



# FINANCIAL STATEMENTS

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

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## STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Sales revenue	11	8 618 642	7 792 025
Cost of sales	12	(8 472 648)	(7 414 707)
<b>Profit on sale</b>		<b>145 994</b>	<b>377 318</b>
Selling and distribution expenses	12	(20 692)	(23 309)
Administrative expenses	12	(98 716)	(88 751)
Other operating income and expenses		(3 927)	(2 470)
<b>Operating profit</b>		<b>22 659</b>	<b>262 788</b>
Dividend income	14	819 437	560 832
Interest income on bonds and loans	14	327 447	456 426
Interest expense on debt	14	(298 602)	(334 638)
Revaluation of shares	14	(2 469 069)	(134 372)
Revaluation of bonds and loans	14	15 493	–
Other finance income and costs	14	(149 648)	108 529
<b>Profit (loss) before tax</b>		<b>(1 732 283)</b>	<b>919 565</b>
Income tax expense	15.1	22 430	(65 214)
<b>Net profit (loss)</b>		<b>(1 709 853)</b>	<b>854 351</b>
Measurement of hedging instruments	27.4	(24 297)	(8 159)
Income tax expense	15.1	4 617	1 550
<b>Other comprehensive income subject to reclassification to profit or loss</b>		<b>(19 680)</b>	<b>(6 609)</b>
Actuarial gains/(losses)		18	(128)
Income tax expense	15.1	(4)	24
<b>Other comprehensive income not subject to reclassification to profit or loss</b>		<b>14</b>	<b>(104)</b>
<b>Other comprehensive income, net of tax</b>		<b>(19 666)</b>	<b>(6 713)</b>
<b>Total comprehensive income</b>		<b>(1 729 519)</b>	<b>847 638</b>
<b>Earnings (loss) per share (in PLN):</b>			
– basic and diluted, for net profit	16	(0.98)	0.49

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

## STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2018	As at 31 December 2017 (restated figures)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	17	22 010	21 701
Shares	18	21 076 056	20 912 679
Bonds	19	5 043 981	6 009 920
Loans granted	22	808 760	382 989
Derivative instruments	20	43 844	26 704
Deferred tax assets	15.3	148 180	–
Other financial assets	21	2 804	2 724
Other non-financial assets	25	20 865	14 967
		<b>27 166 500</b>	<b>27 371 684</b>
<b>Current assets</b>			
Inventories	23	409 587	198 428
Receivables from buyers	24	819 563	719 133
Income tax receivables	15.4	13 921	–
Bonds	19	192 311	562 776
Loans granted	22	13 117	520 191
Derivative instruments	20	176 499	54 994
Other financial assets	21	245 721	131 640
Other non-financial assets	25	9 846	40 951
Cash and cash equivalents	26	465 925	721 577
		<b>2 346 490</b>	<b>2 949 690</b>
<b>TOTAL ASSETS</b>		<b>29 512 990</b>	<b>30 321 374</b>

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

## STATEMENT OF FINANCIAL POSITION – CONTINUED

	Note	As at 31 December 2018	As at 31 December 2017 (restated figures)
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	27.1	8 762 747	8 762 747
Reserve capital	27.3	8 511 437	7 657 086
Revaluation reserve from valuation of hedging instruments	27.4	3 371	23 051
Retained earnings / (Accumulated losses)	27.5	(2 017 719)	935 022
		<b>15 259 836</b>	<b>17 377 906</b>
<b>Non-current liabilities</b>			
Debt	29	8 474 344	9 472 454
Other financial liabilities	34	17 626	20 126
Derivative instruments	20	37 930	5 217
Deferred income tax liabilities	15.3	–	29 843
Provisions for employee benefits	30	3 787	3 147
Accruals, deferred income and government grants	32	103	–
		<b>8 533 790</b>	<b>9 530 787</b>
<b>Current liabilities</b>			
Debt	29	4 504 374	2 725 763
Liabilities to suppliers	33	525 986	413 265
Other financial liabilities	34	371 646	62 590
Derivative instruments	20	202 992	57 249
Income tax liabilities		–	37 629
Other non-financial liabilities	35	24 626	32 490
Provisions for employee benefits	30	245	330
Other provisions	31	72 894	68 771
Accruals, deferred income and government grants	32	16 601	14 594
		<b>5 719 364</b>	<b>3 412 681</b>
<b>Total liabilities</b>		<b>14 253 154</b>	<b>12 943 468</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>29 512 990</b>	<b>30 321 374</b>

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

## STATEMENT OF CHANGES IN EQUITY

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
<b>As at 1 January 2017</b>		<b>8 762 747</b>	<b>7 823 339</b>	<b>29 660</b>	<b>(85 478)</b>	<b>16 530 268</b>
Distribution of prior years profit		–	(166 253)	–	166 253	–
Transactions with shareholders		–	<b>(166 253)</b>	–	<b>166 253</b>	–
Net profit		–	–	–	854 351	<b>854 351</b>
Other comprehensive income		–	–	(6 609)	(104)	<b>(6 713)</b>
Total comprehensive income		–	–	<b>(6 609)</b>	<b>854 247</b>	<b>847 638</b>
<b>As at 31 December 2017</b>		<b>8 762 747</b>	<b>7 657 086</b>	<b>23 051</b>	<b>935 022</b>	<b>17 377 906</b>
<b>Impact of IFRS 9</b>	<b>7.1</b>	–	–	–	<b>(388 551)</b>	<b>(388 551)</b>
<b>As at 1 January 2018</b>		<b>8 762 747</b>	<b>7 657 086</b>	<b>23 051</b>	<b>546 471</b>	<b>16 989 355</b>
Coverage of prior years loss	<b>27.3</b>	–	854 351	–	(854 351)	–
Transactions with shareholders		–	<b>854 351</b>	–	<b>(854 351)</b>	–
Net loss		–	–	–	(1 709 853)	<b>(1 709 853)</b>
Other comprehensive income		–	–	(19 680)	14	<b>(19 666)</b>
Total comprehensive income		–	–	<b>(19 680)</b>	<b>(1 709 839)</b>	<b>(1 729 519)</b>
<b>As at 31 December 2018</b>		<b>8 762 747</b>	<b>8 511 437</b>	<b>3 371</b>	<b>(2 017 719)</b>	<b>15 259 836</b>

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

## STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2018	Year ended 31 December 2017
<b>Cash flows from operating activities</b>			
Profit (loss) before tax		(1 732 283)	919 565
Depreciation and amortization		4 759	5 532
Interest and dividends, net		(814 298)	(685 709)
Impairment losses on shares		2 469 069	134 372
Impairment losses on bonds and loans		(15 493)	–
Foreign exchange difference		113 540	(130 351)
Other adjustments of profit before tax		23 767	31 218
Change in working capital	36.1	(70 078)	(57 218)
Income tax paid		(104 129)	28 618
<b>Net cash from (used in) operating activities</b>		<b>(125 146)</b>	<b>246 027</b>
<b>Cash flows from investing activities</b>			
Purchase of shares	36.2	(2 646 353)	(6 169 590)
Loans granted	36.2	(847 442)	(307 132)
Purchase of bonds	36.2	(160 000)	(350 000)
Purchase of investment fund units		–	(75 000)
Purchase of investment property		(3 926)	–
Other		(3 188)	(524)
<b>Total payments</b>		<b>(3 660 909)</b>	<b>(6 902 246)</b>
Redemption of bonds	36.2	1 334 920	3 547 110
Repayment of loans granted	36.2	421 225	1 000 000
Dividends received		819 437	359 787
Interest received	36.2	289 177	642 017
Redemption of investment fund units		75 346	–
Other proceeds		372	44
<b>Total proceeds</b>		<b>2 940 477</b>	<b>5 548 958</b>
<b>Net cash from (used in) investing activities</b>		<b>(720 432)</b>	<b>(1 353 288)</b>
<b>Cash flows from financing activities</b>			
Payment of finance lease liabilities		(23 519)	(3 442)
Repayment of loans and borrowings	36.3	(162 318)	(175 695)
Redemption of debt securities		–	(1 650 000)
Interest paid	36.3	(301 978)	(265 223)
Commission paid		(17 409)	(19 632)
<b>Total payments</b>		<b>(505 224)</b>	<b>(2 113 992)</b>
Issue of debt securities	36.3	1 350 000	2 707 462
<b>Total proceeds</b>		<b>1 350 000</b>	<b>2 707 462</b>
<b>Net cash from financing activities</b>		<b>844 776</b>	<b>593 470</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(802)</b>	<b>(513 791)</b>
Net foreign exchange difference		(526)	2 038
<b>Cash and cash equivalents at the beginning of the period</b>	26	<b>(1 559 232)</b>	<b>(1 045 441)</b>
<b>Cash and cash equivalents at the end of the period, of which:</b>	26	<b>(1 560 034)</b>	<b>(1 559 232)</b>
restricted cash	26	58 374	49 631

*Accounting principles (policies) and explanatory notes to the financial statements constitute an integral part hereof.*



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

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

These financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna (the "Company") with its registered office in 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 at the District Court for Kzatońice-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 core business of TAURON Polska Energia S.A. is:

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

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

The financial statements prepared by the Company cover the financial year ended 31 December 2018 and include comparative information for the year ended 31 December 2017. These financial statements were approved for publication by the Management Board on 29 March 2019.

The consolidated financial statements for the year ended 31 December 2018 prepared by the Company were approved for publication by the Management Board on 29 March 2019.

#### **Composition of the Management Board**

Management Board as at 31 December 2018 and 31 December 2017:

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

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

### **2. Shares in related parties**

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

**TAURON Polska Energia S.A.**

Financial statements for the year ended 31 December 2018 prepared in accordance with IFRS, as endorsed by the EU  
(in PLN '000)

Item	Company name	Registered office	Core business	Share of TAURON Polska Energia S.A. in the entity's capital	Share of TAURON Polska Energia S.A. in the governing body
1	TAURON Wydobywanie S.A.	Jaworzno	Hard coal mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation, transmission and distribution of electricity and heat	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o. <sup>1</sup>	Jaworzno	Generation of electricity	97.89%	97.89%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Generation of electricity	100.00%	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100.00%	100.00%
7	TAURON Serwis Sp. z o.o.	Katowice	Services	95.61%	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.74%	99.75%
9	TAURON Dystrybucja Serwis S.A.	Wrocław	Services	100.00%	100.00%
10	TAURON Dystrybucja Pomiary Sp. z o.o. <sup>2</sup>	Tarnów	Services	99.74%	99.75%
11	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%	100.00%
12	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%	100.00%
13	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzyszowice	Limestone quarrying and stone quarrying	100.00%	100.00%
16	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Sale of electricity	100.00%	100.00%
17	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Services	100.00%	100.00%
18	Bioeko Grupa TAURON Sp. z o.o. <sup>3</sup>	Stalowa Wola	Wholesale of fuel and derivative products	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o. <sup>2</sup>	Tarnów	Services	99.74%	99.75%

<sup>1</sup> On 20 December 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital. The new shares were assumed by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The aforesaid increase in the issued capital of was registered on 15 January 2019. The transaction resulted in a change in the interests held by TAURON Polska Energia S.A. in the issued capital and decision-making body of the subsidiary (a decrease from 100% to 97.89%).

<sup>2</sup> TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses shares in TAURON Dystrybucja Pomiary Sp. z o.o.

<sup>3</sup> On 8 October 2018 the name of the company was changed from Biomasa Grupa TAURON Sp. z o.o. to Bioeko Grupa TAURON Sp. z o.o.

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

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

<sup>1</sup> TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. through a subsidiary, TAURON Wytwarzanie S.A.

<sup>2</sup> TAURON Polska Energia S.A. holds direct interest in the issued capital and the governing body of TAMEH HOLDING Sp. z o.o., which holds 100% interest in the issued capital and the governing bodies of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

As at 31 December 2018 the interest of TAURON Polska Energia S.A. in the issued capital and decision-making bodies of the above material subsidiaries and co-subsiaries did not change vs. 31 December 2017, except for the share in Nowe Jaworzno Grupa TAURON Sp. z o.o., a subsidiary as described in detail in Note 48 hereto.

### **3. Statement of compliance**

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

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

### **4. Going Concern**

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

### **5. Functional and Presentation Currency**

Polish zloty is the functional currency of the Company and the presentation currency of these financial statements. These financial statements have been presented in the Polish zloty ("PLN") and all figures are in PLN thousand, unless stated otherwise.

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

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

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

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

#### **IFRS 16 *Leases***

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

Under IFRS 16 *Leases*, the lessee recognizes the right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee uses the incremental borrowing rate.

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

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#### ***Impact on the financial statements***

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

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

An analysis of the impact of IFRS 16 *Leases* on the accounting policies has shown a change material for the Company, i.e. the need to recognize right-of-use assets and liabilities for leases currently classified as operating leases in the financial statements. The Company analyzed all concluded contracts to identify those affected by IFRS 16 *Leases*.

The analysis included in particular developing a methodology of determining the incremental interest rate, asset identification, verification of control of its use and determining the lease term.

The Company has decided to present right-of-use assets separately from other assets in the statement of financial position, except for right-of-use assets that meet the definition of investment property, which are presented as investment property as at 31 December 2018 in the amount of PLN 3 926 thousand and include only perpetual usufruct of land. The perpetual usufruct of land, presented as investment property, will increase by discounted lease payments of PLN 1 526 thousand.

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

	As at 31 December 2018	Recognition of right-of-use assets and lease liabilities	As at 1 January 2019
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>27 166 500</b>	<b>41 496</b>	<b>27 207 996</b>
Investment property	22 010	1 526	23 536
Right-of-use assets	–	39 970	39 970
<b>TOTAL ASSETS</b>	<b>29 512 990</b>	<b>41 496</b>	<b>29 554 486</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>15 259 836</b>	<b>–</b>	<b>15 259 836</b>
<b>Non-current liabilities</b>	<b>8 533 790</b>	<b>34 404</b>	<b>8 568 194</b>
Debt	8 474 344	34 404	8 508 748
<b>Current liabilities</b>	<b>5 719 364</b>	<b>7 092</b>	<b>5 726 456</b>
Debt	4 504 374	7 092	4 511 466
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>29 512 990</b>	<b>41 496</b>	<b>29 554 486</b>

#### Estimated distribution of right-of-use assets as at 1 January 2019

Right-of-use assets	As at 1 January 2019
Lease of office and warehouse space	35 345
Lease of parking spaces	3 123
Lease of cars	1 502
<b>Total</b>	<b>39 970</b>

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

Reconciliation IAS 17 Leases to IFRS 16 Leases	
Future minimum operating lease payments as at 31 December 2018 in line with IAS 17 Leases	49 164
Discount using the incremental interest rate	(7 668)
<b>Lease liabilities under IFRS 16 Leases as at 1 January 2019</b>	<b>41 496</b>

The following practical expedients have been applied as at the date of first-time adoption of IFRS 16 Leases:

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

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

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

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

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

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

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

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

## 7. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these financial statements are consistent with those used for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2017, except for the application of the new standards and amendments to standards and changes to the accounting principles (policy) applied by the Company, as discussed below.

### 7.1. Application of new standards and amendments to standards

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

## IFRS 9 Financial Instruments

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

Key changes introduced by IFRS 9 *Financial Instruments*:

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

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

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

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

- cash flow characteristics (test SPPI, Solely Payments of Principal and Interest);
- business model for managing the financial asset.

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

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

### Impact on the financial statements as at 1 January 2018

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

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

Categories and classes of financial instruments in line with IAS 39	IAS 39		IFRS 9			Effect of change Increase/ (decrease)
	At amortised/ at historical cost	At fair value	At amortised cost	Fair value through:		
				Profit/loss	Other comprehensive income	
<b>1 Financial assets at fair value through profit or loss, held for trading</b>						
Derivative instruments	–	154 574	–	154 574	–	–
Investment fund units	–	53 216	–	53 216	–	–
	–	101 358	–	101 358	–	–
<b>2 Financial assets available for sale</b>	<b>39 244</b>	–	–	<b>25 351</b>	–	<b>(13 893)</b>
Long-term shares	39 244	–	–	25 351	–	(13 893)
<b>3 Loans and receivables</b>	<b>8 228 015</b>	–	<b>7 551 955</b>	<b>177 275</b>	–	<b>(498 785)</b>
Receivables from buyers	719 133	–	717 558	–	–	(1 575)
Gross value	720 057	–	720 057	–	–	–
Impairment loss	(924)	–	(2 499)	–	–	(1 575)
Bonds	6 572 696	–	6 176 103	–	–	(396 593)
Gross value	6 572 696	–	6 572 696	–	–	–
Impairment loss	–	–	(396 593)	–	–	(396 593)
Loans granted under cash pool agreement	190 526	–	190 526	–	–	–
Other loans granted	712 654	–	461 077	150 960	–	(100 617)
Gross value	712 654	–	471 887	150 960	–	(89 807)
Impairment loss	–	–	(10 810)	–	–	(10 810)
Other financial receivables	33 006	–	6 691	26 315	–	–
<b>4 Hedging derivative instruments</b>	–	<b>28 482</b>	–	<b>28 482*</b>	–	–
<b>5 Cash and cash equivalents</b>	–	<b>721 577</b>	–	<b>721 577</b>	–	–
<b>Total effect of the application of IFRS 9 on financial assets</b>						<b>(512 678)</b>
<b>1 Financial liabilities measured at amortised cost</b>	<b>470 239</b>	–	<b>437 184</b>	–	–	<b>33 055</b>
Loan granted by European Investment Bank	470 239	–	437 184	–	–	33 055
<b>Total effect of the application of IFRS 9 on financial liabilities</b>						<b>33 055</b>
<b>Effect on retained earnings</b>						<b>(479 623)</b>
<b>Deferred tax</b>						<b>91 072</b>
<b>Effect on retained earnings after deferred tax</b>						<b>(388 551)</b>

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



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

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

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

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

IFRS 9 *Financial Instruments* requires that interests in other entities be measured at fair value, also with respect to those shares which – due to a limited availability of information – have so far been measured at cost less any impairment allowances. Therefore the Company, estimated the fair value of shares held in PGE EJ 1 Sp. z o.o. in line with the adjusted net assets method considering its share in the net assets and adjusting the value by relevant factors affecting the measurement such as the non-controlling interest discount and the discount for the lack of liquidity of the above instruments. As the key factors affecting the value of the assumed shares had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Company assumes that the historical cost is an acceptable approximation of the fair value. The application of IFRS 9 *Financial Instruments* to measurement of equity investments reduced the Company's retained earnings as at 1 January 2018 by PLN 13 893 thousand. The above equity instruments are measured at fair value through profit or loss in line with IFRS 9 *Financial Instruments*.

Based on an analysis, transferred collateral, amounting to PLN 26 315 thousand as at 1 January 2018, was classified as other financial receivables measured at fair value through profit or loss, since the classification provides the best reflection of the nature of these financial assets. The remaining part of other financial receivables, with receivables of the Tax Capital Group as the key item, were classified as measured at amortized cost.

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

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

- receivables from buyers; and
- held bonds of subsidiaries and loans granted.

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

Based on the analyses, the total value of the loss allowance for expected credit losses due to receivables from buyers, following the application of IFRS 9 *Financial Instruments* increased compared to the value of the allowance calculated based on previous terms, which resulted in a decrease in retained earnings as at 1 January 2018 by PLN 1 575 thousand.

As far as granted loans and held bonds are concerned, the Company assesses the risk of insolvency on the part of the borrowers and issuers based on the ratings assigned to the counterparties using an internal scoring model,

appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, is calculated based on the time value of money.

The application of IFRS 9 *Financial Instruments* to the expected credit losses under purchased bonds and granted loans measured at amortized cost resulted in a decrease of the Company's retained earnings as at 1 January 2018 by PLN 396 593 thousand and PLN 10 810 thousand, respectively.

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

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

- **Hedge accounting**

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

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

- **Measurement of financial guarantee liabilities**

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

### **IFRS 15 Revenue from Contracts with Customers**

#### **Clarifications to IFRS 15 Revenue from Contracts with Customers**

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

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

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

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

The new standard requires significantly extended disclosures regarding sales and revenue to enable users of financial statements to understand the nature, timing, amount as well as risk and uncertainty of revenue and cash flows arising from contracts with customers. An entity has to disclose quantitative and qualitative information about: its contracts with customers, its material judgments and estimates and capitalized costs of contract acquisition and performance.



### **Impact on the financial statements as at 1 January 2018**

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

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

As part of the analysis, the Company reviewed concluded contracts, in terms of the amount of variable compensation, a guarantee for the sold goods, fulfilment of the conditions for recognizing combined contracts and the existence of elements of financing in the contracts.

Based on an analysis of contracts with customers the Company concludes that the implementation of IFRS 15 *Revenue from Contracts with Customers* does not have an impact on the Company's equity as at 1 January 2018.

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

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

### **7.2. Presentation change**

As of 1 January 2018, the Company presents the measurement effects, i.e. assets or liabilities due to positive or negative valuation on forwards and futures (derivative financial instruments) separately, disclosing a gain or loss on a single contract. Previously, the Company applied a simplified approach involving the recognition of the effects of measurement taking into account the positions of contract.

The effect of the presentation change on the statement of financial position as at 31 December 2017 is presented in the table below. The change has not had any effect on the Company's profit/loss.

	As at 31 December 2017 (authorised figures)	Change in presentation of derivative instruments	As at 31 December 2017 (restated figures)
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>27 371 425</b>	<b>259</b>	<b>27 371 684</b>
Derivative instruments	26 445	259	26 704
<b>Current assets</b>	<b>2 901 667</b>	<b>48 023</b>	<b>2 949 690</b>
Derivative instruments	6 971	48 023	54 994
<b>TOTAL ASSETS</b>	<b>30 273 092</b>	<b>48 282</b>	<b>30 321 374</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liabilities</b>	<b>9 530 528</b>	<b>259</b>	<b>9 530 787</b>
Derivative instruments	4 958	259	5 217
<b>Current liabilities</b>	<b>3 364 658</b>	<b>48 023</b>	<b>3 412 681</b>
Derivative instruments	9 226	48 023	57 249
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>30 273 092</b>	<b>48 282</b>	<b>30 321 374</b>

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

Significant accounting principles are presented in notes to these financial statements.

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

The items of the financial statements which are exposed to the risk of material adjustment of the carrying amounts of assets and liabilities have been presented in notes to these financial statements. Key estimates include allowances for shares in subsidiaries, intercompany bonds and loans, as presented in details in Notes 10, 19 and 22 to these financial statements.

Additionally, the Company makes significant estimates as regards the contingent liabilities is discloses, and in particular as regards court cases it is a party to. Contingent liabilities have been presented in detail in Note 40 hereto.

## **BUSINESS SEGMENTS**

### **9. Information on operating segments**

#### **9.1. Operating segments**

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

The assets of the “Holding activity” segment are:

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

The liabilities of the “Holding activity” segment are:

- bonds issued by the Company, including liabilities arising from valuation of hedging instruments relating to such bonds;
- loans 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.

The “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.

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

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

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

Year ended 31 December 2018

	Sales	Holding activity	Unallocated items	Total
<b>Revenue</b>				
Sales outside the Group	1 006 805	–	–	1 006 805
Sales within the Group	7 603 640	8 197	–	7 611 837
<b>Segment revenue</b>	<b>8 610 445</b>	<b>8 197</b>	<b>–</b>	<b>8 618 642</b>
<b>Profit/(loss) of the segment</b>	<b>113 178</b>	<b>8 197</b>	<b>–</b>	<b>121 375</b>
Unallocated expenses	–	–	(98 716)	(98 716)
<b>EBIT</b>	<b>113 178</b>	<b>8 197</b>	<b>(98 716)</b>	<b>22 659</b>
Revaluation of shares	–	(2 469 069)	–	(2 469 069)
Net finance income/(costs)	–	729 570	(15 443)	714 127
<b>Profit/(loss) before income tax</b>	<b>113 178</b>	<b>(1 731 302)</b>	<b>(114 159)</b>	<b>(1 732 283)</b>
Income tax expense	–	–	22 430	22 430
<b>Net profit/(loss) for the year</b>	<b>113 178</b>	<b>(1 731 302)</b>	<b>(91 729)</b>	<b>(1 709 853)</b>
<b>Assets and liabilities</b>				
Segment assets	2 131 713	27 193 114	–	29 324 827
Unallocated assets	–	–	188 163	188 163
<b>Total assets</b>	<b>2 131 713</b>	<b>27 193 114</b>	<b>188 163</b>	<b>29 512 990</b>
Segment liabilities	884 862	13 073 580	–	13 958 442
Unallocated liabilities	–	–	294 712	294 712
<b>Total liabilities</b>	<b>884 862</b>	<b>13 073 580</b>	<b>294 712</b>	<b>14 253 154</b>
<b>EBIT</b>	<b>113 178</b>	<b>8 197</b>	<b>(98 716)</b>	<b>22 659</b>
<b>Depreciation/amortization</b>	<b>(4 759)</b>	<b>–</b>	<b>–</b>	<b>(4 759)</b>
<b>Impairment</b>	<b>131</b>	<b>–</b>	<b>–</b>	<b>131</b>
<b>EBITDA</b>	<b>117 806</b>	<b>8 197</b>	<b>(98 716)</b>	<b>27 287</b>
<b>Other segment information</b>				
Capital expenditure*	7 319	–	–	7 319

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

For the year ended 31 December 2017 (restated data)

	Sales	Holding activity	Unallocated items	Total
<b>Revenue</b>				
Sales outside the Group	995 252	–	–	995 252
Sales within the Group	6 762 587	34 186	–	6 796 773
<b>Segment revenue</b>	<b>7 757 839</b>	<b>34 186</b>	<b>–</b>	<b>7 792 025</b>
<b>Profit/(loss) of the segment</b>	<b>317 353</b>	<b>34 186</b>	<b>–</b>	<b>351 539</b>
Unallocated expenses	–	–	(88 751)	(88 751)
<b>EBIT</b>	<b>317 353</b>	<b>34 186</b>	<b>(88 751)</b>	<b>262 788</b>
Revaluation of shares	–	(134 372)	–	(134 372)
Net finance income (costs)	–	783 990	7 159	791 149
<b>Profit/(loss) before income tax</b>	<b>317 353</b>	<b>683 804</b>	<b>(81 592)</b>	<b>919 565</b>
Income tax expense	–	–	(65 214)	(65 214)
<b>Net profit/(loss) for the year</b>	<b>317 353</b>	<b>683 804</b>	<b>(146 806)</b>	<b>854 351</b>
<b>Assets and liabilities</b>				
Segment assets	1 796 606	28 423 410	–	30 220 016
Unallocated assets	–	–	101 358	101 358
<b>Total assets</b>	<b>1 796 606</b>	<b>28 423 410</b>	<b>101 358</b>	<b>30 321 374</b>
Segment liabilities	591 436	12 124 905	–	12 716 341
Unallocated liabilities	–	–	227 127	227 127
<b>Total liabilities</b>	<b>591 436</b>	<b>12 124 905</b>	<b>227 127</b>	<b>12 943 468</b>
<b>EBIT</b>	<b>317 353</b>	<b>34 186</b>	<b>(88 751)</b>	<b>262 788</b>
<b>Depreciation/amortization</b>	<b>(5 532)</b>	<b>–</b>	<b>–</b>	<b>(5 532)</b>
<b>Impairment</b>	<b>100</b>	<b>–</b>	<b>–</b>	<b>100</b>
<b>EBITDA</b>	<b>322 785</b>	<b>34 186</b>	<b>(88 751)</b>	<b>268 220</b>
<b>Other segment information</b>				
Capital expenditure*	160	–	–	160

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

In the financial year ended 31 December 2018, revenue from sales to two major clients from the TAURON Group constituted 68% and 9% of the Company's total revenue in the "Sales" segment and amounted to PLN 5 873 610 thousand and PLN 789 451 thousand, respectively.

In the financial year ended 31 December 2017, revenue from sales to two major clients from the Capital Group accounted for 67% and 10% of the Company's total revenue in the "Sales" segment and amounted to PLN 5 208 284 thousand and PLN 799 943 thousand, respectively.

## **9.2. Geographic areas of operations**

The majority of the Company's business operations are carried out in Poland. In the years ended 31 December 2018 and 31 December 2017, export sales amounted to PLN 97 502 thousand and PLN 147 938 thousand, respectively.

## **IMPAIRMENT OF SHARES IN SUBSIDIARIES**

### **10. Impairment of financial assets**

#### **SELECTED ACCOUNTING PRINCIPLES**

Under IAS 36 *Impairment of Assets*, as at each reporting period end, the Company assesses shares held in subsidiaries and joint ventures for objective impairment indication regarding financial assets or asset groups.

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

As at 31 December 2018 and 30 June 2018, the Company carried out impairment tests focusing on shares and intra-group loans and bonds, taking into account the following factors:

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

Shares and intra-group loans and bonds accounted for about 92% of the balance sheet total as at the end of the reporting period.

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

Relevant tests were conducted based on the present value of projected cash flows from operations of the key entities, by reference to detailed projections by 2028 and the estimated residual value. The projections used for the power generating and mining units cover the entire period of their operation. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

#### **Key assumptions made for purposes of the tests performed as at 31 December 2018**

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

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

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

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

Sensitivity analyses conducted by the Company reveal that the projected prices of electricity, those of greenhouse gas emission allowances and the adopted discount rates, as well as coal prices are the key factors exerting an effect on the estimated cash flows of the key entities.

### Test results

The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 31 December 2018 indicated impairment of the carrying amount of shares in subsidiaries of PLN 1 868 386 thousand and reversal of an impairment loss on shares in a subsidiary of PLN 402 377 thousand.

The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 30 June 2018 indicated impairment of the carrying amount of shares in subsidiaries of PLN 1 514 271 thousand and reversal of an impairment loss on shares in a subsidiary of PLN 538 144 thousand.

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

Company	WACC* assumed in tests as at			Recoverable amount of shares, intra-group loans and bonds as at 31 December 2018	Impairment (loss)/reversal of loss recognized in the year ended 31 December 2018 Shares
	31 December 2018	30 June 2018 (unaudited)	31 December 2017		
TAURON Wytwarzanie S.A.	8.59%	8.36%	8.39%	426 915	(2 287 830)
TAURON Ekoenergia Sp. z o.o.	9.60%	9.51%	8.78%	1 914 172	940 521
TAURON Wydobycie S.A.	11.58%	10.95%	10.20%	548 316	(1 094 827)

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

The impairment loss on shares in a subsidiary TAURON Wydobycie S.A. was recognized in 2018 for the following reasons:

- high volatility of mining and geological conditions in mines owned by the TAURON Group;
- disadvantageous excavation front structure (short face runs), which generates additional costs of reinforcements;
- limited competition in the market of mining materials and services, which results in the price growth.

The impairment loss on shares in a subsidiary TAURON Wytwarzanie S.A. was recognized in 2018 for the following reasons:

- finalizing the first three Power Market auctions regarding deliveries for 2021–2023;
- including provisions of the projected Energy Regulation, which (on the EU level) shall eliminate units that emit more than 550kgCO<sub>2</sub>/MWh or, on average, more than 350kgCO<sub>2</sub>/kW of the installed power per year from the use of power mechanisms after 1 July 2025;
- an increase on greenhouse gas emission allowance costs.

The reversal of the impairment loss on shares in a subsidiary TAURON Ekoenergia Sp. z o.o. recognized in 2018 was possible for the following reasons:

- changes regarding renewable energy sources (the manner of calculating a substitution fee and taxes on wind farms) that positively affect financial performance of assets based on renewable energy sources;
- a fundamental change in market factors related to energy generation from renewable sources, meaning a competitive advantage over conventional generation.

The loans extended to Elektrociepłownia Stalowa Wola S.A. were tested for impairment. The results of the test showed that there is no need for an impairment loss provided that the assumption are compliant with the impairment tests on shares.



The table below presents change in impairment allowances on shares in the year ended 31 December 2018:

Company	Impairment as at 1 January 2018	Impairment loss recognized in the year ended 31 December 2018	Impairment loss reversed in the year ended 31 December 2018	Impairment as at 31 December 2018	Carrying amount of shares including impairment losses as at 31 December 2018
TAURON Wytwarzanie S.A.	(5 347 296)	(2 287 830)	–	(7 635 126)	230 575
TAURON Ekoenergia Sp. z o.o.	(1 125 693)	–	940 521	(185 172)	1 754 593
TAURON Wydobycie S.A.	(147 870)	(1 094 827)	–	(1 242 697)	99 058

Apart from allowances for shares in subsidiaries, included in the result of the above impairment tests, in the financial year ended 31 December 2018 an impairment allowance was recognized for shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., a subsidiary, of PLN 6 000 thousand and in TAURON Sweden Energy AB (publ) of PLN 20 933 thousand.

## EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

### 11. Sales revenue

#### **SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2018**

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

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

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

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

Revenue includes amounts the Company expects to receive from sales of electricity, gaseous fuels, greenhouse emission allowances and other products, amended by granted rebates, discounts, excise duty.

Revenue from sales of goods includes the total positive result on transactions on greenhouse gas emission allowances, concluded within the trading portfolio, i.e. intended for sale and to realize short-term profit arising from market price fluctuations, including trading in emission allowances, fair value measurement of inventories, as well as measurement and settlement of derivative commodity instruments related to sales of greenhouse gas emission allowances.

Revenue from sales of goods includes gains on change in measurement and on exercising derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* and related to purchases and sales of other commodities.

#### **SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2017**

Revenue is recognized in the amount it is probable that future economic benefits relating to a transaction will flow to the Company and the amount of the revenue can be measured reliably. Revenue is recognized at the fair value of the payment, received or due, following reduction by VAT, excise duty, other sales taxes, charges and discounts. Revenue recognition criteria.

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

Revenue from sales of goods includes the total positive result on transactions on greenhouse gas emission allowances, concluded within the trading portfolio, i.e. intended for sale and to realize short-term profit arising from market price fluctuations, including trading in emission allowances, fair value measurement of inventories, as well as measurement and settlement of derivative commodity instruments related to sales of greenhouse gas emission allowances.

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

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Sale of goods for resale, finished goods and materials without elimination of excise</b>	<b>8 506 398</b>	<b>7 667 345</b>
Excise	–	(2 630)
<b>Revenue from sales of goods for resale and materials</b>	<b>8 506 398</b>	<b>7 664 715</b>
Electricity	7 555 021	7 117 988
Gas	277 887	190 507
Emission allowances	666 306	336 566
Property rights arising from energy certificates	1 586	14 939
Other	5 598	4 715
<b>Rendering of services</b>	<b>112 244</b>	<b>127 310</b>
Trading income	67 014	52 711
Management of shares	8 197	34 186
Other	37 033	40 413
<b>Total</b>	<b>8 618 642</b>	<b>7 792 025</b>

TAURON Polska Energia S.A. acts as an agent coordinating and supervising purchases, supplies and transportation of fuels. The Company purchases coal from third parties (and from the TAURON Group companies in the first half of 2017), which is subsequently sold to related parties. It recognizes revenue from agency services (supply management).

In the year ended 31 December 2018, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 1 097 640 thousand. The Company recognized revenue from agency services of PLN 33 271 thousand.

## 12. Expenses by type

### **SELECTED ACCOUNTING PRINCIPLES**

The Company presents costs by function.

They include:

- cost of goods, materials and services sold (cost of sales), incurred during a given reporting period, including any impairment allowances on property, plant and equipment, intangible assets, receivables and inventories;
- total sales, general and administrative expenses incurred in the reporting period (disclosed separately in the statement of comprehensive income).

Costs of goods sold include the total negative result on transactions on greenhouse gas emission allowances, concluded within the trading portfolio, i.e. intended for sale and to realize short-term profit arising from market price fluctuations, including trading in emission allowances, fair value measurement of inventories, as well as measurement and settlement of derivative commodity instruments related to sales of greenhouse gas emission allowances.

Costs of goods sold include losses on change in measurement and on exercising derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* and related to purchases and sales of other commodities.

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

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

	Year ended 31 December 2018	Year ended 31 December 2017
Depreciation of property, plant and equipment and amortization of intangible assets	(4 759)	(5 532)
Materials and energy	(1 481)	(1 311)
External services	(51 201)	(49 277)
Taxes and charges	(4 586)	(4 375)
Employee benefits expense	(92 935)	(87 068)
Advertising expenses	(28 910)	(22 207)
Other	(1 896)	(1 849)
<b>Total costs by type</b>	<b>(185 768)</b>	<b>(171 619)</b>
Costs of performances intended for internal purposes	55	-
Selling and distribution expenses	20 692	23 309
Administrative expenses	98 716	88 751
Cost of goods for resale and materials sold	(8 406 343)	(7 355 148)
<b>Cost of sales</b>	<b>(8 472 648)</b>	<b>(7 414 707)</b>

An increase in the value of goods and materials sold during the year ended 31 December 2018 versus the comparative period arises mostly from an increase in electricity prices in the current reporting period and the effects of derecognition of provisions for onerous contracts with a joint venture in the net amount of PLN 201 174 thousand recognized in the comparative period, as described in Note 31 hereto.

### 13. Employee benefits expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Wages and salaries	(74 004)	(70 026)
Social security costs	(10 481)	(9 662)
Jubilee bonuses	–	(247)
Appropriations to the Social Fund	(545)	(520)
Costs of employee retirement plans	(2 712)	(2 475)
Post-employment benefits expenses – actuarial provisions	(635)	(606)
Other employee benefits expenses	(4 558)	(3 532)
<b>Total</b>	<b>(92 935)</b>	<b>(87 068)</b>
Items included in cost of sales	(27 580)	(22 741)
Items included in costs of performances intended for internal purposes	(55)	–
Items included in selling and distribution expenses	(6 890)	(7 640)
Items included in administrative expenses	(58 410)	(56 687)

### 14. Finance income and costs

#### SELECTED ACCOUNTING PRINCIPLES

Finance income and costs include in particular items relating to:

- revenue from profit sharing in other entities, including dividends;
- interest;
- disposal/liquidation of financial assets;
- revaluation of financial instruments, except financial assets measured at fair value where the effects are recognized in other comprehensive income and charged to revaluation reserve and derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* in the case of which gains/losses on change in measurement and on exercising are presented within operating activities where gains/losses on the related trading in goods are also recognized;
- interest expense related to measurement of employee benefits, in line with IAS 19 *Employee Benefits*;
- changes in the balance of a provision resulting from the nearing deadline to incur the expense (discount unwinding effect);
- foreign exchange differences resulting from transactions performed during the reporting period and balance sheet measurement of assets and liabilities at the end of the reporting period, except for differences recognized in the initial value of a fixed asset;
- other items related to financing activities.

#### Translation of items denominated in foreign currencies

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

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

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

Exchange rates applied for the purpose of balance sheet measurement:

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

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Income and costs from financial instruments</b>	<b>(1 755 041)</b>	<b>659 477</b>
Dividend income	819 437	560 832
Interest income on bonds and loans	327 447	456 426
Other interest income	5 774	19 539
Surplus of impairment losses (recognised)/reversed on shares	(2 469 069)	(134 372)
Interest expense	(298 602)	(334 638)
Commissions due to external financing	(22 993)	(19 068)
Exchange gains/(losses)	(118 143)	127 476
Gain/(loss) on derivative instruments	(4 052)	(18 042)
Revaluation of bonds and loans	15 493	–
Other	(10 333)	1 324
<b>Other finance income and costs</b>	<b>99</b>	<b>(2 700)</b>
Interest on discount (other provisions)	–	(2 330)
Other	99	(370)
<b>Total, incl. recognized in the statement of comprehensive income:</b>	<b>(1 754 942)</b>	<b>656 777</b>
Dividend income	819 437	560 832
Interest income on bonds and loans	327 447	456 426
Interest expense on debt	(298 602)	(334 638)
Revaluation of shares	(2 469 069)	(134 372)
Revaluation of bonds and loans	15 493	–
Other finance income and costs	(149 648)	108 529

In the year ended 31 December 2018, exchange losses exceeded exchange gains by PLN 118 143 thousand. Exchange losses are mainly exchange differences related to the Company's debt in the Euro, i.e. a loan obtained from a subsidiary, subordinated bonds and eurobonds. On that basis, exchange losses exceeded exchange gains by PLN 113 013 thousand. In the comparative period, exchange gains exceeded exchange losses.

In the year ended 31 December 2018 a surplus of impairment allowances on shares occurred in the amount of PLN 2 469 069 thousand, mainly as a result of recognizing impairment of shares in: TAURON Wydobywanie S.A. of PLN 1 094 827 thousand and TAURON Wytwarzanie S.A. of PLN 2 287 830 thousand and reversal of impairment allowances on shares in TAURON Ekoenergia Sp. z o.o. of PLN 940 521 thousand, following impairment tests carried out as at 30 June 2018 and 31 December 2018, as described in detail in Note 10 hereto.

## 15. Income tax

### SELECTED ACCOUNTING PRINCIPLES

#### Current tax

Income tax recognized in profit or loss for the period includes actual tax charge for the given reporting period determined by the Company in line with provisions of the CIT Act and including the settlement of the Tax Capital Group the Company belongs to, as well as any previous year tax adjustments.

#### Deferred tax

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

The carrying amount of the deferred tax asset is reviewed at the end of each reporting period. The Company reduces the carrying amount of the deferred tax asset to the extent the generation of taxable income sufficient to use the deferred tax asset in part or in whole is not probable. Unrecognized deferred tax asset is reviewed at the end of each reporting period and recognized to the extent its use is probable following generation of taxable income in the future. Deferred tax asset related to deductible differences concerning investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences.

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

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

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

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

**15.1. Tax expense in the statement of comprehensive income**

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

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Current income tax</b>	<b>(59 908)</b>	<b>(66 160)</b>
Current income tax expense	(53 127)	(66 429)
Adjustments of current income tax from prior years	(6 781)	269
<b>Deferred tax</b>	<b>82 338</b>	<b>946</b>
<b>Income tax expense in profit or loss</b>	<b>22 430</b>	<b>(65 214)</b>
<b>Income tax expense in other comprehensive income</b>	<b>4 613</b>	<b>1 574</b>

**15.2. Reconciliation of the effective tax rate**

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Profit/(loss) before tax</b>	<b>(1 732 283)</b>	<b>919 565</b>
<b>Tax at Poland's statutory tax rate of 19%</b>	<b>329 134</b>	<b>(174 717)</b>
Adjustments to income tax from previous years	(6 781)	269
Tax resulting from tax non-deductible costs	(647 305)	(66 366)
Impairment loss on shares and loans in subsidiaries	(647 822)	(62 136)
Recognition of non-deductible provisions	(798)	(798)
Other	1 315	(3 432)
Tax resulting from income not included in taxable base	342 152	154 377
Reversal of impairment loss on shares in subsidiaries	178 699	36 605
Dividends	155 693	106 558
Reversal of non-deductible provisions	-	10 419
Other	7 760	795
Settlement of the TCG	4 851	21 223
Other	379	-
<b>Tax at the effective tax rate of 1.3% (2017: -7.1%)</b>	<b>22 430</b>	<b>(65 214)</b>
Income tax expense in profit/(loss)	22 430	(65 214)

**15.3. Deferred income tax**

Deferred income tax results from the following items:

	As at 31 December 2018	As at 31 December 2017 <i>(restated figures)</i>
difference between tax base and carrying amount of financial assets	41 547	38 969
valuation of hedging instruments	794	5 412
other	5 849	4 812
<b>Deferred tax liabilities</b>	<b>48 190</b>	<b>49 193</b>
difference between tax base and carrying amount of financial assets	76 519	258
difference between tax base and carrying amount of financial liabilities	60 110	13 299
different timing of recognition of revenue and cost of sales for tax purposes	53 580	1 970
provisions and accruals	3 199	2 930
difference between tax base and carrying amount of fixed and intangible assets	2 666	821
other	296	72
<b>Deferred tax assets</b>	<b>196 370</b>	<b>19 350</b>
<b>Deferred tax assets/(liabilities), net, of which:</b>	<b>148 180</b>	<b>(29 843)</b>
Deferred tax assets/(liabilities), net – recognized in profit or loss	57 935	(24 403)
Deferred tax assets/(liabilities), net – recognized in other comprehensive income	(827)	(5 440)
Deferred tax assets/(liabilities), net – recognized with retained profits	91 072	–

Deferred tax assets on deductible temporary differences arising from investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences. According to the Company, deductible temporary differences related to recognition of impairment allowances on shares in subsidiaries of PLN 9 144 984 thousand will not be reversed in the foreseeable future, as the investments are not intended for sale. Consequently, no related deferred tax asset has been recognized.

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

The increase in the deferred tax asset arising from the difference between the tax values and carrying amounts of financial assets is mainly the effect of the recognition of an impairment loss on bonds, loans granted and receivables under a cash-pooling agreement, recognized as at 31 December 2018 in accordance with IFRS 9 *Financial Instruments* in the total amount of PLN 72 263 thousand.

#### 15.4. Tax Capital Group

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

The major companies constituting the Tax Capital Group as from 1 January 2018 are TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

As at 31 December 2018, the Tax Capital Group had an income tax receivables of PLN 13 921 thousand. The entire amount pertains to 2018 and constitutes a surplus of the tax withholdings paid of PLN 342 734 thousand over the Tax Group’s tax charge of PLN 328 813 thousand.

At the same time, due to the Company’s settlements, as the Representative Company, with the Tax Capital Group companies, it has reported a liability to these subsidiaries arising from tax overpayment of PLN 90 490 thousand, which has been presented in the statement of financial position as “Other financial liabilities”, as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 54 458 thousand, which have been presented in the statement of financial position as “Other financial assets”.

## 16. Earnings (loss) per share

### **SELECTED ACCOUNTING PRINCIPLES**

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

Earnings (loss) per share (in PLN)	Year ended 31 December 2018	Year ended 31 December 2017
Basic and diluted, for profit (loss) for the financial year	(0.98)	0.49

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

	Year ended 31 December 2018	Year ended 31 December 2017
Net profit (loss) attributable to ordinary shareholders	(1 709 853)	854 351
Number of ordinary shares	1 752 549 394	1 752 549 394



## EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 17. Investment property

#### SELECTED ACCOUNTING PRINCIPLES

The Company holds an investment property generating revenue from rental fees. The property is rented to a subsidiary. At initial recognition investment property is measured at cost including transaction costs. After initial recognition all investment properties held are measured in line with IAS 16 *Property, Plant and Equipment*, i.e. at cost less impairment allowances or acquisition costs. This means that the Company gradually depreciates the real property throughout its useful life.

	Year ended 31 December 2018	Year ended 31 December 2017
<b>COST</b>		
<b>Opening balance</b>	<b>36 169</b>	<b>36 169</b>
Purchase	3 926	–
<b>Closing balance</b>	<b>40 095</b>	<b>36 169</b>
<b>ACCUMULATED DEPRECIATION</b>		
<b>Opening balance</b>	<b>(14 468)</b>	<b>(10 851)</b>
Depreciation for the period	(3 617)	(3 617)
<b>Closing balance</b>	<b>(18 085)</b>	<b>(14 468)</b>
<b>NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD</b>	<b>21 701</b>	<b>25 318</b>
<b>NET CARRYING AMOUNT AT THE END OF THE PERIOD, of which:</b>	<b>22 010</b>	<b>21 701</b>
Buildings	18 084	21 701
Perpetual usufruct of land	3 926	–

The investment property is composed of a perpetual usufruct right to land and buildings located in Katowice Szopienice, at Lwowska 23. On 17 April 2018, the Management Board decided to acquire a perpetual usufruct right to land located in Katowice-Szopienice, at Lwowska 23 with the right to buildings located in the land from PKO Leasing S.A. The objective of the decision was to fulfil the Company's obligations under a preliminary sales agreement concluded in 2008. Having obtained an approval of the Supervisory Board, on 30 May 2018 the Company and PKO Leasing S.A. entered into a sales agreement under which the Company acquired the investment property in question.

The Company estimates that as at the end of the reporting period the fair value of the property in amount of PLN 28 626 thousand.

### 18. Shares

#### SELECTED ACCOUNTING PRINCIPLES

##### Shares in subsidiaries

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

##### Shares in jointly-controlled entities

Shares in co-subidiaries are recognized at cost less impairment allowances, if any.

#### PROFESSIONAL JUDGMENT AND ESTIMATES

As at every balance sheet date the Company assesses if there is any objective indication that the shares may be impaired. Should material impairment indications occur, the Company is obliged to carry out impairment tests of shares and recognize an impairment loss or reverse an existing one.

Pursuant to IFRS 9 *Financial Instruments*, the Company classifies and measures at fair value shares in entities other than subsidiaries and co-subidiaries as described in details in Note 7 hereto.

Change in shares for the year ended 31 December 2018

No.	Company	Gross value			Impairment losses			Net value	
		Restated opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Restated opening balance	Closing balance
1	TAURON Wydobycie S.A.	1 001 755	340 000	1 341 755	(147 870)	(1 094 827)	(1 242 697)	853 885	99 058
2	TAURON Wytwarzanie S.A.	7 085 701	780 000	7 865 701	(5 347 296)	(2 287 830)	(7 635 126)	1 738 405	230 575
3	TAURON Ciepło Sp. z o.o.	1 928 043	–	1 928 043	–	–	–	1 928 043	1 928 043
4	TAURON Ekoenergia Sp. z o.o.	1 939 765	–	1 939 765	(1 125 693)	940 521	(185 172)	814 072	1 754 593
5	Marselwind Sp. z o.o.	307	–	307	–	–	–	307	307
6	TAURON Serwis Sp. z o.o.	1 268	–	1 268	–	–	–	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	3 551 026	1 060 000	4 611 026	–	–	–	3 551 026	4 611 026
8	TAURON Dystrybucja S.A.	10 511 628	–	10 511 628	–	–	–	10 511 628	10 511 628
9	TAURON Dystrybucja Serwis S.A.	201 045	439 317	640 362	–	–	–	201 045	640 362
10	TAURON Sprzedaż Sp. z o.o.	613 505	–	613 505	–	–	–	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	–	129 823	–	–	–	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	–	4 223	–	–	–	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	–	41 178	–	–	–	41 178	41 178
14	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	55 056	6 000	61 056	(55 056)	(6 000)	(61 056)	–	–
15	TAURON Sweden Energy AB (publ)	28 382	–	28 382	–	(20 933)	(20 933)	28 382	7 449
16	Bioeko Grupa TAURON Sp. z o.o. <sup>1</sup>	1 269	–	1 269	–	–	–	1 269	1 269
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	–	39 831	–	–	–	39 831	39 831
18	TAMEH HOLDING Sp. z o.o.	415 852	–	415 852	–	–	–	415 852	415 852
19	PGE EJ 1 Sp. z o.o.	12 651	6 000	18 651	–	–	–	12 651	18 651
20	Magenta Grupa TAURON Sp. z o.o.	9 500	–	9 500	–	–	–	9 500	9 500
21	ElectroMobility Poland S.A.	2 500	15 000	17 500	–	–	–	2 500	17 500
22	Other	391	24	415	–	–	–	391	415
<b>Total</b>		<b>27 574 699</b>	<b>2 646 341</b>	<b>30 221 040</b>	<b>(6 675 915)</b>	<b>(2 469 069)</b>	<b>(9 144 984)</b>	<b>20 898 784</b>	<b>21 076 056</b>

<sup>1</sup> On 8 October 2018 the name of the company was changed from *Biomasa Grupa TAURON Sp. z o.o.* to *Bioeko Grupa TAURON Sp. z o.o.*

The restated opening balance includes an adjustment to the value of shares in PGE EJ 1 Sp. z o.o. related to the adoption of IFRS 9 *Financial Instruments*, as described in detail in Note 7.1 hereto.

Changes in the balance of long-term investments in the year ended 31 December 2018 resulted mainly from the following transactions:

- Increase in the issued capital of ElectroMobility Poland S.A.

On 3 January 2018, the Extraordinary General Shareholders' Meeting of ElectroMobility Poland S.A. adopted a resolution to increase the issued capital of the entity by PLN 20 000 thousand by way of increasing the par value of the shares from PLN 2 500 thousand up to PLN 7 500 thousand in exchange for a cash contribution of PLN 5 000 thousand. The aforesaid increase in the issued capital of ElectroMobility Poland S.A. was registered on 23 April 2018.

On 4 October 2018 Extraordinary General Shareholders' Meeting of ElectroMobility Poland S.A. decided to increase its issued capital by PLN 40 000 through an increase in the par value of shares. The par value of shares held by the Company was increased from PLN 7 500 thousand to PLN 17 500 thousand in exchange for cash contribution of PLN 10 000 thousand. On 24 October 2018 the Company advanced monies to increase the capital. The aforesaid increase in the issued capital of ElectroMobility Poland S.A. was registered on 7 January 2019.

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

On 1 March 2018, the Extraordinary General Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. adopted a resolution concerning capital contributions to the company in the amount of PLN 6 000 thousand. The contributions are aimed to enable the company to finance its operations. The cash was contributed by the Company on 7 March 2018.

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

On 29 March 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 3 500 thousand, through the issue of 70 000 new shares with the par value of PLN 50 each. The new shares were taken by the Company at the price of PLN 5 000 per share, i.e. for the total amount of PLN 350 000 thousand. The increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered on 27 April 2018.

On 11 October 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 3 500 thousand, through the issue of 70 000 new shares with the par value of PLN 50 each. All new shares were taken by the Company at the price of PLN 5 000 per share, i.e. the total acquisition price of PLN 350 000 thousand. The increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered on 23 October 2018.

On 18 December 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 3 600 thousand, through the issue of 72 000 new shares with the par value of PLN 50 each, i.e. with the total par value of PLN 3 600 thousand. All new shares were taken by the Company at the price of PLN 5 000 per share, i.e. the total acquisition price of PLN 360 000 thousand. The increase in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered on 31 December 2018.

On 20 December 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital. The new shares were assumed by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The aforesaid increase in the issued capital of was registered on 15 January 2019, as described in details in Note 48 hereto.

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

On 26 April 2018, the Extraordinary General Shareholders' Meeting of TAURON Wydobycie S.A. adopted a resolution to increase the company's issued capital by PLN 3 400 thousand, through the issue of 340 000 new shares with the par value of PLN 10 each. The par value of shares held by the Company was increased from PLN 357 111 thousand to PLN 360 511 thousand. The new shares were taken by the Company at the price of PLN 1 thousand per share, i.e. for the total amount of PLN 340 000 thousand. The aforesaid increase in the issued capital of TAURON Wydobycie S.A. was registered on 25 May 2018.

- Increase in the issued capital of TAURON Dystrybucja Serwis S.A.

On 18 June 2018, the Extraordinary General Shareholders' Meeting of TAURON Dystrybucja Serwis S.A. adopted a resolution to increase the company's issued capital by PLN 4 393 thousand, through the issue of 4 393 170 new shares with the par value of PLN 1 each. The par value of shares held by the Company was increased from PLN 5 101 thousand to PLN 9 494 thousand. The new shares were taken by the Company at the price of PLN 100 per share, i.e. for the total amount of PLN 439 317 thousand. The aforesaid increase in the issued capital of TAURON Dystrybucja Serwis S.A. was registered on 22 August 2018.

- Increase in the capital of PGE EJ 1 Sp. z o.o.

On 9 August 2018, the Extraordinary General Shareholders' Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 60 000 thousand, through the issue of 425 530 new shares with the par value of PLN 141 each. All new shares were taken up and paid for by company's shareholders in proportion to their shares. The par value of shares held by the Company was increased from PLN 31 086 thousand to PLN 37 086 thousand in exchange for cash contribution of PLN 6 000 thousand. The aforesaid increase in the issued capital of PGE EJ 1 sp. z o.o. was registered on 11 September 2018.

- Increase in the issued capital of TAURON Wytwarzanie S.A.

On 9 August 2018, the Extraordinary General Shareholders' Meeting of TAURON Wytwarzanie S.A. adopted a resolution to increase the company's issued capital by PLN 7 800 thousand, through the issue of 780 000 new shares with the par value of PLN 10 each. The par value of shares held by the Company was increased from PLN 1 494 459 thousand to PLN 1 502 259 thousand. The new shares were taken by the Company at the price of PLN 1 thousand per share, i.e. for the total amount of PLN 780 000 thousand. The increase in the issued capital of TAURON Wytwarzanie S.A. was registered on 19 October 2018.

The Company's interest in the share capital and in the authorities of each entity did not change as a result of the above transactions, except interest in the share of subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. (decrease for 100% to 97.89%).

### **Impairment allowances on shares**

In the year ended 31 December 2018 the Company recognized and reversed impairment allowances on shares in subsidiaries in the total amount of PLN 2 469 069 thousand as described in details in Note 10 hereto.

## Change in shares for the year ended 31 December 2017

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	841 755	160 000	1 001 755	-	(147 870)	(147 870)	841 755	853 885
2	TAURON Wytwarzanie S.A.	7 236 727	(151 026)	7 085 701	(5 403 825)	56 529	(5 347 296)	1 832 902	1 738 405
3	TAURON Ciepło Sp. z o.o.	1 328 043	600 000	1 928 043	-	-	-	1 328 043	1 928 043
4	TAURON Ekoenergia Sp. z o.o.	939 765	1 000 000	1 939 765	(939 765)	(185 928)	(1 125 693)	-	814 072
5	Marselwind Sp. z o.o.	107	200	307	-	-	-	107	307
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	-	3 551 026	3 551 026	-	-	-	-	3 551 026
8	TAURON Dystrybucja S.A.	9 511 628	1 000 000	10 511 628	-	-	-	9 511 628	10 511 628
9	TAURON Dystrybucja Serwis S.A.	-	201 045	201 045	-	-	-	-	201 045
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	-	-	41 178	41 178
14	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	55 056	-	55 056	-	(55 056)	(55 056)	55 056	-
15	TAURON Sweden Energy AB (publ)	28 382	-	28 382	-	-	-	28 382	28 382
16	Bioeko Grupa TAURON Sp. z o.o. <sup>1</sup>	1 269	-	1 269	-	-	-	1 269	1 269
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	-	-	39 831	39 831
18	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
19	PGE EJ 1 Sp. z o.o.	26 546	-	26 546	-	-	-	26 546	26 546
20	Magenta Grupa TAURON Sp. z o.o.	500	9 000	9 500	-	-	-	500	9 500
21	ElectroMobility Poland S.A.	2 500	-	2 500	-	-	-	2 500	2 500
22	Other	50	341	391	-	-	-	50	391
<b>Total</b>		<b>21 218 008</b>	<b>6 370 586</b>	<b>27 588 594</b>	<b>(6 343 590)</b>	<b>(332 325)</b>	<b>(6 675 915)</b>	<b>14 874 418</b>	<b>20 912 679</b>

<sup>1</sup> On 8 October 2018 the name of the company was changed from *Biomasa Grupa TAURON Sp. z o.o.* to *Bioeko Grupa TAURON Sp. z o.o.*

## 19. Bonds

### SELECTED ACCOUNTING PRINCIPLES

Under the central funding model, the Company acquires bonds issued by the TAURON Group companies. For the purpose of the financial statements for the year ended 31 December 2017 the bonds are classified to loans and receivables, i.e. financial assets with fixed or determinable payments. Following the first-time application of IFRS 9 *Financial Instruments*, since 1 January 2018 the bonds have been classified as financial assets measured at amortized cost.

Bonds with maturity of up to 12 months as of the end of the reporting period are classified to current assets and those with maturity of over 12 months as of the end of the reporting period – to non-current assets, however, it is not only the maturity, but also the Company's plans with respect to the rollover that matter.

### PROFESSIONAL JUDGMENT AND ESTIMATES

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.

In accordance with IFRS 9 *Financial Instruments* the Company estimates impairment allowances for intra-group bonds, as discussed in more detail in Note 7 to these financial statements.

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 bonds as at the end of the reporting period, i.e. 31 December 2018 and as at 31 December 2017, broken down by individual companies issuing the bonds.

Company	As at 31 December 2018				As at 31 December 2017		
	Par value of purchased bonds	Accrued interest	Impairment loss	Total	Par value of purchased bonds	Accrued interest	Total
TAURON Wytwarzanie S.A.	200 000	262	(3 829)	<b>196 433</b>	1 064 920	10 689	<b>1 075 609</b>
TAURON Dystrybucja S.A.	3 300 000	60 026	(10 241)	<b>3 349 785</b>	3 770 000	62 326	<b>3 832 326</b>
TAURON Ciepło Sp. z o.o.	1 075 000	15 169	(8 931)	<b>1 081 238</b>	1 075 000	15 169	<b>1 090 169</b>
TAURON Wydobycie S.A.	570 000	22 836	(143 578)	<b>449 258</b>	570 000	4 592	<b>574 592</b>
TAURON Ekoenergia Sp. z o.o.	160 000	416	(838)	<b>159 578</b>	-	-	-
<b>Total</b>	<b>5 305 000</b>	<b>98 709</b>	<b>(167 417)</b>	<b>5 236 292</b>	<b>6 479 920</b>	<b>92 776</b>	<b>6 572 696</b>
Non-current	5 205 000	-	(161 019)	<b>5 043 981</b>	6 009 920	-	<b>6 009 920</b>
Current	100 000	98 709	(6 398)	<b>192 311</b>	470 000	92 776	<b>562 776</b>

As at 31 December 2018, the par value of bonds maturing within one year, which were classified as long-term bonds, was PLN 370 000 thousand.

### The change in bonds and the impairment loss

	Level 1: allowance equal to 12 monthly expected credit losses (no impairment)	Level 2: allowance for expected credit losses over the life period (no impairment)	Total
<b>Gross value</b>			
<b>As at 1 January 2018</b>	<b>4 499 215</b>	<b>2 073 481</b>	<b>6 572 696</b>
Buy-back of bonds of TAURON Wytwarzanie S.A.	–	(864 920)	<b>(864 920)</b>
Buy-back of bonds of TAURON Dystrybucja S.A.	(470 000)	–	<b>(470 000)</b>
Reclassification between the levels: TAURON Wytwarzanie S.A.	200 262	(200 262)	–
Issue of bonds of TAURON Ekoenergia Sp. z o.o.	160 000	–	<b>160 000</b>
Interest accrued	190 304	84 658	<b>274 962</b>
Interest received	(192 187)	(76 842)	<b>(269 029)</b>
<b>As at 31 December 2018</b>	<b>4 387 594</b>	<b>1 016 115</b>	<b>5 403 709</b>
<b>Impairment loss</b>			
<b>As at 1 January 2018</b>	<b>(11 524)</b>	<b>(385 069)</b>	<b>(396 593)</b>
Recognition	(4 804)	–	<b>(4 804)</b>
Reversal	992	141 009	<b>142 001</b>
Reclassification of allowances to cash pool receivables	–	50 050	<b>50 050</b>
Reclassification between levels	(3 828)	45 757	<b>41 929</b>
<b>As at 31 December 2018</b>	<b>(19 164)</b>	<b>(148 253)</b>	<b>(167 417)</b>
<b>Net value</b>	<b>4 368 430</b>	<b>867 862</b>	<b>5 236 292</b>

A change in the Company's estimates of the credit risk related to bonds issued by the subsidiary TAURON Wytwarzanie S.A. and repayment of a portion of bonds by the subsidiary TAURON Wytwarzanie S.A. in the amount of PLN 864 920 thousand were the key factors determining a reduction in the impairment allowances on bonds.

### Bonds divided by Company's rating

	Level 1: allowance equal to 12 monthly expected credit losses (no impairment)	Level 2: allowance for expected credit losses over the economic life period (no impairment)	Total
AAA do A	–	–	–
A- do BBB-	3 520 443	–	<b>3 520 443</b>
BB+ do BB	666 889	423 278	<b>1 090 167</b>
BB- do B	200 262	–	<b>200 262</b>
B- do D	–	592 837	<b>592 837</b>
<b>Gross value as at 31 December 2018</b>	<b>4 387 594</b>	<b>1 016 115</b>	<b>5 403 709</b>
impairment loss	(19 164)	(148 253)	<b>(167 417)</b>
<b>Net value as at 31 December 2018</b>	<b>4 368 430</b>	<b>867 862</b>	<b>5 236 292</b>

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

## 20. Derivative instruments and hedge accounting

### SELECTED ACCOUNTING PRINCIPLES

Derivative financial instruments falling within the scope of IFRS 9 *Financial Instruments* are classified as financial assets/financial liabilities measured at fair value through profit or loss, except derivatives which are designated as hedging instruments and subject to hedge accounting. Derivative instruments acquired and held for internal purposes as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at the end of the reporting period. Accounting principles applied in the year ended 31 December 2017 based on IAS 39 *Financial Instruments: Recognition and Measurement* are consistent with those resulting from IFRS 9 *Financial Instruments*.

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

As at the end of the reporting period, Interest Rate Swaps (IRS) acquired and held to hedge the interest rate risk relating to bonds issued are subject to hedge accounting. Other derivative instruments held by the Company as at the end of the reporting period are not subject to hedge accounting.

**Hedge accounting**

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

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

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

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

Gain or loss from revaluation of the hedging instrument disclosed in other comprehensive income is recognized directly in profit or loss in the same period during which the hedged item affects profit or loss for the period. For IRS, interest costs arising from debt are adjusted accordingly.

**PROFESSIONAL JUDGMENT AND ESTIMATES**

The Company measure fair value at each balance sheet date. Methodology is presented as below.

Derivative instrument	Methodology of determining fair value hierarchy
IRS	The difference between discounted floating-rate interest cash flows and those based on fixed interest rates. Reuters interest rate curve is the input data.
CCIRS	The difference between discounted interest cash flows relating to payments and receipts, in two different currencies, expressed in the valuation currency. Interest rate curves, basis spreads and NBP fixing for the relevant currencies from Reuters are the input data.
Forward currency contracts	The difference between discounted future cash flows: the forward price at the valuation date and the transaction price, multiplied by the nominal value of the contract in a foreign currency. NBP fixing and the implied interest rate curve from FX swap transactions for the relevant currency from Reuters are the input data.
Commodity forwards, futures	The fair value of forwards for the purchase and sale of emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.

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

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



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

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

#### **Derivative instruments (subject to hedge accounting)**

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

Effects of hedge accounting on revaluation reserve regarding hedging instruments are presented in Note 27.4 hereto.

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

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

- CCIRSs that hedge foreign currency cash flows resulting from the payment of interest on the issued eurobonds;
- commodity derivatives (futures, forward) including emission allowance and other commodity purchase and sale transactions; and
- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

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

## **21. Other financial assets**

### **SELECTED ACCOUNTING PRINCIPLES**

Other financial assets include investment fund units, Tax Capital Group receivables, deposits, performance bonds, collateral transferred and receivables arising from sales of property, plant and equipment and intangible assets.

	As at 31 December 2018	As at 31 December 2017
Receivables arising from income tax settlements of the TCG companies	54 458	6 133
Units in investment funds	26 063	101 358
Bid bonds, deposits, collateral transferred	4 213	15 343
Initial margin deposits	163 495	11 140
Other	296	390
<b>Total</b>	<b>248 525</b>	<b>134 364</b>
Non-current	2 804	2 724
Current	245 721	131 640

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

## 22. Loans granted

### SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2018

Loans given by the Company are mainly loans to subsidiaries under a cash pooling arrangement and loans to joint ventures. Loans are classified as financial assets measured at amortized cost or at fair value through profit or loss.

Loans maturing within 12 months as of the end of the reporting period are classified to current assets and loans maturing in more than 12 months as of the end of the reporting period – to non-current assets considering the expectations as regards the loan repayment as at the end of the reporting period.

### SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2017

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

### PROFESSIONAL JUDGMENT AND ESTIMATES

In line with IFRS 9 *Financial Instruments* the Company adequately classifies and measures granted loans and estimates impairment allowances, as discussed in detail below and in Note 38.1.2 to these financial statements.

	As at 31 December 2018				As at 31 December 2017		
	Principal/ Measurement	Interest	Impairment loss	Total	Principal	Interest	Total
<b>Loans measured at amortized cost</b>							
Loan granted to TAURON Ekoenergia Sp. z o.o.	–	–	–	–	120 000	19 268	<b>139 268</b>
Loans granted to EC Stalowa Wola S.A.	18 185	426	(460)	<b>18 151</b>	529 007	41 425	<b>570 432</b>
Loans granted to PGE EJ 1 Sp. z o.o.	7 740	249	(52)	<b>7 937</b>	2 940	14	<b>2 954</b>
Granted cash pool loans including accrued interest	803 677	5 256	(212 400)	<b>596 533</b>	189 928	598	<b>190 526</b>
<b>Loans measured at fair value</b>							
Loans granted to EC Stalowa Wola S.A.	199 256			<b>199 256</b>			
<b>Total</b>	<b>1 028 858</b>	<b>5 931</b>	<b>(212 912)</b>	<b>821 877</b>	<b>841 875</b>	<b>61 305</b>	<b>903 180</b>
Non-current	1 020 513	670	(212 423)	<b>808 760</b>	326 790	56 199	<b>382 989</b>
Current	8 345	5 261	(489)	<b>13 117</b>	515 085	5 106	<b>520 191</b>

### Change in loans granted and impairment loss, measured at amortized cost

	Level 1: allowance equal to 12 monthly expected credit losses (no impairment)	Level 2: allowance for expected credit losses over the life period (no impairment)	Total
<b>Gross value</b>			
<b>As at 1 January 2018</b>	<b>662 413</b>	–	<b>662 413</b>
Accruing interest on the debt of EC Stalowa Wola S.A. as at the consolidation arrangement date	2 312	–	<b>2 312</b>
Discontinuing the recognition of the loan to EC Stalowa Wola S.A. at amortized cost	(358 977)	–	<b>(358 977)</b>
Other loans granted to/paid by EC Stalowa Wola S.A.	45 185	–	<b>45 185</b>
Loan granted to PGE EJ 1 Sp. z o.o.	4 800	–	<b>4 800</b>
Repayment of the loan granted to TAURON Ekoenergia Sp. z o.o. with interest, used to buy back intercompany bonds for redemption	(140 113)	–	<b>(140 113)</b>
Interest accrued	1 793	4 371	<b>6 164</b>
Change in the balance of loans originated under the cash pool arrangement	224 403	389 346	<b>613 749</b>
<b>As at 31 December 2018</b>	<b>441 816</b>	<b>393 717</b>	<b>835 533</b>
<b>Impairment loss</b>			
<b>As at 1 January 2018</b>	<b>(10 810)</b>	–	<b>(10 810)</b>
Recognition – loans granted under the cash pool arrangement	(8 054)	(204 346)	<b>(212 400)</b>
Recognition – other loans	(496)	–	<b>(496)</b>
Derecognition following the consolidation arrangement with EC Stalowa Wola S.A.	8 191	–	<b>8 191</b>
Derecognition – partial repayment of a loan to subsidiary TAURON Ekoenergia Sp. z o.o.	2 603	–	<b>2 603</b>
<b>As at 31 December 2018</b>	<b>(8 566)</b>	<b>(204 346)</b>	<b>(212 912)</b>
<b>Net value as at 31 December 2018</b>	<b>433 250</b>	<b>189 371</b>	<b>622 621</b>



### Loans measured at amortized cost as rated by the Company

Company's internal rating	Level 1: allowance equal to 12 monthly expected credit losses (no impairment)	Level 2: allowance for expected credit losses over the life period (no impairment)	Total
AAA do A	–	–	–
A- do BBB-	1 996	–	1 996
BB+ do BB	8 327	–	8 327
BB- do B	431 493	–	431 493
B- do D	–	393 717	393 717
<b>Gross value as at 31 December 2018</b>	<b>441 816</b>	<b>393 717</b>	<b>835 533</b>
impairment loss	(8 566)	(204 346)	(212 912)
<b>Net value as at 31 December 2018</b>	<b>433 250</b>	<b>189 371</b>	<b>622 621</b>

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

#### **Loan to a subsidiary**

On 27 February 2018, a subsidiary – TAURON Ekoenergia Sp. z o.o. – repaid the total loan amounting to PLN 120 000 thousand with interest accrued of PLN 20 113 thousand, granted under a loan agreement concluded in 2015 for the amount of PLN 1 120 000 thousand.

#### **Loans to joint ventures**

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

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

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

On 8 March 2018 Elektrociepłownia Stalowa Wola S.A. entered into a loan agreement with Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., whereby Bank Gospodarstwa Krajowego and PGNiG S.A. provided a loan of up to PLN 450 000 thousand each to Elektrociepłownia Stalowa Wola S.A. The loan matures on 14 June 2030. The exposure of Bank Gospodarstwa Krajowego is secured with a bank guarantee issued upon request of the Company on 11 April 2018, as discussed in detail in Note 40 to these financial statements.

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

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

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

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

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

**Loans granted under cash pool agreement**

Detailed information on the cash pool service has been presented in Note 29.5 to these financial statements.

**23. Inventories**

**SELECTED ACCOUNTING PRINCIPLES**

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

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

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

Releases of pollutant emission allowances and of the purchased certificates of energy generated using renewable sources and in CHP units are measured with the FIFO method.

	As at 31 December 2018	As at 31 December 2017
<b>Gross Value</b>		
Energy certificates	250	250
Greenhouse gas emission allowances	409 489	198 459
Materials	–	40
<b>Total</b>	<b>409 739</b>	<b>198 749</b>
<b>Measurement to net realisable value</b>		
Energy certificates	(52)	(184)
Greenhouse gas emission allowances	(146)	(145)
<b>Measurement to fair value</b>		
Greenhouse gas emission allowances	46	8
<b>Total</b>	<b>(152)</b>	<b>(321)</b>
<b>Net value</b>		
Energy certificates	198	66
Greenhouse gas emission allowances	409 389	198 322
Materials	–	40
<b>Total</b>	<b>409 587</b>	<b>198 428</b>

## 24. Receivables from buyers

### **SELECTED ACCOUNTING PRINCIPLES**

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

### **SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2018**

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

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

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

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

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

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

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

### **SELECTED ACCOUNTING PRINCIPLES REGARDING THE YEAR ENDED 31 DECEMBER 2017**

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

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

	As at 31 December 2018	As at 31 December 2017
<b>Gross Value</b>		
Receivables from buyers	820 463	719 144
Receivables claimed at court	961	913
<b>Total</b>	<b>821 424</b>	<b>720 057</b>
<b>Allowance/write-down</b>		
Receivables from buyers	(900)	(11)
Receivables claimed at court	(961)	(913)
<b>Total</b>	<b>(1 861)</b>	<b>(924)</b>
<b>Net Value</b>		
Receivables from buyers	819 563	719 133
Receivables claimed at court	–	–
<b>Total</b>	<b>819 563</b>	<b>719 133</b>

As at 31 December 2018 and 31 December 2017, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 521 286 thousand and PLN 481 526 thousand, respectively.

### Aging of receivables from buyers as at 31 December 2018

	Not past due	Past due			Total
		<30 days	30–360 days	>360 days	
Value of item before allowance/write-down	820 329	79	47	969	821 424
Percentage of allowance/write-down	0%	–	79%	100%	–
Allowance/write-down	(855)	–	(37)	(969)	(1 861)
<b>Net Value</b>	<b>819 474</b>	<b>79</b>	<b>10</b>	<b>–</b>	<b>819 563</b>

### Aging of receivables from buyers as at 31 December 2017

	Not past due	Past due			Total
		<30 days	30–360 days	>360 days	
Value of item before allowance/write-down	719 112	39	37	869	720 057
Percentage of allowance/write-down	0%	–	59%	100%	–
Allowance/write-down	(33)	–	(22)	(869)	(924)
<b>Net Value</b>	<b>719 079</b>	<b>39</b>	<b>15</b>	<b>–</b>	<b>719 133</b>

### Impairment allowances on receivables from buyers

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Opening balance</b>	<b>(924)</b>	<b>(899)</b>
Effects of implementing IFRS 9	(1 575)	–
<b>Restated opening balance</b>	<b>(2 499)</b>	<b>(899)</b>
Recognised	(48)	(74)
Reversed	686	49
<b>Closing balance</b>	<b>(1 861)</b>	<b>(924)</b>

Related-party transactions as well as related party receivables and liabilities have been presented in Note 43.1 hereto.

## 25. Other non-financial assets

#### SELECTED ACCOUNTING PRINCIPLES

Other non-financial assets include mostly settlement of taxes and charges, except for income tax presented in the statement of financial position under a separate line item, prepaid expenses and advance payments for deliveries.

Settlements due to taxes and charges comprise:

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

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

	As at 31 December 2018	As at 31 December 2017
Prepaid expenses, including:	19 168	16 799
<i>Prepaid fee on borrowings</i>	17 721	16 169
VAT receivables	4 736	36 094
Advance payments for deliveries	2 845	1 313
Other	3 962	1 712
<b>Total</b>	<b>30 711</b>	<b>55 918</b>
Non-current	20 865	14 967
Current	9 846	40 951

## 26. Cash and cash equivalents

### SELECTED ACCOUNTING PRINCIPLES

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

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

	As at 31 December 2018	As at 31 December 2017
Cash at bank and in hand	252 834	521 343
Short-term deposits (up to 3 months)	170 091	200 234
Other	43 000	–
<b>Total cash and cash equivalents presented in the statement of financial position, including:</b>	<b>465 925</b>	<b>721 577</b>
restricted cash	58 374	49 631
Cash pool	(2 024 919)	(2 186 508)
Overdraft	(767)	(93 502)
Foreign exchange	(273)	(799)
<b>Total cash and cash equivalents presented in the statement of cash flows</b>	<b>(1 560 034)</b>	<b>(1 559 232)</b>

The balances of short-term loans granted and taken out in a cash pool transaction are not cash flows from investing or financing activities, but a cash adjustment, as their main objective is to manage the Group's liquidity on a day-to-day basis.

The balance of restricted cash includes mostly the amount securing the settlement with Izba Rozliczeniowa Giełd Towarowych S.A. totaling PLN 56 698 thousand.

Detailed information on cash pool balances has been presented in Note 29.5 to these financial statements.

## 27. Equity

### 27.1. Issued capital

#### SELECTED ACCOUNTING PRINCIPLES

##### Issued capital

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

##### Reserve capital

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

##### Revaluation reserve from valuation of hedging instruments

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

## Issued capital as at 31 December 2018

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

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

## 27.2. Major shareholders

### Shareholding structure as at 31 December 2018 (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 Openbare Fonds Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
<b>Total</b>	<b>1 752 549 394</b>	<b>8 762 747</b>	<b>100%</b>	<b>100%</b>

\* The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Shareholders' Meeting of the Company. The limitation does not apply to the State Treasury and State Treasury owned companies in the period when the State Treasury and State Treasury owned companies hold shares in the Company entitling to not less than 25% of the total votes in the Company.

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

## 27.3. Reserve capital

On 16 April 2018, the General Shareholders' Meeting of the Company adopted a resolution to use the net profit for 2017 of PLN 854 351 thousand to increase the supplementary capital.

## 27.4. Revaluation reserve from valuation of hedging instruments

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

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued, which has been discussed in more detail in Note 20 to these financial statements.

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

The profit/loss for the period includes PLN 1 202 thousand, with PLN 1 209 thousand of the amount received in respect of hedges used in relation to closed interest periods and PLN (7) thousand resulting from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of IRS hedging transactions adjusted finance costs arising from interest on bonds issued in the statement of comprehensive income.

## 27.5. Retained earnings/ (Accumulated losses) and dividend limitation

### Reserve capital – dividend limitation

	As at 31 December 2018	As at 31 December 2017
<b>Amounts subject to distribution</b>	<b>4 886 520</b>	<b>4 032 169</b>
amounts from distribution of prior years profits	4 886 520	4 032 169
<b>Non-distributable amounts</b>	<b>3 624 917</b>	<b>3 624 917</b>
decrease in the value of issued capital	3 390 037	3 390 037
settlement of mergers with subsidiaries	234 880	234 880
<b>Total reserve capital</b>	<b>8 511 437</b>	<b>7 657 086</b>

The part of reserve capital in the amount of one third of the issued capital amounting to PLN 2 920 916 thousand can only be used to cover the loss disclosed in the financial statements.

### Retained earnings/ (Accumulated losses) – dividend limitation

	As at 31 December 2018	As at 31 December 2017
<b>Distributable amounts or losses to be covered</b>	<b>(1 709 840)</b>	<b>854 364</b>
profit (loss) for the year ended 31 December 2018	(1 709 853)	–
profit (loss) for the year ended 31 December 2017	–	854 351
adjustment of prior years profit	13	13
<b>Non-distributable amounts or losses to be covered</b>	<b>(307 879)</b>	<b>80 658</b>
actuarial gains and losses on provisions for post-employment benefits	154	140
effects of implementing IFRS 9	(388 551)	–
settlement of mergers with subsidiaries	80 518	80 518
<b>Total retained earnings/ (accumulated losses)</b>	<b>(2 017 719)</b>	<b>935 022</b>

The Management Board recommends to offset the net loss for 2018 of PLN 1 709 853 thousand with reserve capital of Company.

## 28. Dividends paid and proposed

In the years ended 31 December 2018 and 31 December 2017 the Company did not pay dividend.

## 29. Debt

### SELECTED ACCOUNTING PRINCIPLES

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

At initial recognition, all loans, borrowings and bonds issued are measured at fair value less the cost incurred to obtain a loan or borrowing. After initial recognition interest-bearing loans and debt securities are measured at amortized cost using the effective interest method.

Amortized cost includes the cost incurred to obtain a loan, borrowing or debt securities and discounts or premiums relating to the liability.

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

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

### PROFESSIONAL JUDGMENT AND ESTIMATES

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



	As at 31 December 2018	As at 31 December 2017
<b>Long-term portion of debt</b>		
Subordinated hybrid bonds	1 537 848	791 355
Other issued bonds	5 530 671	7 113 161
Loans received from the European Investment Bank	690 129	873 770
Loans from the subsidiary	715 696	694 168
<b>Total</b>	<b>8 474 344</b>	<b>9 472 454</b>
<b>Short-term portion of debt</b>		
Subordinated hybrid bonds	3 811	1 597
Other issued bonds	2 285 678	34 233
Cash pool loans received, including accrued interest	2 038 520	2 377 034
Loans from the European Investment Bank	160 547	168 340
Loans from the subsidiary	15 051	27 112
Overdraft	767	93 502
Finance lease	–	23 945
<b>Total</b>	<b>4 504 374</b>	<b>2 725 763</b>

## 29.1. Bonds issued

### Bonds issued as at 31 December 2018

Investor	Interest rate	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date		of which maturing within (after the balance sheet date)			
					Accrued interest	Principal at amortized cost	up to 1 year	1–2 years	2–5 years	over 5 years
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	100 000	20.12.2019	107	99 935	99 935	–	–	–
			100 000	20.12.2020	107	99 891	–	99 891	–	–
			100 000	20.12.2021	107	99 861	–	–	99 861	–
			100 000	20.12.2022	107	99 838	–	–	99 838	–
			100 000	20.12.2023	107	99 820	–	–	99 820	–
			100 000	20.12.2024	107	99 807	–	–	–	99 807
			100 000	20.12.2025	107	99 796	–	–	–	99 796
			100 000	20.12.2026	107	99 785	–	–	–	99 785
			100 000	20.12.2027	107	99 777	–	–	–	99 777
			100 000	20.12.2028	107	99 771	–	–	–	99 771
			70 000	20.12.2020	73	69 975	–	69 975	–	–
			70 000	20.12.2021	73	69 970	–	–	69 970	–
			70 000	20.12.2022	73	69 967	–	–	69 967	–
			70 000	20.12.2023	73	69 964	–	–	69 964	–
			70 000	20.12.2024	73	69 963	–	–	–	69 963
			70 000	20.12.2025	73	69 961	–	–	–	69 961
70 000	20.12.2026	73	69 960	–	–	–	69 960			
70 000	20.12.2027	73	69 959	–	–	–	69 959			
70 000	20.12.2028	73	69 958	–	–	–	69 958			
70 000	20.12.2029	73	69 958	–	–	–	69 958			
Banks (issue scheme underwriters) <sup>1</sup>	floating, based on WIBOR 6M	PLN	400 000	14.03.2019	566	400 000	400 000	–	–	
			200 000	9.11.2020	854	199 764	–	199 764	–	
			1 600 000	29.12.2020	387	1 598 100	–	1 598 100	–	
Domestic investors TPEA1119	floating, based on WIBOR 6M	PLN	1 750 000	4.11.2019	7 555	1 749 400	1 749 400	–	–	
European Investment Bank	fixed <sup>2</sup>	EUR	190 000	16.12.2034	1 646	790 136	–	–	790 136	
		PLN	400 000	17.12.2030	1 243	398 781	–	–	398 781	
		PLN	350 000	19.12.2030	922	348 931	–	–	348 931	
Eurobonds	fixed	EUR	500 000	5.07.2027	25 181	2 134 826	–	–	2 134 826	
<b>Total</b>					<b>40 154</b>	<b>9 317 854</b>	<b>2 249 335</b>	<b>1 967 730</b>	<b>509 420</b>	<b>4 591 369</b>

<sup>1</sup> Bond Issue Scheme of 24 November 2015.

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

**Bonds issued as at 31 December 2017**

Investor	Interest rate	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date		of which maturing within (after the balance sheet date)		
					Accrued interest	Principal at amortized cost	up to 2 years	2-5 years	over 5 years
			100 000	20.12.2019	107	99 869	99 869	-	-
			100 000	20.12.2020	107	99 838	-	99 838	-
			100 000	20.12.2021	107	99 817	-	99 817	-
			100 000	20.12.2022	107	99 800	-	99 800	-
			100 000	20.12.2023	107	99 787	-	-	99 787
			100 000	20.12.2024	107	99 778	-	-	99 778
			100 000	20.12.2025	107	99 770	-	-	99 770
			100 000	20.12.2026	107	99 761	-	-	99 761
			100 000	20.12.2027	107	99 756	-	-	99 756
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	100 000	20.12.2028	107	99 752	-	-	99 752
			70 000	20.12.2020	74	69 963	-	69 963	-
			70 000	20.12.2021	74	69 961	-	69 961	-
			70 000	20.12.2022	74	69 959	-	69 959	-
			70 000	20.12.2023	74	69 958	-	-	69 958
			70 000	20.12.2024	74	69 957	-	-	69 957
			70 000	20.12.2025	74	69 956	-	-	69 956
			70 000	20.12.2026	74	69 956	-	-	69 956
			70 000	20.12.2027	74	69 955	-	-	69 955
			70 000	20.12.2028	74	69 955	-	-	69 955
			70 000	20.12.2029	74	69 955	-	-	69 955
Banks (issue scheme underwriters) <sup>1</sup>	floating, based on WIBOR 6M	PLN	1 600 000	29.12.2020	389	1 597 188	-	1 597 188	-
Domestic investors TPEA1119	floating, based on WIBOR 6M	PLN	1 750 000	4.11.2019	7 609	1 749 277	1 749 277	-	-
European Investment Bank	fixed <sup>2</sup>	EUR	190 000	16.12.2034	1 597	791 355	-	-	791 355
Eurobonds	fixed	EUR	500 000	5.07.2027	24 425	2 069 193	-	-	2 069 193
<b>Total</b>					<b>35 830</b>	<b>7 904 516</b>	<b>1 849 146</b>	<b>2 106 526</b>	<b>3 948 844</b>

<sup>1</sup> Bond Issue Scheme of 24 November 2015.

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

The Company has issued unsecured coupon bonds at a nominal price, except for eurobonds, which were issued at the issue price equal to 99.438% of their par value.

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

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

A change in the balance of bonds, excluding interest which increased the carrying amount in the year ended 31 December 2018 and in the comparable period, has been presented below.

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Opening balance</b>	<b>7 904 516</b>	<b>6 929 151</b>
Issue*	1 347 943	2 703 643
Redemption	–	(1 650 000)
Measurement change	65 395	(78 278)
<b>Closing balance</b>	<b>9 317 854</b>	<b>7 904 516</b>

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

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

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

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

- on 14 March 2019, the Company redeemed bonds with a nominal value of PLN 400 000 thousand according to the maturity date;
- on 25 March 2019, the Company issued bonds with a nominal value of PLN 100 000 thousand, with maturity date of 25 March 2020.

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

#### **Concluding hybrid financing agreements with the European Investment Bank**

On 11 December 2018 the Company and the European Investment Bank (EIB) concluded a subscription and project agreement regarding the issue of hybrid bonds with the total par value of PLN 400 000 thousand. Funds raised from the issue shall be used to cover expenses of TAURON Dystrybucja S.A., a subsidiary, related to development and improvement of the power grid infrastructure in 2018–2020.

On 17 December 2018 the Company issued bonds under the above agreement. These are unsecured subordinated coupon bearer securities. They were acquired by EIB as part of the operations of the European Fund for Strategic Investments, launched by EIB and the European Commission to implement the Juncker Plan.

The bonds will mature 12 years of the issue date, with the proviso that in line with the description of hybrid funding the first funding period was defined to last 7 years (“1st Funding Period”) during which the Company will not be allowed to repurchase the bonds early and the bonds may not be sold early by EIB to third parties (in both cases, subject to the exceptions set out in the subscription agreement). The bonds bear fixed interest during the 1st Funding Period and during the next 5-year funding period (“2nd Funding Period”) interest will be floating and determined by reference to WIBOR 6M increased by an agreed margin. Under the agreement, interest payment deadlines may be postponed until the buyback date or until the fifth day following the date of deciding on dividend payment at the latest.

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

The bond issue has had a positive effect on the financial stability of the TAURON Group as the bonds are not taken into account for purposes of calculation of the debt ratio, which is a covenant in some funding schemes. Additionally, 50% of the bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the Capital Group. The rating assigned to the bonds by Fitch is BB+.

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

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

#### **Extension of the Bond Issue Scheme of 24 November 2015**

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

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

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

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

The Company hedges a portion of interest cash flows related to issued bonds using IRS contracts. The instruments are subject to hedge accounting, which has been discussed in more detail in Note 20 to these financial statements.

#### **29.2. Debt agreement covenants**

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

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

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

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

### 29.3. Loans from the European Investment Bank

As at 31 December 2018, the balance of loans obtained from the European Investment Bank was PLN 850 676 thousand, including interest accrued of PLN 4 692 thousand. As at 31 December 2017, the balance of loans from the European Investment Bank was PLN 1 042 110 thousand, including interest accrued of PLN 6 100 thousand.

In the year ended 31 December 2018, the Company repaid PLN 162 318 thousand of the principal amount and PLN 28 995 thousand of interest.

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

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Opening balance</b>	<b>1 036 010</b>	<b>1 183 415</b>
Impact of IFRS 9	(33 055)	–
<b>Opening balance after adjustment</b>	<b>1 002 955</b>	<b>1 183 415</b>
Repaid	(162 318)	(147 568)
Measurement change	5 347	163
<b>Closing balance</b>	<b>845 984</b>	<b>1 036 010</b>

Following the effective date of IFRS 9 *Financial Instruments*, the carrying amount of liability due to loans granted by the European Investment Bank decreased by PLN 33 055 thousand, thus increasing retained earnings as at 1 January 2018 as described in detail in Note 7 hereto.

### 29.4. Loans from a subsidiary

As at 31 December 2018, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 730 747 thousand (EUR 169 941 thousand), including interest of PLN 15 051 thousand (EUR 3 500 thousand) accrued as at the end of the reporting period. As at 31 December 2017, the carrying amount of loans from a subsidiary, TAURON Sweden Energy AB (publ), was PLN 721 280 thousand (EUR 172 932 thousand), including interest of PLN 27 112 thousand (EUR 6 500 thousand) accrued as at the end of the reporting period.

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

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Opening balance</b>	<b>694 168</b>	<b>765 450</b>
Repaid	–	(28 127)
Measurement change	21 528	(43 155)
<b>Closing balance</b>	<b>715 696</b>	<b>694 168</b>

The Company's liability is a long-term loan granted under an agreement entered into in December 2014 by TAURON Polska Energia S.A. and TAURON Sweden Energy AB (publ). The loan bears interest at a fixed rate and interest is paid annually, in December, until the loan has been fully repaid i.e. until 29 November 2029.

Pursuant to an annex of 28 November 2018, in December 2018 a part of interest installment was repaid in the amount of EUR 3 296 thousand, while the remaining part of EUR 3 000 thousand was repaid on 31 January 2019.

### 29.5. 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 2017, the Company concluded a new cash pooling agreement with PKO Bank Polski S.A. with the expiration date of 17 December 2020, with TAURON Polska Energia S.A. acting as an agent. The interest rate is set at arm's length.

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

	As at 31 December 2018	As at 31 December 2017
Receivables from cash pool loans granted	803 677	189 928
Interest receivable on loans granted under cash pool agreement	5 256	598
Impairment loss	(212 400)	–
<b>Total Receivables</b>	<b>596 533</b>	<b>190 526</b>
Loans received under cash pool agreement	2 036 679	2 374 430
Interest payable on loans received under cash pool agreement	1 841	2 604
<b>Total Liabilities</b>	<b>2 038 520</b>	<b>2 377 034</b>

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

Under the cash pool agreement, the Company may use external financing in the form of an overdraft of up to PLN 300 000 thousand and an intraday limit of up to PLN 500 000 thousand. As at 31 December 2018, the Company did not have any related liabilities.

The Company recognized an impairment allowance for credit losses mainly due to a loan granted to a subsidiary from the Mining segment under a cash pooling agreement as at the balance sheet date, because it intends to continue providing financial support to the entity.

#### **29.6. Overdraft facilities**

As at 31 December 2018 the balance of overdraft facilities related to 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 – USD 204 thousand (PLN 767 thousand).

As at 31 December 2017, the balance of overdraft facilities was PLN 93 502 thousand.

#### **29.7. Concluding a loan agreement with Bank Gospodarstwa Krajowego**

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

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

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

As at the balance sheet date, the Company did not contract any liability related to the agreement mentioned above, concluded with BGK. After the balance sheet date, on January and February 2019 tranches of loan have been issued in total amount of PLN 730 000 thousand.

#### **29.8. Finance lease liabilities**

As at 31 December 2018, the Company did not have any finance lease liabilities.

As at 31 December 2017, the finance lease liability amounted to PLN 23 945 thousand and resulted from a lease of investment property. In the year ended 31 December 2018 the liability expired in line with contractual terms, and the Company purchased the leased property, as described in details in Note 17 hereto.

#### **29.9. Operating lease liabilities**

As at 31 December 2018, the Company used a real property located in Katowice at ul. ks. Piotra Ściegiennego 3, based on a lease agreement.

The Company’s registered office is located in the leased premises with the usable area of 10 001.14 square meters. In 2018, the average monthly rental fee with the service charges was PLN 779 thousand.

The Company holds perpetual usufruct of land and pays other contractual fees, classified as operating lease liabilities.

The total amount of minimum lease liabilities arising from non-cancellable operating leases was PLN 49 164 thousand as at 31 December 2018.

### 30. Provisions for employee benefits

#### SELECTED ACCOUNTING PRINCIPLES

In accordance with the Compensation Policy the employees of the Company are entitled to the following post-employment benefits:

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

The present value of such liabilities is calculated by an independent actuary at the end of each reporting period. The accrued liabilities are equal to discounted future payments, including employee turnover, and pertain to the time remaining until the end of the reporting period. Demographic and employee turnover data are based on historical information.

Actuarial gains and losses on post-employment benefits are fully charged to other comprehensive income.

#### PROFESSIONAL JUDGMENT AND ESTIMATES

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

	31 December 2018	31 December 2017
Discount rate (%)	3.00%	3.00%
Estimated inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	7.91%	7.93%
Estimated salary increase rate (%)	2.50%	2.50%
Estimated electricity price increase rate (%)	3.50%	3.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%	3.50%
Remaining average employment period	16.80	17.11

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provisions, total
<b>Opening balance</b>	<b>2 037</b>	<b>1 316</b>	<b>124</b>	<b>3 477</b>
Current service costs	359	254	22	<b>635</b>
Actuarial gains and losses, of which:	86	(98)	(6)	<b>(18)</b>
arising from changes in financial assumptions	6	–	–	<b>6</b>
arising from other changes	80	(98)	(6)	<b>(24)</b>
Benefits paid	(145)	(10)	(1)	<b>(156)</b>
Interest expense	52	40	2	<b>94</b>
<b>Closing balance</b>	<b>2 389</b>	<b>1 502</b>	<b>141</b>	<b>4 032</b>
Non-current	2 155	1 492	140	<b>3 787</b>
Current	234	10	1	<b>245</b>



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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provisions, total
<b>Opening balance</b>	<b>1 653</b>	<b>1 083</b>	<b>97</b>	<b>2 833</b>
Current service costs	348	240	18	<b>606</b>
Actuarial gains and losses, of which:	153	(32)	7	<b>128</b>
arising from changes in financial assumptions	(19)	–	–	<b>(19)</b>
arising from other changes	172	(32)	7	<b>147</b>
Benefits paid	(158)	(7)	(1)	<b>(166)</b>
Interest expense	41	32	3	<b>76</b>
<b>Closing balance</b>	<b>2 037</b>	<b>1 316</b>	<b>124</b>	<b>3 477</b>
Non-current	1 719	1 307	121	<b>3 147</b>
Current	318	9	3	<b>330</b>

### Sensitivity analysis

A sensitivity analysis of measurement results as at 31 December 2018 to changes in key actuarial assumptions by 0.5 percentage point has been presented below:

Provision	Measurement as at 31 December 2018	Financial discount rate		Planned increases in base amount	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	2 389	2 507	2 280	2 279	2 507
Employee electricity rates	1 502	1 687	1 344	1 344	1 685
Social Fund	141	157	127	127	157
<b>Total</b>	<b>4 032</b>	<b>4 351</b>	<b>3 751</b>	<b>3 750</b>	<b>4 349</b>

A discount rate reduction by 0.5 percentage point would result in an increase in the provision for employee benefits from PLN 4 032 thousand to PLN 4 351 thousand. Discount rate increase by 0.5 percentage point, i.e. application of a 3.50% discount rate would result in a decrease in provision to PLN 3 751 thousand.

The benefits were calculated based on the assumptions set out in the Compensation Policy. Reducing the planned increases of compensation bases by 0.5 percentage point would result in a decrease in the provision for employee benefits down to PLN 3 750 thousand, while their increase by 0.5 percentage point would cause an increase in the provision up to PLN 4 349 thousand.

### 31. Other provisions

#### SELECTED ACCOUNTING PRINCIPLES

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

As at the end of the reporting period, the Company recognized a provision against the risk of an adverse decision arising from the pending inspection procedure.

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

As at 31 December 2018 other provisions included the provisions for tax risks due to the pending control proceedings. As at 31 December 2017 the Company recognized a related provision of PLN 68 694 thousand. As at 31 December 2018, the relevant provision amounted to PLN 72 894 thousand. An increase in the provision by PLN 4 200 thousand is attributable to interest accrued for the year ended 31 December 2018. The Company is a party to VAT inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The duration of these proceedings was several times extended by the TIO Director and by the Head of Mazowiecki Customs and Tax Office. The newest proceedings closing dates fall on 22 and 28 April 2019 and 23 May 2019.

Changes in other provisions in the comparable period, i.e. the year ended 31 December 2017 have been presented in the table below.

	Provisions for onerous contracts with a jointly-controlled entity and provision for costs	Other provisions	Provisions, total
<b>Opening balance</b>	<b>198 844</b>	<b>64 505</b>	<b>263 349</b>
Unwinding of discount and change in discount rate	2 330	–	<b>2 330</b>
Recognition	2 250	4 277	<b>6 527</b>
Reversal	(203 424)	–	<b>(203 424)</b>
Utilisation	–	(11)	<b>(11)</b>
<b>Closing balance</b>	<b>–</b>	<b>68 771</b>	<b>68 771</b>
Non-current	–	–	–
Current	–	68 771	<b>68 771</b>

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

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

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

### 32. Accruals, deferred income and government grants

	As at 31 December 2018	As at 31 December 2017
Unused holidays	2 447	2 587
Bonuses	7 859	6 499
Accruals relating to post-service benefits for members of the Management Board/key management personnel	825	1 764
Other	5 573	3 744
<b>Total</b>	<b>16 704</b>	<b>14 594</b>
Non-current	103	–
Current	16 601	14 594

### 33. Liabilities to suppliers

#### SELECTED ACCOUNTING PRINCIPLES

Current liabilities to suppliers are recognized at amount due.

As at 31 December 2018 the highest liabilities to suppliers were the liabilities towards subsidiary TAURON Wytwarzanie S.A. and towards the state-owned Węglkokoks S.A. totalling PLN 113 292 thousand and PLN 100 711 thousand, respectively. As at 31 December 2017, the biggest liabilities to suppliers were the liabilities towards subsidiary TAURON Wytwarzanie S.A. and TAURON Sprzedaż Sp. z o.o. totalling PLN 163 952 thousand and PLN 87 255 thousand, respectively.

### 34. Other financial liabilities

#### SELECTED ACCOUNTING PRINCIPLES

Other financial liabilities include Tax Capital Group settlements, payroll liabilities, deposits, performance bonds, collateral received and liabilities arising from purchases of property, plant and equipment and intangible assets, measured at amount due since the discount effects are immaterial.

	As at 31 December 2018	As at 31 December 2017
Margin deposits arising from stock exchange transactions	248 480	7 163
Liabilities arising from income tax settlements of the TCG companies	90 490	34 836
Commissions related to securities	9 758	5 889
Wages and salaries, deductions on wages and salaries as well as other employee related liabilities	7 325	6 424
Bid bonds, deposits and collateral received	464	5 400
Other	32 755	23 004
<b>Total</b>	<b>389 272</b>	<b>82 716</b>
Non-current	17 626	20 126
Current	371 646	62 590

Additional deposits are related mostly to forward transactions on the greenhouse emissions allowances concluded on foreign regulated markets. Margin deposits states as cash received by the Company arising from current stock exchange transactions, due to change in valuation of futures contracts, open as at the end of reported period. An increase in deposits results from a growth in the prices of emission allowances, accompanied with a growing number of open futures as at the end of the reported period.

### 35. Other non-financial liabilities

#### SELECTED ACCOUNTING PRINCIPLES

As other non-financial liabilities in the statement of financial position are presented mainly liabilities arising from taxes and charges, which include:

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

	As at 31 December 2018	As at 31 December 2017
VAT	17 756	25 385
Personal Income Tax	1 860	1 878
Social security	4 973	4 311
Excise	–	880
Other	37	36
<b>Total</b>	<b>24 626</b>	<b>32 490</b>

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

Tax reports and other matters (e.g. customs or foreign currency transactions) may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities assessed during such audits have to be paid together with interest. Consequently, the figures presented and disclosed in these financial statements may change in future if a final decision is issued by tax inspection authorities.

## EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

### SELECTED ACCOUNTING PRINCIPLES

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

### 36. Significant items of the statement of cash flows

#### 36.1. Cash from/used in operating activities

##### Changes in working capital

	Year ended 31 December 2018	Year ended 31 December 2017
Change in receivables	(243 133)	105 267
Change in inventories	(211 159)	86 371
Change in payables excluding loans and borrowings	354 023	(59 096)
Change in other non-current and current assets	23 386	11 211
Change in deferred income, government grants and accruals	2 110	(6 909)
Change in provisions	4 695	(194 062)
<b>Change in working capital</b>	<b>(70 078)</b>	<b>(57 218)</b>

#### 36.2. Cash from/used in investing activities

##### Purchase of bonds

Payments to purchase bonds, in the amount of PLN 160 000 thousand, are related to purchases of intra-group bonds issued by TAURON Ekoenergia Sp. z o.o., subsidiary.

##### Acquisition of shares

Payments to acquire shares of PLN 2 646 353 thousand were mostly related to the Company's transfer of funds to increase the capital of the following companies:

- Nowe Jaworzno Grupa TAURON Sp. z o.o., totaling PLN 1 060 000 thousand;
- TAURON Wytwarzanie S.A., totaling to PLN 780 000 thousand;
- TAURON Dystrybucja Serwis S.A., totaling PLN 439 317 thousand;
- TAURON Wydobywanie S.A., totaling PLN 340 000 thousand;
- ElectroMobility Poland S.A., totaling PLN 15 000 thousand;
- PGE EJ1 Sp. z o.o., totaling PLN 6 000 thousand;

and capital contribution to Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. of PLN 6 000 thousand.

##### Loans granted

The Company's expenses related to loan granting include:

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

Under loans granted, the Company presents an increase in the balance of loans to subsidiaries under a long-term cash pool agreement in the amount of PLN 795 332 thousand.

##### Redemption of bonds

Proceeds from redemption of bonds, in the amount of PLN 1 334 920 thousand, are related to redemption of intra-group bonds issued by the following subsidiaries:

- TAURON Wytwarzanie S.A., totalling PLN 864 920 thousand;
- TAURON Dystrybucja S.A., totalling PLN 470 000 thousand.

### **Repayment of loans granted**

Repayment of loans of PLN 421 225 thousand includes:

- repayment of a portion of a loan of PLN 299 100 granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 22 to these financial statements;
- repayment of a loan of PLN 120 000 granted to TAURON Ekoenergia Sp. z o.o., a subsidiary, which has been discussed in more detail in Note 22 to these financial statements.

### **Interest received**

	Year ended 31 December 2018	Year ended 31 December 2017
Interest received in relation to debt securities	269 028	642 017
Interest received in relation to loans granted	20 149	-
<b>Total</b>	<b>289 177</b>	<b>642 017</b>

## **36.3. Cash from/used in financing activities**

### **Loans and borrowings repaid**

Expenditures due to repayment of loans resulted from repayment of a loan granted by the European Investment Bank of PLN 162 318 thousand in the year ended 31 December 2018.

### **Interest paid**

	Year ended 31 December 2018	Year ended 31 December 2017
Interest paid in relation to debt securities	(233 275)	(221 832)
Interest paid in relation to loans	(29 109)	(41 295)
Interest paid in relation to borrowings	(39 398)	(1 446)
Interest paid in relation to the finance lease	(196)	(650)
<b>Total</b>	<b>(301 978)</b>	<b>(265 223)</b>

### **Issue of debt securities**

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

- the issue of bonds with the total par value of PLN 600 000 thousand under a bond issue scheme of 24 November 2015, which has been discussed in more detail in Note 29.1 to these financial statements;
- the issue of tranches of hybrid bonds with the total nominal of value of PLN 750 000 thousand under agreements with the European Investment Bank, concluded in December 2018, as described in more detail in Note 29.1 to these financial statements.

## FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### 37. Financial instruments

#### 37.1. Carrying amount and fair value of financial instrument classes and categories

Categories and classes of financial assets	As at 31 December 2018		Categories and classes of financial assets	As at 31 December 2017 (restated figures)	
	Carrying amount	Fair value		Carrying amount	Fair value
<b>1 Financial assets measured at amortized cost</b>	<b>6 733 497</b>	<b>6 828 930</b>	<b>1 Financial assets at fair value through profit or loss, held for trading</b>	<b>154 574</b>	<b>154 574</b>
Receivables from buyers	819 563	819 563	Derivative instruments	53 216	53 216
Bonds	5 236 292	5 331 725	Investment fund units	101 358	101 358
Loans granted under cash pool agreement	596 533	596 533	<b>2 Financial assets available for sale</b>	<b>39 244</b>	
Other loans granted	26 088	26 088	Long-term shares	39 244	
Other financial receivables	55 021	55 021	<b>3 Loans and receivables</b>	<b>8 228 015</b>	<b>8 072 480</b>
<b>2 Financial assets measured at fair value through profit or loss (FVTPL)</b>	<b>1 120 916</b>	<b>1 120 916</b>	Receivables from buyers	719 133	719 133
Derivative instruments	216 165	216 165	Bonds	6 572 696	6 506 729
Long-term shares	46 066	46 066	Loans granted under cash pool agreement	190 526	190 526
Loans granted	199 256	199 256	Other loans granted	712 654	623 086
Other financial receivables	167 441	167 441	Other financial receivables	33 006	33 006
Investment fund units	26 063	26 063	<b>4 Financial assets excluded from the scope of IAS 39</b>	<b>20 873 435</b>	
Cash and cash equivalents	465 925	465 925	Shares in subsidiaries	20 457 583	
<b>3 Derivative hedging instruments</b>	<b>4 178</b>	<b>4 178</b>	Shares in jointly-controlled entities	415 852	
<b>4 Financial assets excluded from the scope of IFRS 9</b>	<b>21 029 990</b>		<b>5 Derivative hedging instruments</b>	<b>28 482</b>	<b>28 482</b>
Shares in subsidiaries	20 614 138		<b>6 Cash and cash equivalents</b>	<b>721 577</b>	<b>721 577</b>
Shares in jointly-controlled entities	415 852				
<b>Total financial assets, of which in the statement of financial position:</b>	<b>28 888 581</b>		<b>Total financial assets, of which in the statement of financial position:</b>	<b>30 045 327</b>	
<b>Non-current assets</b>	<b>26 975 445</b>		<b>Non-current assets</b>	<b>27 335 016</b>	
Shares	21 076 056		Shares	20 912 679	
Bonds	5 043 981		Bonds	6 009 920	
Loans granted	808 760		Loans granted	382 989	
Derivative instruments	43 844		Derivative instruments	26 704	
Other financial assets	2 804		Other financial assets	2 724	
<b>Current assets</b>	<b>1 913 136</b>		<b>Current assets</b>	<b>2 710 311</b>	
Receivables from buyers	819 563		Receivables from buyers	719 133	
Bonds	192 311		Bonds	562 776	
Loans granted	13 117		Loans granted	520 191	
Derivative instruments	176 499		Derivative instruments	54 994	
Other financial assets	245 721		Other financial assets	131 640	
Cash and cash equivalents	465 925		Cash and cash equivalents	721 577	

Categories and classes of financial liabilities	As at 31 December 2018		Categories and classes of financial liabilities	As at 31 December 2017 (restated figures)	
	Carrying amount	Fair value		Carrying amount	Fair value
<b>1 Financial liabilities measured at amortized cost</b>	<b>13 893 976</b>	<b>14 028 032</b>	<b>1 Financial liabilities measured at amortized cost</b>	<b>12 670 253</b>	<b>12 699 476</b>
Arm's length loans, of which:	3 619 943	3 662 092	Arm's length loans, of which:	4 140 424	4 135 000
Liability under the cash pool loan	2 038 520	2 038 520	Liability under the cash pool loan	2 377 034	2 377 034
Loans from the European Investment Bank	850 676	875 511	Loans from the European Investment Bank	1 042 110	1 044 424
Loans from the subsidiary	730 747	748 061	Loans from the subsidiary	721 280	713 542
Overdraft	767	767	Overdraft	93 502	93 502
Bonds issued	9 358 008	9 449 915	Bonds issued	7 940 346	7 974 993
Liabilities to suppliers	525 986	525 986	Liabilities to suppliers	413 265	413 265
Other financial liabilities	388 936	388 936	Other financial liabilities	82 586	82 586
Liabilities due to purchases of fixed and intangible assets	336	336	Liabilities due to purchases of fixed and intangible assets	130	130
<b>2 Financial liabilities measured at fair value through profit or loss (FVTPL)</b>	<b>240 922</b>	<b>240 922</b>	<b>2 Financial liabilities at fair value through profit or loss, held for trading</b>	<b>62 466</b>	<b>62 466</b>
Derivative instruments	240 922	240 922	Derivative instruments	62 466	62 466
<b>3 Financial liabilities excluded from the scope of IFRS 9</b>	<b>-</b>		<b>3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39</b>	<b>23 945</b>	
Liabilities under finance leases	-		Liabilities under finance leases	23 945	
<b>Total financial liabilities, of which in the statement of financial position:</b>	<b>14 134 898</b>		<b>Total financial liabilities, of which in the statement of financial position:</b>	<b>12 756 664</b>	
<b>Non-current liabilities</b>	<b>8 529 900</b>		<b>Non-current liabilities</b>	<b>9 497 797</b>	
Debt	8 474 344		Debt	9 472 454	
Other financial liabilities	17 626		Other financial liabilities	20 126	
Derivative instruments	37 930		Derivative instruments	5 217	
<b>Current liabilities</b>	<b>5 604 998</b>		<b>Current liabilities</b>	<b>3 258 867</b>	
Debt	4 504 374		Debt	2 725 763	
Liabilities to suppliers	525 986		Liabilities to suppliers	413 265	
Derivative instruments	202 992		Derivative instruments	57 249	
Other financial liabilities	371 646		Other financial liabilities	62 590	

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

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

Financial asset classes	Fair value measurement level	Fair value measurement methodology
<b>Financial assets measured at fair value</b>		
Derivatives, including:		
IRS	2	Derivatives have been measured in line with the methodology presented in Note 20 hereto.
CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Non-current shares	3	The Company estimated the fair value of shares held in PGE EJ 1 Sp. z o.o. using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments. As the key factors affecting the value of the assumed shares had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Company assumes that the historical cost is an acceptable approximation of the fair value.
Loans originated	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk.
Units in investment funds	1	Fair value measurement of units is referred to current quotations of the units.
<b>Financial assets whose fair value is disclosed</b>		
Bonds	2	Intercompany bonds purchased by the Company were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using the applicable interest rate, i.e. applying market interest rates.

Financial liability class	Fair value measurement level	Fair value measurement methodology
<b>Financial liabilities measured at fair value</b>		
Derivatives, including:		
IRS	2	Derivatives have been measured in line with the methodology presented in Note 20 hereto.
CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
<b>Financial liabilities whose fair value is disclosed</b>		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt, i.e. loans contracted from the European Investment Bank, a loan contracted from a subsidiary, subordinated bonds issued and eurobonds are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates.

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

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

Shares in subsidiaries and jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured at cost less any impairment allowances.

In the year ended 31 December 2018 no changes occurred in the measurement methodology applied to the above financial instruments. At the same time, since 1 January 2018, following the effective date of IFRS 9 *Financial Instruments*, the Company has measured and disclosed the fair value of shares in entities not classified as subsidiaries or co-subidiaries. In the comparable period, the fair value was not disclosed due to limited access to data, and the investments were measured at cost, reduced by impairment allowances, if any.

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



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

	Not quoted shares	Loans granted
<b>As at 31 December 2017</b>	<b>38 939</b>	<b>–</b>
Effects of IFRS 9 application	(13 893)	150 960
<b>As at 1 January 2018</b>	<b>25 046</b>	<b>150 960</b>
gains/(losses) for the period recognized in financial revenue/expenses	–	(11 581)
purchased/contracted	21 032	–
sold/repaid	(12)	(299 100)
settlement of the debt consolidation arrangement	–	358 977
<b>As at 31 December 2018</b>	<b>46 066</b>	<b>199 256</b>

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

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

**Year ended 31 December 2018**

	Assets / liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	Hedging instruments	Financial assets / liabilities excluded from the scope of IFRS 9	Total
Dividends	2 400	–	–	–	817 037	819 437
Interest income/(expense)	4 789	327 620	(298 796)	1 202	(196)	34 619
Commissions	–	–	(22 993)	–	–	(22 993)
Exchange differences	(7 480)	1 419	(112 082)	–	–	(118 143)
Impairment / revaluation	(9 505)	27 043	(11 994)	–	(2 469 069)	(2 463 525)
Gain/(loss) on disposal of investments	1 642	–	–	–	–	1 642
Gain/(loss) on realized derivative instruments*	(6 078)	–	–	–	–	(6 078)
<b>Net financial income/(costs)</b>	<b>(14 232)</b>	<b>356 082</b>	<b>(445 865)</b>	<b>1 202</b>	<b>(1 652 228)</b>	<b>(1 755 041)</b>
Revaluation	(17 534)	680	–	–	–	(16 854)
Gain/(loss) on realized derivative instruments*	16 910	–	–	–	–	16 910
<b>Net operating income/(costs)</b>	<b>(624)</b>	<b>680</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>56</b>
Remeasurement of IRS	–	–	–	(24 297)	–	(24 297)
<b>Other comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(24 297)</b>	<b>–</b>	<b>(24 297)</b>

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

**Year ended 31 December 2017**

	Assets / liabilities measured at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Financial liabilities measured at amortized cost	Hedging instruments	Financial assets / liabilities excluded from the scope of IAS 39	Total
Dividends	–	2 858	–	–	–	557 974	560 832
Interest income/(expense)	19 321	–	456 413	(335 282)	1 525	(650)	141 327
Commissions	–	–	–	(19 068)	–	–	(19 068)
Exchange differences	(2 483)	–	1 689	128 270	–	–	127 476
Impairment / revaluation	(11 820)	–	(32)	–	–	(134 372)	(146 224)
Gain/(loss) on realized derivative instruments*	(4 866)	–	–	–	–	–	(4 866)
<b>Net financial income/(costs)</b>	<b>152</b>	<b>2 858</b>	<b>458 070</b>	<b>(226 080)</b>	<b>1 525</b>	<b>422 952</b>	<b>659 477</b>
Revaluation	(13 514)	–	34	–	–	–	(13 480)
Gain/(loss) on realized derivative instruments*	8 737	–	–	–	–	–	8 737
<b>Net operating income/(costs)</b>	<b>(4 777)</b>	<b>–</b>	<b>34</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(4 743)</b>
Remeasurement of IRS	–	–	–	–	(8 159)	–	(8 159)
<b>Other comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(8 159)</b>	<b>–</b>	<b>(8 159)</b>

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

### 38. Principles and objectives of financial risk management

Financial risk is managed on the Capital Group level, meaning that in the course of managing this risk, the Company performs roles assigned to it as a member of the TAURON Capital Group, as well as managerial, controlling and monitoring functions assigned to it as the parent.

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

- credit risk;
- liquidity risk;
- market risk, including:
  - interest rate risk;
  - currency risk;
  - raw material and commodity price risk related to commodity derivative instruments and price risk related to units held by the Company.

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

Risk exposure	Risk management	Regulation
<b>Credit risk</b>		
<p>Possible loss resulting from the counterparty default on contractual obligations. The credit exposure involves a default risk (the amount that may be lost if a counterparty defaults on goods and service) and a replacement risk (the amount that may be lost if a delivery is not made or a service is not provided).</p>	<p>Credit risk is managed through the control of the credit exposure at the time when companies in the TAURON Group sign contracts. As a rule, before a contract is signed, every entity is examined in terms of their financial position and is assigned a limit which determines the maximum exposure allowed. The credit exposure in this case is understood as the amount which may be lost, if the counterparty defaults on their obligations at a given time (considering the value of security they have lodged). The credit exposure is calculated at a given day and comprises a default risk and replacement risk.</p> <p>The TAURON Group has a decentralized credit risk management system in place, however, the control, mitigation and reporting are managed centrally at a Company-wide level. The TAURON Group's Credit Risk Management Policy sets out the credit risk management procedures for the entire Group with the view to reduce the impact of the risk on the Group's objectives.</p> <p>Based on the value of exposure and assessment of financial standing of each client, the value of credit risk to which the TAURON Group is exposed is calculated using statistical methods to determine value at risk based on the total loss probability distribution.</p>	<p>Credit risk management policy for the TAURON Group</p>
<b>Liquidity risk</b>		
<p>Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities.</p>	<p>The Company and TAURON Group's liquidity is reviewed on an ongoing basis to detect any deviation from plans and the availability of external sources of funds, in the case of which the amount materially exceeds the expected short-term demand, mitigates the liquidity risk.</p> <p>To this end the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies (cash-pooling) as well as using external financing, including overdraft facilities.</p> <p>The Company manages the financing risk, understood as no capability to obtain new funding, an increase in funding costs and the risk of terminating the existing funding agreements. To minimize the risk, TAURON's policy assumes obtaining funding for the Group well in advance of the planned time of use, i.e. up to 24 months prior to the planned demand. The key objective of the policy is to ensure flexible selection of funding source, use favorable market conditions and reduce the risk related to the necessity to contract new debt on adverse terms.</p>	<p>Liquidity management policy for the TAURON Group</p>

Risk exposure	Risk management	Regulation
<b>Market risk – interest rate and currency risks</b>		
The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates.	<p>The TAURON Group manages the currency and interest rate risk based on the developed and approved Financial Risk Management Policy. The key objective of such risk management is to minimize the cash flow sensitivity of the Company and the TAURON Group to financial risks and to minimize finance cost and costs of hedging with the use of derivative instruments. Wherever possible and commercially viable, TAURON uses derivative instruments, whose nature allows for the application of hedge accounting.</p> <p>The financial risk management policy of the TAURON Group has also introduced hedge accounting principles which set out the terms and conditions and types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS.</p>	Financial risk management policy for the TAURON Group
<b>Market risk – price risk</b>		
Unplanned volatility of the operating profit/loss of the TAURON Group resulting from fluctuations of prices in the commodity markets and deviations in volumes in individual areas of commercial activities of the TAURON Group.	Effective management is ensured by a commercial risk management system linked in terms of organization and information with the TAURON Group's strategy of hedging trading positions. The policy has introduced an early-warning system and risk-exposure limiting system in various trading areas. The basic operational measure of the market risk at the TAURON Group is the Value at Risk measure which determines the maximum allowed change in the value of the position over a given time period and with a given probability.	Commercial risk management policy for the TAURON Group

### 38.1. Credit risk

Classes of financial instruments that give rise to credit risk exposure with different characteristics are presented in the table below.

Financial asset classes	As at 31 December 2018	As at 31 December 2017
Receivables from buyers	819 563	719 133
Bonds	5 236 292	6 572 696
Loans granted	821 877	903 180
Cash and cash equivalents	465 925	721 577
Derivative instruments	220 343	81 698
Other financial receivables	222 462	33 006

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

#### 38.1.1. Credit risk related to receivables from buyers

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

Pursuant to IFRS 9 *Financial Instruments* the Company estimates and recognizes in profit or loss allowances on projected credit losses, based on probability-weighted credit loss. For strategic counterparties, the risk assessment is based on their rating assigned with the use of an internal scoring model and restated appropriately to arrive at probability of default. For other counterparties, the Company expects the historical repayment data to reflect credit risk to be incurred in future periods. The expected credit loss on receivables from buyers is calculated upon recognition of such receivables in the statement of financial position and updated as at each subsequent reporting period end. According to the management, the carrying amount including the expected credit losses appropriately reflects the risk of default the Company is exposed to.

Company's exposure to credit risk related to receivables from buyers, including aging, impairment and risk concentration, is presented in Note 24 hereto.

### **38.1.2. Credit risk related to bonds and loans granted**

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

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

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

- counterparty's internal or external rating as at the reporting period end having deteriorated by more than two rating levels compared to its rating upon initial recognition;
- counterparty's probability of insolvency projected within one-year horizon as at the reporting period end being at least twice higher than as at the initial recognition date;
- receivables related to a given asset being overdue by more than 30 days.

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

Under the applied model of measuring expected credit losses, the Company recognizes and remeasures allowances for expected credit losses as at each reporting period end. Additionally, bonds and loans granted regard transactions concluded with related parties. Consequently, in Company's view, no additional credit risk occurs that would exceed the level determined by the allowance for expected credit losses, recognized for each bond and loans granted item.

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

Company's exposure to credit risk related to bonds and loans granted, including information on impairment, its changes and the underlying reasons, as well as assignment to classes of allowances for expected credit losses in line with the rating used by the Company, are presented in Notes 19 and 22 hereto.

### **38.1.3. Credit risk related to other financial assets**

#### ***Cash and cash equivalents***

The Company manages credit risk related to cash by diversifying banks where it deposits its cash surplus. These banks receive investment rating.

As at 31 December 2018, the share of three banks in which the Company holds the highest cash balances amounted to 93%. The highest balance (72%) was held on bank accounts and deposit in Bank Gospodarstwa Krajowego.

#### ***Derivative instruments***

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

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

**Other financial receivables**

Other financial receivables are presented in the following table.

	As at 31 December 2018	As at 31 December 2017
Receivables due to income tax settlement by Tax Capital Group companies	54 458	6 133
Initial deposits	163 495	11 140
Bid bonds, deposits and collateral transferred	4 213	15 343
Other	296	390
	<b>222 462</b>	<b>33 006</b>

Margin deposits related to collateral of transactions concluded on regulated markets are the key item. Commodity exchange mechanisms and collateral used materially mitigate the credit risk.

Receivables arising from settlements of the Tax Capital Group account for another material item. Since these are ongoing settlements with related parties, regarding taxes, in Company's view, the related credit risk is low.

**38.2. Liquidity risk**

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

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

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

**Overdraft facilities as at 31 December 2018**

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

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

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

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

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

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

### Financial liabilities as at 31 December 2018

	Carrying amount	Contractual undiscounted payments	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
<b>Financial liabilities other than derivative instruments</b>								
Interest-bearing loans and borrowings (including bonds issued)	12 978 718	(15 858 668)	(2 497 449)	(2 322 357)	(2 435 940)	(579 729)	(1 026 724)	(6 996 469)
Liabilities to suppliers	525 986	(525 986)	(525 986)	–	–	–	–	–
Liabilities due to purchases of fixed and intangible assets	336	(336)	(325)	(11)	–	–	–	–
Other financial liabilities	388 936	(388 936)	(368 794)	(2 517)	(2 500)	(2 500)	(5 000)	(7 625)
<b>Derivative financial liabilities</b>								
Derivative instruments – commodity	233 303	(124 112)	(76 640)	(16 490)	(30 982)	–	–	–
Derivative instruments – currency	2 479	(2 479)	86	(2 565)	–	–	–	–
Derivative instruments – CCIRS	5 140	(50 950)	–	(5 627)	(5 713)	(5 695)	(11 253)	(22 662)
<b>Total</b>	<b>14 134 898</b>	<b>(16 951 467)</b>	<b>(3 469 108)</b>	<b>(2 349 567)</b>	<b>(2 475 135)</b>	<b>(587 924)</b>	<b>(1 042 977)</b>	<b>(7 026 756)</b>

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

	Carrying amount	Contractual undiscounted payments	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
<b>Financial liabilities other than derivative instruments</b>								
Interest-bearing loans and borrowings (including bonds issued)	12 174 272	(14 560 425)	(2 537 566)	(413 335)	(2 322 897)	(2 189 338)	(981 420)	(6 115 869)
Liabilities to suppliers	413 265	(413 265)	(413 265)	–	–	–	–	–
Liabilities due to purchases of fixed and intangible assets	130	(130)	(130)	–	–	–	–	–
Other financial liabilities	82 586	(82 586)	(57 182)	(5 281)	(2 500)	(2 500)	(5 000)	(10 124)
Liabilities under finance lease	23 945	(24 142)	(1 474)	(22 668)	–	–	–	–
<b>Derivative financial liabilities</b>								
Derivative instruments – commodity	52 821	(4 424)	–	(4 424)	–	–	–	–
Derivative instruments – currency	346	(346)	(275)	(71)	–	–	–	–
Derivative instruments – CCIRS	9 299	(47 125)	–	(4 694)	(4 694)	(4 748)	(9 427)	(23 562)
<b>Total</b>	<b>12 756 664</b>	<b>(15 132 443)</b>	<b>(3 009 892)</b>	<b>(450 473)</b>	<b>(2 330 091)</b>	<b>(2 196 586)</b>	<b>(995 847)</b>	<b>(6 149 555)</b>

As at 31 December 2018, the Company had granted guarantees, sureties and other forms of collateral to related parties in the total amount of PLN 1 340 248 thousand (excluding registered and financial pledges on shares) versus PLN 825 876 thousand as at 31 December 2017. As at 31 December 2018, the key items included a corporate guarantee of up to EUR 168 000 thousand (PLN 722 400 thousand) granted to a subsidiary and a bank guarantee of PLN 444 000 thousand to Bank Gospodarstwa Krajowego, described in detail in Note 40 hereto.

The guarantees and sureties granted by the Company constitute contingent liabilities and do not considerably affect the liquidity risk of the Company.

### 38.3. Market risk

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

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

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



**38.3.1. Interest rate risk**

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

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Company's cash flows to an acceptable level and to minimize finance costs. In order to hedge interest rate risk related to floating-rate bonds issued, the Company entered into interest rate swap contracts, which has been discussed in more detail in Note 20 to these financial statements.

As the Company has adopted a dynamic financial risk management strategy where the hedged item is cash flows relating to the exposure to the floating WIBOR 6M interest rate, the interest rate risk for a portion of interest cash flows has been reduced by the hedging IRS transactions. Thus, a portion of the carrying amount of floating interest rates bonds with interest cash flow fluctuations hedged with interest rate swaps has been presented in the tables below together with valuation of these hedging instruments as fixed-rate items.

Exposed to interest rate risk are also financial instruments measured at fair value: IRS, CCIRS and loan granted to Elektrociepłowni Stalowa Wola S.A.

**Financial instruments by interest rate type as at 31 December 2018**

Financial instruments	Fixed interest rate	Floating interest rate	Total
<b>Financial assets</b>			
Bonds	5 236 292	–	<b>5 236 292</b>
Loans granted	222 756	599 121	<b>821 877</b>
Cash and cash equivalents	–	465 925	<b>465 925</b>
Derivative instruments – IRS	4 178	–	<b>4 178</b>
<b>Financial liabilities</b>			
Bank overdrafts	–	767	<b>767</b>
Arm's length loans	1 581 423	2 038 520	<b>3 619 943</b>
Bonds issued	5 800 380	3 557 628	<b>9 358 008</b>
Derivative instruments – CCIRS	5 140	–	<b>5 140</b>

**Financial instruments by interest rate type as at 31 December 2017**

Financial instruments	Fixed interest rate	Floating interest rate	Total
<b>Financial assets</b>			
Bonds	6 572 696	–	<b>6 572 696</b>
Loans granted	142 223	760 957	<b>903 180</b>
Cash and cash equivalents	–	721 577	<b>721 577</b>
Derivative instruments – IRS	28 482	–	<b>28 482</b>
<b>Financial liabilities</b>			
Bank overdrafts	–	93 502	<b>93 502</b>
Arm's length loans	1 763 390	2 377 034	<b>4 140 424</b>
Bonds issued	4 984 389	2 955 957	<b>7 940 346</b>
Obligations under finance leases	–	23 945	<b>23 945</b>
Derivative instruments – CCIRS	9 299	–	<b>9 299</b>

Other financial instruments of the Company which have not been presented in the tables above bear no interest and therefore are not exposed to the interest rate risk. Interest rate of floating-rate financial instruments is updated on a regular basis, more frequently than once a year. Interest on fixed-rate financial instruments is fixed throughout the entire term to maturity or until a specified point in time where the interest rates are verified and may be changed – this applies to loans from the European Investment Bank as well as hybrid bonds, which bear fixed interest in the first period and floating interest in the second period.



**Interest rate risk sensitivity analysis**

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

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

The Company identifies its exposure to the risk of changes in WIBOR, EURIBOR and LIBOR USD interest rates. As at 31 December 2018 and 31 December 2017, its exposure to changes in EURIBOR and LIBOR USD rates was immaterial. The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) to reasonably possible changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

**Year ended 31 December 2018**

Classes of financial instruments	31 December 2018		Sensitivity analysis for interest rate risk as at 31 December 2018			
	Carrying amount	Value at risk	WIBOR + 34 pb		WIBOR -34 pb	
			Profit/(Loss)	Other comprehensive income	Profit/(Loss)	Other comprehensive income
Loans granted	821 877	798 377	(6 767)	–	7 204	–
Cash and cash equivalents	465 925	465 925	873	–	(873)	–
Derivatives (assets)	220 343	4 178	–	10 315	–	(10 315)
Arm's length loans	3 619 943	2 038 520	(6 931)	–	6 931	–
Bonds issued	9 358 008	5 656 342	(19 232)	–	19 232	–
Derivates (liabilities)	240 922	5 140	6 618	–	(6 618)	–
<b>Total</b>			<b>(25 439)</b>	<b>10 315</b>	<b>25 876</b>	<b>(10 315)</b>

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

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

Classes of financial instruments	31 December 2017		Sensitivity analysis for interest rate risk as at 31 December 2017			
	Carrying amount	Value at risk	WIBOR + 43 pb		WIBOR -43 pb	
			Profit/(Loss)	Other comprehensive income	Profit/(Loss)	Other comprehensive income
Loans granted	903 180	760 957	3 272	–	(3 272)	–
Cash and cash equivalents	721 577	721 577	3 034	–	(3 034)	–
Derivatives (assets)	81 698	28 482	–	21 217	–	(21 217)
Bank overdrafts	93 502	93 502	–	–	–	–
Arm's length loans	4 140 424	2 377 034	(10 221)	–	10 221	–
Bonds issued	7 940 346	5 053 777	(21 731)	–	21 731	–
Obligations under finance leases	23 945	23 945	(103)	–	103	–
Derivates (liabilities)	62 466	9 299	5 995	–	(5 995)	–
<b>Total</b>			<b>(19 754)</b>	<b>21 217</b>	<b>19 754</b>	<b>(21 217)</b>

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

**38.3.2. Currency risk**

The Company's exposure to currency risk by financial instrument class as at 31 December 2018 and 31 December 2017 has been presented below. A material exposure involves EUR/PLN rate changes, mostly due to borrowings contracted in EUR. Company's exposure to other currencies is immaterial.

**Currency position as at 31 December 2018**

	Total carrying amount in PLN	EUR	
		in currency	in PLN
<b>Financial assets</b>			
Receivables from buyers	819 563	327	1 406
Other financial receivables	222 462	38 731	166 543
Cash and cash equivalents	465 925	48 019	206 482
Derivatives (assets)	220 343	35 511	152 697
<b>Total</b>	<b>1 728 293</b>	<b>122 588</b>	<b>527 128</b>
<b>Financial liabilities</b>			
Arm's length loans	3 619 943	169 941	730 747
Bonds issued	9 358 008	686 463	2 951 789
Liabilities to suppliers	525 986	174	748
Other financial liabilities	388 936	57 866	248 824
Derivatives (liabilities)	240 922	39 493	169 820
<b>Total</b>	<b>14 133 795</b>	<b>953 937</b>	<b>4 101 928</b>
<b>Net currency position</b>		<b>(831 349)</b>	<b>(3 574 800)</b>

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

	Total carrying amount in PLN	EUR	
		in currency	in PLN
<b>Financial assets</b>			
Receivables from buyers	719 133	250	1 043
Other financial receivables	33 006	3 321	13 852
Cash and cash equivalents	721 577	2 577	10 748
Derivatives (assets)	81 698	5 237	21 843
<b>Total</b>	<b>1 555 414</b>	<b>11 385</b>	<b>47 486</b>
<b>Financial liabilities</b>			
Arm's length loans	4 140 424	172 932	721 282
Overdraft	93 502	22 069	92 048
Bonds issued	7 940 346	692 073	2 886 567
Liabilities to supplier	413 265	65	271
Other financial liabilities	82 586	1 717	7 162
Derivatives (liabilities)	62 466	5 129	21 391
<b>Total</b>	<b>12 732 589</b>	<b>893 985</b>	<b>3 728 721</b>
<b>Net currency position</b>		<b>(882 600)</b>	<b>(3 681 235)</b>

TAURON Polska Energia S.A. use forward contracts for currency risk management purposes. Transactions concluded in 2018 were intended to protect the Company from forex risk, related to its commercial operations, mostly to purchases of greenhouse gas emission allowances and from currency exposure generated by interest payments on borrowings denominated in EUR.

Measurement at fair value of FX forward contracts (as at 31 December 2018 liabilities arising from negative valuation of derivatives occurred in amount of PLN 2 479 thousand) and CCIRS transactions (as at 31 December 2018 liabilities arising from negative valuation of derivatives occurred in amount of PLN 5 140 thousand), whose fair value measurement is exposed to the risk of changes in the EUR/PLN exchange rate. These transactions are not subject to hedge accounting.

**Currency risk sensitivity analysis**

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

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

The Company identifies its exposure to foreign currency risk related to EUR/PLN, USD/PLN, GBP/PLN, CZK/PLN. Significant risk exposure regards EUR; other currencies do not generate material risk for the Company. The tables below present sensitivity of the gross financial profit/loss to reasonably possible changes in the EUR/PLN exchange rate within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

**Year ended 31 December 2018**

Classes of financial instruments	31 December 2018		Sensitivity analysis for currency risk as at 31 December 2018	
	Carrying amount	Value at risk	EUR/PLN	
			exchange rate EUR/PLN +5.85%	exchange rate EUR/PLN -5.85%
			Profit/(Loss)	
Receivables from buyers	819 563	1 406	82	(82)
Other financial receivables	222 462	166 543	9 743	(9 743)
Cash and cash equivalents	465 925	206 482	12 079	(12 079)
Derivatives (assets)	220 343	152 697	8 933	(8 933)
Arm's length loans	3 619 943	730 747	(42 749)	42 749
Bonds issued	9 358 008	2 951 789	(172 680)	172 680
Liabilities to suppliers	525 986	748	(44)	44
Other financial liabilities	388 936	248 824	(14 556)	14 556
Derivatives (liabilities)	240 922	177 439	38 838	(38 838)
<b>Total</b>			<b>(160 354)</b>	<b>160 354</b>

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

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

Classes of financial instruments	31 December 2017		Sensitivity analysis for currency risk as at 31 December 2017	
	Carrying amount	Value at risk	EUR/PLN	
			exchange rate EUR/PLN +6.2%	exchange rate EUR/PLN -6.2%
			Profit/(Loss)	
Receivables from buyers	719 133	1 043	65	(65)
Other financial receivables	33 006	13 852	859	(859)
Cash and cash equivalents	721 577	10 748	667	(667)
Derivatives (assets)	81 698	21 843	1 354	(1 354)
Overdraft	93 502	92 048	(5 705)	5 705
Arm's length loans	4 140 424	721 282	(44 720)	44 720
Bonds issued	7 940 346	2 886 567	(178 967)	178 967
Liabilities to suppliers	413 265	271	(17)	17
Other financial liabilities	82 586	7 162	(444)	444
Derivatives (liabilities)	62 466	31 036	18 342	(18 342)
<b>Total</b>			<b>(208 566)</b>	<b>208 566</b>

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

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

#### Commodity derivatives

The Company concludes derivative contracts, with underlying instruments being commodities and raw materials. The Company's exposure to price risk inherent in commodity derivative instruments is related to a risk of changes in the fair value of the said instruments, driven by fluctuations of prices of the underlying raw materials/commodities. The Company limits price risk related to commodity derivatives concluding offsetting transactions. The risk is limited to open long and short positions concerning a given commodity or raw material, i.e. concern unbalanced portfolio.

As at 31 December 2018, the portfolio is fully balanced, i.e. the long position is closed with an offsetting transaction (the short position), including warehouse balance, i.e. allowances held in the trading portfolio as at the reporting period end. This minimizes market risk related to the commodity derivatives portfolio, as confirmed by a sensitivity analysis, which indicated immaterial effects of potential changes in the prices of emission allowances on Company's gross profit/loss.

#### Participation units

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

A performed analysis indicated immaterial effects of potential quotation changes on Company's gross profit/loss.

### 39. Operational risk

The Company is exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in prices of goods in the open market position.

Commercial operational risk is managed at the level of the TAURON Group, which has been discussed in more detail in Note 46 to the consolidated financial statements of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2018. The Company manages its commercial risk following the Commercial risk management policy developed and adopted in the TAURON Group.

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

Fuel type	Unit	2018		2017	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	38 870 705	7 207 929	42 245 897	6 962 695
Gas	MWh	3 203 779	297 451	2 561 368	201 315
<b>Total</b>			<b>7 505 380</b>		<b>7 164 010</b>

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

## OTHER INFORMATION

### 40. Contingent liabilities

As at 31 December 2018 and 31 December 2017 the Company's contingent liabilities were mainly the effect of securities and guarantees given to related parties and were as follows:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	As at 31 December 2018			As at 31 December 2017	
			Validity	EUR	PLN	EUR	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	3.12.2029	168 000	722 400	168 000	700 711
	TAURON Ekoenergia Sp. z o.o.	Business entities and buyers being parties to contracts with TAURON Ekoenergia Sp. z o.o. based on the electricity trading licence issued by the President of the Energy Regulatory Office	31.12.2030		16 400		16 400
blank promissory note with a promissory note declaration	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022		40 000		40 000
	TAURON Ciepło Sp. z o.o.		15.12.2022		30 000		30 000
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028 <sup>1</sup>		415 852		415 852
	TAMEH POLSKA Sp. z o.o.						
surety contract	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	15.06.2021		914		914
			31.12.2023		293		-
	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Fund Advisors	28.09.2025		2 500		2 350
			31.12.2020		33 024		-
	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.	indefinite		5 000		5 000
	TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	30.11.2019		20 000		15 000
	Elektrociepłownia Stalowa Wola S.A.	Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	30.07.2020		1 667		1 667
Bank Gospodarstwa Krajowego			30.01.2021		9 959		-
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	TAURON Ciepło Sp. z o.o.	Elektrobudowa S.A.	31.01.2019		12 300		12 300
	other subsidiaries	various entities	31.01.2019 <sup>2</sup> - 15.02.2020		1 791		1 534
liability towards MUFG Bank, Ltd. under guarantees issued by the bank for jointly-controlled entity	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2019		444 000		-

<sup>1</sup> The registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.

<sup>2</sup> On 31 December 2018, the guarantee granted to a Mining sector company in the amount of PLN 103 thousand expired. A new guarantee of PLN 105 thousand, expiring on 31 December 2019, has been binding since 1 January 2019. Further, as of 1 January 2019, three guarantees have been binding, granted to a company from the Other segment and totaling PLN 413 thousand, expiring on 30 March 2020.

Key contingent liability items referred to above:

- Corporate guarantee of EUR 168 000 thousand

Corporate guarantee given in 2014 to secure the bonds issued by TAURON Sweden Energy AB (publ). The guarantee remains valid until 3 December 2029, i.e. until the date of redemption of bonds, and amounts to EUR 168 000 thousand (PLN 722 400 thousand). The beneficiaries of the guarantee are the bondholders, which purchased bonds of TAURON Sweden Energy AB (publ).

- Registered and financial pledges on shares

On 15 May 2015, TAURON Polska Energia S.A. established a financial pledge and registered pledges on 3 293 403 issued shares of TAMEH HOLDING Sp. z o.o., representing ca. 50% of the issued capital. RAIFFEISEN BANK INTERNATIONAL AG is the beneficiary of the aforesaid pledges. They include a first lien registered pledge on shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered

pledge on shares with the maximum collateral amount of PLN 840 000 thousand. On 15 September 2016, Annex 1 was executed to the aforementioned agreement, whereby the maximum collateral amount was changed to PLN 1 370 000 thousand. The Company also agreed to establish a financial pledge and registered pledges on new shares acquired or taken up. Moreover, the Company assigned the rights to dividend and other payments.

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

As at 31 December 2018, the carrying amount of shares in TAMEH HOLDING Sp. z o.o. was PLN 415 852 thousand.

- **Blank promissory notes and promissory note agreements**

The Company issued two blank promissory notes along with promissory note agreements, totalling PLN 70 000 thousand, as collateral for loan agreements entered into by its subsidiaries with the Regional Fund for Environmental Protection and Water Management in Katowice. The collateral in the form of promissory notes is valid until the subsidiaries' payment of all their liabilities to the lender. The promissory notes are valid until 15 December 2022. As at the balance sheet date, the outstanding amount of loans secured with the notes was PLN 17 000 thousand.

- **Liability to MUFG Bank, Ltd.**

On 11 April 2018, a bank guarantee of PLN 444 000 thousand was issued for the benefit of Bank Gospodarstwa Krajowego at the request of the Company. The guarantee secures bank exposure under a loan agreement concluded on 8 March 2018 among the borrower, Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., which has been described in more detail in Note 22 to these financial statements. The guarantee was issued by MUFG Bank, Ltd., and is valid until 11 April 2019. The exposure of MUFG Bank, Ltd. to the Company in the form of a guarantee agreement dated 4 April 2018 is secured with a declaration of submission to enforcement up to PLN 621 000 thousand valid until 31 July 2019 (Note 41 to these financial statements). In relation to the guarantee issued, the Company recognized a liability equal to the projected credit losses, measured for the guarantee period and amounting to PLN 11 994 thousand as at 31 December 2018. The rating applied by the Company for Elektrociepłownia Stalowa Wola S.A. ranges from BB- to B.

After the reporting period end, on 7 February 2019, per Company's order, an annex was issued to the above bank guarantee, pursuant to which as of 12 April 2019, the guarantee amount will be increased to PLN 517 500 thousand and the expiration date postponed to 11 April 2020. The annex to the bank guarantee agreement was concluded based on the guarantee agreement of 5 February 2019 concluded with the MUFG Bank, Ltd. and is secured with a declaration of submission to enforcement up to PLN 621 000 thousand valid until 31 July 2020 (Note 41 to these financial statements).

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

- **Claims relating to termination of long-term contracts**

**Claims relating to termination of long-term contracts against the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.**

In 2015 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed a case against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. to declare notices of termination submitted by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. with regard to power purchase and ownership titles concluded with these companies ineffective. In the course of court proceedings, plaintiffs extend their scope raising new contract termination related claims.

As at the date of approval of these financial statements for publication, the amounts claimed were as follows:

- the in.ventus group companies: EUR 13 367 thousand;
- the Polenergia Group companies: PLN 67 248 thousand;
- the Wind Invest Group companies: PLN 125 003 thousand.

All cases are held at first instance courts (including one remanded for re-examination by a first-instance court).



In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing the cases both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation is less than 50%. Therefore, no provision for the related costs has been recognized.

**Claims relating to termination of long-term contracts by a subsidiary TAURON Sprzedaż Sp. z o.o.**

On 28 February 2017, TAURON Sprzedaż Sp. z o.o., a subsidiary, submitted termination notices regarding long-term contracts for the purchase of property rights under green certificates by the subsidiary. The party to the contracts in 2008 are companies from the in.ventus group. The contracts were terminated after the parties were unable to reach an agreement in renegotiation of the contracts in line with the terms and conditions provided for therein. Total net contractual liabilities of TAURON Sprzedaż Sp. z o.o. under the terminated contracts for the years 2017–2023, as at the date of the termination would be approx. PLN 417 000 thousand.

After the balance sheet date, of 7 March 2019, Hamburg Commercial Bank AG (previously HSH Nordbank AG) instigated an action against TAURON Sprzedaż Sp. z o.o. for compensation relating to its failure to exercise contracts on sales of property rights arising from green certificates and liquidated damages charged in relation to termination of the above contracts. The plaintiff demands TAURON Sprzedaż Sp. z o.o. to pay the amount of PLN 232 879 thousand with statutory interest for the delay, calculated from the date of filing the action to the date of the payment, and including the compensation totaling PLN 36 252 thousand and liquidated damages totaling PLN 196 627 thousand.

The claims of Bank arise from the acquisition of a debt initially owed, according to its statements, to the following in.ventus group companies:

- in.ventus Sp. z o.o. EW Dobrzyń sp.k.;
- in.ventus Sp. z o.o. INO 1 sp.k.;
- in.ventus Sp. z o.o. EW Gołdap sp.k.

The court competent for hearing the claims is the Regional Court for Kraków. TAURON Sprzedaż Sp. z o.o. has started analyzing the claim and it will respond to it in due time. Based on the preliminary analysis of the demands and the rationale, according to TAURON Sprzedaż Sp. z o.o., the claim has been found entirely unsubstantiated. In the company's view, the probability of losing the case, both in relation to the compensation and liquidated damages, is lower than the chance of winning the case. Therefore, no provisions for the costs of the case is recognized.

In 2018, the subsidiary TAURON Sprzedaż Sp. z o.o. was notified of cases filed against it by two Polenergia group companies with regard to a settlement attempt related to damages in the total amount of PLN 78 855 thousand for an alleged loss incurred by the Polenergia group companies as a result of groundless termination of the long-term agreement concluded between them and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. In their motions the companies indicated that Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and liquidators have acted to the detriment of the Polenergia group companies and TAURON Sprzedaż Sp. z o.o. benefited on the case being fully aware of it, and thus is fully liable for this, according to the plaintiffs. TAURON Sprzedaż Sp. z o.o. considered the claims of the Polenergia group companies groundless; thus, no settlement was reached.

**Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.**

In 2017 and 2018 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed cases against TAURON Polska Energia S.A. regarding damages and liability for potential future losses resulting from tort, including unfair competition. Notices of termination submitted by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. regarding long-term contracts for the purchase of power and property titles related to energy certificates allegedly directed by TAURON Polska Energia S.A., provided the factual basis for these claims.

As at the date of approval of these financial statements for publication, the amounts claimed were as follows:

- the in.ventus group companies: EUR 12 286 thousand;
- the Polenergia Group companies: PLN 78 855 thousand;
- the Wind Invest Group companies: PLN 129 947 thousand.

Further, the plaintiffs indicate the following estimated future losses:

- the in.ventus group companies: EUR 35 706 thousand;
- the Polenergia Group companies: PLN 265 227 thousand;
- the Wind Invest Group companies: PLN 1 119 363 thousand.

The court competent for hearing the claims is the Regional Court for Katowice. All cases are held before the first instance courts. Those filed by Wind Invest group companies are held in camera. As at the date of approval of these financial statements for publication, the probability that the rulings will be favorable for the Company is high (70%).



Further, a case filed by Dobiesław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. is pending at District Court in Kraków (the first-instance court). It concerns a demand to make a court deposit of PLN 183 391 thousand to reverse the threat of a loss. Bearing in mind the current status of the case, the chances that the rulings will be favorable for the Company are considerably higher than 50%.

- **Claim against PGE EJ 1 Sp. z o.o.**

On 13 March 2015, a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (the "WorleyParsons consortium") responsible for conducting research as part of an investment project relating to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (the "agreement") demanded the payment of PLN 92 315 thousand from PGE EJ 1 Sp. z o.o. As a result, on 15 April 2015 the Company (as a holder of 10% of shares in the issued capital of PGE EJ 1 Sp. z o.o.) concluded an agreement with PGE EJ 1 Sp. z o.o. and its other shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations related to these claims, including principles of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders.

In the Company's view, its potential additional exposure to PGE EJ 1 Sp. z o.o. arising from the agreement shall not exceed its percentage capital exposure to that entity.

In November 2015, the District Court in Warsaw served PGE EJ 1 with the claim made by the WorleyParsons consortium for the amount approximating PLN 59 million, in 2017 was increased by PLN 45 million, to approx. PLN 104 million.

PGE EJ1 did not accept the claim and believed that the probability that the court would decide in favor of the plaintiffs was remote. No provisions were recognized in relation to the above events.

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

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

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

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

In this case, the courts of the first and second instance passed judgments favourable for GZE; however, in its judgment of 29 November 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. Since 27 November 2012 the case has been heard by the court of first instance.

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

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

The claim filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, regards the payment of PLN 17 086 thousand with statutory interest from 31 March 2015 until the payment date. The basis of the claim brought by ENEA is unjust enrichment of the Company due to potential errors in the calculation of aggregated measurement and billing data by ENEA Operator Sp. z o.o. (being the Distribution System Operator), which are the basis of ENEA and the Company's settlements with Polskie Sieci Elektroenergetyczne S.A., due to an imbalance in the Balancing Market between January and December 2012.

During the proceedings, at the request of ENEA S.A. the court decided to extend the suit against seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. Two subsidiaries have been sued along with TAURON Polska Energia S.A.: TAURON Sprzedaż Sp. z o.o. from which ENEA S.A. demanded PLN 4 934 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment; and TAURON Sprzedaż GZE Sp. z o.o. from which ENEA S.A. demanded PLN 3 480 thousand with statutory interest as of the date of serving a copy of the request to extend the suit until the date of payment. The demand for payment of the above amounts as well as the amounts claimed from the other five sellers was submitted by the petitioner in case the claim against TAURON Polska Energia S.A. is dismissed. The case is pending before the first-instance court.

The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions were recognized by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 5 483 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 3 900 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest reviewed as at 31 December 2018 and the cost of the proceedings.

As at 31 December 2018, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator sp. z o.o. during the proceedings, the values of the claims against the Company and the Group companies may be expected to change.

**The commitment of the Closed-end Investment Funds managed by Polski Fundusz Rozwoju in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.**

In the investment agreement signed by the Company and Closed-end Investment Funds managed by Polski Fundusz Rozwoju as described in detail in Note 48 to these financial statements, a number of situations were mentioned, the occurrence of which indicates a potential significant infringement of the agreement. The potential significant infringement of the agreement by the companies of the Group may lead to the potential necessity of recognizing in financial statements the liability to buy out from Closed-end Investment Funds shares in subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. owned by these funds. As at the balance sheet date, Closed-end Investment Funds own shares in subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 100 000 thousand.

**41. Security for liabilities**

Key types of security for the Company's liabilities have been presented below.

Agreement/transaction	Collateral	Collateral amount
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013 as amended	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 30 June 2034
Bank guarantee agreement dated 4 April 2018 with MUFG Bank, Ltd.	declaration of submission to enforcement	up to PLN 621 000 thousand valid until 31 July 2019
Framework bank guarantee agreement concluded with CaixaBank S.A. (the Company and TAURON Group companies can use the limit for guarantees to secure transactions)	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Bank guarantee issued by CaixaBank S.A. for the benefit of the Company as requested by Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. – as security of transmission agreement	bank guarantee	up to PLN 6 100 thousand valid until 30 November 2019
Agreement with Santander Bank Polska S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by Santander Bank Polska S.A.	up to PLN 150 000 thousand
Overdraft agreement and intra-day limit (bank account agreement) at PKO Bank Polski S.A. (overdraft of up to PLN 300 000 thousand and intra-day limit of up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
	declaration of submission to enforcement	up to PLN 600 000 thousand, valid until 17 December 2021
	declaration of submission to enforcement	up to PLN 360 000 thousand, valid until 29 December 2021
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 193 500 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 103 200 thousand (EUR 24 000 thousand) valid until 31 December 2020
	declaration of submission to enforcement	up to PLN 215 000 thousand (EUR 50 000 thousand) valid until 31 December 2020
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 11 279 thousand (USD 3 000 thousand) valid until 31 March 2019
Overdraft agreement with mBank (in USD, up to USD 500 thousand)	declaration of submission to enforcement	up to PLN 2 820 thousand (USD 750 thousand) valid until 29 March 2020
Performance bonds related to concluded financing contracts	blank promissory notes to secure the payment of the Company's liabilities	up to the total amount of PLN 4 985 thousand

On 31 December 2018 a statement of submission to enforcement up to PLN 6 900 000 thousand, signed by the Company in relation to the Bond Issue Scheme of 16 December 2010 with annexes, expired.

After the reporting period end, the Company:

- on 9 January 2019 signed statements of submission to enforcement up to PLN 1 500 000 thousand, valid until 31 December 2036 and securing the repayment of liabilities related to the loan agreement of 19 December 2018 concluded with Bank Gospodarstwa Krajowego, described in detail in Note 29.7 hereto;
- on 6 February 2019 signed statements of submission to enforcement up to PLN 621 000 thousand, valid until 31 July 2020, securing the repayment of liabilities related to the guarantee agreement concluded with MUFG Bank. Ltd. on 5 February 2019, as described in detail in Note 40 hereto;
- on 6 February 2019 provided collateral in the form of a blank promissory note for PLN 2 574 thousand related to the project co-funding contract concluded with the National Research and Development Center;
- on 27 March 2019, under the bank guarantee agreement made with Santander Bank Polska S.A. (Spółka Akcyjna) per Company's order, issued a bank guarantee to secure the liabilities of the Company against Izba Rozliczeniowa Giełd Towarowych S.A., totaling PLN 20 000 thousand, valid until 31 May 2019.

## 42. Capital commitments

As at 31 December 2018 and 31 December 2017, the Company did not have any material capital commitments.

## 43. Related-party disclosures

### 43.1. Transactions with related parties and State Treasury companies

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

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

#### Revenue and expenses

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Revenue from subsidiaries</b>	<b>9 842 724</b>	<b>8 629 630</b>
Revenue from operating activities	8 701 280	7 602 324
Dividend income	800 777	542 474
Other operating income	7 241	5 669
Other finance income	333 426	479 163
<b>Revenue from jointly-controlled entities</b>	<b>59 109</b>	<b>56 611</b>
<b>Revenue from State Treasury companies</b>	<b>164 556</b>	<b>411 956</b>
<b>Costs from subsidiaries</b>	<b>(2 145 541)</b>	<b>(3 175 156)</b>
Costs of operating activities	(2 094 757)	(3 127 698)
Finance costs	(50 784)	(47 458)
<b>Costs incurred with relation to transactions with jointly-controlled entities</b>	<b>(4 958)</b>	<b>(3 183)</b>
<b>Costs from State Treasury companies</b>	<b>(1 000 560)</b>	<b>(532 007)</b>

#### Receivables and liabilities

	As at 31 December 2018	As at 31 December 2017
<b>Loans granted to subsidiaries and receivables from subsidiaries</b>	<b>7 045 063</b>	<b>7 561 140</b>
Receivables from buyers	777 825	658 936
Loans granted under cash pool agreement plus interest accrued	806 301	182 933
Other loans granted	–	139 268
Receivables from the TCG	54 454	6 078
Bonds	5 403 709	6 572 696
Other financial receivables	178	240
Other non-financial receivables	2 596	989
<b>Loans granted to jointly-controlled entities and receivables from jointly-controlled entities</b>	<b>354 744</b>	<b>579 381</b>
<b>Receivables from State Treasury companies</b>	<b>21 346</b>	<b>49 941</b>
<b>Liabilities to subsidiaries</b>	<b>3 078 690</b>	<b>3 406 474</b>
Liabilities to suppliers	236 030	288 965
Loans received under cash pool agreement plus interest accrued	2 021 198	2 355 765
Other loans received	730 747	721 280
Liabilities arising from the TCG	90 490	34 836
Other financial liabilities	18	5 257
Other non-financial liabilities	207	371
<b>Liabilities to jointly-controlled entities</b>	<b>225</b>	<b>503</b>
<b>Liabilities to State Treasury companies</b>	<b>166 901</b>	<b>28 952</b>

Revenue from subsidiaries includes revenue from sales of coal mainly 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 to these financial statements.

In the year ended 31 December 2018, the major contracting party as regards sales revenue from transactions made by TAURON Polska Energia S.A. with State Treasury companies was PSE S.A. Sales to that entity accounted for 98% of the total revenue from State Treasury companies.

In the year ended 31 December 2018, Polska Grupa Górnicza Sp. z o.o., Węglkokoks S.A. and Jastrzębska Spółka Węglowa S.A. were the major contracting parties of TAURON Polska Energia S.A. as regards costs incurred in relation to transactions with State Treasury companies. Costs incurred in transactions with those entities represented 95% of total costs incurred in purchase transactions entered into with State Treasury companies.

The Company concludes material transactions on 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.

#### 43.2. Compensation of the executives

The amount of compensation and other benefits paid or payable to the Management Board, Supervisory Board and other key executives of the Company in the year ended 31 December 2018 and in the comparative period has been presented in the table below.

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Management Board</b>	<b>5 661</b>	<b>6 957</b>
Short-term benefits (with surcharges)	4 931	4 545
Termination benefits	695	2 104
Other	35	308
<b>Supervisory Board</b>	<b>833</b>	<b>739</b>
Short-term employee benefits (salaries and surcharges)	833	739
<b>Other members of key management personnel</b>	<b>16 370</b>	<b>13 832</b>
Short-term employee benefits (salaries and surcharges)	14 330	12 151
Termination benefits	898	776
Other	1 142	905
<b>Total</b>	<b>22 864</b>	<b>21 528</b>

In accordance with the adopted accounting policy, the Company recognizes provisions for termination benefits allocated to members of the Management Board and other key executives, which may be paid or payable in future reporting periods. The amounts paid or payable until 31 December 2018 have been presented above.

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

#### 44. 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 financial statements, there were no significant changes in finance and capital management objectives, principles or procedures. Capital and finance management has been discussed in more detail in Note 51 to the Consolidated Financial Statements for the year ended 31 December 2018.

#### 45. Employment structure

The following note presents average headcount in the annual periods ended 31 December 2018 and 31 December 2017.

	Year ended 31 December 2018	Year ended 31 December 2017
Management	–	1
Administration	366	330
Sales department	90	103
<b>Total</b>	<b>456</b>	<b>434</b>

The above table does not include persons covered by contracts for the provision of management services.

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

Information concerning the fee of the certified auditor has been presented in section 6. in the Management Board's report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the 2018 financial year.

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

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

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

- trade in gaseous fuels;
- other activity.

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

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

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

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

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

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

#### Statement of comprehensive income by type of activity for the 2018 financial year

	Gas	Other activity	Unallocated items	Total
Sales revenue	282 828	8 335 814	–	<b>8 618 642</b>
Cost of sales	(280 241)	(8 192 407)	–	<b>(8 472 648)</b>
<b>Gross profit</b>	<b>2 587</b>	<b>143 407</b>	–	<b>145 994</b>
Selling and distribution expenses	(679)	(20 013)	–	<b>(20 692)</b>
Administrative expenses	–	–	(98 716)	<b>(98 716)</b>
Other operating expenses	–	(3 927)	–	<b>(3 927)</b>
<b>Operating profit (loss)</b>	<b>1 908</b>	<b>119 467</b>	<b>(98 716)</b>	<b>22 659</b>
Dividend income	–	819 437	–	<b>819 437</b>
Interest income on bonds and loans	–	327 447	–	<b>327 447</b>
Interest expense on debt	–	(298 602)	–	<b>(298 602)</b>
Revaluation of shares	–	(2 469 069)	–	<b>(2 469 069)</b>
Revaluation of bonds and loans	–	15 493	–	<b>15 493</b>
Other finance income and costs	–	(149 648)	–	<b>(149 648)</b>
<b>Profit (loss) before tax</b>	<b>1 908</b>	<b>(1 635 475)</b>	<b>(98 716)</b>	<b>(1 732 283)</b>
Income tax expense	–	–	22 430	<b>22 430</b>
<b>Net profit (loss) for the year</b>	<b>1 908</b>	<b>(1 635 475)</b>	<b>(76 286)</b>	<b>(1 709 853)</b>



**Statement of comprehensive income by type of activity for the 2017 financial year**

	Gas	Other activity	Unallocated items	Total
Sales revenue	194 290	7 597 735	–	7 792 025
Cost of sales	(194 375)	(7 220 332)	–	(7 414 707)
<b>Gross profit (loss)</b>	<b>(85)</b>	<b>377 403</b>	–	<b>377 318</b>
Selling and distribution expenses	(580)	(22 729)	–	(23 309)
Administrative expenses	–	–	(88 751)	(88 751)
Other operating income and expenses	–	(2 470)	–	(2 470)
<b>Operating profit (loss)</b>	<b>(665)</b>	<b>352 204</b>	<b>(88 751)</b>	<b>262 788</b>
Dividend income	–	560 832	–	560 832
Interest income on bonds and loans	–	456 426	–	456 426
Interest expense on debt	–	(334 638)	–	(334 638)
Revaluation of shares and loans	–	(134 372)	–	(134 372)
Other finance income and costs	–	108 529	–	108 529
<b>Profit (loss) before tax</b>	<b>(665)</b>	<b>1 008 981</b>	<b>(88 751)</b>	<b>919 565</b>
Income tax expense	–	–	(65 214)	(65 214)
<b>Net profit (loss) for the year</b>	<b>(665)</b>	<b>1 008 981</b>	<b>(153 965)</b>	<b>854 351</b>

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

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

Equity, provisions for employee benefits, cash, receivables and liabilities relating to taxes and charges and deferred tax asset / liability have been presented as unallocated items in the statement of financial position.

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

**Statement of financial position by type of activity as at 31 December 2018**

	Gas	Other activity	Unallocated items	Total
<b>ASSETS</b>				
<b>Non-current assets, of which:</b>	<b>923</b>	<b>27 017 397</b>	<b>148 180</b>	<b>27 166 500</b>
Shares	–	21 076 056	–	21 076 056
Bonds	–	5 043 981	–	5 043 981
Loans granted	–	808 760	–	808 760
Derivative instruments	63	43 781	–	43 844
Deferred tax assets	–	–	148 180	148 180
Other financial assets	860	1 944	–	2 804
<b>Current assets, of which:</b>	<b>32 858</b>	<b>1 829 050</b>	<b>484 582</b>	<b>2 346 490</b>
Receivables from buyers	31 812	787 751	–	819 563
Income tax receivables	–	–	13 921	13 921
Bonds	–	192 311	–	192 311
Loans granted	–	13 117	–	13 117
Derivative instruments	31	176 468	–	176 499
Other financial assets	1 015	244 706	–	245 721
Other non-financial assets	–	5 110	4 736	9 846
Cash and cash equivalents	–	–	465 925	465 925
<b>TOTAL ASSETS</b>	<b>33 781</b>	<b>28 846 447</b>	<b>632 762</b>	<b>29 512 990</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>	–	–	15 259 836	15 259 836
<b>Non-current liabilities, of which:</b>	<b>27</b>	<b>8 529 976</b>	<b>3 787</b>	<b>8 533 790</b>
Debt	–	8 474 344	–	8 474 344
Derivative instruments	27	37 903	–	37 930
Provisions for employee benefits	–	–	3 787	3 787
<b>Current liabilities, of which:</b>	<b>10 886</b>	<b>5 683 607</b>	<b>24 871</b>	<b>5 719 364</b>
Debt	–	4 504 374	–	4 504 374
Liabilities to suppliers	10 819	515 167	–	525 986
Other financial liabilities	36	371 610	–	371 646
Derivative instruments	31	202 961	–	202 992
Other non-financial liabilities	–	–	24 626	24 626
Provisions for employee benefits	–	–	245	245
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>10 913</b>	<b>14 213 583</b>	<b>15 288 494</b>	<b>29 512 990</b>



**Statement of financial position by type of activity as at 31 December 2017 (restated)**

	Gas	Other activity	Unallocated items	Total
<b>ASSETS</b>				
<b>Non-current assets, of which:</b>	<b>834</b>	<b>27 370 850</b>	–	<b>27 371 684</b>
Shares	–	20 912 679	–	20 912 679
Bonds	–	6 009 920	–	6 009 920
Loans granted	–	382 989	–	382 989
Other financial assets	834	1 890	–	2 724
<b>Current assets, of which:</b>	<b>21 002</b>	<b>2 171 017</b>	<b>757 671</b>	<b>2 949 690</b>
Receivables from buyers	20 413	698 720	–	719 133
Bonds	–	562 776	–	562 776
Loans granted	–	520 191	–	520 191
Other financial assets	499	131 141	–	131 640
Other non-financial assets	–	4 857	36 094	40 951
Cash and cash equivalents	–	–	721 577	721 577
<b>TOTAL ASSETS</b>	<b>21 836</b>	<b>29 541 867</b>	<b>757 671</b>	<b>30 321 374</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>	–	–	<b>17 377 906</b>	<b>17 377 906</b>
<b>Non-current liabilities, of which:</b>	–	<b>9 497 797</b>	<b>32 990</b>	<b>9 530 787</b>
Debt	–	9 472 454	–	9 472 454
Deferred income tax liability	–	–	29 843	29 843
Provisions for employee benefits	–	–	3 147	3 147
<b>Current liabilities, of which:</b>	<b>4 171</b>	<b>3 338 061</b>	<b>70 449</b>	<b>3 412 681</b>
Debt	–	2 725 763	–	2 725 763
Liabilities to suppliers	4 081	409 184	–	413 265
Other financial liabilities	–	62 590	–	62 590
Income tax liabilities	–	–	37 629	37 629
Other non-financial liabilities	–	–	32 490	32 490
Provisions for employee benefits	–	–	330	330
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4 171</b>	<b>12 835 858</b>	<b>17 481 345</b>	<b>30 321 374</b>

**48. Other material information**

***Signing transaction documentation related to the investment in a subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. made by Closed-end Investment Funds managed by Polski Fundusz Rozwoju S.A.***

On 28 March 2018, the Company, its subsidiary, i.e. Nowe Jaworzno Grupa TAURON Sp. z o.o. and Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (“Funds”), with a portion of the investment portfolio managed by Polski Fundusz Rozwoju S.A., signed transaction documentation specifying the terms of the Fund’s equity investment in Nowe Jaworzno Grupa TAURON Sp. z o.o.

Transaction documentation includes an investment agreement and a shareholders’ agreement together with appendices, including draft long-term electricity sales contracts and a long-term coal sale contract, concluded by the Company and its subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. by the balance sheet date.

The shareholders’ agreement sets out the principles of corporate governance in Nowe Jaworzno Grupa TAURON Sp. z o.o. This agreement grants the Funds a personal right to appoint, suspend and dismiss one member of the Management Board and one member of the Supervisory Board of Nowe Jaworzno Grupa TAURON Sp. z o.o. It also specifies the matters for which a unanimous resolution of the Management Board, Supervisory Board or General Shareholders’ Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. will be required. The shareholders’ agreement will enter into force as soon as the Funds become members of Nowe Jaworzno Grupa TAURON Sp. z o.o.

The investment agreement specifies the terms and conditions of the equity investment of the Funds in Nowe Jaworzno Grupa TAURON Sp. z o.o. This investment project assumes the Funds’ becoming members of Nowe Jaworzno Grupa TAURON Sp. z o.o. and their participation in subsequent capital contributions to Nowe Jaworzno Grupa TAURON Sp. z o.o., by taking up new shares in exchange for cash contributions up to a total maximum amount of PLN 880 000 thousand, i.e. PLN 440 000 thousand by each of the Funds. As at the date when the 910 MW power unit

in Jaworzno is put into operation, the interests of the Funds in the issued capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. should be approx. 14% and the interests of the Company should never fall below 50%+1 share. The Company will be obliged to make a capital contribution to its subsidiary – Nowe Jaworzno Grupa TAURON Sp. z o.o. – sufficient to build a 910 MW power unit in Jaworzno, after the Funds have reached their maximum equity interest.

Under the investment agreement, the Funds will become members of Nowe Jaworzno Grupa TAURON Sp. z o.o. after specified conditions precedent have been met. The conditions precedent included obtaining the consent of the President of the Office for Competition and Consumer Protection for concentration, obtaining a decision of the Head of the National Revenue Administration approving the terms of the contract for the sale of electricity as an advance pricing agreement, conclusion by the Company and its subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. of specified contracts, including a contract for the sale of electricity and a contract for the sale of coal, and performance (or the Company ensuring the performance) of certain activities by the governing bodies of Nowe Jaworzno Grupa TAURON Sp. z o.o. As at the date of approving these financial statements for publication, in Company's view, all conditions precedent required for the Funds to join Nowe Jaworzno Grupa TAURON Sp. z o.o. have been fulfilled.

On 20 December 2018, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 1 000 thousand, through the issue of 20 000 new shares with the par value of PLN 50 each. The new shares in the increased issued capital were assumed by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych for the total issue price of PLN 100 000 thousand and fully covered with a cash contribution. The share premium of shares totaling PLN 99 000 thousand, was transferred to the supplementary capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. The aforesaid increase in the issued capital of was registered on 15 January 2019. As a result of the transaction, the Company's share in the issued capital and decision-making body of Nowe Jaworzno Grupa TAURON Sp. z o.o. will drop from 100% to 97.89%.

After the reporting period, On 25 February 2019, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 2 569 thousand, through the issue of 51 385 new shares with the par value of PLN 50 each. The new shares in the increased issued capital were assumed by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with the registered office in Warsaw for the total issue price of PLN 256 925 thousand. The share premium totaling PLN 254 356 thousand will be transferred to the supplementary capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. As a result of the transaction, the Company's share in the capita will drop to 92.86%.

#### **Conclusion of investment agreements to establish corporate venture capital funds**

On 13 June 2018, the Company concluded two investment agreements to establish corporate venture capital funds. The agreements are conditional and their entry into force requires the satisfaction of a condition precedent in the form of an approval of the President of the Office for Competition and Consumer Protection, which was fulfilled on 8 August 2018.

Under the above-mentioned agreements, the Company will participate in two funds established as part of the PFR Starter FIZ and PFR NCBR CVC programs. Creation of the funds will allow the Company to provide multi-stage support to innovative businesses, including by enabling them to participate in acceleration programs, investing in start-ups under the PFR Starter FIZ program, and ensuring further financing rounds under the PFR NCBR CVC program. Ultimately, the capitalization of the fund established under the PFR Starter FIZ program is expected to be PLN 50 000 thousand, and of the one created under the PFR NCBR CVC program: PLN 160 000 thousand. The Company's interests in the funds will not exceed 25% and 49%, respectively.

On 21 December 2018, EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo-akcyjna (Starter), incorporated by: the Company (Private Investor), PFR Starter Fundusz Inwestycyjny Zamknięty with the registered office in Warsaw (Public Investor), EEC Ventures spółka z ograniczoną odpowiedzialnością spółka komandytowa (Managing Team's Investor) and EEC Magenta Spółka z ograniczoną odpowiedzialnością (General Partner), was recorded in the National Court Register. The Company assumed 12 450 shares in EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo-akcyjna, in exchange for cash contribution equal to the par value of the shares, i.e. PLN 12 thousand. After the reporting period end, on 15 January 2019, Extraordinary General Meeting of EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo-akcyjna (Starter), resolutions were passed regarding an increase in its issued capital by the total amount of PLN 36 thousand. The Company assumed 8 902 shares in exchange of cash contribution of PLN 890 thousand. The Company's share in the issued capital and in votes at the General Meeting did not change and amounts to 24.90%.

After the reporting period end, on 9 January 2019, EEC Magenta spółka z ograniczoną odpowiedzialnością 2 ASI spółka komandytowo-akcyjna (CVC) was recorded in the National Court Register. It was incorporated by the Company (Corporate Investor), PFR NCBR CVC Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Public Investor); EEC Ventures spółka z ograniczoną odpowiedzialnością 2 spółka komandytowa (Managing Team's Investor) and EEC Magenta spółka z ograniczoną odpowiedzialnością (General Partner). TAURON Polska Energia S.A. assumed 24 015 shares in the company, in exchange for cash contribution equal to the par value of the shares, i.e. PLN 24 thousand. After the reporting period end, on 25 January 2019, Extraordinary General Meeting of EEC Magenta 2 spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo-akcyjna (CVC), resolutions were passed regarding an increase in its issued capital by the amount of PLN 99 thousand. The Company assumed 47 751 shares in exchange of cash contribution of PLN 4 775 thousand. The Company's share in the issued capital and in votes at the General Meeting is 48.03%.

#### **Negotiations regarding the purchase of wind farms**

On 2 October 2018 the Company was invited to commence negotiations regarding the purchase of wind farms located in northern Poland, owned by the in.ventus Group. The objective of the negotiations will be to determine opportunities, principles, terms and financial parameters of the Transaction.

The total installed capacity of the wind farms referred to above approximates 200 MW.

The Transaction may take the form of the purchase of the German and Polish partnerships that operate the farms ("Project Entities") by the Company. In such a case, the Company would assume all rights and obligations of the former partners in Project Entities, at the same time acquiring their bank debt. According to the Company, another option is possible, i.e. the acquisition of enterprises of the Polish Project Entities.

As at the date of approving these financial statements, the negotiations have been pending.

#### **Key power market auctions for 2021–2023**

On 15 November, 5 December and 21 December 2018 three initial key power market auctions for 2021–2023 were held. These auctions were held by PSE S.A. in compliance with the Act on the Power Market of 8 December 2017. The closing prices for each auction, as published by the President of Energy Regulatory Office in the Official Journal amounted to, respectively: 240.32 PLN/kW/yr (2021), 198.00 PLN/kW/yr (2022) and 202.99 PLN/kW/yr (2023). The TAURON Group companies concluded power contracts for the following volumes:

- during the auction held on 15 November 2018 – 2 672.49 MW;
- during the auction held on 5 December 2018 – 422.23 MW;
- during the auction held on 21 December 2018 – 393.23 MW.

The auctions have been described in details in Note 2.6 of the Management Board's report on the activities of TAURON Polska Energia S.A. and of the TAURON Capital Group for 2018 financial year.

## **49. Events after the end of the reporting period**

#### **Security for Company's liabilities**

On 9 January and 6 February 2019, the Company concluded statements regarding submission to enforcement being the form of collateral related to its liabilities of up to PLN 1 500 000 thousand and up to PLN 621 000 thousand, respectively, described in detail in Note 41 hereto.

On 6 February 2019, the Company granted collateral in the form of a blank promissory note for PLN 2 574 thousand in relation to a performance bond arising from the concluded co-funding contracts as described in detail in Note 41 hereto.

#### **Bank guarantee for joint venture Elektrociepłownia Stalowa Wola S.A.**

On 7 February 2019, per Company's order, an annex to the bank guarantee was issued, increasing to PLN 517 500 thousand the guarantee granted to secure receivables of Bank Gospodarstwa Krajowego arising from the loan agreement concluded on 8 March 2018 between Elektrociepłownia Stalowa Wola S.A., the borrower, Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A., as described in detail in Note 40 hereto.

#### **Claims relating to termination of long-term contracts by a subsidiary TAURON Sprzedaż Sp. z o.o.**

On 7 March 2019 an action was instigated against TAURON Sprzedaż Sp. z o.o., a subsidiary, for the total amount of PLN 232 879 thousand in relation to termination of long-term contracts for the purchase of property rights under green certificates, as described in detail in Note 40 hereto.

**Loan granted to a joint venture Elektrociepłownia Stalowa Wola S.A.**

On 12 March 2019 the Company concluded with Elektrociepłownia Stalowa Wola S.A. a loan agreement up to PLN 5 175 thousand. Pursuant to the agreement, the repayment of the loan with interest accrued based on a fixed interest rate will take place until 30 June 2033. The loan, accrued interest, costs and other amounts due to the Company arising from the loan agreement are collateralized with a blank promissory note with a promissory note agreement. The loan amount was made available to Elektrociepłownia Stalowa Wola S.A. on 20 March 2019.

**Debt taken out/repaid**

In March 2019 the Company redeemed bonds with a nominal value of PLN 400 000 thousand, issued bonds with a nominal value of PLN 100 000 thousand and submitted a proposal to BGK to purchase on 29 March 2019 subordinated bonds with a nominal value of PLN 400 000 thousand, as described in detail in Note 29.1 hereto.

Under the loan agreement concluded with BGK dated 19 December 2018, as described in detail in Note 29.7 hereto, in January and February 2019, tranches of the loan totaling PLN 730 000 thousand were availed.

**Management Board of the Company**

Katowice, 29 March 2019

Filip Grzegorzczak – President of the Management Board

Jarosław Broda – Vice-President of the Management Board

Kamil Kamiński – Vice-President of the Management Board

Marek Wadowski – Vice-President of the Management Board

Oliwia Tokarczyk – Executive Director in Charge of Taxes and Accounting