TAURON Polska Energia S.A.

Condensed Interim Financial Statements

prepared in accordance with the International Financial Reporting Standards,

as endorsed by the European Union

for the 3-month period ended 31 March 2017

(PLN '000)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited restated figures)*
Sales revenue	**11**	1 908 605	1 935 419
Cost of sales	**12**	(1 681 922)	(1 908 067)
Gross profit		**226 683**	**27 352**
Selling and distribution expenses	**12**	(6 992)	(5 271)
Administrative expenses	**12**	(25 162)	(23 014)
Other operating income and expenses		(1 347)	(831)
Operating profit (loss)		**193 182**	**(1 764)**
Interest income on bonds and loans	**13**	141 192	121 283
Interest expense on debt	**13**	(75 475)	(90 926)
Other finance income and costs	**13**	65 024	12 386
Profit before tax		**323 923**	**40 979**
Income tax expense	**14.1**	(46 210)	19 475
Net profit		**277 713**	**60 454**
Measurement of hedging instruments	**28.4**	(4 217)	25 149
Income tax expense	**14.1**	801	(4 778)
Other comprehensive income subject to reclassification to profit or loss		**(3 416)**	**20 371**
Actuarial gains/(losses)		(11)	9
Income tax expense	**14.1**	2	(2)
Other comprehensive income not subject to reclassification to profit or loss		**(9)**	**7**
Other comprehensive income, net of tax		**(3 425)**	**20 378**
Total comprehensive income		**274 288**	**80 832**
Earnings per share (in PLN):			
- basic and diluted, for net profit		0.16	0.03

(PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	**16**	999	1 276
Investment property	**17**	24 414	25 318
Intangible assets	**18**	1 914	2 191
Shares	**19**	14 874 418	14 870 418
Bonds	**20**	9 912 030	9 615 917
Loans granted	**21**	1 306 903	1 292 800
Derivative instruments	**22**	31 727	35 814
Other financial assets	**23**	162 850	5 524
Other non-financial assets		5 588	6 071
		26 320 843	**25 855 329**
Current assets			
Inventories	**24**	239 269	284 799
Receivables from clients	**25**	442 674	840 656
Receivables arising from taxes and charges	**26**	113 845	120 586
Bonds	**20**	347 774	242 465
Loans granted	**21**	315 228	30 966
Derivative instruments	**22**	14 361	20 603
Other financial assets	**23**	99 241	55 354
Other non-financial assets		9 819	23 528
Cash and cash equivalents	**27**	60 363	198 090
		1 642 574	**1 817 047**
TOTAL ASSETS		**27 963 417**	**27 672 376**

(PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
EQUITY AND LIABILITIES			
Equity			
Issued capital	**28.1**	8 762 747	8 762 747
Reserve capital	**28.3**	7 823 339	7 823 339
Revaluation reserve from valuation of hedging instruments	**28.4**	26 244	29 660
Retained earnings / (Accumulated losses)	**28.3**	192 226	(85 478)
		16 804 556	**16 530 268**
Non-current liabilities			
Debt	**29**	8 844 879	8 754 047
Other financial liabilities	**30**	25 405	27 918
Derivative instruments	**22**	36	-
Deferred income tax liabilities	**14.2**	73 675	32 364
Provisions for employee benefits		2 627	2 534
Other provisions	**31**	4 625	152 943
Accruals, deferred income and government grants		225	170
		8 951 472	**8 969 976**
Current liabilities			
Debt	**29**	1 617 355	1 433 929
Liabilities to suppliers	**32**	384 589	473 637
Other financial liabilities	**30**	99 538	111 759
Derivative instruments	**22**	5 167	560
Liabilities arising from taxes and charges	**33**	10 007	20 209
Other non-financial liabilities		553	-
Provisions for employee benefits		304	299
Other provisions	**31**	73 912	110 406
Accruals, deferred income and government grants		15 964	21 333
		2 207 389	**2 172 132**
Total liabilities		**11 158 861**	**11 142 108**
TOTAL EQUITY AND LIABILITIES		**27 963 417**	**27 672 376**

(PLN '000)

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2017 (*unaudited*)

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2017	**8 762 747**	**7 823 339**	**29 660**	**(85 478)**	**16 530 268**
Net profit	-	-	-	277 713	**277 713**
Other comprehensive income	-	-	(3 416)	(9)	**(3 425)**
Total comprehensive income	**-**	**-**	**(3 416)**	**277 704**	**274 288**
As at 31 March 2017 *(unaudited)*	**8 762 747**	**7 823 339**	**26 244**	**192 226**	**16 804 556**

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2016 (*unaudited*)

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2016	**8 762 747**	**11 277 247**	**(73 414)**	**(3 374 083)**	**16 592 497**
Net profit	-	-	-	60 454	**60 454**
Other comprehensive income	-	-	20 371	7	**20 378**
Total comprehensive income	**-**	**-**	**20 371**	**60 461**	**80 832**
As at 31 March 2016 *(unaudited)*	**8 762 747**	**11 277 247**	**(53 043)**	**(3 313 622)**	**16 673 329**

(PLN '000)

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Cash flows from operating activities			
Profit before taxation		323 923	40 979
Depreciation and amortization		1 490	2 525
Interest and dividends, net		(66 415)	(31 462)
Foreign exchange difference		(74 729)	(1 625)
Other adjustments of profit before tax		11 880	(12 591)
Change in working capital	**34.1**	118 902	(266 962)
Income tax paid		-	(15 829)
Net cash from (used in) operating activities		**315 051**	**(284 965)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(532)	(1 035)
Purchase of bonds	**34.2**	(350 000)	(480 000)
Purchase of shares	**34.2**	(160 000)	(179 000)
Loans granted	**34.2**	(292 742)	(6 000)
Total payments		**(803 274)**	**(666 035)**
Sale of property, plant and equipment and intangible assets		-	1
Redemption of bonds		-	30 000
Repayment of loans granted		-	142 024
Interest received	**34.2**	73 449	179 428
Total proceeds		**73 449**	**351 453**
Net cash used in investing activities		**(729 825)**	**(314 582)**
Cash flows from financing activities			
Payment of finance lease liabilities		(838)	(781)
Repayment of loans and borrowings	**34.3**	(20 455)	(20 455)
Redemption of debt securities		-	(2 250 000)
Interest paid	**34.3**	(12 179)	(24 555)
Commission paid		(7 452)	(5 881)
Total payments		**(40 924)**	**(2 301 672)**
Issue of debt securities	**34.3**	500 000	2 860 000
Total proceeds		**500 000**	**2 860 000**
Net cash from financing activities		**459 076**	**558 328**
Net increase / (decrease) in cash and cash equivalents		**44 302**	**(41 219)**
Net foreign exchange difference		161	2 686
Cash and cash equivalents at the beginning of the period	**27**	**(1 045 441)**	**(679 175)**
Cash and cash equivalents at the end of the period, *of which:*	**27**	**(1 001 139)**	**(720 394)**
restricted cash	**27**	43 597	88 752

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

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

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

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

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

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

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

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

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

The Company's condensed interim financial statements cover the 3-month period ended 31 March 2017 and present comparative data for the 3-month period ended 31 March 2016 as well as figures as at 31 December 2016. The data for the 3-month period ended 31 March 2017 and the comparative data for the 3-month period ended 31 March 2016, as contained herein, have not been audited or reviewed by a certified auditor. The comparative data as at 31 December 2016 were audited by a certified auditor.

These condensed interim financial statements for the 3-month period ended 31 March 2017 were approved for publication on 9 May 2017.

The Company also prepared condensed interim consolidated financial statements for the 3-month period ended 31 March 2017, which were approved by the Management Board for publication on 9 May 2017.

These condensed interim financial statements are part of the consolidated report, which also includes the condensed interim consolidated financial statements for the 3-month period ended 31 March 2017.

(PLN '000)

2. Shares in related parties

As at 31 March 2017, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

Item	Company name	Registered office	Core business	Share of TAURON Polska Energia S.A. in the entity's capital and governing body
1	TAURON Wydobycie S.A.	Jaworzno	Hard coal mining	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation, transmission and distribution of electricity and heat	100.00%
3	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%
4	Marselwind Sp. z o.o.	Katowice	Production, transmission and sale of electricity	100.00%
5	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100.00%
6	TAURON Serwis Sp. z o. o.	Katowice	Services	95.61%
7	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.72%
8	TAURON Dystrybucja Serwis S.A.[1]	Wrocław	Services	99.72%
9	TAURON Dystrybucja Pomiary Sp. z o.o.[1]	Tarnów	Services	99.72%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%
12	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%
13	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%
14	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Limestone quarrying and stone quarrying	100.00%
15	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. [2]	Warszawa	Sale of electricity	100.00%
16	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Services	100.00%
17	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Sourcing of and trading in biomass	100.00%
18	KOMFORT - ZET Sp. z o.o.[1]	Tarnów	Services	99.72%

[1] TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A. ,TAURON Dystrybucja Pomiary Sp. z o.o. and KOMFORT - ZET Sp. z o.o. through a subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses the shares of TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiary Sp. z o.o.
[2] On 8 March 2017, the Extraordinary General Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation adopted a resolution to revoke the liquidation of the company.

As at 31 March 2017, TAURON Polska Energia S.A. held direct and indirect interest in the following jointly-controlled entities:

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

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

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

3. Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"), as endorsed by the European Union ("EU").

The condensed interim financial statements do not contain all information and disclosures required for annual financial statements and they should be read jointly with the Company's financial statements prepared in accordance with IFRS for the year ended 31 December 2016.

4. Going concern

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

5. Functional and presentation currency

These condensed interim financial statements have been presented in the Polish zlotys ("PLN") and all figures are in PLN thousand, unless stated otherwise.

6. Changes in estimates

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

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

(PLN '000)

Item	Value of item to which the estimate figure applies As at 31 March 2017 *(unaudited)*	 As at 31 December 2016	Details regarding assumptions made and calculation of significant estimates
Shares	14 874 418	14 870 418	• As at 31 March 2017, impairment losses were recognized on the shares in: TAURON Wytwarzanie S.A.: PLN 5 403 825 thousand and TAURON Ekoenergia Sp. z o.o.: PLN 939 765 thousand. The impairment losses had been recognized in prior reporting periods. In the 3-month period ended 31 March 2017, the impairment losses did not change as compared to 31 December 2016. Note 19
Loan granted to a subsidiary	1 063 824	1 051 849	• Impairment The impairment tests performed as at 31 December 2016 for shares, bonds and loans in subsidiaries identified the necessity to recognize an impairment loss on a loan to a subsidiary in the amount of PLN 197 953 thousand. The impairment loss did not change in the 3-month-period ended 31 March 2017. • Classification as non-current assets. Note 21
Provision for onerous contracts and for costs	13 004	198 844	• In the 3-month period ended 31 March 2017, the provisions for the electricity contract and the "take or pay" clause were reversed in whole. As at 31 March 2017, the balance of the provision was related to the costs of operation of Elektrociepłownia Stalowa Wola S.A. Note 31
Deferred tax assets	28 495	50 115	• Unrecognised deferred tax assets; • Realisation of deferred tax assets. Note 14.2
Derivative instruments:			• Fair value measurement.
Assets	46 088	56 417	Note 22
Liabilities	5 203	560	
Intragroup bonds	10 259 804	9 858 382	• Classification as non-current or current assets. Note 20
Loan received from a subsidiary	27 981	29 286	• Classification as non-current liabilities. Note 29.3

7. New standards and interpretations which have been published but have not entered into force yet

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

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

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

IFRS 9 *Financial Instruments*

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

Major changes introduced by IFRS 9 *Financial Instruments*:

- a change in the principles of classification and measurement of financial assets based on a business model whose objective is to manage financial assets as well as characteristics of the contractual cash flows.

  The existing four categories of financial assets, as defined in IAS 39 *Financial Instruments: Recognition and Measurement*, will be replaced by two categories, namely amortized cost and fair value;
- introduction of a new impairment testing model based on expected credit losses;
- a modified hedge accounting model.

Impact on the financial statements

A change in the principles of classification and measurement of financial assets will drive a change in the classification of financial assets in the financial statements of the Company but it will not have a considerable impact on the measurement, profit/loss or equity of the Company. An analysis of the financial assets held by the Company as at 31 March 2017 has shown that, provided that the Company maintains similar financial assets when IFRS 9 *Financial Instruments* becomes effective, the new classification will not materially change the measurement and hence the Company's profit/loss or equity. The instruments which have thus far been classified as loans and receivables meet the conditions to be classified as assets measured at amortized cost. Hence, the change will not result in any changes in the measurement. The Company does not have any assets held to maturity. Other categories of financial assets measured at fair value in line with IFRS 9 are assets measured at fair value.

The above results of the analysis do not apply to shares held by the Company in entities which are not quoted on active markets, which cannot be reliably measured and therefore are currently measured at cost less impairment losses. An analysis of the impact of IFRS 9 on the financial statements as regards this group of assets has not been completed yet.

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

As at 31 March 2017, the Company held instruments hedging fluctuations in cash flows related to issued bonds due to interest rate risk. These interest rate swaps are subject to hedge accounting. It is not expected that the entry into force of IFRS 9 will have a material impact on the Company's financial statements as regards the applied hedge accounting principles.

IFRS 15 *Revenue from Contracts with Customers*

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

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. It replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations applicable to revenue recognition.

Impact on the financial statements

A preliminary analysis of the impact of IFRS 15 *Revenue from Contracts with Customers* on the accounting policies applied thus far has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which happens rarely at the Company. The new IFRS 15 guidance is not expected to result in the need to change the systems, but before the standard enters into force the Company intends to carry out an analysis of contracts with customers including contract identification, indication of individual liabilities, determining prices, assigning them to individual liabilities and revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements.

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

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

IFRS 16 *Leases*

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

Under IFRS 16, the lessee recognizes 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 shall use the incremental borrowing rate. Lessors continue to classify leases as operating or finance leases, with the approach to lessor accounting substantially unchanged from IAS 17. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. A lessor 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.

(PLN '000)

Impact on the financial statements

A preliminary analysis of the impact of IFRS 16 on the accounting policies has shown a change material for the Company, i.e. the need to recognize lease assets and liabilities for leases currently classified as operating leases in the financial statements. The Company intends to analyze all its lease agreements to identify leases which require recognition of assets and liabilities in the financial statements. As the effective date of IFRS 16 is remote and the standard has not been endorsed by the EU yet, as at the date of approval of these financial statements for publication the Company had not carried out any analyses which would enable it to determine the impact of the planned changes on the financial statements. The analysis will be conducted at a later time.

Clarifications to IFRS 15 *Revenue from Contracts with Customers*

Effective date given in the standard, not endorsed by the EU: annual periods beginning on or after 1 January 2018.

The amendment provides additional clarifications as to some requirements in addition to introducing a new exemption for entities applying IFRS 15 Revenue from Contracts with Customers for the first time.

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

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

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

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

(PLN '000)

8. Significant accounting policies

The accounting principles (policies) adopted for the preparation of these condensed interim financial statements are consistent with those used for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2016.

Presentation change

In the year ended 31 December 2016, the Company decided to change the presentation of gains/losses on forward and futures transactions – derivative commodity instruments falling within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* as well as gains/losses on trading in the inventory of emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices, in the financial statements, which has been discussed in more detail in the financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2016, where the aforesaid change was recognized for the first time.

The effect of the presentation change on the condensed interim statement of comprehensive income for the 3-month period ended 31 March 2016 is presented in the table below. The change has not had any effect on the Company's profit/loss.

	3-month period ended 31 March 2016 *(authorised figures)*	Change in presentation of gains/losses on trading in emission allowances and on commodity derivative instruments	3-month period ended 31 March 2016 *(unaudited restated figures)*
Sales revenue	2 017 949	(82 530)	1 935 419
Cost of sales	(1 988 807)	80 740	(1 908 067)
Gross profit	**29 142**	**(1 790)**	**27 352**
Selling and distribution expenses	(8 259)	2 988	(5 271)
Operating profit (loss)	**(2 962)**	**1 198**	**(1 764)**
Other finance income and costs	13 584	(1 198)	12 386
Net profit	**60 454**	**-**	**60 454**

9. Seasonality of operations

The Company's operations related to electricity sales are not seasonal in nature, hence the Company's performance in this area shows no significant fluctuations during the year.

As the Company carries out holding operations, it reports significant dividend income recognized under finance income as at the dates of the resolutions on dividend payment, unless such resolutions set other record dates. In the 3-month period ended 31 March 2017 and the comparative period, the Company did not recognize any dividend income.

OPERATING SEGMENTS

10. Information on operating segments

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

"Holding activity" segment assets include:

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

"Holding activity" segment liabilities include:

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

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

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

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

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

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

(PLN '000)

For the 3-month period ended 31 March 2017 or as at 31 March 2017 (*unaudited*)

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	263 653	-	-	**263 653**
Sales within the Group	1 644 952	-	-	**1 644 952**
Segment revenue	**1 908 605**	**-**	**-**	**1 908 605**
Profit/(loss) of the segment	**218 344**	**-**	**-**	**218 344**
Unallocated expenses	-	-	(25 162)	**(25 162)**
EBIT	**218 344**	**-**	**(25 162)**	**193 182**
Net finance income/(costs)	-	139 111	(8 370)	**130 741**
Profit/(loss) before income tax	**218 344**	**139 111**	**(33 532)**	**323 923**
Income tax expense	-	-	(46 210)	**(46 210)**
Net profit/(loss) for the period	**218 344**	**139 111**	**(79 742)**	**277 713**
Assets and liabilities				
Segment assets	882 428	26 969 909	-	**27 852 337**
Unallocated assets	-	-	111 080	**111 080**
Total assets	**882 428**	**26 969 909**	**111 080**	**27 963 417**
Segment liabilities	498 114	10 461 491	**-**	**10 959 605**
Unallocated liabilities	-	-	199 256	**199 256**
Total liabilities	**498 114**	**10 461 491**	**199 256**	**11 158 861**
EBIT	**218 344**	**-**	**(25 162)**	**193 182**
Depreciation/amortization	**(1 490)**	**-**	**-**	**(1 490)**
Impairment	**218**	**-**	**-**	**218**
EBITDA	**219 616**	**-**	**(25 162)**	**194 454**
Other segment information				
Capital expenditure *	32	-	-	**32**

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

For the 3-month period ended 31 March 2016 (*restated, unaudited*) or as at 31 December 2016

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	378 497	-	-	**378 497**
Sales within the Group	1 556 922	-	-	**1 556 922**
Segment revenue	**1 935 419**	**-**	**-**	**1 935 419**
Profit/(loss) of the segment	**21 250**	-	**-**	**21 250**
Unallocated expenses	-	-	(23 014)	**(23 014)**
EBIT	**21 250**	**-**	**(23 014)**	**(1 764)**
Net finance income (costs)	-	44 038	(1 295)	**42 743**
Profit/(loss) before income tax	**21 250**	**44 038**	**(24 309)**	**40 979**
Income tax expense	-	-	19 475	**19 475**
Net profit/(loss) for the period	**21 250**	**44 038**	**(4 834)**	**60 454**
Assets and liabilities				
Segment assets	1 450 322	26 114 360	-	**27 564 682**
Unallocated assets	-	-	107 694	**107 694**
Total assets	**1 450 322**	**26 114 360**	**107 694**	**27 672 376**
Segment liabilities	785 879	10 221 533	**-**	**11 007 412**
Unallocated liabilities	-	-	134 696	**134 696**
Total liabilities	**785 879**	**10 221 533**	**134 696**	**11 142 108**
EBIT	**21 250**	**-**	**(23 014)**	**(1 764)**
Depreciation/amortization	**(2 525)**	**-**	**-**	**(2 525)**
Impairment	**(23 120)**	**-**	**-**	**(23 120)**
EBITDA	**46 895**	**-**	**(23 014)**	**23 881**
Other segment information				
Capital expenditure *	533	-	-	**533**

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

In the 3-month period ended 31 March 2017, revenue from sales to two major clients, being members of the TAURON Group, represented 70% and 11% of the Company's total revenue in the "Sales" segment, amounting to PLN 1 338 223 thousand and PLN 215 833 thousand, respectively.

In the 3-month period ended 31 March 2016, revenue from sales to two major clients, being members of the TAURON Group, represented 63% and 11% of the Company's total revenue in the "Sales" segment, amounting to PLN 1 279 813 thousand and PLN 223 213 thousand, respectively.

(PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited restated figures)*
Revenue from sales of goods for resale and materials, *of which*:	**1 890 165**	**1 920 164**
Electricity	1 804 885	1 823 812
Gas	71 399	70 762
Property rights arising from energy certificates	11 721	14 035
Emission allowances	495	10 758
Other	1 665	797
Rendering of services, *of which*:	**18 440**	**15 255**
Trading income	13 165	12 449
Other	5 275	2 806
Total sales revenue	**1 908 605**	**1 935 419**

The Company acts as an agent in transactions involving coal purchases for the Group companies. The Company purchases raw materials from third parties and from the TAURON Group companies, which are subsequently sold to related parties. It recognizes revenue from agency services (supply management).

In the 3-month period ended 31 March 2017, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 308 746 thousand. The Company recognized revenue from agency services of PLN 7 584 thousand.

Greenhouse gas emission allowances include:

- sales to the Group companies for purposes of allowance surrendering in fulfilment of the obligations related to greenhouse gas emissions – in the 3-month period ended 31 March 2017 sales to subsidiaries totaled PLN 495 thousand (versus PLN 10 758 thousand in the comparative period); and
- the aggregate gain on the inventory of emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices (trading portfolio). In the 3-month period ended 31 March 2017 and in the comparative period, the Company incurred a loss, which was recognized within operating expenses.

12. Expenses by type

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited restated figures)*
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(1 490)	(2 525)
Materials and energy	(362)	(245)
Consultancy services	(1 613)	(901)
IT services	(3 106)	(3 291)
Other external services	(7 898)	(3 319)
Taxes and charges	(1 171)	(643)
Employee benefits expense	(23 928)	(18 828)
Impairment loss on inventories	218	(20 041)
Allowance for receivables from clients	-	1 542
Advertising expenses	(3 842)	(5 317)
Other	(469)	(457)
Total costs by type	**(43 661)**	**(54 025)**
Selling and distribution expenses	6 992	5 271
Administrative expenses	25 162	23 014
Cost of goods for resale and materials sold	(1 670 415)	(1 882 327)
Cost of sales	**(1 681 922)**	**(1 908 067)**

(PLN '000)

13. Finance income and costs

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited restated figures)*
Income and costs from financial instruments, *of which:*	**133 057**	**44 276**
Interest income on bonds and loans	141 192	121 283
Other interest income	1 182	1 193
Interest expense	(75 475)	(90 926)
Commissions due to external financing	(1 925)	(2 793)
Gain/loss on derivative instruments	(6 489)	16 746
Exchange gains/losses	74 124	(1 251)
Other	448	24
Other finance income and costs	**(2 316)**	**(1 533)**
Interest on discount (other provisions)	(2 214)	(2 929)
Other	(102)	1 396
Total finance income and costs, *including recognized in the statement of comprehensive income:*	**130 741**	**42 743**
Interest income on bonds and loans	141 192	121 283
Interest expense on debt	(75 475)	(90 926)
Other finance income and costs	65 024	12 386

An increase in other finance income and costs in the 3-month period ended 31 March 2017 was mainly driven by a surplus of exchange gains over exchange losses of PLN 74 124 thousand. Exchange gains were mainly related to the Company's debt in the euro, i.e. loans obtained from a subsidiary and subordinated bonds issued in December 2016. The related surplus of exchange gains over exchange losses was PLN 74 568 thousand.

14. Income tax

14.1. Tax expense in the statement of comprehensive income

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Current income tax	**(4 096)**	**(4 325)**
Current income tax expense	(4 361)	(4 325)
Adjustments of current income tax from prior years	265	-
Deferred tax	**(42 114)**	**23 800**
Income tax expense in profit or loss	**(46 210)**	**19 475**
Income tax expense in other comprehensive income	**803**	**(4 780)**

(PLN '000)

14.2. Deferred income tax

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
due interest on bonds and loans	78 936	66 356
difference between tax base and carrying amount of other financial assets	8 339	4 861
valuation of hedging instruments	6 232	6 962
other	8 663	4 300
Deferred tax liabilities	**102 170**	**82 479**
provision for employee benefits	557	544
other provisions and accruals	5 451	31 122
difference between tax base and carrying amount of fixed and intangible assets	1 035	1 107
difference between tax base and carrying amount of financial liabilities	19 558	15 887
other	1 894	1 455
Deferred tax assets	**28 495**	**50 115**
Deferred tax assets/(liabilities), net, *of which:*	**(73 675)**	**(32 364)**
Deferred tax assets/(liabilities), net - recognized in profit or loss	(67 464)	(25 349)
Deferred tax assets/(liabilities), net - recognized in other comprehensive income	(6 211)	(7 015)

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

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

15. Dividends paid and proposed

On 13 March 2017, the Management Board of TAURON Polska Energia S.A. adopted a resolution to file a motion with the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. to offset the Company's net loss for the 2016 financial year of PLN 166 253 thousand against the reserve capital. The Management Board of the Company decided not to put forward a recommendation to the Ordinary General Shareholders' Meeting, concerning the adoption of a decision to use the Company's reserve capital for purposes of payment of dividend for 2016 to the Company's shareholders.

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

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

(PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

16. Property, plant and equipment

For the 3-month period ended 31 March 2017 (*unaudited*)

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
COST					
Opening balance	**5 918**	**6 857**	**11 635**	**-**	**24 410**
Direct purchase	-	-	-	32	**32**
Allocation of assets under construction	-	-	32	(32)	**-**
Closing balance	**5 918**	**6 857**	**11 667**	**-**	**24 442**
ACCUMULATED DEPRECIATION					
Opening balance	**(5 917)**	**(5 732)**	**(11 485)**	**-**	**(23 134)**
Depreciation for the period	-	(240)	(69)	-	**(309)**
Closing balance	**(5 917)**	**(5 972)**	**(11 554)**	**-**	**(23 443)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**1**	**1 125**	**150**	**-**	**1 276**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1**	**885**	**113**	**-**	**999**

For the 3-month period ended 31 March 2016 (*unaudited*)

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
COST					
Opening balance	**6 761**	**6 857**	**10 798**	**-**	**24 416**
Direct purchase	-	-	-	533	**533**
Allocation of assets under construction	-	-	533	(533)	**-**
Sale, disposal	(21)	-	-	-	**(21)**
Closing balance	**6 740**	**6 857**	**11 331**	**-**	**24 928**
ACCUMULATED DEPRECIATION					
Opening balance	**(6 438)**	**(4 771)**	**(9 771)**	**-**	**(20 980)**
Depreciation for the period	(91)	(240)	(1 013)	-	**(1 344)**
Sale, disposal	21	-	-	-	**21**
Closing balance	**(6 508)**	**(5 011)**	**(10 784)**	**-**	**(22 303)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**323**	**2 086**	**1 027**	**-**	**3 436**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**232**	**1 846**	**547**	**-**	**2 625**

17. Investment property

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
COST		
Opening balance	**36 169**	**36 169**
Closing balance	**36 169**	**36 169**
ACCUMULATED DEPRECIATION		
Opening balance	**(10 851)**	**(7 234)**
Depreciation for the period	(904)	(904)
Closing balance	**(11 755)**	**(8 138)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**25 318**	**28 935**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**24 414**	**28 031**

The investment property is composed of buildings located in Katowice Szopienice at ul. Lwowska 23, used under a finance lease agreement with PKO Leasing S.A. The monthly lease payment is ca. PLN 336 thousand, while the monthly depreciation charge is PLN 301 thousand.

The Company is a party to a lease agreement with a subsidiary (the lessee) valid until 30 April 2018, whereby buildings and structures the rights to which result from the aforesaid lease agreement have been subleased. In the 3-month period ended 31 March 2017, the rental income related to the investment property amounted to PLN 1 410 thousand.

(PLN '000)

18. Non-current intangible assets

For the 3-month period ended 31 March 2017 (*unaudited*)

	Software and licenses	Other intangible assets	Intangible assets, total
COST			
Opening balance	**2 259**	**4 125**	**6 384**
Closing balance	**2 259**	**4 125**	**6 384**
ACCUMULATED AMORTIZATION			
Opening balance	**(2 046)**	**(2 147)**	**(4 193)**
Amortization for the period	(85)	(192)	**(277)**
Closing balance	**(2 131)**	**(2 339)**	**(4 470)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**213**	**1 978**	**2 191**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**128**	**1 786**	**1 914**

For the 3-month period ended 31 March 2016 (*unaudited*)

	Software and licenses	Other intangible assets	Intangible assets, total
COST			
Opening balance	**3 539**	**4 185**	**7 724**
Liquidation	(1 280)	(60)	**(1 340)**
Closing balance	**2 259**	**4 125**	**6 384**
ACCUMULATED AMORTIZATION			
Opening balance	**(2 985)**	**(1 440)**	**(4 425)**
Amortization for the period	(85)	(192)	**(277)**
Liquidation	1 280	60	**1 340**
Closing balance	**(1 790)**	**(1 572)**	**(3 362)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**554**	**2 745**	**3 299**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**469**	**2 553**	**3 022**

19. Shares

Changes in shares from 1 January 2017 to 31 March 2017 (*unaudited*)

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	Increases/ (Decreases)	Closing balance	Opening balance	Increases/ (Decreases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	841 755	-	841 755	-	-	-	841 755	841 755
2	TAURON Wytwarzanie S.A.	7 236 727	-	7 236 727	(5 403 825)	-	(5 403 825)	1 832 902	1 832 902
3	TAURON Ciepło Sp. z o.o.	1 328 043	-	1 328 043	-	-	-	1 328 043	1 328 043
4	TAURON Ekoenergia Sp. z o.o.	939 765	-	939 765	(939 765)	-	(939 765)	-	-
5	Marselwind Sp. z o.o.	107	-	107	-	-	-	107	107
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	-	-	1 268	1 268
7	TAURON Dystrybucja S.A.	9 511 628	-	9 511 628	-	-	-	9 511 628	9 511 628
8	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	-	-	613 505	613 505
9	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	-	-	129 823	129 823
10	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	-	-	4 223	4 223
11	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	-	-	41 178	41 178
12	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	55 056	-	55 056	-	-	-	55 056	55 056
13	TAURON Sweden Energy AB (publ)	28 382	-	28 382	-	-	-	28 382	28 382
14	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	1 269	-	-	-	1 269	1 269
15	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	-	-	39 831	39 831
16	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
17	PGE EJ 1 Sp. z o.o.	23 046	3 500	26 546	-	-	-	23 046	26 546
18	ElectroMobility Poland S.A.	2 500	-	2 500	-	-	-	2 500	2 500
19	Other	50	500	550	-	-	-	50	550
	Total	**21 214 008**	**4 000**	**21 218 008**	**(6 343 590)**	**-**	**(6 343 590)**	**14 870 418**	**14 874 418**

A change in long-term investments in the 3-month period ended 31 March 2017 was driven mainly by an increase in the issued capital of PGE EJ 1 Sp. z o.o. On 21 December 2016, the Extraordinary General Shareholders' Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution to increase the company's issued capital from PLN 275 859 thousand to PLN 310 858 thousand, i.e. by PLN 34 999 thousand, through the issue of 248 220 new shares with the nominal value of PLN 141 each and the total nominal value of PLN 34 999 thousand, to be taken up and paid for by the company's shareholders in proportion to their shares. TAURON paid for 10% of the increased issued capital, i.e. PLN 3 500 thousand, and acquired 24 822 new shares. The aforesaid increase in the issued capital of PGE EJ 1 Sp. z o.o. was registered on 15 February 2017.

Impairment of assets

Considering external factors affecting the Company's market cap being lower than its carrying amount for a long time and the continued overall unfavorable conditions in the coal power industry, a drop in the prices of renewable energy certificates and the adoption of new regulations governing renewable energy sources, an analysis of the impact of the fundamental factors on market developments was conducted as at 31 March 2017. The analysis revealed that there were no material reasons to change the long-term assessment of market developments in the first quarter of the year as compared to the information available as at 31 December 2016. Therefore, it was assumed that the most recent results of impairment tests focusing on shares and intra-group loans and bonds recognized in non-current assets, which were performed as at 31 December 2016, were up-to-date.

As at 31 December 2016 the Company carried out impairment tests focusing on shares and intra-group loans and bonds. Shares and loans and bonds accounted for about 96% of the balance sheet total as at the end of the reporting period.

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

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

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

The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 6.39% to 7.79% in nominal terms before tax. WACC is calculated by taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (3.63%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

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

- the adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will increase by ca. 9% in real terms by 2026 and after 2026 insignificant changes in 2026 year prices (fixed) are anticipated;
- the adopted electricity wholesale price path for the years 2017-2026, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring greenhouse gas emission allowances. A drop of ca. 5% is assumed by 2020 with a dynamic growth rate by 2026 (16% vs. 2020), an increase of 11% between 2026 and 2040 and 2040 year prices thereafter (fixed);
- estimated changes in the Polish market model aimed to introduce the capacity market or other incentive mechanisms for production capacity have been taken into account;
- emission limits for generating electricity specified in the regulation of the Council of Ministers, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- the adopted price path of greenhouse gas emission allowances for 2017-2026. An increase in the market price by approx. 70% has been assumed by 2026; for the period 2026-2040 an increase by approx. 16% and after 2040, the price level of that year has been maintained (fixed prices);
- green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A drop of ca. 6% is assumed for renewable energy prices by 2020, followed

(PLN '000)

by a rise by 2026 (13% vs. 2020), an increase of 13% between 2026 and 2040 and 2040 year prices thereafter (fixed);

- limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity of more than 5 MW do not qualify for support;
- support for CHP in line with the regulations which are currently in force. It is assumed that property rights exist for red, yellow and purple energy and that they will have to be surrendered by 2018. No support for CHP has been assumed thereafter;
- regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- the adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- sales volumes taking into account GDP growth and increased market competition;
- tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- maintaining or expanding the production capacity of the existing non-current assets as a result of replacement and development investments.

The impairment tests carried out in line with IAS 36 *Impairmet of Assests* as at 31 December 2016 indicated impairment of the carrying amount of shares in subsidiaries of PLN 415 392 thousand and a loan to a subsidiary of PLN 197 953 thousand.

The impairment loss was recognized for the following reasons:

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

The total impairment of shares and loans as at 31 March 2017 broken down by subsidiaries is presented in the table below. Impairment loss did not change as compared to 31 December 2016.

Company	Impairment as at 31 March 2017 *(unaudited)*	
	Shares	Loans
TAURON Wytwarzanie S.A.	(5 403 825)	-
TAURON Ekoenergia Sp. z o.o.	(939 765)	(197 953)

Changes in shares from 1 January 2016 to 31 March 2016 (*unaudited*)

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	Increases/ (Decreases)	Closing balance	Opening balance	Increases/ (Decreases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	494 755	-	494 755	-	-	-	494 755	494 755
2	Nowe Brzeszcze Grupa TAURON Sp. z o.o.	2 102	29 000	31 102	-	-	-	2 102	31 102
3	TAURON Wytwarzanie S.A.	7 236 727	-	7 236 727	(4 487 895)	-	(4 487 895)	2 748 832	2 748 832
4	TAURON Wytwarzanie GZE Sp. z o.o. in liquidation	4 935	-	4 935	-	-	-	4 935	4 935
5	TAURON Ciepło Sp. z o.o.	1 328 043	-	1 328 043	(443 252)	-	(443 252)	884 791	884 791
6	TAURON Ekoenergia Sp. z o.o.	939 765	-	939 765	-	-	-	939 765	939 765
7	Marselwind Sp. z o.o.	107	-	107	-	-	-	107	107
8	TAURON Dystrybucja S.A.	9 511 628	-	9 511 628	-	-	-	9 511 628	9 511 628
9	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	-	-	613 505	613 505
10	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	-	-	129 823	129 823
11	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	-	-	4 223	4 223
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	-	-	41 178	41 178
13	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	-	49 056	-	-	-	49 056	49 056
14	TAURON Sweden Energy AB (publ)	28 382	-	28 382	-	-	-	28 382	28 382
15	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	1 269	-	-	-	1 269	1 269
16	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	-	-	39 831	39 831
17	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
18	PGE EJ 1 Sp z o.o.	23 046	-	23 046	-	-	-	23 046	23 046
19	Other	114	-	114	-	-	-	114	114
	Total	**20 864 341**	**29 000**	**20 893 341**	**(4 931 147)**	**-**	**(4 931 147)**	**15 933 194**	**15 962 194**

A change in long-term investments in the 3-month period ended 31 March 2016 was driven by an increase in the issued capital of Nowe Brzeszcze Grupa TAURON Sp. z o.o.

(PLN '000)

20. Bonds

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

The table below presents the balances of acquired bonds and interest accrued as at the end of the reporting period, i.e. 31 March 2017, and as at 31 December 2016, broken down by individual companies issuing the bonds.

Company	As at 31 March 2017 *(unaudited)*		As at 31 December 2016	
	par value of purchased bonds	accrued interest	par value of purchased bonds	accrued interest
TAURON Wytwarzanie S.A.	3 798 770	77 860	3 548 770	55 396
TAURON Dystrybucja S.A.	3 800 000	80 387	3 800 000	62 470
TAURON Ciepło Sp. z o.o.	1 673 260	53 842	1 673 260	46 848
TAURON Wydobycie S.A.	670 000	7 551	570 000	4 592
TAURON Obsługa Klienta Sp. z o.o.	85 000	13 134	85 000	12 046
Total bonds	**10 027 030**	**232 774**	**9 677 030**	**181 352**
Non-current	9 912 030	-	9 612 030	3 887
Current	115 000	232 774	65 000	177 465

Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements provide for the possibility to roll over the bonds. As at 31 March 2017, the par value of bonds maturing within one year, which were classified as long-term bonds, was PLN 1 740 000 thousand.

21. Loans granted

	As at 31 March 2017 *(unaudited)*			As at 31 December 2016		
	Principal	Interest	Total	Principal	Interest	Total
Value of items before allowance/write-down						
Loan granted to TAURON Ekoenergia Sp. z o.o.	1 120 000	141 777	1 261 777	1 120 000	129 802	1 249 802
Loans granted to EC Stalowa Wola S.A.	511 267	39 861	551 128	218 525	37 542	256 067
Granted cash pool loans including accrued interest	6 141	1 038	7 179	15 306	544	15 850
Total	**1 637 408**	**182 676**	**1 820 084**	**1 353 831**	**167 888**	**1 521 719**
Allowance/write-down						
Loan granted to TAURON Ekoenergia Sp. z o.o.			(197 953)			(197 953)
Value of item net of allowance (carrying amount)			**1 622 131**			**1 323 766**
Non-current			1 306 903			1 292 800
Current			315 228			30 966

On 27 February 2015, the Company entered into an agreement with its subsidiary, TAURON Ekoenergia Sp. z o.o., whereby TAURON Polska Energia S.A. granted a one-year loan of PLN 1 120 000 thousand to TAURON Ekoenergia Sp. z o.o. The purpose of the loan was to repurchase and redeem the same amount of intra-group bonds issued by the borrower in prior years to finance construction of wind farms. Under annexes to the agreement, the loan repayment date was postponed to 27 February 2018. However, as at the end of the reporting period, the loan was classified as a long-term one as the Company planned to maintain its involvement in that entity for longer than one year after the end of the reporting period.

The impairment tests performed as at 31 December 2016 for shares, bonds and loans in subsidiaries identified the necessity to recognize an impairment loss on a loan to a subsidiary in the amount of PLN 197 953 thousand. In the 3-month period ended 31 March 2017, the impairment loss did not change as compared to 31 December 2016.

(PLN '000)

Loans granted to Elektrociepłownia Stalowa Wola S.A.:

	Agreement date	Contractual loan amount	As at 31 March 2017 *(unaudited)*		As at 31 December 2016		Maturity date	Purpose
			Principal	Interest	Principal	Interest		
Subordinated loan	20 June 2012	177 000	177 000	38 227	177 000	36 381	31.12.2032	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14 December 2015	15 850	15 850	864	15 850	699	31.12.2027	Repayment of the principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
	15 December 2016	15 300	11 000	138	11 000	21		
	30 March 2017	145 991	145 991	17	-	-	30.06.2017	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.
		73 518	73 518	8	-	-		
		71 233	71 233	8	-	-		
Other loans	25 November 2015	2 600	2 600	145	2 600	117	30.06.2017	Financing of current operations
	22 January 2016	5 500	5 500	270	5 500	214		
	22 April 2016	1 200	600	23	600	17		
	27 May 2016	3 100	3 100	96	3 100	65		
	31 August 2016	3 800	2 875	58	2 875	28		
	16 February 2017	3 000	2 000	7	-	-		
Total loans			**511 267**	**39 861**	**218 525**	**37 542**		
Non-current			203 850	39 229	203 850	37 101		
Current			307 417	632	14 675	441		

In the 3-month period ended 31 March 2017, the loans granted by the Company to Elektrociepłownia Stalowa Wola S.A. for purposes of debt repayment totaled PLN 290 742 thousand. The said loans were granted for purposes of the debtor's early payment of liabilities under loan agreements entered into in relation to the construction of a heat and power unit in Stalowa Wola, which has been discussed in more detail in Note 31 to these condensed interim financial statements.

Detailed information on the cash pool service has been presented in Note 29.4 to these condensed interim financial statements.

22. Derivative instruments

	As at 31 March 2017 *(unaudited)*				As at 31 December 2016			
	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
IRS	398	32 401	**32 799**	**-**	23	36 618	**36 641**	**-**
Commodity future/forward	11 229	-	**13 289**	**(2 060)**	15 999	-	**16 559**	**(560)**
Currency forward	(3 143)	-	**-**	**(3 143)**	3 217	-	**3 217**	**-**
Total derivative instruments			**46 088**	**(5 203)**			**56 417**	**(560)**
Non-current			31 727	(36)			35 814	-
Current			14 361	(5 167)			20 603	(560)

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

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

(PLN '000)

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

	As at 31 March 2017 *(unaudited)*		As at 31 December 2016	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments - commodity	13 289	-	16 559	-
Derivative instruments - currency	-	-	-	3 217
Derivative instruments - IRS	-	32 799	-	36 641
Liabilities				
Derivative instruments - commodity	2 060	-	560	-
Derivative instruments - currency	-	3 143	-	-

Hedging derivative instruments (subject to hedge accounting) – IRS

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

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

As at 31 March 2017, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

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

23. Other financial assets

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Receivables from the TCG	20 606	20 945
Units in investment funds	25 455	25 316
Bid bonds, deposits, collateral transferred	10 215	10 156
Contributions to increase subsidiary's capital	160 000	500
Non-refundable margin deposits and initial margins	45 457	-
Other	358	3 961
Total	**262 091**	**60 878**
Non-current	162 850	5 524
Current	99 241	55 354

As at 31 March 2017 contributions to increase subsidiary's capital in the amount of PLN 160 000 thousand related to cash contributions of the Company to increase the capital of a subsidiary, TAURON Wydobycie S.A. By the end of the reporting period the capital increase was not registered.

(PLN '000)

24. Inventories

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Historical cost		
Energy certificates	250	250
Greenhouse gas emission allowances	240 486	271 729
Materials	23	23
Total	**240 759**	**272 002**
Write-downs to net realizable value / Revaluation		
Energy certificates	(211)	(195)
Greenhouse gas emission allowances	(1 279)	12 992
Total	**(1 490)**	**12 797**
Net realizable value / Fair value		
Energy certificates	39	55
Greenhouse gas emission allowances	239 207	284 721
Materials	23	23
Total	**239 269**	**284 799**

The inventory of emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices is measured at fair value as at the end of the reporting period. The Company recognized a loss on measurement of PLN 1 279 thousand as at 31 March 2017 following a decline in the prices of emission allowances.

25. Receivables from buyers

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Value of items before allowance/write-down		
Receivables from clients	442 681	840 665
Receivables claimed at court	896	890
Total	**443 577**	**841 555**
Allowance/write-down		
Receivables from clients	(7)	(9)
Receivables claimed at court	(896)	(890)
Total	**(903)**	**(899)**
Value of item net of allowance (carrying amount)		
Receivables from clients	442 674	840 656
Receivables claimed at court	-	-
Total	**442 674**	**840 656**

Receivables from buyers bear no interest and they usually have a 30-day payment term. Sales transactions are only entered into with clients subject to a verification procedure. As a result, the management believes that there is no additional credit risk over the level of the allowances recognized for bad debts related to the Company's trade receivables.

As at 31 March 2017 and 31 December 2016, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 199 991 thousand and PLN 478 220 thousand, respectively.

Related-party transactions as well as related-party receivables and liabilities have been presented in Note 40.1 to these condensed interim financial statements.

(PLN '000)

26. Receivables due to taxes and charges

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Corporate Income Tax	85 625	83 162
VAT receivables	26 470	35 674
Excise duty receivables	1 750	1 750
Total	**113 845**	**120 586**

Income tax receivables

A Tax Capital Group agreement for the years 2015-2017 was concluded on 22 September 2014. Pursuant to the previous agreement, TCG was registered for the period of three fiscal years from 2012 to 2014.The major companies constituting the Tax Capital Group as from 1 January 2015 are TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

As at 31 March 2017, the Tax Capital Group had income tax receivables of PLN 85 616 thousand, constituting:

- a surplus of advance income tax payments made by the Tax Capital Group in the amount of PLN 300 053 thousand for 2016 and tax overpaid by a subsidiary before joining the Tax Capital Group in the amount of PLN 301 thousand over the tax charge of the Tax Capital Group for 2016 in the amount of PLN 221 535 thousand;
- a surplus of constant, monthly advance income tax payments made by the Tax Capital Group in the amount of PLN 39 245 thousand for the first quarter of 2017 over the tax charge of the Tax Capital Group for the first quarter of 2017 in the amount of PLN 32 448 thousand.

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

At the same time, due to the Company's settlements, as the Representative Company, with the Tax Capital Group companies, it has reported a liability to these subsidiaries arising from tax overpayment of PLN 81 883 thousand, which has been presented in the statement of financial position as "Other financial liabilities", as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 20 606 thousand, which have been presented in the statement of financial position as "Other financial assets".

27. Cash and cash equivalents

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Cash at bank and in hand	60 353	198 087
Short-term deposits (up to 3 months)	10	3
Total cash and cash equivalents presented in the statement of financial position, *including*:	**60 363**	**198 090**
restricted cash	43 597	56 787
Cash pool	(983 858)	(1 229 639)
Overdraft	(78 722)	(15 131)
Foreign exchange	1 078	1 239
Total cash and cash equivalents presented in the statement of cash flows	**(1 001 139)**	**(1 045 441)**

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

Restricted cash includes mainly cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A), amounting to PLN 43 254 thousand.

Information on cash pool balances has been presented in Note 29.4 to these condensed interim financial statements.

(PLN '000)

28. Equity

28.1. Issued capital

Issued capital as at 31 March 2017 (*unaudited*)

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

As at 31 March 2017, the value of the issued capital, the number of shares and the nominal value of shares did not change as compared to 31 December 2016.

28.2. Major shareholders

Shareholding structure as at 31 March 2017 (*unaudited, to the best of the Company's knowledge*)

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

To the best of the Company's knowledge, the shareholding structure as at 31 March 2017 had not changed since 31 December 2016.

28.3. Dividend limitation

Reserve capital – dividend limitation

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
amounts subject to distribution, *including*:	**4 032 169**	**4 032 169**
amounts from distribution of prior years profits	4 032 169	4 032 169
non-distributable amounts, *including*:	**3 791 170**	**3 791 170**
decrease in the value of issued capital	3 556 290	3 556 290
settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	**7 823 339**	**7 823 339**

Retained earnings – dividend limitation

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
distributable amounts or losses to be covered, *including*:	**(166 240)**	**(166 240)**
profit for the year ended 31 December 2016	(166 253)	(166 253)
adjustment of prior years profit	13	13
non-distributable amounts, *including*:	**358 466**	**80 762**
profit for the 3-month period ended 31 March 2017	277 713	-
actuarial gains and losses on provisions for post-employment benefits	235	244
settlement of mergers with subsidiaries	80 518	80 518
Total retained earnings (accumulated losses)	**192 226**	**(85 478)**

(PLN '000)

28.4. Revaluation reserve from valuation of hedging instruments

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Opening balance	**29 660**	**(73 414)**
Remeasurement of hedging instruments	(3 842)	1 961
Remeasurement of hedging instruments charged to profit or loss	(375)	23 188
Deferred income tax	801	(4 778)
Closing balance	**26 244**	**(53 043)**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued bonds, as presented in detail in Note 22 to these condensed interim financial statements.

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

As at 31 March 2017, the Company recognized PLN 26 244 thousand in the revaluation reserve from valuation of hedging instruments. It represents receivables arising from valuation of interest rate swaps as at the end of the reporting period, totaling PLN 32 799 thousand, adjusted by a portion of valuation relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The amount of PLN 375 thousand was recognized in profit/loss for the period as a change in valuation of instruments concerning interest on bonds accrued as at the end of the reporting period. In the statement of comprehensive income, the income related to a change in valuation of instruments concerning interest accrued on bonds decreased finance costs arising from such interest.

29. Debt

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Long-term portion of debt		
Subordinated hybrid bonds	800 600	839 330
Other issued bonds	6 290 762	6 089 821
Loans received from the European Investment Bank	1 000 769	1 035 927
Loans from the subsidiary	730 128	765 450
Finance lease	22 620	23 519
Total	**8 844 879**	**8 754 047**
Short-term portion of debt		
Subordinated hybrid bonds	10 700	1 693
Other issued bonds	355 276	11 287
Cash pool loans received, including accrued interest	991 037	1 245 489
Loans from the European Investment Bank	169 323	154 574
Loans from the subsidiary	8 793	2 300
Overdraft	78 722	15 131
Finance lease	3 504	3 455
Total	**1 617 355**	**1 433 929**

(PLN '000)

29.1. Bonds issued

Bonds as at 31 March 2017 (*unaudited*)

Tranche/Bank	Maturity date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)			
			Accrued interest	Principal at amortized cost	up to 3 months	3 months - 2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	20 December 2019	PLN	911	99 856	-	-	99 856	-
	20 December 2020	PLN	911	99 834	-	-	99 834	-
	20 December 2021	PLN	911	99 819	-	-	99 819	-
	20 December 2022	PLN	911	99 807	-	-	-	99 807
	20 December 2023	PLN	911	99 798	-	-	-	99 798
	20 December 2024	PLN	911	99 792	-	-	-	99 792
	20 December 2025	PLN	911	99 785	-	-	-	99 785
	20 December 2026	PLN	911	99 779	-	-	-	99 779
	20 December 2027	PLN	911	99 775	-	-	-	99 775
	20 December 2028	PLN	911	99 773	-	-	-	99 773
	20 December 2020	PLN	628	69 979	-	-	69 979	-
	20 December 2021	PLN	628	69 978	-	-	69 978	-
	20 December 2022	PLN	628	69 978	-	-	-	69 978
	20 December 2023	PLN	628	69 977	-	-	-	69 977
	20 December 2024	PLN	628	69 977	-	-	-	69 977
	20 December 2025	PLN	628	69 977	-	-	-	69 977
	20 December 2026	PLN	628	69 977	-	-	-	69 977
	20 December 2027	PLN	628	69 977	-	-	-	69 977
	20 December 2028	PLN	628	69 976	-	-	-	69 976
	20 December 2029	PLN	628	69 976	-	-	-	69 976
Bond Issue Scheme of 24 November 2015	29 December 2020	PLN	16 969	2 245 106	-	-	2 245 106	-
	25 March 2020	PLN	57	99 788	-	-	99 788	-
	9 December 2020	PLN	2 749	299 331	-	-	299 331	-
	30 January 2020	PLN	495	99 782	-	-	99 782	-
	1 March 2020	PLN	251	99 780	-	-	99 780	-
	30 June 2017	PLN	24	300 000	300 000	-	-	-
TPEA1119	4 November 2019	PLN	19 341	1 749 185	-	-	1 749 185	-
European Investment Bank	16 December 2034	EUR	10 700	800 600	-	-	-	800 600
Total bonds			**65 976**	**7 391 362**	**300 000**	**-**	**5 032 438**	**2 058 924**

Bonds as at 31 December 2016

Tranche/Bank	Maturity date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)			
			Accrued interest	Principal at amortized cost	up to 3 months	3 months - 2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	20 December 2019	PLN	107	99 805	-	-	99 805	-
	20 December 2020	PLN	107	99 786	-	-	99 786	-
	20 December 2021	PLN	107	99 773	-	-	99 773	-
	20 December 2022	PLN	107	99 763	-	-	-	99 763
	20 December 2023	PLN	107	99 754	-	-	-	99 754
	20 December 2024	PLN	107	99 749	-	-	-	99 749
	20 December 2025	PLN	107	99 744	-	-	-	99 744
	20 December 2026	PLN	107	99 738	-	-	-	99 738
	20 December 2027	PLN	107	99 734	-	-	-	99 734
	20 December 2028	PLN	107	99 733	-	-	-	99 733
	20 December 2020	PLN	74	69 976	-	-	69 976	-
	20 December 2021	PLN	74	69 976	-	-	69 976	-
	20 December 2022	PLN	74	69 976	-	-	-	69 976
	20 December 2023	PLN	74	69 976	-	-	-	69 976
	20 December 2024	PLN	74	69 975	-	-	-	69 975
	20 December 2025	PLN	74	69 975	-	-	-	69 975
	20 December 2026	PLN	74	69 975	-	-	-	69 975
	20 December 2027	PLN	74	69 975	-	-	-	69 975
	20 December 2028	PLN	74	69 975	-	-	-	69 975
	20 December 2029	PLN	74	69 975	-	-	-	69 975
Bond Issue Scheme of 24 November 2015	29 December 2020	PLN	549	2 244 801	-	-	2 244 801	-
	25 March 2020	PLN	790	99 771	-	-	99 771	-
	9 December 2020	PLN	560	298 761	-	-	298 761	-
TPEA1119	4 November 2019	PLN	7 578	1 749 155	-	-	1 749 155	-
European Investment Bank	16 December 2034	EUR	1 693	839 330	-	-	-	839 330
Total bonds			**12 980**	**6 929 151**	**-**	**-**	**4 831 804**	**2 097 347**

(PLN '000)

The bonds issued on 16 December 2016 at a nominal value of EUR 190 000 thousand were subordinated, unsecured coupon bearer securities, and they were acquired by the European Investment Bank 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 euro is the currency of the issue. The bonds will mature 18 years of the issue date, with the proviso that in line with the description of hybrid funding the first funding period was defined to last 8 years ("1st Funding Period") during which the Company will not be allowed to repurchase the bonds early and the bonds may not be sold early by EIB to third parties (in both cases, subject to the exceptions set out in the agreement). The bonds bear fixed interest during the 1st Funding Period and during the next 10-year funding period ("2nd Funding Period") interest will be floating and determined by reference to Euribor 6M increased by an agreed margin. Under the agreement, interest on the bonds may be deferred. As the bonds are subordinated, any claims arising therefrom will have priority of satisfaction only before the amounts due to the Company's shareholders in the event of its bankruptcy or liquidation. The bond issue has had a positive effect on the financial stability of the Group as the bonds are not taken into account for purposes of calculation of the debt ratio, which is a covenant in some funding schemes. Additionally, 50% of the bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group. The rating assigned to the bonds by Fitch is BB+.

Other bonds issued on the Polish market are dematerialized, unsecured coupon bonds with floating interest determined by reference to WIBOR 6M increased by a margin agreed separately for each issue. The Polish zloty is the currency of the issue and the repayment.

The change in the balance of bonds excluding interest increasing the carrying amount in the 3-month period ended 31 March 2017 and in the comparative period has been presented below.

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Opening balance	**6 929 151**	**5 956 033**
Issue*	499 543	2 852 461
Redemption	-	(2 250 000)
Measurement change	(37 332)	1 060
Closing balance	**7 391 362**	**6 559 554**

**Costs of issue have been included.*

In the 3-month period ended 31 March 2017, the Company issued three tranches of bonds with the total par value of PLN 500 000 thousand under the Bond Issue Scheme of 24 November 2015:

- a tranche of PLN 300 000 thousand with the maturity date on 30 June 2017;
- a tranche of PLN 100 000 thousand with the maturity date on 30 January 2020;
- a tranche of PLN 100 000 thousand with the maturity date on 1 March 2020.

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 22 to these financial statements.

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. As at 31 March 2017, none of these covenants had been breached and the contractual provisions were complied with.

29.2. Loans from the European Investment Bank

As at 31 March 2017, the balance of loans obtained from the European Investment Bank was PLN 1 170 092 thousand, including accrued interest of PLN 7 091 thousand. As at 31 December 2016, the balance of loans obtained from the European Investment Bank was PLN 1 190 501 thousand, including interest accrued of PLN 7 085 thousand.

In the 3-month period ended 31 March 2017, the Company made principal payments totaling PLN 20 455 thousand and interest payments of PLN 10 443 thousand.

(PLN '000)

29.3. Loans from a subsidiary

As at 31 March 2017, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 738 921 thousand (EUR 175 108 thousand), including interest of PLN 8 793 thousand (EUR 2 084 thousand) accrued as at the end of the reporting period. As at 31 December 2016, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 767 750 thousand (EUR 173 542 thousand).

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

- PLN 710 940 thousand (EUR 168 477 thousand) of a long-term loan granted under an agreement entered into in December 2014 between TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ). The interest rate on the loan is fixed and interest is paid annually, in December, until the final loan repayment date. The loan will be fully repaid on 29 November 2029;
- PLN 27 981 thousand (EUR 6 631 thousand) of a loan granted under the agreement dated 27 July 2015, whereby TAURON Sweden Energy AB (publ) granted a loan of EUR 6 600 thousand to the Company on 30 July 2015. The maturity date of the loan and interest was 30 July 2016. The repayment date was postponed by one year under an annex to the loan agreement. Interest was paid on 1 August 2016. As the loan is expected to be repaid within a period of more than one year of the end of the reporting period, as at 31 March 2017 the loan was presented within non-current liabilities.

29.4. Cash pool service

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

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

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Receivables from cash pool loans granted	6 141	15 306
Interest receivable on loans granted under cash pool agreement	1 038	544
Total Receivable	**7 179**	**15 850**
Loans received under cash pool agreement	989 910	1 244 471
Interest payable on loans received under cash pool agreement	1 127	1 018
Total Liabilities	**991 037**	**1 245 489**

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

Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand. As at 31 March 2017, the related liability of the Company was PLN 22 219 thousand.

29.5. Overdraft facilities

As at 31 March 2017, the balance of overdraft facilities was PLN 78 722 thousand and resulted from:

- an agreement for an overdraft in PLN with PKO Bank Polski S.A. under the cash pool agreement of PLN 22 219 thousand;
- an agreement for an overdraft in EUR with Bank Gospodarstwa Krajowego, concluded by the Company to finance transactions in emission allowances, power and gas, of EUR 13 005 thousand (PLN 54 878 thousand);
- an agreement for an overdraft in USD with mBank S.A., concluded by the Company for the purpose of financing margin deposits and commodity transactions, of USD 412 thousand (PLN 1 625 thousand).

As at 31 December 2016, the balance of overdraft facilities was PLN 15 131 thousand.

(PLN '000)

30. Other financial liabilities

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Liabilities arising from the TCG	81 883	75 662
Non-refundable margin deposits	-	13 106
Commissions related to securities	600	8 020
Bid bonds, deposits and collateral received	5 427	5 681
Wages and salaries, deductions on wages and salaries as well as other employee related liabilities	3 789	3 770
Contributions to Polish National Foundation	32 500	32 500
Other	744	938
Total	**124 943**	**139 677**
Non-current	25 405	27 918
Current	99 538	111 759

31. Other provisions

For the 3-month period ended 31 March 2017 (*unaudited*)

	Provisions for onerous contracts with a jointly-controlled entity and provision for costs	Other provisions	Total provisions
Opening balance	**198 844**	**64 505**	**263 349**
Unwinding of discount and change in discount rate	2 214	-	**2 214**
Recognision	2 211	1 036	**3 247**
Reversal	(190 265)	-	**(190 265)**
Utilisation	-	(8)	**(8)**
Closing balance	**13 004**	**65 533**	**78 537**
Non-current	4 625	-	**4 625**
Current	8 379	65 533	**73 912**

For the 3-month period ended 31 March 2016 (*unaudited*)

	Provisions for onerous contracts with a jointly-controlled entity and provision for costs	Other provisions	Total provisions
Opening balance	**182 877**	**15**	**182 892**
Unwinding of discount and change in discount rate	2 929	-	**2 929**
Recognision	-	6	**6**
Utilisation	-	(16)	**(16)**
Closing balance	**185 806**	**5**	**185 811**
Non-current	158 803	-	**158 803**
Current	27 003	5	**27 008**

Provision for onerous contracts with a joint venture and provision for costs

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

(PLN '000)

In view of the foregoing, in 2015, the Company recognized provisions for onerous contracts with a joint venture, Elektrociepłownia Stalowa Wola S.A. As at 31 December 2016, the related provisions totaled PLN 198 844 thousand.

In the 3-month period ended 31 March 2017, the Company revalued the provisions for onerous contracts with a joint venture due to the unwinding of discount as at the end of the reporting period, which increased the provisions by PLN 2 214 thousand. It also recognized an additional provision for costs of operation of PLN 2 211 thousand and reversed in whole the following provisions:

- a provision resulting from the fact that under a multi-annual electricity sales contract among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company was obliged to purchase half of the volume of electricity generated by Elektrociepłownia Stalowa Wola S.A. at a price determined in 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 might be incurred under the take or pay clause of the comprehensive gaseous fuel supply contract entered into by PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. In accordance with the aforesaid clause, Elektrociepłownia Stalowa Wola S.A. was obliged to make a payment to PGNiG S.A. for uncollected gas.

Changes in provisions in the 3-month period ended 31 March 2017 have been presented in the table below.

	Provision for electricity contract	Provision for "take or pay" clause in gas contract	Provision for costs	Total provisions for onerous contracts with a jointly-controlled entity and provision for costs
Opening balance	**133 327**	**54 837**	**10 680**	**198 844**
Unwinding of discount	1 626	475	113	**2 214**
Recognision	-	-	2 211	**2 211**
Reversal	(134 953)	(55 312)	-	**(190 265)**
Closing balance	**-**	**-**	**13 004**	**13 004**
Non-current	-	-	4 625	**4 625**
Current	-	-	8 379	**8 379**

Reversal of the provision for costs relating to the electricity sales contract and the provision for losses which might be incurred under the take or pay clause was the result of the fulfilling the conditions precedent resulting from agreement signed on 27 October 2016 setting out the key boundary restructuring conditions for the project "Construction of a gas and steam unit in Stalowa Wola". The conditions precedent were considered satisfied after repaying by Elektrociepłownia Stalowa Wola S.A. on 31 March 2017 all its liabilities to the financing institutions, i.e. the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. The funds for repayment of the said bank loans were obtained by Elektrociepłownia Stalowa Wola S.A. under loan agreements entered into with the Company and Polskie Górnictwo Naftowe i Gazownictwo S.A. as the lenders. To this end, the Company granted a loan of PLN 290 742 thousand, which has been discussed in more detail in Note 21 to these condensed interim financial statements. Once the conditions precedent were considered satisfied, the following documents entered into force :

- an agreement setting out the key boundary Project restructuring conditions among TAURON Polska Energia S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A.;
- an annex to the electricity sales contract of 11 March 2011 executed by the Company, Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A.;
- an annex to the gaseous fuel supply contract of 11 March 2011 between Polskie Górnictwo Naftowe i Gazownictwo S.A. and Elektrociepłownia Stalowa Wola S.A.

The aforesaid agreement sets out mainly the terms of settlement of liquidated damages, brings the existing price formulas into line with the market ones as well as governing the issue of financial restructuring of the project. It reflects the will of the project sponsors, i.e. TAURON Polska Energia S.A. and Polskie Górnictwo Naftowe i Gazownictwo S.A., to continue the construction of the gas and steam unit, modify the gaseous fuel supply contract and the electricity sales contract and change the existing project finance formula to a corporate finance formula. Notwithstanding the above, the sponsors and Elektrociepłownia Stalowa Wola S.A. have continued their efforts to secure new funding for the gas and steam unit construction project in Stalowa Wola, whose terms and structure would be more favorable than those under the existing agreements.

The annexes to the gaseous fuel supply contract and the electricity sales contract include in particular the application of market price formulas for the contracts in question. Furthermore, due to delays in project completion, the annex to the gaseous fuel supply contract provides for changes in the amount, time limits and methodologies of imposition of liquidated damages. According to the Management Board of the Company, the aforesaid changes constituted a basis for reversal of the provision for costs related to the electricity sales contract and the provision for losses which might be incurred under the take or pay clause as at 31 March 2017.

(PLN '000)

As at the end of the reporting period, the balance of the provisions was PLN 13 004 thousand and it was related to the provision for costs. The Company may be required to incur additional costs necessary for the operation of Elektrociepłownia Stalowa Wola S.A. due to delays in project completion. The provision for additional costs of operation has been recognized in proportion to the Company's interest in the joint venture.

Other provisions

As at 31 March 2017, other provisions mainly related to provision concerning tax risks resulting from pending inspection proceedings. As at 31 December 2016 the Company recognized provision for the aforementioned risks in the amount of PLN 64 494 thousand. As at 31 March 2017 the provision amounted to PLN 65 530 thousand. An increase in the provision by PLN 1 036 thousand, which was charged to finance costs, is attributable to interest accrued for the 3-month period ended 31 March 2017.

The Company is a party to VAT inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The period of the inspection proceedings was prolonged by the Director of TIO a number of times and the new planned end date is 28 June 2017.

32. Liabilities to suppliers

As at 31 March 2017 and 31 December 2016, the key item of liabilities to suppliers was liabilities to subsidiaries, TAURON Wytwarzanie S.A. and TAURON Wydobycie S.A. As at 31 March 2017, they amounted to PLN 150 139 thousand and PLN 86 874 thousand, respectively, versus PLN 106 417 thousand and PLN 98 682 thousand, respectively, as at 31 December 2016.

33. Liabilities due to taxes and charges

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Personal Income Tax	1 525	1 484
VAT	3 761	15 850
Social security	4 687	2 846
Other	34	29
Total	**10 007**	**20 209**

(PLN '000)

EXPLANATORY NOTES TO THE CONDENSED INTERIM STATEMENT OF CASH FLOWS

34. Significant items of the statement of cash flows

34.1. Cash flows from operating activities

Changes in working capital

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Change in receivables	352 569	(42 657)
Change in inventories	45 530	25 670
Change in payables excluding loans and borrowings	(111 724)	(236 846)
Change in other non-current and current assets	22 562	(10 327)
Change in deferred income, government grants and accruals	(5 309)	(5 924)
Change in provisions	(184 726)	3 122
Change in working capital	**118 902**	**(266 962)**

34.2. Cash flows from investing activities

Purchase of bonds

Payments to purchase bonds, in the amount of PLN 350 000 thousand, are related to purchases of intra-group bonds issued by the following subsidiaries:

- TAURON Wytwarzanie S.A., totaling PLN 250 000 thousand;
- TAURON Wydobycie S.A., totaling PLN 100 000 thousand.

Acquisition of shares

Payments to acquire shares of PLN 160 000 thousand were related to the Company's transfer of funds to increase the issued capital of a subsidiary, TAURON Wydobycie S.A. The aforesaid increase had not been registered by the end of the reporting period.

Loans granted

Payments to grant loans result from the loans disbursed to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 292 742 thousand, which has been discussed in more detail in Note 21 to these condensed interim financial statements.

Interest received

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Interest received in relation to debt securities	73 449	177 747
Interest received in relation to loans granted	-	1 681
Total	**73 449**	**179 428**

34.3. Cash flows from financing activities

Loans and borrowings repaid

Expenditures due to repayment of loans and borrowings resulted from the Company's repayment of instalments of a loan granted by the European Investment Bank of PLN 20 455 thousand in the 3-month period ended 31 March 2017.

(PLN '000)

Interest paid

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Interest paid in relation to debt securities	1 458	13 003
Interest paid in relation to loans and borrowings	10 551	11 397
Interest paid in relation to the finance lease	170	155
Total	**12 179**	**24 555**

Issue of debt securities

Proceeds from issue of debt securities in the 3-month period ended 31 March 2017 resulted from the issue of three tranches of bonds with the total par value of PLN 500 000 thousand under a Bond Issue Scheme of November 2015.

(PLN '000)

OTHER INFORMATION

35. Financial instruments

Categories and classes of financial assets	Note	As at 31 March 2017 *(unaudited)*		As at 31 December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets at fair value through profit or loss, held for trading		**38 744**	**38 744**	**45 092**	**45 092**
Derivative instruments	22	13 289	13 289	19 776	19 776
Investment fund units	23	25 455	25 455	25 316	25 316
2 Financial assets available for sale		**189 703**	**-**	**29 703**	**-**
Long-term shares	19	29 703	-	25 703	-
Contributions to increase subsidiaries' capital		160 000	-	4 000	-
3 Loans and receivables		**12 401 245**	**12 386 371**	**12 054 366**	**12 023 275**
Receivables from clients	25	442 674	442 674	840 656	840 656
Bonds	20	10 259 804	10 231 417	9 858 382	9 814 505
Loans granted under cash pool agreement	29.4	7 179	7 179	15 850	15 850
Other loans granted	21	1 614 952	1 628 465	1 307 916	1 320 702
Other financial receivables		76 636	76 636	31 562	31 562
4 Financial assets excluded from the scope of IAS 39		**14 844 715**	**-**	**14 844 715**	**-**
Shares in subsidiaries	19	14 428 863	-	14 428 863	-
Shares in jointly-controlled entities	19	415 852	-	415 852	-
5 Hedging derivative instruments	22	**32 799**	**32 799**	**36 641**	**36 641**
6 Cash and cash equivalents	27	**60 363**	**60 363**	**198 090**	**198 090**
Total financial assets, *of which in the statement of financial position:*		**27 567 569**		**27 208 607**	
Non-current assets		**26 287 928**		**25 820 473**	
Shares		14 874 418		14 870 418	
Bonds		9 912 030		9 615 917	
Loans granted		1 306 903		1 292 800	
Derivative instruments		31 727		35 814	
Other financial assets		162 850		5 524	
Current assets		**1 279 641**		**1 388 134**	
Receivables from clients		442 674		840 656	
Bonds		347 774		242 465	
Loans granted		315 228		30 966	
Derivative instruments		14 361		20 603	
Other financial assets		99 241		55 354	
Cash and cash equivalents		60 363		198 090	

Categories and classes of financial liabilities	Note	As at 31 March 2017 *(unaudited)*		As at 31 December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss, held for trading		**5 203**	**5 203**	**560**	**560**
Derivative instruments	22	5 203	5 203	560	560
2 Financial liabilities measured at amortized cost		**10 945 642**	**10 975 969**	**10 774 316**	**10 808 300**
Arm's length loans, *of which:*		2 900 050	2 923 496	3 203 740	3 237 724
Liability under the cash pool loan	29.4	991 037	991 037	1 245 489	1 245 489
Loans from the European Investment Bank	29.2	1 170 092	1 170 863	1 190 501	1 193 410
Loans from the subsidiary	29.3	738 921	761 596	767 750	798 825
Overdraft	29.5	78 722	78 722	15 131	15 131
Bonds issued	29.1	7 457 338	7 464 219	6 942 131	6 942 131
Liabilities to suppliers	32	384 589	384 589	473 637	473 637
Other financial liabilities	30	124 943	124 943	139 177	139 177
Liabilities due to purchases of fixed and intangible assets		-	-	500	500
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**26 124**	**26 124**	**26 974**	**26 974**
Liabilities under finance leases	29	26 124	26 124	26 974	26 974
Total financial liabilities, *of which in the statement of financial position:*		**10 976 969**		**10 801 850**	
Non-current liabilities		**8 870 320**		**8 781 965**	
Debt		8 844 879		8 754 047	
Other financial liabilities		25 405		27 918	
Derivative instruments		36		-	
Current liabilities		**2 106 649**		**2 019 885**	
Debt		1 617 355		1 433 929	
Liabilities to suppliers		384 589		473 637	
Derivative instruments		5 167		560	
Other financial liabilities		99 538		111 759	

Derivative financial instruments measured at fair value as at the end of the reporting period and classified as assets and liabilities measured at fair value through profit or loss, or designated as hedging derivatives (subject to hedge accounting), have been measured in line with the method described in Note 22 to these condensed interim financial statements. Disclosures regarding the fair value hierarchy have also been presented in Note 22. Measurement of units in investment funds has been classified to Level 1 in the fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- fixed rate financial instruments – bonds purchased by the Company, a loan to a subsidiary, loans from the European Investment Bank, a loan from a subsidiary and subordinated bonds issued – were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to a given bond or loan, i.e. applying market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy;
- the fair value of other financial instruments held by the Company (except financial assets available for sale and excluded from the scope of IAS 39, as discussed below) as at 31 March 2017 and 31 December 2016 did not significantly differ from their values presented in the financial statements for the respective periods, for the following reasons:

  - the potential discounting effect relating to short-term instruments is not significant;

  - the instruments are related to arm's length transactions.

  Consequently, the fair value of the instruments in question has been disclosed in the tables above at the carrying amount;
- the Company did not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Company is unable to reliably estimate the fair value of shares held in companies which are not quoted on active markets. They are measured at cost less impairment losses as at the end of the reporting period. Similarly, in accordance with the Company's accounting policy, shares in subsidiaries and jointly-controlled entities (joint ventures) – financial assets excluded from the scope of IAS 39 – are also measured at cost less impairment losses.

36. Finance and financial risk management

36.1. Financial risk management

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

Hedge accounting

As at 31 March 2017, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance and subject to hedge accounting. The Company hedges a portion of the interest rate risk inherent in cash flows related to issued bonds, which has been discussed in more detail in Note 22 to these condensed interim financial statements.

36.2. Finance and capital management

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

(PLN '000)

37. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees granted to related parties. As at 31 March 2017, the structure of the Company's contingent liabilities was as follows:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary		As at 31 March 2017 *(unaudited)*		As at 31 December 2016	
			Validity	EUR	PLN	EUR	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	3.12.2029	168 000	708 926	168 000	743 232
blank promissory note with a promissory note declaration	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022		40 000		40 000
	TAURON Ciepło Sp. z o.o.		15.12.2022		30 000		30 000
financing commitment	TAURON Ciepło Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Katowice	31.12.2017		178 300		178 300
collateral for a guarantee issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd.	Elektrociepłownia Stalowa Wola S.A.	Bank Polska Kasa Opieki S.A.	14.04.2017		74 992		74 992
		European Investment Bank			156 000		156 000
		European Bank for Reconstruction and Development			83 494		83 494
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028*		415 852		415 852
surety contract	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	2018-2021		1 546		2 059
surety contract	TAURON Wydobycie S.A.	Millennium Leasing Sp. z o.o.	30.10.2017		2 900		2 900
surety contract	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.	4.08.2019		5 000		5 000
	TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	31.03.2018		15 000		15 000
	TAURON Czech Energy s.r.o.	CEZ a.s.		-	-	1 500	6 636
liability towards Powszechna Kasa Oszczędności Bank Polski S.A. being result of guarantees issued by the bank for subsidiaries	subsidiaries				-		1 691
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	subsidiaries		2017-2019		13 554		263

**Registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.*

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

- Corporate guarantee

  A corporate guarantee granted to collateralize bonds issued by TAURON Sweden Energy AB (publ). The guarantee is valid until 3 December 2029. i.e. the bond repurchase date and is granted up to EUR 168 000 thousand (PLN 708 926 thousand). Bondholders are guarantee beneficiaries.

- Registered and financial pledges on shares

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

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

As at 31 March 2017, the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand.

- Financing commitment

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

- Bank guarantees issued at the request of the Company by The Bank of Tokyo-Mitsubishi UFJ, Ltd.

  At the request of the Company the bank issued quarantees to secure the payment of liabilities of Elektrociepłownia Stalowa Wola S.A. resulting from the standstill contract provisions. The bank quarantees are valid until 14 April 2017 for the total amount PLN 314 486 thousand for:

  - the European Investment Bank – in the amount of PLN 156 000 thousand;
  - the European Bank for Reconstruction and Development – in the amount of PLN 83 494 thousand;
  - Bank Polska Kasa Opieki S.A. – in the amount of PLN 74 992 thousand.

  On 31 March 2017, Elektrociepłownia Stalowa Wola S.A. paid all its liabilities to the financing banks. Between the end of the reporting period and the guarantee expiry date, i.e. 14 April 2017, The Bank of Tokyo-Mitsubishi UFJ, Ltd. did not file any claims against the Company on the basis of the guarantees.

- Blank promissory notes

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

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

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

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

Based on a decision of 12 October 2001, the President of the Energy Regulatory Office ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had not paid its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the 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 judgment of the Regional Court and remanded the case for re-examination by the latter. The first hearing before the first instance court was held on 27 November 2012. In May 2015, a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by the parties as evidence. After the issue of the decision, the Company tried to change the proceeding concept adopted by the Court stating that taking evidence from a court expert opinion is unacceptable. Finally, the Court ordered the court expert to prepare a supplementary opinion. On 5 September 2016, the Company received the supplementary opinion of the court expert and filed charges against the opinion on 12 and 19 September 2016. Charges against the opinion were also filed by Huta and the State Treasury. Another hearing was held on 24 March 2017 but the expert witness appointed by the court did not appear. The hearing was adjourned for an unspecified period.

Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.

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

The claims filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A. with the Regional Court in Katowice regard the payment of PLN 17 086 thousand with statutory interest calculated from 31 March 2015 until the payment date for unjust enrichment of the Company arising from settlement of balances on the Balancing Market performed with Polskie Sieci Elektroenergetyczne S.A. in the period from January to December 2012. The claim was delivered to the Company on 11 January 2016. As stated by ENEA, the improper settlement was caused by inconsistency in measurement data collected by ENEA Operator Sp. z o.o. (as the Distribution System Operator, DSO) and made available to the Balancing Market participants (PSE S.A., ENEA S.A. and the Company) for the settlement purposes. The error resulted in PSE S.A. assigning to ENEA S.A. (as the official seller in the distribution area of ENEA Operator Sp. z o.o.) the amount of consumed power that should have been assigned to the Company (as the entity in charge of trade balances of power sellers operating in the distribution area of ENEA Operator Sp. z o.o.).

The dispute concerns the fact that pursuant to the Power Transmission Grid Traffic and Operation Instruction (IRiESP) binding all participants of the Balancing Market, settlements regarding trade balances for a given period may be adjusted within 2 months, 4 months and 15 months after the settlement period. According to IRiESP, after 15 months the settlements become final. ENEA Operator Sp. z o.o. informed TAURON Polska Energia S.A. about the necessity to adjust measurement data and the entire settlement after the permitted adjustment period. Therefore, settlements between PSE S.A. and ENEA S.A. and between PSE S.A. and the Company have not been adjusted.

TAURON Polska Energia S.A. responded to the claim with a series of charges. The court obliged ENEA to respond to the claim, which was done on 5 April 2016. On 20 June 2016, TAURON Polska Energia S.A. filed a petition for inviting ENEA Operator Sp. z o.o. to take part in the litigation. The Court also admitted evidence from the witnesses' testimonies. On 4 July 2016, TAURON Polska Energia S.A. filed a process document with the court. Six witnesses were questioned in the course of the proceedings. The last hearing was held on 6 March 2017. During the hearing, at the request of ENEA S.A. (made in its pleading of 8 December 2016), the court decided on joinder of defendants in accordance with Article 194.1 of the Code of Civil Procedure – seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. The case is pending. The hearing was deferred with the deadline ex officio so that the additional defendants (sellers) could respond. No provision has been recognized as the Company believes that the risk of losing the case is below 50%.

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

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

On 8 March 2017, pursuant to a decision of the Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. the liquidation of the company was revoked. In view of the foregoing, at a hearing held on 15 March 2017, the Regional Court ruled on the exchange of pleadings between the parties to express their views on the change in the company's status. In its pleading, the plaintiff repeated the demand made in the claim. The Company's attorney-in-fact is drafting a response to the plaintiff's pleading.

(PLN '000)

As the court will have to examine extensive evidence and conduct an analysis of a legal issue which has not been resolved before, the facts of the case have changed considerably and the case is still being heard by the first instance court, it is too early to anticipate the outcome of the proceedings but it is very likely that the decision of the court will be favorable for the defendants.

38. Collateral against liabilities

Agreement/transaction	Collateral	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Framework bank guarantee agreement concluded with CaixaBank S.A.	bank guarantee extended at the request of the Company to secure transactions	for GAZ-SYSTEM S.A., up to PLN 3 664 thousand, valid until 30 November 2017
		for Polskie Sieci Elektroenergetyczne S.A., up to PLN 17 007 thousand, valid until 11 February 2018
collateral of transactions made by subsidiaries	bank guarantees under the framework agreement concluded with CaixaBank S.A. for bank guarantees extended at the request of the Company to secure transactions and liabilities of subsidiaries	for the total amount of PLN 13 554 thousand (Note 37 to these financial statements)
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies.	bank guarantee extended at the request of the Company to secure stock exchange transactions made by members of IRGiT (Commodity Clearing House)	as at 31 March 2017 the guarantees issued by the bank totaled PLN 50 000 thousand and were valid until April 2017
Overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 25 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 105 495 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to PLN 210 990 thousand (EUR 50 000 thousand) valid until 31 December 2019
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 11 837 thousand (USD 3 000 thousand) valid until 31 March 2019
Finance lease agreement concerning an investment property	The agreement covers an investment property. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.	As at 31 March 2017 the carrying amount of the leased asset was PLN 24 414 thousand.

39. Capital commitments

As at 31 March 2017, the Company did not have any material capital commitments.

40. Related-party disclosures

40.1. Transactions with related parties and State Treasury companies

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

(PLN '000)

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

Revenue and expenses

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Revenue from subsidiaries, *of which*:	**2 134 236**	**1 995 726**
Revenue from operating activities	1 994 305	1 875 511
Other operating income	479	941
Finance income	139 452	119 274
Revenue from jointly-controlled entities	**15 426**	**4 440**
Revenue from State Treasury companies	**95 234**	**41 612**
Costs from subsidiaries, *of which*:	**(916 033)**	**(632 817)**
Costs of operating activities	(906 190)	(623 286)
Finance costs	(9 843)	(9 531)
Costs incurred with relation to transactions with jointly-controlled entities	**(650)**	**(3 320)**
Costs from State Treasury companies	**(124 874)**	**(126 914)**

Receivables and liabilities

	As at 31 March 2017 *(unaudited)*	As at 31 December 2016
Loans granted to subsidiaries and receivables from subsidiaries, *of which*:	**11 926 867**	**11 940 640**
Receivables from clients	383 484	795 482
Loans granted under cash pool agreement plus interest accrued	1 025	15 800
Other loans granted	1 261 777	1 249 802
Receivables from the TCG	20 606	20 945
Bonds	10 259 804	9 858 382
Other financial receivables	171	229
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**551 581**	**274 502**
Receivables from State Treasury companies	**44 309**	**25 210**
Liabilities to subsidiaries, *of which*:	**2 088 708**	**2 413 451**
Liabilities to suppliers	284 068	335 344
Loans received under cash pool agreement plus interest accrued	978 771	1 229 344
Other loans received	738 921	767 750
Liabilities arising from the TCG	81 654	75 415
Other financial liabilities	5 239	5 259
Other non-financial liabilities	55	339
Liabilities to jointly-controlled entities	**322**	**1 209**
Liabilities to State Treasury companies	**52 260**	**55 389**

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

In the 3-month period ended 31 March 2017, the major contracting party as regards sales revenue from transactions made by TAURON Polska Energia S.A. with State Treasury companies was PSE S.A. Sales to that entity accounted for 95% of the total revenue from State Treasury companies.

(PLN '000)

In the 3-month period ended 31 March 2017, Polska Grupa Górnicza Sp. z o.o., PSE S.A. and Jastrzębska Spółka Węglowa S.A. were the major contracting parties of TAURON Polska Energia S.A. as regards costs incurred in relation to transactions with State Treasury companies. Costs incurred in transactions with those entities represented 87% of total costs incurred in purchase transactions entered into with State Treasury companies.

In relation to agreements entered into with a joint venture, Elektrociepłownia Stalowa Wola S.A., the Company recognizes provisions for onerous contracts and provision for costs. As at 31 March 2017, they totaled PLN 13 004 thousand. In the 3-month period ended 31 March 2017, the Company reversed provisions of PLN 190 265 thousand, which has been discussed in more detail in Note 31 to these condensed interim financial statements.

Additionally, in the year ended 31 December 2016, the Polish National Foundation was established by 17 founders being key State Treasury companies. The Company is among the founders. As a result of its declaration to make contributions to the initial capital of the Polish National Foundation and the commitment to make annual contributions to be used for purposes of its statutory activities for a period of 10 years, the Company recognized a liability of PLN 32 500 thousand as at 31 March 2017.

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

40.2. Executive compensation

The amount of compensation and other benefits paid or payable to the Management Board, Supervisory Board and other key executives of the Company in the 3-month period ended 31 March 2017 and in the comparative period has been presented in the table below.

	3-month period ended 31 March 2017 *(unaudited)*	3-month period ended 31 March 2016 *(unaudited)*
Management Board	**2 079**	**3 417**
Short-term benefits (with surcharges)	1 239	1 216
Temination benefits	634	2 077
Other	206	124
Supervisory Board	**214**	**305**
Short-term employee benefits (salaries and surcharges)	214	305
Other members of key management personnel	**3 437**	**4 229**
Short-term employee benefits (salaries and surcharges)	2 675	3 372
Temination benefits	530	609
Other	232	248
Total	**5 730**	**7 951**

According to the accounting policy adopted the Company recognises provisions for termination benefits for the Management Board members and other members of key management personnel which may be paid or payable in the future reporting periods.

As regards termination benefits paid, as presented in the table above, the amount of PLN 395 thousand was accounted for as the use of a provision recognized as at 31 December 2016.

Additionally, in the 3-month period ended 31 March 2017, the Company recognized a provision for termination benefits of PLN 900 thousand (the benefits are not payable yet). The aforementioned amounts of provision recognised are not presented in the table above.

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

41. Events after the end of the reporting period

Registration of Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 3 April 2017, Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered with the National Court Register.

On 31 January 2017, the General Shareholders' Meeting of TAURON Wytwarzanie S.A. adopted resolutions to spin off the company under Article 529.1.4 of the Code of Commercial Companies by way of separation of assets and their transfer to the newly established entity, Nowe Jaworzno Grupa TAURON Sp. z o.o. in formation.

Following the incorporation of Nowe Jaworzno Grupa TAURON Sp. z o.o. in formation, TAURON Polska Energia S.A. received 37 000 shares in the issued capital of that entity with the nominal value of PLN 50 each and the total nominal value of PLN 1 850 thousand, in return for the assets transferred to that entity from the spun-off company in the form of of an organized part of the enterprise relating to the preparation, construction and operation of a new power plant 910 MW in Elektrownia Jaworzno III.

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 3-month period ended 31 March 2017 in accordance with International Accounting Standard 34, have been presented on 49 consecutive pages.

Katowice, 9 May 2017

Filip Grzegorczyk – President of the Management Board …………………………………..

Marek Wadowski – Vice-President of the Management Board …………………………………..

Oliwia Tokarczyk – Executive Director in Charge of Taxes and Accounting …………………………………..