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 2016

(PLN '000)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Sales revenue	**11**	2 017 949	2 436 550
Cost of sales	**12**	(1 988 807)	(2 384 120)
Gross profit		**29 142**	**52 430**
Selling and distribution expenses	**12**	(8 259)	(4 968)
Administrative expenses	**12**	(23 014)	(26 605)
Other operating income and expenses		(831)	3 331
Operating profit (loss)		**(2 962)**	**24 188**
Interest income on bonds and loans	**13**	121 283	106 069
Other finance income	**13**	20 958	50 071
Interest expense on debt	**14**	(90 926)	(89 936)
Other finance costs	**14**	(7 374)	(1 726)
Profit before tax		**40 979**	**88 666**
Income tax expense	**15**	19 475	(2 854)
Net profit		**60 454**	**85 812**
Measurement of hedging instruments		25 149	15 514
Income tax expense	**15**	(4 778)	(2 948)
Other comprehensive income subject to reclassification to profit or loss		**20 371**	**12 566**
Actuarial gains/(losses)		9	7
Income tax expense	**15**	(2)	(1)
Other comprehensive income not subject to reclassification to profit or loss		**7**	**6**
Other comprehensive income, net of tax		**20 378**	**12 572**
Total comprehensive income		**80 832**	**98 384**
Earnings per share (in PLN):			
- basic and diluted, for net profit		0.03	0.05

(PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	**17**	2 625	3 436
Investment property	**18**	28 031	28 935
Intangible assets	**19**	3 022	3 299
Shares	**20**	15 962 194	15 933 194
Bonds	**21**	7 592 702	7 451 601
Loans granted	**22**	223 832	1 417 165
Other financial assets	**34**	177 144	5 279
Other non-financial assets		9 222	23 461
Deferred tax asset	**15.2**	18 635	-
		24 017 407	**24 866 370**
Current assets			
Inventories	**25**	223 822	249 492
Receivables from clients	**26**	523 953	579 446
Receivables arising from taxes and charges	**27**	168 173	43 763
Bonds	**21**	444 180	215 040
Loans granted	**22**	1 222 201	144 150
Derivative instruments	**23**	63 350	5 668
Other financial assets		127 244	130 148
Other non-financial assets		76 175	71 824
Cash and cash equivalents	**28**	200 407	168 255
		3 049 505	**1 607 786**
TOTAL ASSETS		**27 066 912**	**26 474 156**

(PLN '000)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
EQUITY AND LIABILITIES			
Equity			
Issued capital	**29.1**	8 762 747	8 762 747
Reserve capital	**29.4**	11 277 247	11 277 247
Revaluation reserve from valuation of hedging instruments	**29.3**	(53 043)	(73 414)
Retained earnings / (Accumulated losses)	**29.4**	(3 313 622)	(3 374 083)
		16 673 329	**16 592 497**
Non-current liabilities			
Debt	**30**	7 709 146	4 876 546
Other financial liabilities		5 239	5 739
Derivative instruments	**23**	6	15 156
Deferred income tax liability		-	385
Provisions for employee benefits		8 022	7 843
Other provisions	**31**	158 803	163 449
		7 881 216	**5 069 118**
Current liabilities			
Debt	**30**	1 926 393	4 057 048
Liabilities to suppliers		273 435	493 936
Liabilities arising from taxes and charges	**32**	6 270	101 670
Derivative instruments	**23**	154 470	96 942
Provisions for employee benefits		737	722
Other provisions	**31**	27 008	19 443
Accruals, deferred income and government grants		13 572	19 496
Other financial liabilities	**34**	110 091	23 284
Other non-financial liabilities		391	-
		2 512 367	**4 812 541**
Total liabilities		**10 393 583**	**9 881 659**
TOTAL EQUITY AND LIABILITIES		**27 066 912**	**26 474 156**

(PLN '000)

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

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**

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2015 (*unaudited*)

	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2015	**8 762 747**	**10 393 686**	**(143 019)**	**1 226 153**	**20 239 567**
Net profit	-	-	-	85 812	**85 812**
Other comprehensive income	-	-	12 566	6	**12 572**
Total comprehensive income	**-**	**-**	**12 566**	**85 818**	**98 384**
As at 31 March 2015 *(unaudited)*	**8 762 747**	**10 393 686**	**(130 453)**	**1 311 971**	**20 337 951**

(PLN '000)

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Cash flows from operating activities			
Profit before taxation		40 979	88 666
Depreciation and amortization		2 525	1 954
Interest and dividends, net		(31 462)	(24 763)
Other adjustments of profit before tax		(14 216)	(42 920)
Change in working capital	**33.1**	(266 962)	61 130
Income tax paid		(15 829)	25 067
Net cash from (used in) operating activities		**(284 965)**	**109 134**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(1 035)	(596)
Purchase of bonds	**33.2**	(480 000)	(420 000)
Purchase of shares	**33.2**	(179 000)	(890)
Loans granted	**33.2**	(6 000)	(8 150)
Total payments		**(666 035)**	**(429 636)**
Sale of property, plant and equipment and intangible assets		1	-
Redemption of bonds	**33.2**	30 000	15 526
Repayment of loans granted	**33.2**	142 024	12 200
Interest received	**33.2**	179 428	73 739
Total proceeds		**351 453**	**101 465**
Net cash used in investing activities		**(314 582)**	**(328 171)**
Cash flows from financing activities			
Payment of finance lease liabilities		(781)	(728)
Repayment of loans and borrowings	**33.3**	(20 455)	(20 455)
Redemption of debt securities	**33.3**	(2 250 000)	(150 000)
Interest paid	**33.3**	(24 555)	(10 912)
Commission paid		(5 881)	(5 362)
Total payments		**(2 301 672)**	**(187 457)**
Issue of debt securities	**33.3**	2 860 000	-
Total proceeds		**2 860 000**	**-**
Net cash from (used in) financing activities		**558 328**	**(187 457)**
Net increase / (decrease) in cash and cash equivalents		**(41 219)**	**(406 494)**
Net foreign exchange difference		2 686	(697)
Cash and cash equivalents at the beginning of the period	**28**	**(679 175)**	**68 935**
Cash and cash equivalents at the end of the period, *of which:*	**28**	**(720 394)**	**(337 559)**
restricted cash	**28**	88 752	111 378

INTRODUCTION

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 ("Group", "TAURON Group").

The Company's condensed interim financial statements cover the 3-month period ended 31 March 2016 and present comparative data for the 3-month period ended 31 March 2015 as well as figures as at 31 December 2015. The data for the 3-month period ended 31 March 2016 and the comparative data for the 3-month period ended 31 March 2015, as contained herein, have not been audited or reviewed by a certified auditor. The comparative data as at 31 December 2015 were audited by a certified auditor.

These condensed interim financial statements for the 3-month period ended 31 March 2016 were approved for publication on 9 May 2016.

The Company also prepared condensed interim consolidated financial statements for the 3-month period ended 31 March 2016, which were approved by the Management Board for publication on 9 May 2016.

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 2016.

(PLN '000)

2. Shares in related parties

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

Item	Company name	Registered office	Core business	Share of TAURON in the entity's capital and governing body
1	TAURON Wydobycie S.A.	Jaworzno	Hard coal mining	100.00%
2	Nowe Brzeszcze Grupa TAURON Sp. z o.o.[1]	Brzeszcze	Hard coal mining, natural gas extraction and stone quarrying	100.00%
3	TAURON Wytwarzanie S.A.	Jaworzno	Generation, transmission and distribution of electricity and heat	100.00%
4	TAURON Ekoenergia Sp. z o.o.[2]	Jelenia Góra	Generation of electricity	100.00%
5	Marselwind Sp. z o.o.[2]	Katowice	Production, transmission and sale of electricity	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100.00%
7	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.72%
8	TAURON Dystrybucja Serwis S.A.[3]	Wrocław	Services	99.72%
9	TAURON Dystrybucja Pomiary Sp. z o.o[3]	Tarnów	Services	99.72%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%
12	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%
13	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%
14	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Limestone quarrying, crushing and grinding; stone quarrying	100.00%
15	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	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%

[1]On 1 January 2016, Nowe Brzeszcze Grupa TAURON Sp. z o.o. acquired an organized part of an enterprise (Zakład Górniczy Brzeszcze). The company has been consolidated as of the aforesaid date.

[2]On 25 February 2016, spin-off of TAURON Ekoenergia Sp. z o.o. was registered. It was effected by way of a transfer of a part of the assets of the spun-off company constituting an organized part of the enterprise and comprising tangible and intangible assets related to generation of electricity in renewable energy sources – windfarms, onto Marselwind Sp. z o.o., which has been discussed in more detail in Note 20 to these condensed interim financial statements.

[3]TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiary Sp. z o.o. through a subsidiary, TAURON Dystrybucja S.A. Additionally, TAURON Polska Energia S.A. uses shares held by TAURON Dystrybucja S.A.

As at 31 March 2016, 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 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.[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. 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.

STATEMENT OF COMPLIANCE WITH IFRS

3. Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting 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 2015.

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, there were no circumstances that would indicate a threat 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.

(PLN '000)

ACCOUNTING POLICIES

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 financial statements, in line with the table below.

Item	Value of item to which the estimate figure in the financial statements applies		Details regarding assumptions made and calculation of significant estimates
	As at 31 March 2016 *(unaudited)*	As at 31 December 2015	
Shares	15 962 194	15 933 194	• Impairment of shares as at 31 March 2016 in the amount of PLN 4 931 147 thousand has not changed compared to 31 December 2015. Note 20
Provision for onerous contracts	185 806	182 877	• Provision valuation and description. Note 31
Deferred tax assets	18 635	-	• Unrecognised deferred tax assets; • Realisation of deferred tax assets. Note 15.2
Derivative instruments:			• Fair value measurement
Assets	64 123	5 684	Note 23
Liabilities	154 476	112 098	
Intragroup bonds	8 036 882	7 666 641	• Classification as non-current or current assets. Note 21
Inventories	223 822	249 492	• Impairment loss – as at the end of the reporting period impairment losses on inventories amounted to PLN 23 746 thousand. Note 25

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. The following standards and amendments to standards issued by the International Accounting Standards Board have not been endorsed by the European Union yet and are not yet effective.

(PLN '000)

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

Standard Details	Estimated impact	Effective date specified in the Standard, not endorsed by the EU*
IFRS 9 *Financial Instruments* The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements.	Preliminary analysis of IFRS 9's impact on the accounting policies applied indicates one change important for the Company, i.e. replacing the existing classification and measurement models under IAS 39 with a single classification model assuming two categories only, i.e. amortized cost or fair value. IFRS 9 classification complies with the business model applied by the Company to manage financial assets. Additionally, the standard introduces a new hedge accounting model which requires detailed risk management disclosures. Evaluation of effects of IFRS 9 on the financial statements is subject to further analyses due to the large scope of amendments.	1 January 2018
IFRS 15 *Revenue from Contracts with Customers* The Standard specifies how and when revenue is recognized and requires more informative, relevant disclosures. The Standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and a number of interpretations concerning revenue recognition. On 11 September 2015 the IASB published an amendment to the standard introducing a new effective date - annual periods beginning on or after 1 January 2018. The original effective date was set at annual period beginning on or after 1 January 2017.	Based on preliminary analysis of IFRS 15's impact on the accounting policies applied, the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which happens rarely in the Company. The new guidelines of IFRS 15 are not expected to result in the need to change the systems, but before the standard enters into force the Company intends to carry out an analysis of contracts with customers including contract identification, indication of individual liabilities, determining prices, assigning them to individual liabilities and revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements.	1 January 2018
IFRS 16 *Leases* Under IFRS 16 the lessee recognizes the right to use an asset and a lease liability. The right to use the asset is treated similarly to other non-financial assets and is depreciated. Lease liabilities are initially measured at the present value of future lease payments due in the lease period, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Leases are classified by lessors in accordance with IAS 17 - as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Otherwise a lease is classified as an operating lease. In finance lease the 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 if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.	Preliminary analysis of IFRS 16's impact on the accounting policies applied indicates certain changes important for the Company, i.e. the need to recognize in the financial statements assets and liabilities for all leases currently classified as operating leases and the change in the presentation method applied to finance lease assets, which are currently recognized in property plant and equipment or intangible assets. The Company intends to analyse all lease agreements concluded to identify leases which require recognition of assets and liabilities or presentational changes. As the effective date of IFRS 16 is still distant, and it has not yet been approved by the EU, as at the date of approving these financial statements for publication the Company had not carried out any analyses which would enable determining the impact of the planned changes on the financial statements. The analysis will be conducted in future.	1 January 2019

**annual periods beginning on or after the date provided*

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

(PLN '000)

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
Revised IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture*	1 January 2016
Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures Investment Entities: Applying the Consolidation Exception*	1 January 2016
Revised IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. Revised IAS 12 explains the method of recognition of a deferred tax asset that is related to a debt instrument measured at fair value.	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

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

8. Significant accounting policies

The accounting principles (policy) 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 2015, except for the application of the following amendments to standards:

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

The introduction of the abovementioned amendments to standards has not exerted a significant effect on the accounting principles (policy) adopted by the Company.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

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 2016 and the comparative period, the Company did not recognize any dividend income.

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 related to bonds issued.

"Holding activity" segment liabilities include:

- bonds issued by the Company, including liabilities arising from valuation of hedging instruments related 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.

Unallocated expenses include the Company's general and administrative expense, as they are incurred for the Group as a whole and are not directly attributable to a specific operating segment.

EBIT is the profit/loss on continuing operations before tax, finance income and finance costs, i.e. operating profit (loss). EBITDA is the profit/loss on continuing operations before tax, finance income and finance costs, increased by amortization/depreciation and impairment of non-financial assets. In the year ended 31 December 2015 The Management of the Company decided to change the definition of EBITDA, including impairment of non-financial assets. The comparative data for the period of three months ended 31 March 2015, as presented below, were appropriately restated.

(PLN '000)

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

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	461 027	-	-	**461 027**
Sales within the Group	1 556 922	-	-	**1 556 922**
Segment revenue	**2 017 949**	**-**	**-**	**2 017 949**
Profit/(loss) of the segment	**20 052**	**-**	**-**	**20 052**
Unallocated expenses	-	-	(23 014)	**(23 014)**
EBIT	**20 052**	**-**	**(23 014)**	**(2 962)**
Net finance income/(costs)	-	44 038	(97)	**43 941**
Profit/(loss) before income tax	**20 052**	**44 038**	**(23 111)**	**40 979**
Income tax expense	-	-	19 475	**19 475**
Net profit/(loss) for the period	**20 052**	**44 038**	**(3 636)**	**60 454**
Assets and liabilities				
Segment assets	1 237 570	25 633 966	-	**26 871 536**
Unallocated assets	-	-	195 376	**195 376**
Total assets	**1 237 570**	**25 633 966**	**195 376**	**27 066 912**
Segment liabilities	491 414	9 701 292	**-**	**10 192 706**
Unallocated liabilities	-	-	200 877	**200 877**
Total liabilities	**491 414**	**9 701 292**	**200 877**	**10 393 583**
EBIT	**20 052**	**-**	**(23 014)**	**(2 962)**
Depreciation/amortization	**(2 525)**	**-**	**-**	**(2 525)**
Impairment	**(23 120)**	**-**	**-**	**(23 120)**
EBITDA	**45 697**	**-**	**(23 014)**	**22 683**
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.*

For the 3-month period ended 31 March 2015 (*unaudited restated figures*) or as at 31 December 2015

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	543 755	-	-	**543 755**
Sales within the Group	1 892 795	-	-	**1 892 795**
Segment revenue	**2 436 550**	**-**	**-**	**2 436 550**
Profit/(loss) of the segment	**50 793**	**-**	**-**	**50 793**
Unallocated expenses	-	-	(26 605)	**(26 605)**
EBIT	**50 793**	**-**	**(26 605)**	**24 188**
Net finance income (costs)	-	60 676	3 802	**64 478**
Profit/(loss) before income tax	**50 793**	**60 676**	**(22 803)**	**88 666**
Income tax expense	-	-	(2 854)	**(2 854)**
Net profit/(loss) for the period	**50 793**	**60 676**	**(25 657)**	**85 812**
Assets and liabilities				
Segment assets	1 188 954	25 282 574	-	**26 471 528**
Unallocated assets	-	-	2 628	**2 628**
Total assets	**1 188 954**	**25 282 574**	**2 628**	**26 474 156**
Segment liabilities	727 714	9 009 672	**-**	**9 737 386**
Unallocated liabilities	-	-	144 273	**144 273**
Total liabilities	**727 714**	**9 009 672**	**144 273**	**9 881 659**
EBIT	**50 793**	**-**	**(26 605)**	**24 188**
Depreciation/amortization	**(1 954)**	**-**	**-**	**(1 954)**
Impairment	**(88)**	**-**	**-**	**(88)**
EBITDA	**52 835**	**-**	**(26 605)**	**26 230**
Other segment information				
Capital expenditure *	1 504	-	-	**1 504**

** 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 2016, revenue from sales to two major clients, being members of the TAURON Capital 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)

In the 3-month period ended 31 March 2015, revenue from sales to two major clients, being members of the TAURON Capital Group, represented 55% and 12% of the Company's total revenue in the "Sales" segment, amounting to PLN 1 342 915 thousand and PLN 282 337 thousand, respectively.

11. Sales revenue

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Revenue from sales of goods for resale and materials (excise duty not excluded)	**2 002 694**	**2 420 265**
Excise duty	-	-
Revenue from sales of goods for resale and materials, *of which*:	**2 002 694**	**2 420 265**
Electricity	1 823 812	2 282 389
Gas	70 762	11 449
Property rights arising from energy certificates	14 035	79 261
Emission allowances	93 288	46 259
Other	797	907
Rendering of services, *of which*:	**15 255**	**16 285**
Trading income	12 449	14 817
Other	2 806	1 468
Total sales revenue	**2 017 949**	**2 436 550**

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

In the 3-month period ended 31 March 2016, raw materials purchased and subsequently resold in the abovementioned transactions amounted to PLN 276 624 thousand, while revenue from agency services amounted to PLN 6 740 thousand.

12. Expenses by type

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(2 525)	(1 954)
Materials and energy	(245)	(284)
Consultancy services	(901)	(1 576)
IT services	(3 291)	(3 136)
Other external services	(3 029)	(4 272)
Taxes and charges	(643)	(1 376)
Employee benefits expense	(18 828)	(19 586)
Impairment loss on inventories	(23 319)	(88)
Allowance for receivables from clients	1 542	(1 167)
Advertising expenses	(5 317)	(5 009)
Other	(457)	(419)
Total costs by type	**(57 013)**	**(38 867)**
Selling and distribution expenses	8 259	4 968
Administrative expenses	23 014	26 605
Cost of goods for resale and materials sold	(1 963 067)	(2 376 826)
Cost of sales	**(1 988 807)**	**(2 384 120)**

A rise in the costs of impairment losses on inventories in the 3-month period ended 31 March 2016 versus the comparative period by PLN 23 231 thousand was driven by recognition of impairment losses on emission allowances held by the Company for resale, which has been discussed in more detail in Note 25 to these condensed interim financial statements. The aforesaid impairment losses have also resulted in an increase in selling expenses.

(PLN '000)

13. Finance income

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Income from financial instruments, *of which:*	**140 734**	**155 862**
Interest income on bonds and loans	121 283	106 069
Other interest income	1 193	6 083
Exchange gains	-	28 452
Measurement of derivative instruments	14 134	15 258
Net gain on realized derivative instruments	4 100	-
Surplus of reversal of impairment losses recognised	24	-
Other finance income	**1 507**	**278**
Total finance income, including recognized in the statement of comprehensive income:	**142 241**	**156 140**
Interest income on bonds and loans	121 283	106 069
Other finance income	20 958	50 071

14. Finance costs

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Financial instrument costs, *of which:*	**(94 970)**	**(91 166)**
Interest expense	(90 926)	(89 936)
Exchange losses	(1 251)	-
Surplus of impairment losses recognised	-	(119)
Commissions due to external financing	(2 793)	(1 046)
Net expense due to realized derivative instruments	-	(65)
Other finance costs	**(3 330)**	**(496)**
Total finance costs, including recognized in the statement of comprehensive income:	**(98 300)**	**(91 662)**
Interest expense on debt	(90 926)	(89 936)
Other finance costs	(7 374)	(1 726)

15. Income tax

15.1. Tax expense in the statement of comprehensive income

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Current income tax	**(4 325)**	**5 475**
Current income tax expense	(4 325)	(6 601)
Adjustments of current income tax from prior years	-	12 076
Deferred tax	**23 800**	**(8 329)**
Income tax expense in profit or loss	**19 475**	**(2 854)**
Income tax expense in other comprehensive income	**(4 780)**	**(2 949)**

(PLN '000)

15.2. Deferred income tax

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
- due interest on bonds and loans	50 338	61 547
- other	2 050	1 529
Deferred tax liability	**52 388**	**63 076**
- provision for employee benefits	1 665	1 627
- other provisions and accruals	27 756	28 336
- difference between tax base and carrying amount of fixed and intangible assets	1 212	1 189
- difference between tax base and carrying amount of financial liabilities	16 992	11 908
- valuation of hedging instruments	17 766	18 139
- other	5 632	1 492
Deferred tax assets, *of which*:	**71 023**	**62 691**
Deferred tax assets recognized in profit or loss	58 417	45 305
Deferred tax assets recognized in other comprehensive income	12 606	17 386
Deferred tax asset/(liability), net	**18 635**	**(385)**

Deferred tax asset related to deductible differences related to 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 differences related to recognition of impairment losses on shares in subsidiaries: TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. 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 2016 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 other deductible differences has been recognized in these financial statements in the full amount.

16. Dividends paid and proposed

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. Additionally, the Management Board decided to submit a recommendation to the Ordinary General Shareholders' Meeting that the record date be the ninetieth day following the date of the General Shareholders' Meeting's resolution on the use of the Company's reserve capital and the payment date be the fourteenth business day following the record date.

On 17 March 2016, the Supervisory Board of the Company approved the recommendation presented by the Management Board 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 shareholders as well as determination of the record and the payment dates.

On 16 March 2015, the Management Board decided to recommend to the Ordinary General Shareholders' Meeting the amount of dividend payment to the shareholders of the Company of PLN 262 882 thousand from the net profit of the Company generated in the 2014 financial year, i.e. PLN 0.15 per share. At the same time, the Management Board decided to provide a recommendation to the Ordinary General Shareholders' Meeting determining the record date at 22 July 2015 and the payment date at 12 August 2015.

On 23 March 2015, the Supervisory Board approved the recommendation concerning profit distribution and determination of the record and payment dates, presented to the Ordinary General Shareholders' Meeting by the Management Board. On 23 April 2015, the Ordinary General Shareholders' Meeting of the Company adopted a resolution following the recommendation of the Management Board.

(PLN '000)

17. Property, plant and equipment

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**

For the 3-month period ended 31 March 2015 (*unaudited*)

	Plant and machinery	Motor vehicles	Other	Assets under construction	Property, plant and equipment, total
COST					
Opening balance	**6 819**	**5 876**	**10 677**	**92**	**23 464**
Direct purchase	-	-	-	4	**4**
Allocation of assets under construction	-	-	96	(96)	**-**
Other changes	(6)	-	-	-	**(6)**
Closing balance	**6 813**	**5 876**	**10 773**	**-**	**23 462**
ACCUMULATED DEPRECIATION					
Opening balance	**(6 129)**	**(4 369)**	**(7 703)**	**-**	**(18 201)**
Depreciation for the period	(92)	(136)	(589)	-	**(817)**
Other changes	6	-	-	-	**6**
Closing balance	**(6 215)**	**(4 505)**	**(8 292)**	**-**	**(19 012)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**690**	**1 507**	**2 974**	**92**	**5 263**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**598**	**1 371**	**2 481**	**-**	**4 450**

18. Investment property

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
COST		
Opening balance	**36 169**	**36 169**
Closing balance	**36 169**	**36 169**
ACCUMULATED DEPRECIATION		
Opening balance	**(7 234)**	**(3 617)**
Depreciation for the period	(904)	(904)
Closing balance	**(8 138)**	**(4 521)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**28 935**	**32 552**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**28 031**	**31 648**

The investment property is composed of buildings located in Katowice Szopienice at ul. Lwowska 23, used under a finance lease agreement with PKO Bankowy Leasing Sp. z o.o. The monthly lease payment is ca. PLN 312 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 2016, the rental income related to the investment property amounted to PLN 1 410 thousand.

(PLN '000)

19. Non-current intangible assets

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

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST					
Opening balance	**3 539**	**-**	**4 185**	**-**	**7 724**
Liquidation	(1 280)	-	(60)	-	**(1 340)**
Closing balance	**2 259**	**-**	**4 125**	**-**	**6 384**
ACCUMULATED AMORTIZATION					
Opening balance	**(2 985)**	**-**	**(1 440)**	**-**	**(4 425)**
Amortization for the period	(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**

For the 3-month period ended 31 March 2015 (*unaudited*)

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST					
Opening balance	**3 560**	**5 401**	**2 676**	**-**	**11 637**
Direct purchase	-	-	-	1 500	**1 500**
Allocation of intangible assets not made available for use	-	-	1 500	(1 500)	**-**
Liquidation	(1)	-	(47)	-	**(48)**
Reclassification	-	(2 739)	-	-	**(2 739)**
Closing balance	**3 559**	**2 662**	**4 129**	**-**	**10 350**
ACCUMULATED AMORTIZATION					
Opening balance	**(2 646)**	**-**	**(713)**	**-**	**(3 359)**
Amortization for the period	(101)	-	(132)	-	**(233)**
Liquidation	1	-	47	-	**48**
Closing balance	**(2 746)**	**-**	**(798)**	**-**	**(3 544)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**914**	**5 401**	**1 963**	**-**	**8 278**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**813**	**2 662**	**3 331**	**-**	**6 806**

(PLN '000)

20. Shares

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

No.	Company	Opening balance	Increases / (Decreases)	Closing balance
1	TAURON Wytwarzanie S.A.	2 748 832	-	**2 748 832**
2	TAURON Dystrybucja S.A.	9 511 628	-	**9 511 628**
3	TAURON Ciepło Sp. z o.o.	884 791	-	**884 791**
4	TAURON Ekoenergia Sp. z o.o.	939 765	(74 614)	**865 151**
5	TAURON Sprzedaż Sp. z o.o.	613 505	-	**613 505**
6	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	**39 831**
7	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	-	**49 056**
8	TAURON Czech Energy s.r.o.	4 223	-	**4 223**
9	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	**129 823**
10	TAURON Wydobycie S.A.	494 755	-	**494 755**
11	TAURON Wytwarzanie GZE Sp. z o.o. in liquidation	4 935	-	**4 935**
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	**41 178**
13	TAURON Sweden Energy AB (publ)	28 382	-	**28 382**
14	Biomasa Grupa TAURON Sp. z o.o.	1 269	-	**1 269**
15	CONCORDE INVESTISSEMENT S.A.	12	-	**12**
16	CC Poland Plus Sp. z o.o.	12	-	**12**
17	Enpower Sp. z o.o.	65	-	**65**
18	TAURON Ubezpieczenia Sp. z o.o.	25	-	**25**
19	TAMEH HOLDING Sp. z o.o.	415 852	-	**415 852**
20	Marselwind Sp. z o.o.	107	74 614	**74 721**
21	PGE EJ 1 Sp. z o.o.	23 046	-	**23 046**
22	Nowe Brzeszcze Grupa TAURON Sp. z o.o.	2 102	29 000	**31 102**
	Total	**15 933 194**	**29 000**	**15 962 194**

Changes in long-term investments in the 3-month period ended 31 March 2016 resulted mainly from the following transactions:

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

On 31 December 2015, the Extraordinary General Shareholders' Meeting of Nowe Brzeszcze Grupa TAURON Sp. z o.o. adopted a resolution to increase the issued capital of the entity by PLN 2 900 thousand by way of issuing 29 000 shares with the nominal value of PLN 100 each, which were acquired by the parent at PLN 1 000 per share, for the total amount of PLN 29 000 thousand. The funds increasing the issued capital were paid by the Company on 8 January 2016. The capital increase was registered on 29 January 2016.

On 22 March 2016, the Extraordinary General Shareholders' Meeting of Nowe Brzeszcze Grupa TAURON Sp. z o.o. adopted a resolution to increase the issued capital of the entity by PLN 50 000 thousand by way of issuing 500 000 shares with the nominal value of PLN 100 each, which will be acquired by the parent at PLN 300 per share, for the total amount of PLN 150 000 thousand. The capital increase was registered after the end of the reporting period, as described in Note 41 to these condensed interim financial statements. Therefore, as at the end of the reporting period the funds transferred as a payment for the shares have been classified by the Company as other non-current financial assets in the statement of financial position.

Spin-off of TAURON Ekoenergia Sp. z o.o.

On 25 February 2016, spin-off of TAURON Ekoenergia Sp. z o.o. was registered. It was effected under Article 529.1.4 of the Code of Commercial Companies by way of a transfer of a part of the assets of the spun-off company constituting an organized part of the enterprise and comprising tangible and intangible assets related to generation of electricity in renewable energy sources – windfarms, onto Marselwind Sp. z o.o. (the acquirer), in return for shares in the increased issued capital of the acquirer, which were taken up by the sole shareholder of the spun-off company, i.e. TAURON Polska Energia S.A. Following the spin-off, the Company reclassified the value of shares between TAURON Ekoenergia Sp. z o.o. and Marselwind Sp. z o.o. in the amount of PLN 74 614 thousand.

(PLN '000)

Changes in shares from 1 January 2015 to 31 March 2015 (*unaudited*)

No.	Company	Opening balance	Increases / (Decreases)	Closing balance
1	TAURON Wytwarzanie S.A.	7 236 727	-	**7 236 727**
2	TAURON Dystrybucja S.A.	9 511 628	-	**9 511 628**
3	TAURON Ciepło Sp. z o.o.	1 328 043	-	**1 328 043**
4	TAURON Ekoenergia Sp. z o.o.	939 765	-	**939 765**
5	TAURON Sprzedaż Sp. z o.o.	613 505	-	**613 505**
6	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	**39 831**
7	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	-	**49 056**
8	TAURON Czech Energy s.r.o.	4 223	-	**4 223**
9	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	**129 823**
10	TAURON Wydobycie S.A.	494 755	-	**494 755**
11	TAURON Wytwarzanie GZE Sp. z o.o.	4 935	-	**4 935**
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	**41 178**
13	TAURON Sweden Energy AB (publ)	232	19	**251**
14	Biomasa Grupa TAURON Sp. z o.o.	-	1 224	**1 224**
15	CONCORDE INVESTISSEMENT S.A.	12	-	**12**
16	CC Poland Plus Sp. z o.o.	12	-	**12**
17	Energopower Sp. z o.o.	45	-	**45**
18	Enpower Sp. z o.o.	45	-	**45**
19	TAURON Ubezpieczenia Sp. z o.o.	25	-	**25**
20	TAMEH HOLDING Sp. z o.o.	415 852	-	**415 852**
21	Marselwind Sp. z o.o.	107	-	**107**
	Total	**20 809 799**	**1 243**	**20 811 042**

Impairment of assets

Considering the conditions in the external environment determining the Company's market cap being lower than the carrying amount, mainly unfavorable conditions on the wholesale electricity market, a market analysis was conducted as at 31 March 2016 which revealed that the market conditions in the first quarter of the year had not changed considerably as compared to 31 December 2015. 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 2015, were up-to-date and there is no need to recognize additional impairment losses as at the end of the reporting period.

As at 31 December 2015, the Company carried out an impairment test focusing on shares and intra-group loans and bonds recognized in non-current assets. Shares and intra-group loans and bonds accounted for about 89% of the balance sheet total.

The test was conducted based on the present value of projected cash flows from operations of the key entities, by reference to detailed projections for 2016 - 2025 and the estimated residual value. 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 legal environment known as at the date of the test.

The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.43% to 9.05% in nominal terms before tax. WACC is calculated taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (3.22%) 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.

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

The impairment tests carried out in line with IAS 36 as at 31 December 2015 indicated impairment of the carrying amount of shares in subsidiaries of PLN 4 931 147 thousand. The aforesaid impairment loss did not change as at 31 March 2016 and concerned the following entities:

(PLN '000)

Company	Impairment as at 31 March 2016	Carrying amount including impairment losses as at 31 March 2016
TAURON Wytwarzanie S.A.	4 487 895	2 748 832
TAURON Ciepło Sp. z o.o.	443 252	884 791

The impairment loss was recognized for the following reasons:

- long-lasting unfavorable market conditions for power manufacturers and the resulting more conservative power price forecasts for the future;
- power manufacturing volumes adjusted (i.e. limited) in the future to the existing unfavorable market situation and pessimistic outlooks;
- manufacturing units to be decommissioned sooner than expected.

21. 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 2016, and as at 31 December 2015, broken down by individual companies issuing the bonds.

Company	As at 31 March 2016 *(unaudited)*		As at 31 December 2015	
	par value of purchased bonds	accrued interest	par value of purchased bonds	accrued interest
TAURON Wytwarzanie S.A.	2 498 770	20 525	2 498 770	13 260
TAURON Dystrybucja S.A.	2 800 000	75 931	2 600 000	174 565
TAURON Ekoenergia Sp. z o.o.	60 000	695	60 000	705
TAURON Ciepło Sp. z o.o.	1 633 260	25 241	1 603 260	18 675
TAURON Wydobycie S.A.	820 000	8 740	600 000	4 787
TAURON Obsługa Klienta Sp. z o.o.	85 000	8 720	85 000	7 619
Total bonds, *including:*	**7 897 030**	**139 852**	**7 447 030**	**219 611**
Non-current	7 587 030	5 672	7 447 030	4 571
Current	310 000	134 180	-	215 040

Intra-group bonds maturing within one year, intended for rollover, are classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements provide for the possibility to roll over the bonds. As at 31 March 2016, all bonds maturing within one year (par value of PLN 310 000 thousand) were classified as short-term bonds as they were not intended to be rolled over.

22. Loans granted

	As at 31 March 2016 *(unaudited)*		As at 31 December 2015	
	Principal	Interest	Principal	Interest
Loan granted to TAURON Ekoenergia Sp. z o.o.	1 120 000	94 024	1 120 000	75 362
Loans granted to EC Stalowa Wola S.A., *of which:*	200 950	31 059	194 950	28 959
Subordinated loan	177 000	30 784	177 000	28 922
Loan for repayment of debt	15 850	198	15 850	31
Other loans	8 100	77	2 100	6
Other loans	-	-	142 024	20
Total loans, *of which*:	**1 320 950**	**125 083**	**1 456 974**	**104 341**
Non-current	192 850	30 982	1 312 850	104 315
Current	1 128 100	94 101	144 124	26

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

(PLN '000)

by the borrower in prior years to finance construction of windfarms. On 25 February 2016 the annex to the loan agreement was entered into, extending the term to maturity until 27 February 2017.

Loans granted to Elektrociepłownia Stalowa Wola S.A.:

- Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted a subordinated loan and a VAT loan to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank. At the end of the reporting period, the balance of the subordinated loan was PLN 177 000 thousand and the VAT loan had fully been repaid.
- In 2015, the Company entered into loan agreements with Elektrociepłownia Stalowa Wola S.A., whereby it granted a loan to Elektrociepłownia Stalowa Wola S.A. in the maximum amount of PLN 15 850 thousand to finance the first payment of principal and interest on loans provided to the borrower by the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. as well as a short-term loan of up to PLN 2 600 thousand to finance the day-to-day operations of the borrower. As at the end of the reporting period, the balance of loans granted was equal to the maximum amounts specified in the aforesaid agreements.
- On 22 January 2016, the Company granted a cash loan of PLN 5 500 thousand to Elektrociepłownia Stalowa Wola S.A. to finance the day-to-day operations of the borrower. Under the loan agreement, the loan will be repaid in one instalment, along with accrued interest, by 31 December 2016.

A decrease in the balance of other loans in the 3-month period ended 31 March 2016 was driven by the Company's resale of 4 100 thousand emission allowances (EUA) to a subsidiary, TAURON Wytwarzanie S.A., in March 2016 at the price of PLN 35.05 per EUA, i.e. the total price of PLN 143 705 thousand. The aforesaid emission allowances were purchased by the Company from TAURON Wytwarzanie S.A. under agreements entered into in December 2015, whereby the Company assumed the obligation to resell the same quantity of EUA in March 2016 at an agreed price. Due to its nature, the transaction was recognized as a loan (buy-sell-back transaction), because according to the Company it did not entail a transfer of risks and rewards, including the risk of fair value change, onto the Company. Interest earned on the aforesaid loan transaction totaled PLN 1 681 thousand. Proceeds from resale of EUA under the transaction in question have been presented in the statement of cash flows as *Loans repaid* in investing activities.

23. Derivative instruments

	Balance as at 31 March 2016 *(unaudited)*				As at 31 December 2015			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
CCIRS	-	-	**-**	**-**	(11 368)	-	**3 055**	**(14 423)**
IRS	(28 021)	(65 484)	**410**	**(93 915)**	(4 833)	(90 634)	**-**	**(95 467)**
Commodity future/forward/swap	3 019	-	**63 580**	**(60 561)**	17	-	**2 225**	**(2 208)**
Currency forward	133	-	**133**	**-**	404	-	**404**	**-**
Total derivative instruments, *including:*			**64 123**	**(154 476)**			**5 684**	**(112 098)**
Current			63 350	(154 470)			5 668	(96 942)
Non-current			773	(6)			16	(15 156)

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

Derivative instrument	Methodology of determining fair value hierarchy
IRS, CCIRS	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 and swaps	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:

Classes of financial instruments	As at 31 March 2016 *(unaudited)*		As at 31 December 2015	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments - commodity	63 580	-	2 225	-
Derivative instruments - currency	-	133	-	404
Derivative instruments - CCIRS	-	-	-	3 055
Derivative instruments - IRS	-	410	-	-
Liabilities				
Derivative instruments - commodity	60 561	-	2 208	-
Derivative instruments - CCIRS	-	-	-	14 423
Derivative instruments - IRS	-	93 915	-	95 467

Hedging derivative instruments (subject to hedge accounting) – IRS

Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Company hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme (Tranche A and Tranche C), by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. The Tranche A transaction was settled at maturity of the instrument, i.e. in December 2015. On 29 February 2016, the Company repurchased and redeemed a portion of C Tranche bonds with the par value of PLN 2 250 000 thousand, which had been hedged using IRS, and at the same time issued bonds with the same par value under an agreement entered into in November 2015, which has been discussed in more detail in Note 30.1 to these condensed interim financial statements. In accordance with the dynamic interest rate risk hedging strategy adopted by the Company, whereby cash flows related to the exposure to the WIBOR 6M interest rate risk are the hedged instrument, the Company maintained the hedging relationship for the IRS transactions concluded in March 2012 with respect to the newly issued bonds. As the effectiveness of the hedge was considered high, the transactions are covered by hedge accounting.

In the 3-month period ended 31 March 2016, pursuant to a decision of the Financial and Credit Risk Management Team, the Company hedged a portion of the interest rate risk arising from bonds issued under an agreement with Bank Gospodarstwa Krajowego, with the par value of PLN 600 000 thousand, by entering into interest rate swap (IRS) transactions for a term of 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 is determined in advance, hence the entity may not apply hedge accounting principles to cash flows resulting from the first interest period.

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

In the 3-month period ended 31 March 2016, the Company closed a transaction involving a coupon cross currency swap (CCIRS), which was not subject to hedge accounting. Following the settlement of the aforesaid transaction in February 2016, the Company received PLN 5 400 thousand. The transaction involved a swap of interest payments on the nominal amount of EUR 168 000 thousand and its original maturity was 15 years. In accordance with the contract, the Company paid interest accrued based on a floating interest rate in PLN and received fixed-rate payments in EUR.

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

- commodity derivatives (futures, forward, swap) including emission allowance, electricity and other commodity purchase and sale transactions;
- FX forward transactions hedging foreign currency cash flows resulting from trading in emission allowances and gas.

24. Current intangible assets

Under current intangible assets, the Company discloses energy certificates.

(PLN '000)

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Opening balance	**-**	**20 215**
Direct purchase	13	1 670
Cancellation	(13)	(21 885)
Reclassification	-	2 739
Closing balance	**-**	**2 739**

25. Inventories

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Historical cost		
Energy certificates	250	1 720
Greenhouse gas emission allowances	247 109	248 342
Materials	209	56
Total	**247 568**	**250 118**
Write-downs to net realizable value		
Energy certificates	(86)	(198)
Greenhouse gas emission allowances	(23 660)	(428)
Total	**(23 746)**	**(626)**
Net realizable value		
Energy certificates	164	1 522
Greenhouse gas emission allowances	223 449	247 914
Materials	209	56
Total	**223 822**	**249 492**

As the market prices of emission allowances fell in the 3-month period ended 31 March 2016, the Company recognized impairment losses on the emission allowances held as at the end of the reporting period, in the amount of PLN 23 660 thousand, as at 31 March 2016.

26. Receivables from clients

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Value of items before allowance/write-down		
Receivables from clients	524 090	579 605
Receivables claimed at court	880	2 423
Total	**524 970**	**582 028**
Allowance/write-down		
Receivables from clients	(137)	(159)
Receivables claimed at court	(880)	(2 423)
Total	**(1 017)**	**(2 582)**
Value of item net of allowance (carrying amount)		
Receivables from clients	523 953	579 446
Receivables claimed at court	-	-
Total	**523 953**	**579 446**

Receivables from clients 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 2016 and 31 December 2015, the largest item of receivables from clients was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 347 943 thousand and PLN 257 446 thousand, respectively.

Related-party transactions as well as related-party receivables and liabilities have been presented in Note 38 to these condensed interim financial statements.

(PLN '000)

27. Receivables due to taxes and charges

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Corporate Income Tax receivables	113 028	-
VAT receivables	53 395	42 013
Excise duty receivables	1 750	1 750
Total	**168 173**	**43 763**

Receivables due to Corporate Income Tax

A Tax Capital Group agreement for the years 2015-2017 was concluded on 22 September 2014. Pursuant to the previous agreement, the Tax Capital Group was registered for the period of three fiscal years from 1 January 2012 to 31 December 2014.The major companies constituting the Tax Capital Group as from 1 January 2015 are TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

As at 31 March 2016, the Tax Capital Group had income tax receivables of PLN 113 019 thousand, including:

- a surplus of tax prepaid by the Tax Capital Group for the first quarter of 2016 over tax due of PLN 112 748 thousand;
- receivables due to income tax for previous years of PLN 271 thousand.

At the same time, due to the Company's settlements, as the Representative Company, with the Tax Capital Group companies, it has reported liabilities to these subsidiaries arising from tax overpayment of PLN 103 670 thousand, which have 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 9 797 thousand, which have been presented in the statement of financial position as *Other financial assets*.

28. Cash and cash equivalents

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Cash at bank and in hand	200 389	168 024
Short-term deposits (up to 3 months)	18	231
Total cash and cash equivalents presented in the statement of financial position, *including*:	**200 407**	**168 255**
restricted cash	88 752	70 927
Cash pool	(818 088)	(839 642)
Overdraft	(102 445)	(10 206)
Foreign exchange	(268)	2 418
Total cash and cash equivalents presented in the statement of cash flows	**(720 394)**	**(679 175)**

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

The balance of restricted cash consists mainly of:

- cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A), amounting to PLN 61 544 thousand; and
- cash held in special purpose accounts for transactions carried out on the European Energy Exchange, ICE Futures Europe and Powernext S.A., amounting to PLN 25 523 thousand.

Information on cash pool balances has been presented in Note 30.4 to these condensed interim financial statements.

(PLN '000)

29. Equity

29.1. Issued capital

Issued capital as at 31 March 2016 (*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 2016, the value of the issued capital, the number of shares and the nominal value of shares did not change as compared to 31 December 2015.

29.2. Major shareholders

Shareholding structure as at 31 March 2016 (*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%**

29.3. Revaluation reserve from valuation of hedging instruments

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Opening balance	**(73 414)**	**(143 019)**
Remeasurement of hedging instruments	1 961	(5 311)
Remeasurement of hedging instruments charged to profit or loss	23 188	20 825
Deferred income tax	(4 778)	(2 948)
Closing balance	**(53 043)**	**(130 453)**

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 23 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 2016, the Company recognized PLN (53 043) thousand in the revaluation reserve from valuation of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totaling PLN 93 505 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period as well as measurement of interest periods not covered by hedge accounting, including deferred tax.

The profit/loss for the period was charged with PLN 23 188 thousand, where PLN 23 224 thousand was the change in measurement of instruments relating to interest on bonds accrued as at the end of the reporting period and PLN (36) thousand was a change in measurement of interest periods not covered by hedge accounting. In the statement of comprehensive income, the expense related to a change in measurement of instruments relating to interest accrued on bonds increased finance costs arising from such interest.

(PLN '000)

29.4. Dividend limitation

Reserve capital – dividend limitation

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

Retained earnings – dividend limitation

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
distributable amounts or losses to be covered, *including* :	**(3 453 895)**	**(3 453 895)**
profit for the year ended 31 December 2015	(3 453 908)	(3 453 908)
adjustment of prior years profit	13	13
non-distributable amounts, *including* :	**140 273**	**79 812**
profit for the 3-month period ended 31 March 2016	60 454	-
actuarial gains and losses on provisions for post-employment benefits	(699)	(706)
settlement of mergers with subsidiaries	80 518	80 518
Total retained earnings (accumulated losses)	**(3 313 622)**	**(3 374 083)**

30. Debt

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Long-term portion of debt		
Issued bonds	5 809 790	2 957 095
Loans received from the European Investment Bank	1 162 905	1 183 320
Loans from the subsidiary	710 328	709 170
Finance lease	26 123	26 961
Total	**7 709 146**	**4 876 546**
Short-term portion of debt		
Issued bonds	793 271	3 011 922
Cash pool loans received, including accrued interest	846 593	860 585
Loans from the European Investment Bank	143 723	140 871
Loans from the subsidiary	37 097	30 256
Overdraft	102 445	10 206
Finance lease	3 264	3 208
Total	**1 926 393**	**4 057 048**

(PLN '000)

30.1. Bonds issued

Bonds as at 31 March 2016 (*unaudited*)

Tranche/Bank	Maturity date	Currency	As at balance sheet date *(unaudited)*		of which maturing within (after the balance sheet date)				
			Accrued interest	Principal at amortized cost	up to 3 months	3-12 months	1 - 2 years	2 - 5 years	over 5 years
C	12 December 2016	PLN	6 090	749 764	-	749 764	-	-	-
BGK*	20 December 2019	PLN	909	99 843	-	-	-	99 843	-
	20 December 2020	PLN	909	99 831	-	-	-	99 831	-
	20 December 2021	PLN	909	99 822	-	-	-	-	99 822
	20 December 2022	PLN	909	99 814	-	-	-	-	99 814
	20 December 2023	PLN	909	99 808	-	-	-	-	99 808
	20 December 2024	PLN	909	99 805	-	-	-	-	99 805
	20 December 2025	PLN	909	99 801	-	-	-	-	99 801
	20 December 2026	PLN	909	99 796	-	-	-	-	99 796
	20 December 2027	PLN	909	99 794	-	-	-	-	99 794
	20 December 2028	PLN	900	99 793	-	-	-	-	99 793
	20 December 2020	PLN	565	70 000	-	-	-	70 000	-
	20 December 2021	PLN	565	70 000	-	-	-	-	70 000
	20 December 2022	PLN	565	70 000	-	-	-	-	70 000
	20 December 2023	PLN	511	70 000	-	-	-	-	70 000
	20 December 2024	PLN	511	70 000	-	-	-	-	70 000
	20 December 2025	PLN	511	70 000	-	-	-	-	70 000
Bond Issue Scheme of 24 November 2015	29 December 2020	PLN	5 701	2 243 741	-	-	-	2 243 741	-
	25 March 2020	PLN	55	99 721	-	-	-	99 721	-
	30 March 2020	PLN	48	299 160	-	-	-	299 160	-
TPEA1119	4 November 2019	PLN	19 304	1 749 061	-	-	-	1 749 061	-
Total bonds			**43 507**	**6 559 554**	**-**	**749 764**	**-**	**4 661 357**	**1 148 433**

**Bank Gospodarstwa Krajowego*

Bonds as at 31 December 2015

Tranche/Bank	Maturity date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)				
			Accrued interest	Principal at amortized cost	up to 3 months	3-12 months	1 - 2 years	2 - 5 years	over 5 years
C	12 December 2016	PLN	4 389	2 998 938	2 249 203	749 735	-	-	-
BGK*	20 December 2019	PLN	106	99 836	-	-	-	99 836	-
	20 December 2020	PLN	106	99 823	-	-	-	99 823	-
	20 December 2021	PLN	106	99 815	-	-	-	-	99 815
	20 December 2022	PLN	106	99 808	-	-	-	-	99 808
	20 December 2023	PLN	106	99 802	-	-	-	-	99 802
	20 December 2024	PLN	106	99 800	-	-	-	-	99 800
	20 December 2025	PLN	106	99 796	-	-	-	-	99 796
	20 December 2026	PLN	106	99 792	-	-	-	-	99 792
	20 December 2027	PLN	106	99 790	-	-	-	-	99 790
	20 December 2028	PLN	97	99 790	-	-	-	-	99 790
	20 December 2020	PLN	12	70 000	-	-	-	70 000	-
	20 December 2021	PLN	12	70 000	-	-	-	-	70 000
	20 December 2022	PLN	12	70 000	-	-	-	-	70 000
TPEA1119	4 November 2019	PLN	7 508	1 749 043	-	-	-	1 749 043	-
Total bonds			**12 984**	**5 956 033**	**2 249 203**	**749 735**	**-**	**2 018 702**	**938 393**

**Bank Gospodarstwa Krajowego*

Bonds were issued in a dematerialized form. These are unsecured coupon bonds with a floating interest rate plus a fixed margin. Interest is WIBOR 6M-based and is payable on a semi-annual basis.

The change in the balance of bonds excluding interest increasing the carrying amount in the 3-month period ended 31 March 2016 and in the comparative period has been presented below.

(PLN '000)

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Opening balance	**5 956 033**	**6 094 022**
Issue *	2 852 461	-
Redemption	(2 250 000)	(150 000)
Measurement change	1 060	499
Closing balance	**6 559 554**	**5 944 521**

**Costs of issue have been included.*

Changes in the balance of bonds in the 3-month period ended 31 March 2016 resulted from the following events:

- On 8 January 2016, the Company issued long-term bonds with the total par value of PLN 210 000 thousand under the agreement with Bank Gospodarstwa Krajowego with the following maturity dates:
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2023;
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2024;
  - Tranche of PLN 70 000 thousand with the maturity date on 20 December 2025.
- On 29 February 2016, the Company repurchased 22 500 out of 30 000 Tranche C bonds issued on 12 December 2011 under the bond issue scheme of 16 December 2010, for purposes of redemption. The remaining 7 500 Tranche C bonds were not repurchased early. In accordance with the terms of issue, they will be repurchased on 12 December 2016. The aforesaid bonds were repurchased at the issue price of PLN 100 thousand. Thus, the total par value of bonds which were repurchased and redeemed by the Company was PLN 2 250 000 thousand. This amount was increased by interest due between the beginning of the last interest period preceding the repurchase and the repurchase date. The bonds were repurchased for redemption under bilateral agreements concluded by TAURON Polska Energia S.A. with Tranche C bond holders, mainly to prolong the date of the Company's repayment of debt incurred in the form of bonds. The funds for bond repurchase were secured under a new bond issue scheme of 24 November 2015, which has been discussed in more detail below.
- Under the new bond issue scheme of 24 November 2015, the Company issued 22 500 bonds with the total par value of PLN 2 250 000 thousand on 29 February 2016. The bonds will mature on 29 December 2020. The bonds were issued in the Polish zloty as unsecured, dematerialized coupon securities. They were purchased at the issue price equal to the par value of PLN 100 thousand. The interest on issued bonds was determined by reference to WIBOR 6M increased by a fixed margin. The bonds will be repurchased at the issue price at maturity, while interest will be paid in arrears at the end of each interest period to bond holders determined at the record date. Interest on the aforesaid bonds is payable in semi-annual periods (with the proviso that the first period is four months). The bonds were purchased by financial institutions being parties to the bond issue scheme agreements, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A. and Powszechna Kasa Oszczędności Bank Polski S.A.
- In March 2016, the Company issued further bonds under the agreement of 24 November 2015:
  - Tranche of PLN 100 000 thousand with the maturity date on 25 March 2020;
  - Tranche of PLN 300 000 thousand with the maturity date on 30 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, as discussed in more detail in Note 23 to these condensed interim 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 2016, none of these covenants had been breached and the contractual provisions were complied with.

(PLN '000)

30.2. Loans from the European Investment Bank

As at 31 March 2016, the balance of loans obtained from the European Investment Bank was PLN 1 306 628 thousand, including accrued interest of PLN 10 978 thousand. As at 31 December 2015, the related liability was PLN 1 324 191 thousand.

In the 3-month period ended 31 March 2016, the Company made principal payments totaling PLN 20 455 thousand and interest payments of PLN 11 240 thousand.

30.3. Loans from a subsidiary

As at 31 March 2016, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 747 425 thousand (EUR 175 106 thousand), including interest of PLN 8 925 thousand (EUR 2 091 thousand) accrued as at the end of the reporting period. As at 31 December 2015, the carrying amount of a loan from the subsidiary was PLN 739 426 thousand (EUR 173 513 thousand).

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

- PLN 719 140 thousand (EUR 168 480 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 28 285 thousand (EUR 6 627 thousand) of a short-term 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 is 30 July 2016.

30.4. 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 2016 *(unaudited)*	As at 31 December 2015
Receivables from cash pool loans granted	28 142	20 846
Interest receivable on loans granted under cash pool agreement	363	97
Total Receivable	**28 505**	**20 943**
Loans received under cash pool agreement	845 695	859 575
Interest payable on loans received under cash pool agreement	898	1 010
Total Liabilities	**846 593**	**860 585**

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

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

30.5. Overdraft facilities

As at 31 March 2016, the balance of overdraft facilities was PLN 102 445 thousand and resulted from:

- 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 23 642 thousand (PLN 100 914 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 407 thousand (PLN 1 531 thousand).

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

31. Other provisions

Provision for onerous contracts with a joint venture

As the schedule had not been met and the material technical terms of the contract signed with the general contractor on the gas and steam unit construction project in Stalowa Wola, determining the safety and failure-free operation as well as the future efficiency and costs of operation of the unit, had been breached, Elektrociepłownia Stalowa Wola S.A. terminated the contract with the general contractor on 29 January 2016. At present, analyses are being performed with a view to determining the further course of action and selecting a project implementation scenario. Elektrociepłownia Stalowa Wola S.A., its business partners and the banks financing the project agreed on the project completion formula. All the parties expressed their willingness to continue the project. A solution aimed at restoring financing is being worked out with the banks. The construction site is being taken over from the general contractor and works aimed at securing the equipment and its maintenance are being performed. The Company is negotiating amendments to the gas and electricity contracts with PGNIG S.A.

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

In the 3-month period ended 31 March 2016, the Company revalued the provisions for onerous contracts with a joint venture due to the unwinding of discount as at the end of the reporting period, which increased the provisions by PLN 2 929 thousand in total.

As at the end of the reporting period, the balances of provisions for onerous contracts were as follows:

- a provision of PLN 125 273 thousand resulting from the fact that under a multi-annual electricity sales contract among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company is obliged to purchase half of the volume of electricity at a price determined in the "cost plus" formula, which covers the manufacturing costs and the financing costs. The provision was estimated taking account of the difference between the planned market prices of electricity and the costs resulting from the "cost plus" formula;
- a provision of PLN 52 438 thousand resulting from the fact that the Company may be obliged to cover losses which may be incurred under the *take or pay* clause of the comprehensive gaseous fuel supply contract entered into by PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. In accordance with the aforesaid clause, Elektrociepłownia Stalowa Wola S.A. is obliged to make a payment to PGNiG S.A. for uncollected gas or resell it on the market. The provision was estimated on the assumption that the gas volume for 2016-2018 was the same as the one specified in the contract. The short-term portion of the provision is PLN 24 167 thousand;
- a provision for the costs of PLN 8 095 thousand (PLN 2 836 thousand of which is the short-term portion). The Company may be required to incur additional costs necessary for the operation of Elektrociepłownia Stalowa Wola S.A. due to delays in project completion.

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

Provision for the obligation to surrender energy certificates

In order to meet its obligation to surrender energy certificates, the Company recognized a dedicated provision in the amount of PLN 6 thousand as at the end of the reporting period. A decrease in the amount of the provision used for purposes of discharging the obligation to surrender energy certificates in the 3-month period ended 31 March 2016 versus the comparative period was driven by the introduction of organizational changes in the Group's electricity trading function, as a result of which the Company did not sell electricity to end-buyers.

(PLN '000)

32. Liabilities due to taxes and charges

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Corporate Income Tax	-	82 935
Personal Income Tax	1 789	1 580
VAT	-	14 539
Social security	4 455	2 594
Other	26	22
Total	**6 270**	**101 670**

33. Significant items of the statement of cash flows

33.1. Cash flows from operating activities

Change in working capital

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Change in receivables	(42 657)	147 318
Change in inventories	25 670	(231)
Change in payables excluding loans and borrowings	(236 846)	(64 194)
Change in other non-current and current assets	(10 327)	15 395
Change in deferred income, government grants and accruals	(5 924)	(3 192)
Change in provisions	3 122	(33 966)
Change in working capital	**(266 962)**	**61 130**

33.2. Cash flows from investing activities

Purchase of bonds

Payments to purchase bonds, in the amount of PLN 480 000 thousand, are related to purchases of intra-group bonds issued by the following subsidiaries:

- TAURON Dystrybucja S.A., totaling PLN 200 000 thousand;
- TAURON Ciepło Sp. z o.o., totaling PLN 30 000 thousand;
- TAURON Wydobycie S.A., totaling PLN 250 000 thousand.

Acquisition of shares

Payments to acquire shares of PLN 179 000 thousand concern acquisition of shares in a subsidiary, Nowe Brzeszcze Grupa TAURON Sp. z o.o., amounting to PLN 29 000 thousand, as well as provision of cash for purposes of acquiring shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o., amounting to PLN 150 000 thousand, which has been discussed in more detail in Note 20 to these condensed interim financial statements.

Loans granted

Payments to grant loans result from the loans disbursed to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 6 000 thousand.

Repurchase of bonds

Proceeds from repurchase of bonds, in the amount of PLN 30 000 thousand, are related to repurchase of intra-group bonds by a subsidiary, TAURON Wydobycie S.A.

Loans repaid

Proceeds from resale of 4 100 thousand emission allowances from TAURON Wytwarzanie S.A., a subsidiary, in the amount of PLN 142 024 thousand, purchased in December 2015 under the buy-sell-back transaction, as discussed in more detail in Note 22 to these condensed interim financial statements, have been presented as loans granted in the statement of cash flows.

(PLN '000)

Interest received

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Interest received in relation to debt securities	177 747	68 519
Interest received in relation to loans granted	1 681	47
Interest received in relation to deposits (more than 3 months)	-	5 173
Total	**179 428**	**73 739**

33.3. 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 2016.

Repurchase of debt securities

Payments to repurchase debt securities result from the Company's repurchase and redemption of a portion of Tranche C bonds in the amount of PLN 2 250 000 thousand in the 3-month period ended 31 March 2016.

Interest paid

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Interest paid in relation to debt securities	13 003	2 715
Interest paid in relation to loans and borrowings	11 397	7 994
Interest paid in relation to the finance lease	155	203
Total	**24 555**	**10 912**

Issue of debt securities

Proceeds from the issue of debt securities in the 3-month period ended 31 March 2016 are related to:

- the issue of bonds with the total par value of PLN 2 650 000 thousand under a bond issue scheme of November 2015, which has been discussed in more detail in Note 30.1 to these condensed interim financial statements;
- the issue of bond tranches under the agreement with Bank Gospodarstwa Krajowego in the total amount of PLN 210 000 thousand.

34. Details of other significant changes in the reporting period

Other non-current financial assets

A rise in other non-current financial assets by PLN 171 865 thousand was driven mainly by a transfer of PLN 150 000 thousand to increase the issued capital of a subsidiary, Nowe Brzeszcze Grupa TAURON Sp. z o.o., which has been discussed in more detail in Note 20 to these condensed interim financial statements. The aforesaid increase was registered on 6 May 2016.

Other current financial liabilities

An increase in other current financial liabilities by PLN 86 807 thousand resulted mainly from a higher balance of the Company's liabilities to related parties due to overpayment of tax arising from Tax Capital Group settlements – as at 31 March 2016, the related liabilities totaled PLN 103 670 thousand (versus PLN 6 563 thousand as at 31 December 2015).

(PLN '000)

OTHER INFORMATION

35. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees granted to related parties. As at 31 March 2016, 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 2016 *(unaudited)*		As at 31 December 2015	
			EUR	PLN	EUR	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	168 000	717 091	168 000	715 932
blank promissory note	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice		40 000		40 000
	TAURON Ciepło Sp. z o.o.			30 000		30 000
	TAURON Ciepło Sp. z o.o.			1 180		1 180
collateral of a bank guarantee	TAURON Sprzedaż Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.		-		593
	Kopalnia Wapienia Czatkowice Sp. z o.o.			1 422		912
	TAURON Wydobycie S.A.			76		76
	TAURON Dystrybucja S.A.			97		97
	TAURON Dystrybucja Serwis S.A.			484		507
collateral of a loan	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków		1 145		1 145
collateral of a contract	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.		5 000		5 000
collateral of a contract	TAURON Czech Energy s.r.o.	SPP CZ a.s.	-	-	300	1 278
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		415 852		415 852

Changes in the 3-month period ended 31 March 2016:

- under the framework agreement for bank guarantees concluded with PKO Bank Polski S.A., the bank issues guarantees for subsidiaries at the Company's request. As at 31 March 2016, the balance of bank guarantees granted was PLN 2 079 thousand (versus PLN 2 185 thousand as at 31 December 2015);
- the collateral pledged for a loan obtained by a subsidiary, TAURON Czech Energy s.r.o., to the benefit of SPP CZ a.s., totaling EUR 300 thousand expired on 31 January 2016.

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").

The key reason was the latter's failure to fulfil its obligation to pay the amounts due for electricity supplies, which led to discontinuation of electricity supplies to Huta Łaziska by GZE in 2001.

Based on a decision of 12 October 2001, the President of the Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta 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.

Due to discontinuation of electricity supplies, Huta has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office for 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. In the most recent pleading lodged, the Company's representatives requested that the court expert be promptly excluded from attending the following hearing and that the court expert evidence be rejected. The most recent court hearing was held on 20 January 2016. The next court hearing has been scheduled for 20 May 2016.

(PLN '000)

Based on the Company's legal analysis of the claims raised by Huta and by its major shareholder, GEMI Sp. z o.o., the Company believes that they are groundless and the risk of their satisfaction is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.

Tax inspection proceedings

The Company is a party to inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The inspection covers the reliability of declared taxable amounts and the correctness of calculation and payment of value-added tax for individual months from October 2013 to April 2014.

The Director of the TIO carries out evidentiary proceedings in the form of written communication with the Company and questioning witnesses. In its subsequent letters the Company responded to requests sent by the Director of the TIO and presented all explanations and documents required. The period of the inspection proceedings was prolonged by the Director of TIO a few times and the new deadline has been set at 28 June 2016.

The inspection proceedings are expected to be closed in 2016 but no precise closing date can be determined. As at the date of preparing these financial statements the Director of the TIO did not present any opinion on the evidence collected, at this stage no possible consequences of his final decision can be indicated yet.

36. 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 1 560 000 thousand, valid until 31 December 2016 – as regards Tranche A and Tranche B (repaid); • up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E (not disbursed)
Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Long-term Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Framework bank guarantee agreement with PKO Bank Polski S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies. As at 31 March 2016 the guarantee limit amounted to PLN 100 000 thousand.	authorization to debit the bank account maintained by PKO Bank Polski S.A.	up to PLN 125 000 thousand
collateral of transactions made by the Company	bank guarantee under the framework agreement with PKO Bank Polski S.A. for bank guarantees extended at the request of the Company to secure transactions with unrelated entities	• up to EUR 1 000 thousand (PLN 4 268 thousand) – a guarantee for Joint Allocation Office S.A., valid until 30 December 2016 • a performance bond up to PLN 3 864 thousand (Operator Gazociągów Przesyłowych GAZ – SYSTEM S.A.) valid until 30 November 2016
collateral of transactions made by subsidiaries	bank guarantees under the framework agreement with PKO Bank Polski S.A.for bank guarantees extended at the request of the Company to secure transactions and liabilities of subsidiaries	for the total amount of PLN 2 079 thousand (Note 35 to these condensed interim 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)	• up to PLN 30 000 thousand valid until 15 June 2016 • up to PLN 20 000 thousand valid until 29 April 2016

(PLN '000)

Agreement/transaction	Collateral	Collateral amount
overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 25 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 106 710 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to PLN 213 420 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 11 277 thousand (USD 3 000 thousand) valid until 31 March 2019
securing transactions entered into on European exchanges	Deposits related to transactions entered into on European exchanges to secure transactions concluded thereon, mainly future contracts concerning emission allowances. The Company transfers margin deposits for such transactions to separate bank accounts.	as at 31 March 2016, the total amount was PLN 25 523 thousand
collateral for the Company's transactions entered into on Polish Power Exchange	Alienation agreement between TAURON Polska Energia S.A. and Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGIT")	As part of the collateral, the Company deposited 5 183 500 EUA in its account in the National Register of Allowances. The term of the agreement was extended until 15 June 2016.
	Alienation agreement between TAURON Wytwarzanie S.A., a subsidiary and IRGiT	The agreement provided for a freeze on the CO2 emission allowances in the Register of Allowances, held by TAURON Wytwarzanie S.A. in the amount of 8 000 000 EUA. Under the alienation agreement, TAURON Wytwarzanie S.A. guaranteed the repayment of the Company's liabilities to IRGiT. The collateral was valid in the first quarter of 2016 and the agreement expired on 31 March 2016.
finance lease agreement concerning an investment property	The agreement covers an investment property. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.	As at 31 March 2016 the carrying amount of the leased asset was PLN 28 031 thousand.

37. Capital commitments

In relation to the investment in PGE EJ 1 Sp. z o.o. the Company plans increases of the issued capital of PGE EJ 1 Sp. z o.o. in 2016 in the total amount of PLN 11 000 thousand.

38. Related-party disclosures

38.1. 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 major shareholder, State Treasury companies are treated as related parties. Transactions with State Treasury companies are mainly related to the operating activities of the Company and are made on an arm's length basis.

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

(PLN '000)

Revenue and expense

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Revenue from subsidiaries, *of which*:	**1 995 726**	**2 449 960**
Revenue from operating activities	1 875 511	2 344 403
Other operating income	941	1 416
Finance income	119 274	104 141
Revenue from jointly-controlled entities	**4 440**	**40 328**
Revenue from State Treasury companies	**41 612**	**224 520**
Costs from subsidiaries, *of which*:	**(632 817)**	**(1 107 111)**
Costs of operating activities	(623 286)	(1 096 539)
Finance costs	(9 531)	(10 572)
Costs incurred with relation to transactions with jointly-controlled entities	**(3 320)**	**(76)**
Costs from State Treasury companies	**(126 914)**	**(259 565)**

Receivables and liabilities

	As at 31 March 2016 *(unaudited)*	As at 31 December 2015
Loans granted to subsidiaries and receivables from subsidiaries, *of which*:	**9 928 646**	**9 584 859**
Receivables from clients	489 263	462 421
Loans granted under cash pool agreement plus interest accrued	28 499	20 941
Loans granted	1 214 024	1 337 406
Other financial receivables	181	302
Payment to increase subsidiary's capital	150 000	-
Receivables from the TCG	9 797	97 148
Bonds	8 036 882	7 666 641
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**232 638**	**224 046**
Receivables from State Treasury companies	**82 576**	**133 784**
Liabilities to subsidiaries, *of which*:	**1 849 299**	**1 919 518**
Liabilities to suppliers	181 756	337 087
Loans received under cash pool agreement plus interest accrued	811 723	831 205
Other loans received	747 425	739 426
Liabilities arising from the TCG	103 074	6 440
Other financial liabilities	5 239	5 239
Other non-financial liabilities	82	121
Liabilities to jointly-controlled entities	**1 378**	**729**
Liabilities to State Treasury companies	**20 815**	**62 372**

Revenue from related parties includes revenue from sales of coal (in the comparative period also biomass) 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.

A decrease in operating expenses in the 3-month period ended 31 March 2016 year-on-year was mainly due to a decrease in the value of electricity purchased from TAURON Wytwarzanie S.A. The value of purchased electricity was PLN 291 948 thousand and PLN 702 556 thousand, respectively.

In the 3-month period ended 31 March 2016, PSE S.A. and Kompania Węglowa S.A. were the major business partners of TAURON Polska Energia S.A. among State Treasury companies in terms of sales revenue. The revenue from the aforementioned entities represented 96% of the total revenue generated in transactions with State Treasury companies.

(PLN '000)

The highest costs resulted from transactions with Kompania Węglowa S.A., Katowicki Holding Węglowy S.A., PSE S.A. and Jastrzębska Spółka Węglowa S.A. and they accounted for 93% of total expenses incurred as a result of purchases from State Treasury companies.

In relation to agreements entered into with a joint venture, Elektrociepłownia Stalowa Wola S.A., in the financial year ended 31 December 2015, the Company recognized provisions for onerous contracts totaling PLN 182 877 thousand. In the 3-month period ended 31 March 2016, the aforesaid provisions were revalued following the unwinding of discount as at the end of the reporting period by PLN 2 929 thousand in total, which has been discussed in more detail in Note 31 to these condensed interim financial statements.

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.

38.2. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Company paid or payable in the 3-month period ended 31 March 2016 and in the comparative period has been presented in the table below.

	3-month period ended 31 March 2016 *(unaudited)*	3-month period ended 31 March 2015 *(unaudited)*
Management Board	**3 417**	**1 979**
Short-term employee benefits (salaries and surcharges)	1 216	1 224
Post-service benefits for a Member of the Management Board	2 077	-
Termination benefits	-	450
Other	124	305
Supervisory Board	**305**	**308**
Short-term employee benefits (salaries and surcharges)	305	308
Other members of key management personnel	**4 229**	**4 969**
Short-term employee benefits (salaries and surcharges)	3 372	4 523
Termination benefits	609	114
Other	248	332
Total	**7 951**	**7 256**

As regards post-service benefits paid to Members of the Management Board, as presented in the table above, the amount of PLN 1 550 thousand was accounted for as the use of a provision recognized as at 31 December 2015.

Additionally, in the 3-month period ended 31 March 2016, the Company recognized a provision for post-service benefits payable to Members of the Management Board of PLN 450 thousand (the benefits are not payable yet).

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

(PLN '000)

39. Financial instruments

Categories and classes of financial assets	Note	As at 31 March 2016 *(unaudited)*		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets at fair value through profit or loss		**63 713**	**63 713**	**5 684**	**5 684**
Derivative instruments	23	63 713	63 713	5 684	5 684
2 Financial assets available for sale		**28 095**	**-**	**30 302**	**-**
Long-term shares	20	28 095	-	30 302	-
3 Loans and receivables		**10 310 483**	**10 614 549**	**9 942 813**	**10 049 948**
Receivables from clients	26	523 953	523 953	579 446	579 446
Bonds	21	8 036 882	8 293 131	7 666 641	7 772 086
Loans granted under cash pool agreement	30.4	28 505	28 505	20 943	20 943
Other loans granted	22	1 446 033	1 493 850	1 561 315	1 563 005
Other financial receivables		275 110	275 110	114 468	114 468
4 Financial assets excluded from the scope of IAS 39		**15 934 099**	**-**	**15 902 892**	**-**
Shares in subsidiaries	20	15 518 247	-	15 487 040	-
Shares in jointly-controlled entities	20	415 852	-	415 852	-
5 Hedging derivative instruments	23	**410**	**410**	**-**	**-**
6 Cash and cash equivalents	28	**200 407**	**200 407**	**168 255**	**168 255**
Total financial assets, of which in the statement of financial position:		**26 537 207**		**26 049 946**	
Non-current assets		**23 955 872**		**24 807 239**	
Shares		15 962 194		15 933 194	
Bonds		7 592 702		7 451 601	
Loans granted		223 832		1 417 165	
Other financial assets		177 144		5 279	
Current assets		**2 581 335**		**1 242 707**	
Receivables from clients		523 953		579 446	
Bonds		444 180		215 040	
Loans granted		1 222 201		144 150	
Derivative instruments		63 350		5 668	
Other financial assets		127 244		130 148	
Cash and cash equivalents		200 407		168 255	

Categories and classes of financial liabilities	Note	As at 31 March 2016 *(unaudited)*		As at 31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss		**60 561**	**60 561**	**16 631**	**16 631**
Derivative instruments	23	60 561	60 561	16 631	16 631
2 Financial liabilities measured at amortized cost		**9 994 917**	**10 052 362**	**9 426 384**	**9 445 560**
Arm's length loans, of which:		2 900 646	2 958 091	2 924 202	2 943 378
Liability under the cash pool loan	30.4	846 593	846 593	860 585	860 585
Loans from the European Investment Bank	30.2	1 306 628	1 324 404	1 324 191	1 346 344
Loans from the subsidiary	30.3	747 425	787 094	739 426	736 449
Overdraft	30.5	102 445	102 445	10 206	10 206
Bonds issued	30.1	6 603 061	6 603 061	5 969 017	5 969 017
Liabilities to suppliers		273 435	273 435	493 936	493 936
Other financial liabilities		114 825	114 825	28 017	28 017
Liabilities due to purchases of fixed and intangible assets		505	505	1 006	1 006
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**29 387**	**29 387**	**30 169**	**30 169**
Liabilities under finance leases	30	29 387	29 387	30 169	30 169
4 Hedging derivative instruments	23	**93 915**	**93 915**	**95 467**	**95 467**
Total financial liabilities, of which in the statement of financial position:		**10 178 780**		**9 568 651**	
Non-current liabilities		**7 714 391**		**4 897 441**	
Debt		7 709 146		4 876 546	
Other financial liabilities		5 239		5 739	
Derivative instruments		6		15 156	
Current liabilities		**2 464 389**		**4 671 210**	
Debt		1 926 393		4 057 048	
Liabilities to suppliers		273 435		493 936	
Derivative instruments		154 470		96 942	
Other financial liabilities		110 091		23 284	

Financial instruments measured at fair value as at the end of the reporting period, i.e. assets and liabilities measured at fair value through profit or loss and hedging derivatives, were measured in line with the method described in Note 23 to these condensed interim financial statements. Fair value hierarchy disclosures are also provided in Note 23.

Financial instruments classified to other categories of financial instruments:

- fixed-rate financial instruments, which included bonds purchased by the Company, a loan granted to a subsidiary, loans obtained from the European Investment Bank and a loan from a subsidiary as at 31 March 2016 and 31 December 2015, 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 2016 and 31 December 2015 did not significantly differ from their values presented in the financial statements for the respective periods, for the following reasons:

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

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

  Consequently, the fair value of the instruments in question was 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.

40. Finance and financial risk management

40.1. 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 and not to the fair value risk due to its limited significance for the Group.

Hedge accounting

As at 31 March 2016, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance and subject to hedge accounting. The Company hedges a portion of the interest rate risk inherent in cash flows related to issued bonds, which has been discussed in more detail in Note 23 to these condensed interim financial statements.

40.2. 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.

41. Events after the end of the reporting period

Capital increase of TAURON Wydobycie S.A.

On 29 April 2016 the Extraordinary General Shareholders' Meeting of TAURON Wydobycie S.A. decided to increase the issued capital of the entity by PLN 2 500 thousand by way of issuing 250 000 shares with the par value of PLN 10 each, which will be acquired by the Company for PLN 1 000 per one share for the total amount of PLN 250 000 thousand. On the same day the funds increasing the issued capital were paid by the Company. By the day of approving of these financial statements for publication the capital increase had not been registered.

Registration of the capital increase of Nowe Brzeszcze Grupa TAURON Sp. z o.o.

On 6 May 2016 the National Court Register registered the issued capital increase of Nowe Brzeszcze Grupa TAURON Sp. z o.o. from PLN 5 000 thousand to PLN 55 000 thousand (resolution of the Extraordinary General Shareholders' Meeting of 22 March 2016).

These condensed interim financial statements of TAURON Polska Energia S.A., prepared for the 3-month period ended 31 March 2016 in accordance with International Accounting Standard 34 have been presented on 46 consecutive pages.

Katowice, 9 May 2016

Remigiusz Nowakowski – President of the Management Board …………………………………..

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

Oliwia Tokarczyk – Accounting and Tax Executive Director …………………………………..