described in detail in Note 48 hereto.

(in PLN '000)

49.2. Transactions with State Treasury companies

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

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

Revenue and expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	2 079 293	1 803 577
Costs	(3 440 786)	(3 007 059)

Receivables and liabilities

	As at 31 December 2018	As at 31 December 2017
Receivables	284 443	253 834
Payables	432 097	322 002

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

In the year ended 31 December 2018, KGHM Polska Miedź S.A., PSE S.A., Polska Grupa Górnicza S.A. and Jastrzębska Spółka Węglowa S.A. were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. The total sales to these contracting parties accounted for 88% of revenue generated on transactions with State Treasury companies. The Group concluded the largest purchase transactions with PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. They accounted for 91% of the total value of purchases from the State Treasury companies in the year ended 31 December 2018.

In the year ended 31 December 2017, KGHM Polska Miedź S.A., PSE S.A., Polska Grupa Górnicza S.A. and Jastrzębska Spółka Węglowa S.A. were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. The total sales to these contracting parties accounted for 85% of revenue generated on transactions with State Treasury companies. The Group concluded the largest purchase transactions with PSE S.A. and Polska Grupa Górnicza S.A. They accounted for 89% of the total value of purchases from the State Treasury companies in the year ended 31 December 2017.

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

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

49.3. Compensation of the executives

The amount of compensation and other benefits paid and/or due to the Management Board, Supervisory Boards and other key executives of the Parent and the subsidiaries in the year ended 31 December 2018 and in the comparative period has been presented in the table below.

(in PLN '000)

	Year ended 31 December 2018		Year ended 31 December 2017	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	**5 661**	**13 974**	**6 957**	**20 556**
Short-term benefits (with surcharges)	4 931	13 275	4 545	16 822
Employment termination benefits	695	357	2 104	3 082
Other	35	342	308	652
Supervisory Board	**833**	**865**	**739**	**684**
Short-term employee benefits (salaries and surcharges)	833	752	739	672
Other	–	113	–	12
Other key management personnel	**16 370**	**39 383**	**13 832**	**41 144**
Short-term employee benefits (salaries and surcharges)	14 330	35 505	12 151	39 267
Jubilee bonuses	–	2 468	–	1 214
Post-employment benefits	–	13	–	–
Employment termination benefits	898	856	776	340
Other	1 142	541	905	323
Total	**22 864**	**54 222**	**21 528**	**62 384**

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

50. Operating leases

The total amount of minimum lease liabilities arising from non-cancellable operating leases as at 31 December 2018:

Future minimum payments arising from operating leases	As at 31 December 2018
Perpetual usufruct right to land	1 044 338
Rent and lease of locations for transformer stations	180 767
Rent and lease of locations for construction of heating substations	20 479
Other agreements	191 327
Total	**1 436 911**

51. Finance and capital management

The Company carries out a centralized finance management policy, allowing effective management in this respect on the TAURON Group level. Key tools allowing effective management include appropriate internal regulations, as well as the cash pooling service performed by the TAURON Group and the intercompany bonds issue scheme. Additionally, the finance management system is supported by the centralized financial risk management policy of the Capital Group and by the centralized insurance policy of the TAURON Group. In these respects, the Company acts as the manager and decision-maker with regard to measures undertaken to set appropriate risk exposure limits.

Detailed finance management information is presented in section 7.3. Management Board's reports on the activities of TAURON Polska Energia S.A. and of the TAURON Polska Energia S.A. Capital Group for the financial year 2018.

In 2018, the Company and TAURON Group was fully able to pay its liabilities at maturity.

The key objective of the capital management policy developed by the Group is maintaining a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value.

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

Net financial debt is the financial debt of the TAURON Group is defined in individual financing agreements and essentially means an obligation to pay or refund money arising from loans, borrowings and debt securities as well as finance leases, except for the liability arising from the issue of subordinated bonds in December 2016 with the par value of EUR 190 000 thousand, and subordinated bonds issued in December 2018 in the nominal value of PLN 750 000 thousand, less cash and short-term investments maturing within one year. TPEA1119 series bonds, issued in November 2014, in the nominal amount of PLN 1 750 000 thousand are the exception, since according to the issue terms, the calculation of the financial debt is not adjusted by the amount of subordinated bonds. EBITDA is the operating profit or loss of the TAURON Group increased by amortization/depreciation and impairment of non-financial assets. The value of the ratio is also monitored by the institutions providing financing to the Group and rating agencies and has a measurable impact on the Company's ability to obtain funding and its cost, as well as on evaluation of its credit standing.

(in PLN '000)

As at the end of the reporting period, the debt ratio was 2.5, which is accepted by financial institutions.

	Year ended 31 December 2018	Year ended 31 December 2017 (*restated figures*)
Loans and borrowings	702 618	901 734
Bonds*	6 247 721	7 808 300
Finance lease	23	25
Non-current debt liabilities	**6 950 362**	**8 710 059**
Loans and borrowings	183 667	289 654
Bonds*	2 287 687	36 183
Finance lease	2	23 948
Short-term debt liabilities	**2 471 356**	**349 785**
Total debt	**9 421 718**	**9 059 844**
Cash and cash equivalents	823 724	909 249
Short-term investments maturing within one year	26 105	103 437
Net debt	**8 571 889**	**8 047 158**
EBITDA	**3 374 926**	**3 617 641**
Operating profit (loss)	790 729	1 879 321
Depreciation/amortization	(1 721 783)	(1 693 468)
Impairment	(862 414)	(44 852)
Net debt / EBITDA	**2.5**	**2.2**

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

Changes in the balance of debt have been presented below.

(in PLN '000)

	Debt
As at 1 January 2017	**8 979 529**
Proceeds arising from debt taken out	**2 703 643**
financing received	2 707 462
transaction costs	(3 819)
Interest accrued	**313 382**
charged to profit or loss	207 434
capitalized to property, plant and equipment and intangible assets	105 948
Debt related payments	**(2 106 885)**
principal repaid	(1 816 388)
interest paid	(184 549)
interest paid, capitalized to investment projects	(105 948)
Change in the balance of overdraft facility and cash pool	**83 471**
Change in debt measurement	**(119 858)**
Other non-monetary changes	**(486)**
As at 31 December 2017	**9 852 796**
subordinated bonds	(792 952)
As at 31 December 2017 – debt in the calculation of debt ratio	**9 059 844**
Effects of implementing IFRS 9 *Financial Instruments*	**(33 055)**
Proceeds arising from debt taken out	**1 348 236**
financing received	1 350 293
transaction costs	(2 057)
Interest accrued	**291 838**
charged to profit or loss	163 099
capitalized to property, plant and equipment and intangible assets	128 739
Debt related payments	**(481 304)**
principal repaid	(192 395)
interest paid	(160 170)
interest paid, capitalized to investment projects	(128 739)
Change in the balance of overdraft facility and cash pool	**(96 683)**
Change in debt measurement	**93 114**
Other non-monetary changes	**(11 565)**
As at 31 December 2018	**10 963 377**
subordinated bonds	(1 541 659)
As at 31 December 2018 – debt in the calculation of debt ratio	**9 421 718**

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

Information concerning the fee of the certified auditor has been presented in the Management Board's report on the activities of the TAURON Polska Energia S.A. and of the Capital Group for the 2018 financial year (Section 6).

53. Other material information

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

On 28 March 2018, the Company, its subsidiary, i.e. Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Infrastructure Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych ("Funds"), with a portion of the investment portfolio managed by Polski Fundusz Rozwoju S.A., signed transaction documentation specifying the terms of the Fund's equity investment in Nowe Jaworzno Grupa TAURON Sp. z o.o.

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

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

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

Under the investment agreement, the Funds will become members of Nowe Jaworzno Grupa TAURON Sp. z o.o. after specified conditions precedent have been met. The conditions precedent included obtaining the consent of the President of the Office for Competition and Consumer Protection for concentration, obtaining a decision of the Head of the National Revenue Administration approving the terms of the contract for the sale of electricity as an advance pricing agreement, conclusion by the Company and its subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. of specified contracts, including a contract for the sale of electricity and a contract for the sale of coal, and performance (or the Company ensuring the performance) of certain activities by the governing bodies of Nowe Jaworzno Grupa TAURON Sp. z o.o. As at the date of approving these consolidated financial statements for publication, in Company's view, all conditions precedent required for the Funds to join Nowe Jaworzno Grupa TAURON Sp. z o.o. have been fulfilled.

On 20 December 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 1 000 thousand, through the issue of 20 thousand new shares with the par value of PLN 50 each. The new shares in the increased issued capital were assumed by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów for the total issue price of PLN 100 000 thousand and fully covered with a cash contribution. The share premium totaling PLN 99 000 thousand, was transferred to the supplementary capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. The aforesaid increase in the issued capital of was registered on 15 January 2019. As a result of the transaction, the Company's share in the issued capital and decision-making body of Nowe Jaworzno Grupa TAURON Sp. z o.o. will drop from 100% to 97.89%.

After the reporting period end, on 25 February 2019, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 2 569 thousand, through the issue of 51 385 new shares with the par value of PLN 50 each. The new shares in the increased issued capital were assumed by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with the registered office in Warszawa for the total issue price of PLN 256 925 thousand. The share premium totaling PLN 254 356 thousand will be transferred to the supplementary capital of Nowe Jaworzno Grupa TAURON sp. z o.o. As a result of the transaction, the Company's share in the capital will drop to 92.86%

Conclusion of investment agreements to establish corporate venture capital funds

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

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

On 21 December 2018, EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo-akcyjna (Starter), incorporated by: the Company (Private Investor), PFR Starter Fundusz Inwestycyjny Zamknięty with the registered office in Warszawa (Public Investor), EEC Ventures spółka z ograniczoną odpowiedzialnością spółka komandytowa (Managing Team's Investor) and EEC Magenta Spółka z ograniczoną odpowiedzialnością (General Partner), was recorded in the National Court Register. The Company assumed 12 450 shares in EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo-akcyjna, in exchange for cash contribution equal to the par value of the shares, i.e. PLN 12 thousand. After the reporting period end, on 15 January 2019, Extraordinary General Meeting of EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo-akcyjna (Starter), resolutions were passed regarding an increase in its issued capital by the total amount of PLN 36 thousand.

The Company assumed 8 902 shares in exchange of cash contribution of PLN 890 thousand. The Company's share in the issued capital and in votes at the General Meeting did not change and amounts to 24.90%.

After the reporting period end, on 9 January 2019, EEC Magenta spółka z ograniczoną odpowiedzialnością 2 ASI spółka komandytowo-akcyjna (CVC) was recorded in the National Court Register. It was incorporated by the Company (Corporate Investor), PFR NCBR CVC Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Public Investor); EEC Ventures spółka z ograniczoną odpowiedzialnością 2 spółka komandytowa (Managing Team's Investor) and EEC Magenta spółka z ograniczoną odpowiedzialnością (General Partner). TAURON Polska Energia S.A. assumed 24 015 shares in the company with the par value of PLN 1 per share, in exchange for cash contribution equal to the par value of the shares, i.e. PLN 24 thousand. After the reporting period end, on 25 January 2019, Extraordinary General Meeting of EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo-akcyjna (CVC), resolutions were passed regarding an increase in its issued capital by the amount of PLN 99 thousand. The Company assumed 47 751 shares in exchange of cash contribution of PLN 4 775 thousand. The Company's share in the issued capital and in votes at the General Meeting did not change and amounts to 48.03%.

Negotiations regarding the purchase of wind farms

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

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

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

As at the date of approving these consolidated financial statements for publication, the negotiations have been pending.

Key power market auctions for 2021–2023

On 15 November, 5 December and 21 December 2018 three initial key power market auctions for 2021–2023 were held. These auctions were held by PSE S.A. in compliance with the Act on the Power Market of 8 December 2017. The closing prices for each auction, as published by the President of Energy Regulatory Office in the Official Journal amounted to, respectively: 240.32 PLN/kW/yr (2021), 198.00 PLN/kW/yr (2022) and 202.99 PLN/kW/yr (2023). The TAURON Group companies concluded power contracts for the following volumes:

– during the auction held on 15 November 2018 – 2 672.49 MW;
– during the auction held on 5 December 2018 – 422.23 MW;
– during the auction held on 21 December 2018 – 393.23 MW.

The auctions have been described in details in Note 2.6 of the Management Board's report on the activities of TAURON Polska Energia S.A. and of the TAURON Polska Energia S.A. Capital Group for 2018.

54. Events after the end of the reporting period

Security for liabilities

On 9 January and 6 February 2019, the Company concluded statements regarding submission to enforcement being the form of collateral related to its liabilities of up to PLN 1 500 000 thousand and up to PLN 621 000 thousand, respectively, described in detail in Note 48 hereto.

Bank guarantee for joint venture Elektrociepłownia Stalowa Wola S.A.

On 7 February 2019, per Company's order, an annex to the bank guarantee was issued, increasing to PLN 517 500 thousand the guarantee granted to secure receivables of Bank Gospodarstwa Krajowego arising from the loan agreement concluded on 8 March 2018 between Elektrociepłownia Stalowa Wola S.A. – the borrower, Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., as described in detail in Note 48 hereto.

Claims relating to termination of long-term contracts by a subsidiary TAURON Sprzedaż Sp. z o.o.

On 7 March 2019 an action was instigated against TAURON Sprzedaż Sp. z o.o. for the total amount of PLN 232 879 thousand in relation to termination of long-term contracts for the purchase of property rights under green certificates, as described in detail in Note 47 hereto.

Loan granted to a joint venture Elektrociepłownia Stalowa Wola S.A.

On 12 March 2019 the Company concluded with Elektrociepłownia Stalowa Wola S.A. a loan agreement up to PLN 5 175 thousand. Pursuant to the agreement, the repayment of the loan with interest accrued based on a fixed interest rate will take place until 30 June 2033. The loan, accrued interest, costs and other amounts due to the Company arising from the loan agreement are collateralized with a blank promissory note with a promissory note agreement. The loan amount was made available to Elektrociepłownia Stalowa Wola S.A. on 20 March 2019.

Effective date of the Act of 21 February 2019, amending the Act Amending the Excise Duty Act and Certain Other Acts

On 20 March 2019 the Act of 21 February 2019, amending the Act Amending the Excise Duty Act and Certain Other Acts, came into effect, as described in detail in Note 36.2 hereto.

Debt taken out/repaid

In March 2019 the Company redeemed bonds with a nominal value of PLN 400 000 thousand, issued bonds with a nominal value of PLN 100 000 thousand and submitted a proposal to BGK to purchase on 29 March 2019 subordinated bonds with a nominal value of PLN 400 000 thousand, as described in detail in Note 32.2 hereto.

Under the loan agreement concluded with BGK dated 19 December 2018, as described in detail in Note 32.1 hereto, in January and February 2019, tranches of the loan totaling PLN 730 000 thousand were availed.

Management Board of the Company

Katowice, 29 March 2019

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

Oliwia Tokarczyk – Executive Director in Charge of Taxes and Accounting