

The TAURON Polska Energia S.A. Capital Group

Condensed interim consolidated financial statements

prepared in accordance with the International Financial Reporting Standards,

as endorsed by the European Union

for the 9-month period ended 30 September 2017

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 30 September 2017 <i>(unaudited)</i>	9-month period ended 30 September 2017 <i>(unaudited)</i>	3-month period ended 30 September 2016 <i>(unaudited restated figures)</i>	9-month period ended 30 September 2016 <i>(unaudited restated figures)</i>
Sales revenue	11	4 115 954	12 871 320	4 150 564	12 991 590
Cost of sales, of which:	12	(3 502 378)	(10 516 494)	(3 513 313)	(11 690 650)
<i>Impairment of non-financial non-current assets</i>	12	(9 056)	(42 183)	9 246	(689 824)
Profit on sale		613 576	2 354 826	637 251	1 300 940
Selling and distribution expenses	12	(118 242)	(343 769)	(112 586)	(330 175)
Administrative expenses	12	(150 803)	(455 366)	(154 810)	(472 789)
Other operating income and expenses		(1 985)	24 049	12 686	27 979
Operating profit		342 546	1 579 740	382 541	525 955
Share in profit/(loss) of joint ventures	20	11 205	69 535	18 477	78 338
Interest expense on debt	13	(53 358)	(152 335)	(62 647)	(200 606)
Other finance income and costs	13	(59 330)	(15 285)	(1 260)	(33 901)
Profit before tax		241 063	1 481 655	337 111	369 786
Income tax expense	14.1	(52 310)	(287 425)	(65 500)	(93 458)
Net profit		188 753	1 194 230	271 611	276 328
Measurement of hedging instruments	28.2	748	(8 327)	35 092	83 938
Foreign exchange differences from translation of foreign entities		14 820	2 145	(7 379)	2 543
Income tax	14.1	(142)	1 582	(6 667)	(15 948)
Other comprehensive income subject to reclassification to profit or loss		15 426	(4 600)	21 046	70 533
Actuarial gains/(losses)	30.1	4 037	9 667	1 164	(265)
Income tax	14.1	(765)	(1 835)	(220)	50
Share in other comprehensive income of joint ventures	20	53	46	34	75
Other comprehensive income not subject to reclassification to profit or loss		3 325	7 878	978	(140)
Other comprehensive income, net of tax		18 751	3 278	22 024	70 393
Total comprehensive income		207 504	1 197 508	293 635	346 721
Net profit:					
Attributable to equity holders of the Parent		188 030	1 192 197	271 044	274 479
Attributable to non-controlling interests		723	2 033	567	1 849
Total comprehensive income:					
Attributable to equity holders of the Parent		206 778	1 195 466	293 068	344 872
Attributable to non-controlling interests		726	2 042	567	1 849
Basic and diluted earnings per share (in PLN):		0.11	0.68	0.16	0.16

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	16	27 287 025	26 355 189
Goodwill	17	40 156	40 156
Energy certificates and emission allowances for surrender	18.1	43 341	126 260
Other intangible assets	19	1 201 710	1 224 427
Investments in joint ventures	20	499 690	461 348
Loans granted to joint ventures	21	238 620	240 951
Other financial assets	22	221 353	227 140
Other non-financial assets	23.1	349 675	422 400
Deferred tax assets	14.2	45 486	50 382
		29 927 056	29 148 253
Current assets			
Energy certificates and emission allowances for surrender	18.2	514 495	980 348
Inventories	24	334 677	486 120
Receivables from clients	25	1 782 874	1 894 065
Receivables arising from taxes and charges	26	247 219	263 854
Loans granted to joint ventures	21	323 514	15 116
Other financial assets	22	200 908	79 637
Other non-financial assets	23.2	130 127	185 008
Cash and cash equivalents	27	2 141 776	384 881
Non-current assets classified as held for sale		17 262	19 612
		5 692 852	4 308 641
TOTAL ASSETS		35 619 908	33 456 894

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	28.1	8 762 747	8 762 747
Reserve capital		7 657 086	7 823 339
Revaluation reserve from valuation of hedging instruments	28.2	22 915	29 660
Foreign exchange differences from translation of foreign entities		11 345	9 200
Retained earnings/(Accumulated losses)	28.3	1 390 734	24 320
		17 844 827	16 649 266
Non-controlling interests		31 315	30 052
Total equity		17 876 142	16 679 318
Non-current liabilities			
Debt	29	10 641 045	8 759 789
Provisions for employee benefits	30	1 371 769	1 373 385
Provisions for disassembly of fixed assets, land restoration and other provisions	31	298 613	449 310
Accruals, deferred income and government grants	34	524 100	554 293
Deferred tax liabilities	14.2	780 290	759 568
Other financial liabilities	38	75 515	72 374
		13 691 332	11 968 719
Current liabilities			
Debt	29	330 216	219 740
Liabilities to suppliers	35	808 754	829 729
Capital commitments	36	328 792	1 033 804
Provisions for employee benefits	30	123 947	158 228
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	32	720 580	964 821
Other provisions	33	337 166	366 456
Accruals, deferred income and government grants	34	323 693	267 662
Liabilities arising from taxes and charges	37	471 021	410 943
Other financial liabilities	38	292 994	256 295
Other non-financial liabilities	39	315 271	301 179
		4 052 434	4 808 857
Total liabilities		17 743 766	16 777 576
TOTAL EQUITY AND LIABILITIES		35 619 908	33 456 894

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (unaudited)

	Note	Equity attributable to the equity holders of the Parent					Total	Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)			
As at 1 January 2017		8 762 747	7 823 339	29 660	9 200	24 320	16 649 266	30 052	16 679 318
Dividends		-	-	-	-	-	-	(564)	(564)
Other transactions with non-controlling shareholders		-	-	-	-	95	95	(215)	(120)
Coverage of prior years loss	15	-	(166 253)	-	-	166 253	-	-	-
Transactions with shareholders		-	(166 253)	-	-	166 348	95	(779)	(684)
Net profit		-	-	-	-	1 192 197	1 192 197	2 033	1 194 230
Other comprehensive income		-	-	(6 745)	2 145	7 869	3 269	9	3 278
Total comprehensive income		-	-	(6 745)	2 145	1 200 066	1 195 466	2 042	1 197 508
As at 30 September 2017 (unaudited)		8 762 747	7 657 086	22 915	11 345	1 390 734	17 844 827	31 315	17 876 142

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2016 (unaudited, restated figures)

		Equity attributable to the equity holders of the Parent					Total	Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)			
As at 1 January 2016		8 762 747	11 277 247	(73 414)	(791)	(3 947 461)	16 018 328	29 829	16 048 157
Dividends		-	-	-	-	-	-	(3 038)	(3 038)
Accounting for acquisition of ZCP Brzeszcze		-	-	-	-	(14 041)	(14 041)	-	(14 041)
Other transactions with non-controlling shareholders		-	-	-	-	22	22	(106)	(84)
Coverage of prior years loss		-	(3 453 908)	-	-	3 453 908	-	-	-
Transactions with shareholders		-	(3 453 908)	-	-	3 439 889	(14 019)	(3 144)	(17 163)
Net profit		-	-	-	-	274 479	274 479	1 849	276 328
Other comprehensive income		-	-	67 990	2 543	(140)	70 393	-	70 393
Total comprehensive income		-	-	67 990	2 543	274 339	344 872	1 849	346 721
As at 30 September 2016 (unaudited restated figures)		8 762 747	7 823 339	(5 424)	1 752	(233 233)	16 349 181	28 534	16 377 715

Explanatory notes to the condensed interim consolidated financial statements constitute an integral part hereof.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Note	9-month period ended 30 September 2017 <i>(unaudited)</i>	9-month period ended 30 September 2016 <i>(unaudited restated figures)</i>
Cash flows from operating activities		
Profit (loss) before taxation	1 481 655	369 786
Share in (profit)/loss of joint ventures	(69 535)	(78 338)
Depreciation and amortization	1 256 139	1 245 251
Impairment losses on property, plant and equipment and intangible assets	42 185	689 824
Exchange differences	(13 177)	6 259
Interest and commissions	150 068	187 072
Other adjustments of profit before tax	11 003	(12 228)
Change in working capital	40.1 145 752	275 406
Income tax paid	40.1 (82 599)	(277 678)
Net cash from operating activities	2 921 491	2 405 354
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	40.2 (2 709 422)	(2 629 223)
Loans granted	40.2 (301 542)	(10 775)
Public aid refund	-	(131 077)
Purchase of investment fund units	(50 000)	(25 000)
Purchase of financial assets	(5 397)	(5 672)
Total payments	(3 066 361)	(2 801 747)
Proceeds from sale of property, plant and equipment and intangible assets	27 669	23 836
Dividends received	40.2 24 509	31 020
Other proceeds	23 959	16 088
Total proceeds	76 137	70 944
Net cash used in investing activities	(2 990 224)	(2 730 803)
Cash flows from financing activities		
Redemption of debt securities	40.3 (700 000)	(2 550 000)
Repayment of loans and borrowings	40.3 (81 959)	(66 959)
Interest paid	40.3 (52 810)	(114 419)
Other payments	(26 289)	(24 225)
Total payments	(861 058)	(2 755 603)
Issue of debt securities	40.3 2 707 462	2 860 000
Proceeds from contracted loans/borrowings	-	916
Subsidies received	5 423	23 878
Total proceeds	2 712 885	2 884 794
Net cash from financing activities	1 851 827	129 191
Net increase / (decrease) in cash and cash equivalents	1 783 094	(196 258)
Net foreign exchange difference	1 134	2 379
Cash and cash equivalents at the beginning of the period	27 354 733	327 715
Cash and cash equivalents at the end of the period, of which :	27 2 137 827	131 457
restricted cash	27 140 488	186 188

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

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

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

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, Entry No. KRS 0000271562.

The duration of the Parent and the companies in the Capital Group is unlimited. The operations are based on relevant concessions granted to individual companies of the Group.

The core business of the TAURON Group includes the following segments: Mining, Generation (encompassing generation of electricity from conventional and renewable sources and generation of heat), Distribution, Sale and other operations, including customer service, which has been discussed in more detail in Note 10 to these condensed interim consolidated financial statements.

The Group's condensed interim consolidated financial statements cover the 9-month period ended 30 September 2017 and present comparative data for the 9-month period ended 30 September 2016 as well as figures as at 31 December 2016. The data for the 9-month period ended 30 September 2017 and the comparative data for the 9-month period ended 30 September 2016, as contained herein, have not been audited or reviewed by a certified auditor. The comparative data as at 31 December 2016 were audited by a certified auditor.

These condensed interim consolidated financial statements for the 9-month period ended 30 September 2017 were approved for publication on 3 November 2017.

2. Composition of the TAURON Capital Group and joint ventures

As at 30 September 2017, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

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Item	Company name	Registered office	Operating segment	Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%
2	TAURON Wytwarzanie S.A. ¹	Jaworzno	Generation	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o. ¹	Jaworzno	Generation	100.00%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%
5	Marselwind Sp. z o.o.	Katowice	Generation	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%
7	TAURON Serwis Sp. z o.o.	Katowice	Generation	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution	99.72%
9	TAURON Dystrybucja Serwis S.A.	Wrocław	Distribution	100.00%
10	TAURON Dystrybucja Pomiary Sp. z o.o. ²	Tarnów	Distribution	99.72%
11	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%
12	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%
13	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%
16	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. ³	Warszawa	Other	100.00%
17	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%
18	Biomasa Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o. ^{2,4}	Tarnów	Other	99.72%

¹ On 3 April 2017 TAURON Wytwarzanie S.A. was spun off and an organized part of the enterprise was transferred to Nowe Jaworzno Grupa TAURON Sp. z o.o.

² TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. (formerly: KOMFORT - ZET Sp. z o.o.) through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses shares in TAURON Dystrybucja Pomiary Sp. z o.o.

³ On 8 March 2017, the Extraordinary General Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation adopted a resolution to revoke the liquidation of the company.

⁴ On 6 September 2017, the name of Komfort-Zet Sp. z o.o. was changed to Wsparcie Grupa TAURON Sp. z o.o.

As at 30 September 2017, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

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

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

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

3. Statement of compliance

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

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

4. Going concern

These condensed interim consolidated financial statements have been prepared on the assumption that the Group companies 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 Group companies' ability to continue as a going concern.

5. Functional and presentation currency

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

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

6. Material values based on professional judgment and estimates

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

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

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Item	Value of item to which the estimate figure applies		Details regarding assumptions made and calculation of significant estimates
	As at 30 September 2017 (unaudited)	As at 31 December 2016	
Property, plant and equipment	27 287 025	26 355 189	<ul style="list-style-type: none"> The results of the impairment tests of the assets performed as at 30 June 2017 showed that some of the assets of the Generation segment should be subject to an additional write-off of PLN 388 358 thousand. The test also showed the possibility of reversing the write-down in this segment for the amount of PLN 356 695 thousand. note 16
Goodwill	40 156	40 156	<ul style="list-style-type: none"> Impairment tests performed as at 30 June 2017 did not indicate any impairment of the carrying amount of goodwill in the segments. note 17
Provisions for employee benefits	1 495 716	1 531 613	<ul style="list-style-type: none"> Description of actuarial assumptions made and valuation method. note 30
Provision for gas emission obligations	238 331	209 736	<ul style="list-style-type: none"> Provision calculation note 32
Provision for obligation to submit energy certificates	482 249	755 085	<ul style="list-style-type: none"> Provision calculation note 32
Provision for mine decommissioning costs	150 832	146 885	<ul style="list-style-type: none"> Provision calculation note 31
Provision for restoration of land and dismantling and removal of fixed assets	118 111	115 302	<ul style="list-style-type: none"> Provision calculation note 31
Provision for onerous contracts and for costs	-	198 844	<ul style="list-style-type: none"> In the 9-months period ended 30 September 2017, the Company reversed the entire provision relating to the electricity contract, contractual provisions of the "take or pay" clause and provision for the costs of operation of the Elektrociepłownia Stalowa Wola S.A. note 31
Other provisions	337 166	366 456	<ul style="list-style-type: none"> Provision calculation. Description of key provision items. Note 33
Deferred tax assets	952 120	957 118	<ul style="list-style-type: none"> Realisation of deferred tax assets. note 14.2
Derivative instruments:			
Assets	53 890	56 417	<ul style="list-style-type: none"> Fair value measurement note 41.2
Liabilities	22 054	560	
Receivables from clients	1 782 874	1 894 065	<ul style="list-style-type: none"> Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 209 501 thousand. note 25

7. New standards and interpretations

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

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

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

IFRS 9 *Financial Instruments*

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

Key changes introduced by IFRS 9 *Financial Instruments*:

- a change in the principles of classification and measurement of financial assets based on a business model whose objective is to manage financial assets as well as characteristics of the contractual cash flows. The existing four categories of financial assets, as defined in IAS 39 *Financial Instruments: Recognition*

and Measurement, will be replaced by two categories, namely amortized cost and fair value;

- introduction of a new impairment testing model based on expected credit losses;
 - a modified hedge accounting model.
-

Impact on the consolidated financial statements

The amendments to classification and measurement of financial assets will lead to changes in the classification of financial assets in the Group's consolidated financial statements, however, carried out analysis has shown that this will not have a material impact on the measurement as well as the Group's profit/loss and equity. An analysis of the financial assets held by the Group as at 30 September 2017 has shown that, provided that the Group maintains similar financial assets when IFRS 9 *Financial Instruments* becomes effective, the new classification is not likely to materially change the measurement and hence the Group's profit/loss or equity. The instruments which have thus far been classified as loans and receivables meet the conditions to be classified as assets measured at amortized cost. Hence, the change will not result in any changes in the measurement. The Group does not have any assets held to maturity. Other categories of financial assets measured at fair value in line with IFRS 9 *Financial Instruments* are assets measured at fair value.

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

The Tauron Group is currently estimating the expected credit losses, in particular as regards receivables from buyers. This class of financial instruments constitutes the key item of the Group's financial assets. Individual counterparties from the portfolio of buyers were broken down into two groups, specifically by the value of credit exposure — understood as the total payment and replacement risk.

This way it was possible to distinguish a group of strategic corporate clients with a significant credit exposure. The Group — based on an individual assessment of the probability of default on the part of a given buyer, using a scoring model — plans to estimate the expected credit losses by rating individual buyers and thus attaching an appropriate risk of default to each counterparty. The expected credit losses thus estimated will be weighted using the predetermined recovery rate reflecting the value that the group is able to recover, if the risk of default on the part of the counterparty materializes. Currently the scoring model is being verified and the appropriate recovery rate is being calculated. The levels of risk assigned to individual ratings are also being discussed.

The analysis and calculation of expected credit losses with respect to the receivables from other buyers with a less significant credit exposure will be based on the model using the probability of credit losses in individual groups of receivables from buyers, by age. In particular, the calculation of expected credit losses will be based on specification of the levels of risk of default on the part of counterparties, considering the ageing of liabilities, and then assigning the recovery rate to the buyers' exposure in the event the risk of default on the part of counterparties materializes. Currently the levels of risk of default in individual delinquency buckets for receivables and the recovery rate are being calculated.

The analysis carried out for the present moment has not revealed a significant impact of IFRS 9 *Financial Instruments* on the consolidated financial statements.

As at 30 September 2017, the Group held instruments hedging fluctuations in cash flows related to issued bonds due to interest rate risk. These interest rate swaps are subject to hedge accounting. It is not expected that the entry into force of IFRS 9 *Financial Instruments* will have a material impact on the Group's consolidated financial statements as regards the applied hedge accounting principles.

IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. 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.

Impact on the consolidated financial statements

The Group is conducting 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. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements. Due to a large number of changes, the impact of IFRS 15 *Revenue from Contracts with Customers* on the consolidated financial statements is being analyzed further.

By the date of approval of these condensed interim consolidated financial statements, as part of measures taken to implement IFRS 15 *Revenue from Contracts with Customers*, the Group also analyzed the following, key issues that may affect the profit/loss and the Group's revenues and expenses in the Sales segment.

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

The Group has analyzed whether such costs may be recognized as the costs of obtaining a contract in line with IFRS 15 and capitalized throughout the term of the contract. The analysis revealed that the costs of commission the payment of which depends on a specific contract and which are now charged to profit or loss on a non-recurring basis satisfy the conditions for classification to the costs of obtaining a contract and thus they may be capitalized as of 1 January 2018.

- Multiple-element arrangements — contracts whereby the customer is offered multiple products of the Group which guarantees more favourable terms and conditions than if the products were sold under separate contracts. This applies mainly to combined sales of gas and electricity.

The analysis revealed that in the case of sales of electricity and gas the Group may apply a simplification whereby separate goods/services, which are generally the same and whose transfer to a customer is conducted in the same manner, are recognized as a single performance obligation. The Group is determining the manner of allocating a discount on the sold goods (electricity and gas).

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

Following an analysis of the contractual provisions, the Group believes that the discounts given to buyers under the customer schemes in place should be included in the calculation of the transaction price and should reduce the revenue from sales of goods or services. In the opinion of the Group the discounts offered by the companies in the Sales segment are not a separate performance obligation.

- Agreements to sell Group's products and services combined with after-sale services — the Group has made an agreement with the buyer to sell products/services with additional after-sale services (e.g. electrician services) and a property insurance contract with a business partner (insurer) whereby the insurer provides the ancillary service directly to the buyer. The fee for the ancillary service has been included in the commercial fee.

The Group has analyzed the contractual provisions to determine whether its obligation is a performance obligation in the form of delivery of specific services in which case the Group would be an ordering party, or in the form of ordering the delivery of the services to a third party in which case the Group would be an intermediary. Having analyzed the responsibilities, risks and freedom of prices as regards the services provided by the third party, the Group believes that as far as the above agreements are concerned, it is an intermediary. In view of the above, in accordance with IFRS 15, the Group is planning to recognize the revenue from the above services, at the amount of consideration net of the fee paid to the third party for the services provided by the party.

Currently the Group is estimating the impact of the above arrangements on the profit or loss and the Group's revenues and expenses.

In the Distribution segment, the Group analyzed contracts constituting the basis for recognition of revenue from the connection of new buyers as well as distribution and comprehensive services contracts in light of IFRS 15 *Revenue from Contracts with Customers* so as to identify separate services as required by the standard. The measures taken by the Group included an analysis of the sources of law which form the basis for the provision of the aforesaid services, the legal obligations imposed on it with respect to the connection of new buyers, its discretion to set the prices of services, the relationship and interdependence of the consideration received for the provision of the aforesaid services, the possibility to include both supplies in one contract, the rights of customers being parties to the connection contract and the distribution/comprehensive contract to resign from the purchase of distribution/comprehensive services. Considering this analysis the Group believes that, in accordance with IFRS 15, the distribution/comprehensive services contracts and the connection contracts are not a single obligation and should not be recognized in aggregate. Therefore the Group is planning to recognize revenues from the connection contracts on a non-recurring basis when the promised service, i.e. connection to the grid, has been performed. Such recognition complies with the Group's accounting policy and will not change its profit/loss. As far as the recognition of revenue from connection fees for services performed by 1 July 2009 is concerned, the Group believes that, if a retrospective approach is adopted, as at 1 January 2018 approx. PLN 200 million of deferred income will be transferred to the Group's equity and the revenue will be subsequently reduced due to recognition of the above deferred income in the Group's future profit or loss (with approx. PLN 22 million in the year ended 31 December 2018).

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

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

IFRS 16 Leases

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

Under IFRS 16 *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 shall use the incremental borrowing rate. Lessors continue to classify leases as operating or finance leases, with the approach to lessor accounting substantially unchanged from IAS 17 *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.

Impact on the consolidated financial statements

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

Clarifications to IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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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
<i>Revised IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture with subsequent amendments</i>	the effective date has been postponed
<i>Revised IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses</i>	1 January 2017
<i>Revised IAS 7 Statement of Cash Flows – Disclosure Initiative.</i> The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities.	1 January 2017
<i>Revised IFRS 2 Share-based Payments: Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
<i>Revised IFRS 4 Insurance Contracts – application of IFRS 9 Financial Instruments along with IFRS 4 Insurance Contracts</i>	1 January 2018
<i>Annual Improvements to IFRS (2014-2016):</i>	
<i>IFRS 12 Disclosure of Interests in Other Entities</i>	1 January 2017
<i>IFRS 1 First-time Adoption of International Financial Reporting Standards</i>	1 January 2018
<i>IAS 28 Investments in Associates and Joint Ventures</i>	1 January 2018
<i>IFRIC 22 Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
<i>Revised IAS 40 Investment Property – Transfers of Investment Property</i>	1 January 2018
<i>IFRIC 23 Uncertainty over Income Tax Treatments</i>	1 January 2019
<i>Revised IFRS 9 Financial Instruments</i>	1 January 2019
<i>Revised IAS 28 Investments in Associates and Joint Ventures</i>	1 January 2019

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

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

8. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these condensed interim consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2016.

No new or amended standards or new interpretations applicable to annual periods beginning on or after 1 January 2016 were issued after 1 January 2016. Standards and interpretations which were issued, but are not yet effective, because they have not been endorsed by the European Union or those which have been endorsed by the European Union but have not been applied early by the Capital Group were presented in the annual financial statements for 2016.

Presentation change

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

The effect of the presentation change on the condensed interim consolidated statement of comprehensive income for the 9-month period ended 30 September 2016 is presented in the table below. The change has had an effect on the Group's profit/loss.

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	9-month period ended 30 September 2016 <i>(unaudited approved figures)</i>	Change in presentation of gains/losses on trading in emission allowances and on commodity derivative instruments	9-month period ended 30 September 2016 <i>(unaudited restated figures)</i>
Sales revenue	13 123 745	(132 155)	12 991 590
Cost of sales	(11 823 168)	132 518	(11 690 650)
Profit on sale	1 300 577	363	1 300 940
Selling and distribution expenses	(332 826)	2 651	(330 175)
Operating profit	522 941	3 014	525 955
Other finance income and costs	(31 129)	(2 772)	(33 901)
Profit before tax (loss)	369 544	242	369 786
Income tax expense	(93 412)	(46)	(93 458)
Net profit (loss)	276 132	196	276 328
Total comprehensive income	346 525	196	346 721

9. Seasonality of operations

The Group's operations are seasonal in nature, particularly in the area of generation, distribution and sale of heat, distribution and sale of electricity to individual customers and sale of coal to individual customers for heating purposes.

Sale of heat depends on atmospheric conditions, in particular air temperature, and is higher in autumn and wintertime. The level of sale of electricity to individual customers depends on the length of day, as a result of which sales of electricity in this group of customers are usually lower in spring and summertime and higher in autumn and wintertime. Sale of coal to individual customers is higher in autumn and wintertime. The seasonality of other areas of the Group's operations is insignificant.

OPERATING SEGMENTS

10. Information on operating segments

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

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

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

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

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

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

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

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

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

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

The Group's reporting format for the period from 1 January 2017 to 30 September 2017 and for the comparative period was based on the following operating segments:

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

* Entities recognized with the equity method

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

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	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	519 088	1 322 174	2 418 992	8 544 000	67 066	-	12 871 320
Inter-segment sales	599 379	2 002 658	2 567 918	1 263 209	531 296	(6 964 460)	-
Segment revenue	1 118 467	3 324 832	4 986 910	9 807 209	598 362	(6 964 460)	12 871 320
Profit/(loss) of the segment	(135 236)	44 184	998 769	683 919	55 817	10 483	1 657 936
Unallocated expenses	-	-	-	-	-	(78 196)	(78 196)
EBIT	(135 236)	44 184	998 769	683 919	55 817	(67 713)	1 579 740
Share in profit/(loss) of joint ventures	-	69 535	-	-	-	-	69 535
Net finance income (costs)	-	-	-	-	-	(167 620)	(167 620)
Profit/(loss) before income tax	(135 236)	113 719	998 769	683 919	55 817	(235 333)	1 481 655
Income tax expense	-	-	-	-	-	(287 425)	(287 425)
Net profit/(loss) for the period	(135 236)	113 719	998 769	683 919	55 817	(522 758)	1 194 230
Assets and liabilities							
Segment assets	2 009 687	10 725 845	16 902 087	4 130 769	455 307	-	34 223 695
Investments in joint ventures	-	499 690	-	-	-	-	499 690
Unallocated assets	-	-	-	-	-	896 523	896 523
Total assets	2 009 687	11 225 535	16 902 087	4 130 769	455 307	896 523	35 619 908
Segment liabilities	677 873	1 578 231	1 966 069	1 185 406	251 306	-	5 658 885
Unallocated liabilities	-	-	-	-	-	12 084 881	12 084 881
Total liabilities	677 873	1 578 231	1 966 069	1 185 406	251 306	12 084 881	17 743 766
EBIT	(135 236)	44 184	998 769	683 919	55 817	(67 713)	1 579 740
Depreciation/amortization	(93 554)	(299 466)	(797 784)	(6 547)	(58 788)	-	(1 256 139)
Impairment	2	(42 744)	1 955	(512)	(7)	-	(41 306)
EBITDA	(41 684)	386 394	1 794 598	690 978	114 612	(67 713)	2 877 185
Other segment information							
Capital expenditure *	88 787	1 122 816	972 540	588	32 630	-	2 217 361

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

For the 9-month period ended 30 September 2016 (unaudited, restated figures) or as at 1 December 2016

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	302 919	1 821 945	2 301 601	8 502 911	62 214	-	12 991 590
Inter-segment sales	584 605	1 421 746	2 374 497	1 651 917	554 682	(6 587 447)	-
Segment revenue	887 524	3 243 691	4 676 098	10 154 828	616 896	(6 587 447)	12 991 590
Profit/(loss) of the segment	(228 703)	(569 841)	946 514	391 825	48 146	6 882	594 823
Unallocated expenses	-	-	-	-	-	(68 868)	(68 868)
EBIT	(228 703)	(569 841)	946 514	391 825	48 146	(61 986)	525 955
Share in profit/(loss) of joint ventures	-	78 338	-	-	-	-	78 338
Net finance income (costs)	-	-	-	-	-	(234 507)	(234 507)
Profit/(loss) before income tax	(228 703)	(491 503)	946 514	391 825	48 146	(296 493)	369 786
Income tax expense	-	-	-	-	-	(93 458)	(93 458)
Net profit/(loss) for the period	(228 703)	(491 503)	946 514	391 825	48 146	(389 951)	276 328
Assets and liabilities							
Segment assets	2 069 263	10 412 940	16 761 938	2 659 458	468 202	-	32 371 801
Investments in joint ventures	-	461 348	-	-	-	-	461 348
Unallocated assets	-	-	-	-	-	623 745	623 745
Total assets	2 069 263	10 874 288	16 761 938	2 659 458	468 202	623 745	33 456 894
Segment liabilities	829 974	1 936 334	2 162 907	1 660 156	288 365	-	6 877 736
Unallocated liabilities	-	-	-	-	-	9 899 840	9 899 840
Total liabilities	829 974	1 936 334	2 162 907	1 660 156	288 365	9 899 840	16 777 576
EBIT	(228 703)	(569 841)	946 514	391 825	48 146	(61 986)	525 955
Depreciation/amortization	(91 998)	(316 695)	(774 382)	(8 308)	(53 868)	-	(1 245 251)
Impairment	(47)	(700 255)	11 236	-	(254)	-	(689 320)
EBITDA	(136 658)	447 109	1 709 660	400 133	102 268	(61 986)	2 460 526
Other segment information							
Capital expenditure *	132 344	1 110 294	1 171 378	1 164	34 637	-	2 449 817

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

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For the 3-month period ended 30 September 2017 (unaudited)

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	160 206	363 668	796 337	2 770 867	24 876	-	4 115 954
Inter-segment sales	176 577	678 993	822 579	359 346	180 898	(2 218 393)	-
Segment revenue	336 783	1 042 661	1 618 916	3 130 213	205 774	(2 218 393)	4 115 954
Profit/(loss) of the segment	(69 420)	(36 258)	321 449	143 502	17 870	(6 503)	370 640
Unallocated expenses	-	-	-	-	-	(28 094)	(28 094)
EBIT	(69 420)	(36 258)	321 449	143 502	17 870	(34 597)	342 546
Share in profit/(loss) of joint ventures	-	11 205	-	-	-	-	11 205
Net finance income (costs)	-	-	-	-	-	(112 688)	(112 688)
Profit/(loss) before income tax	(69 420)	(25 053)	321 449	143 502	17 870	(147 285)	241 063
Income tax expense	-	-	-	-	-	(52 310)	(52 310)
Net profit/(loss) for the period	(69 420)	(25 053)	321 449	143 502	17 870	(199 595)	188 753
EBIT	(69 420)	(36 258)	321 449	143 502	17 870	(34 597)	342 546
Depreciation/amortization	(32 452)	(104 926)	(269 878)	(2 080)	(20 125)	-	(429 461)
Impairment	-	(11 255)	39	-	18	-	(11 198)
EBITDA	(36 968)	79 923	591 288	145 582	37 977	(34 597)	783 205
Other segment information							
Capital expenditure *	32 915	308 899	367 910	6	12 389	-	722 119

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

For the 3-month period ended 30 September 2016 (unaudited, restated figures)

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	130 957	457 966	766 072	2 772 745	22 824	-	4 150 564
Inter-segment sales	244 435	443 091	765 520	496 728	165 229	(2 115 003)	-
Segment revenue	375 392	901 057	1 531 592	3 269 473	188 053	(2 115 003)	4 150 564
Profit/(loss) of the segment	1 833	(11 530)	302 990	108 166	18 324	(8 018)	411 765
Unallocated expenses	-	-	-	-	-	(29 224)	(29 224)
EBIT	1 833	(11 530)	302 990	108 166	18 324	(37 242)	382 541
Share in profit/(loss) of joint ventures	-	18 477	-	-	-	-	18 477
Net finance income (costs)	-	-	-	-	-	(63 907)	(63 907)
Profit/(loss) before income tax	1 833	6 947	302 990	108 166	18 324	(101 149)	337 111
Income tax expense	-	-	-	-	-	(65 500)	(65 500)
Net profit/(loss) for the period	1 833	6 947	302 990	108 166	18 324	(166 649)	271 611
EBIT	1 833	(11 530)	302 990	108 166	18 324	(37 242)	382 541
Depreciation/amortization	(30 713)	(110 712)	(262 277)	(2 394)	(17 783)	-	(423 879)
Impairment	(44)	6 034	3 204	-	(125)	-	9 069
EBITDA	32 590	93 148	562 063	110 560	36 232	(37 242)	797 351
Other segment information							
Capital expenditure *	41 690	510 474	427 039	407	18 077	-	997 687

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

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

	9-month period ended 30 September 2017 <i>(unaudited)</i>	9-month period ended 30 September 2016 <i>(unaudited restated figures)</i>
Sale of goods for resale, finished goods and materials without elimination of excise	8 075 499	8 499 271
Excise	(305 587)	(291 216)
Sale of goods for resale, finished goods and materials, of which:	7 769 912	8 208 055
Electricity	6 535 922	7 081 836
Heat energy	453 978	428 769
Energy certificates	37 108	107 532
Coal	478 906	291 209
Gas	135 236	167 516
Other goods for resale, finished goods and materials	128 762	131 193
Rendering of services, of which:	5 055 672	4 738 177
Distribution and trade services	4 798 972	4 504 073
Connection fees	85 035	67 591
Maintenance of road lighting	85 044	86 589
Other services	86 621	79 924
Other revenue	45 736	45 358
Total sales revenue	12 871 320	12 991 590

12. Expenses by type

	9-month period ended 30 September 2017 <i>(unaudited)</i>	9-month period ended 30 September 2016 <i>(unaudited restated figures)</i>
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(1 256 139)	(1 245 251)
Impairment of property, plant and equipment and intangible assets	(42 185)	(689 824)
Materials and energy	(1 013 660)	(991 692)
Maintenance and repair services	(251 027)	(211 138)
Distribution services	(1 429 269)	(1 346 682)
Other external services	(665 804)	(551 212)
Cost of obligation to remit the emission allowances	(238 247)	(237 181)
Other taxes and charges	(531 831)	(484 915)
Employee benefits expense	(1 940 332)	(1 905 063)
Allowance for doubtful debts	(19 304)	(13 487)
Other	(64 682)	(71 425)
Total costs by type	(7 452 480)	(7 747 870)
Change in inventories, prepayments, accruals and deferred income	(132 347)	(20 435)
Cost of goods produced for internal purposes	304 585	360 613
Selling and distribution expenses	343 769	330 175
Administrative expenses	455 366	472 789
Cost of goods for resale and materials sold	(4 035 387)	(5 085 922)
Cost of sales	(10 516 494)	(11 690 650)

13. Finance income and costs

	9-month period ended 30 September 2017 <i>(unaudited)</i>	9-month period ended 30 September 2016 <i>(unaudited restated figures)</i>
Income and costs from financial instruments, of which:	(122 790)	(180 044)
Dividend income	8 861	7 020
Interest income	29 304	23 789
Interest costs	(152 335)	(200 606)
Commission relating to borrowings and debt securities	(10 902)	(10 825)
Gain/loss on derivative instruments	(4 683)	9 407
Foreign exchange gains/losses	6 739	(8 992)
Other	226	163
Other finance income and costs, of which:	(44 830)	(54 463)
Interest on employee benefits	(30 568)	(37 501)
Interest on discount of other provisions	(10 309)	(16 684)
Other	(3 953)	(278)
Total finance income and costs, including recognized in the statement of comprehensive income:	(167 620)	(234 507)
Interest expense on debt	(152 335)	(200 606)
Other finance income and costs	(15 285)	(33 901)

In the 9-month period ended 30 September 2017, exchange gains exceeded exchange losses by PLN 6 739 thousand. Exchange gains were mainly related to the Parent's debt in the euro, i.e. loans obtained from a subsidiary, subordinated bonds issued in December 2016 and eurobonds issued in July 2017. The related surplus of exchange gains over exchange losses was PLN 8 472 thousand.

14. Income tax

14.1. Tax expense in the statement of comprehensive income

	9-month period ended 30 September 2017 <i>(unaudited)</i>	9-month period ended 30 September 2016 <i>(unaudited restated figures)</i>
Current income tax	(262 063)	(220 902)
Current income tax expense	(257 893)	(215 603)
Adjustments to current income tax from previous years	(4 170)	(5 299)
Deferred tax	(25 362)	127 444
Income tax expense in profit/(loss)	(287 425)	(93 458)
Income tax expense relating to other comprehensive income	(253)	(15 898)

14.2. Deferred income tax

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
difference between tax base and carrying amount of fixed and intangible assets	1 537 527	1 511 102
difference between tax base and carrying amount of financial assets	36 815	45 981
different timing of recognition of sales revenue for tax purposes	71 624	49 299
difference between tax base and carrying amount of energy certificates	10 997	15 766
other	29 961	44 156
Deferred tax liabilities	1 686 924	1 666 304
provisions	571 726	638 914
difference between tax base and carrying amount of fixed and intangible assets	185 781	143 403
power infrastructure received free of charge and received connection fees	47 956	51 811
difference between tax base and carrying amount of financial assets and financial liabilities	73 284	50 387
different timing of recognition of cost of sales for tax purposes	45 654	39 940
tax losses	12 758	12 758
other	14 961	19 905
Deferred tax assets	952 120	957 118
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	45 486	50 382
Deferred tax liability	(780 290)	(759 568)

As at 30 September 2017 and 31 December 2016, the deferred tax asset was set off against deferred tax liabilities of companies from the Tax Capital Group ("TCG") due to the fact that the said companies had filed a combined tax return under the new Tax Capital Group agreement for the years 2015-2017, concluded on 22 September 2014.

Based on the forecasts prepared for the TCG, according to which taxable income will be earned in 2017 and in the following years, it has been concluded that there is no risk that the deferred tax asset recognized in these condensed interim consolidated financial statements will not be realized.

15. Dividends paid and proposed

On 13 March 2017, the Management Board of TAURON Polska Energia S.A. adopted a resolution to file a motion with the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. to offset the Company's net loss for the 2016 financial year of PLN 166 253 thousand against the reserve capital. The Management Board of the Company decided not to put forward a recommendation to the Ordinary General Shareholders' Meeting, concerning the adoption of a decision to use the Company's reserve capital for purposes of payment of dividend for 2016 to the Company's shareholders. On 29 May 2017, the Ordinary General Shareholders' Meeting of the Company adopted a resolution following the recommendation of the Management Board.

On 10 March 2016, the Management Board adopted a resolution to put forward a recommendation to the Ordinary General Shareholders' Meeting, concerning the use of the Company's reserve capital representing amounts transferred from prior years profit for purposes of dividend payment to the Company's shareholders in the amount of PLN 175 255 thousand, which equals to PLN 0.10 per share. On 17 March 2016, the Supervisory Board of the Company approved the recommendation presented by the Management Board. On 8 June 2016, the Ordinary General Shareholders' Meeting did not adopt a resolution to use a portion of the Company's reserve capital representing amounts transferred from prior years profit for purposes of dividend payment to the Company's shareholders.

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

16. Property, plant and equipment

For the 9-month period ended 30 September 2017 (unaudited)

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	121 980	21 603 044	18 164 046	850 102	3 261 173	44 000 345
Direct purchase	-	12	-	132	2 000 122	2 000 266
Borrowing costs	-	-	-	-	79 788	79 788
Transfer of assets under construction	683	599 176	382 793	38 487	(1 021 139)	-
Sale	(123)	(6 908)	(39 496)	(14 289)	(3)	(60 819)
Liquidation	(3)	(21 865)	(100 903)	(4 102)	-	(126 873)
Received free of charge	-	5 332	8	-	-	5 340
Transfers to/from assets held for sale	(30)	(14 909)	(2 394)	(15)	(11)	(17 359)
Overhaul expenses	-	-	-	-	57 359	57 359
Items generated internally	-	-	-	-	29 161	29 161
Other movements	(86)	(577)	934	135	(1 510)	(1 104)
Foreign exchange differences from translation of foreign entities	-	-	4	9	-	13
Closing balance	122 421	22 163 305	18 404 992	870 459	4 404 940	45 966 117
ACCUMULATED DEPRECIATION						
Opening balance	(433)	(7 825 966)	(9 268 038)	(517 062)	(33 657)	(17 645 156)
Depreciation for the period	-	(595 394)	(542 766)	(57 953)	-	(1 196 113)
Increase of impairment	-	(104 955)	(309 481)	(411)	(211)	(415 058)
Decrease of impairment	30	134 434	254 147	555	22	389 188
Sale	-	4 435	37 647	13 692	-	55 774
Liquidation	-	17 153	99 368	4 028	-	120 549
Transfers to/from assets held for sale	-	9 533	2 101	15	-	11 649
Other movements	-	114	132	(163)	-	83
Foreign exchange differences from translation of foreign entities	-	-	(4)	(4)	-	(8)
Closing balance	(403)	(8 360 646)	(9 726 894)	(557 303)	(33 846)	(18 679 092)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	121 547	13 777 078	8 896 008	333 040	3 227 516	26 355 189
NET CARRYING AMOUNT AT THE END OF THE PERIOD	122 018	13 802 659	8 678 098	313 156	4 371 094	27 287 025
<i>of which operating segments:</i>						
Mining	2 774	758 564	666 474	15 554	250 055	1 693 421
Generation	41 257	2 355 152	3 733 764	36 188	3 286 962	9 453 323
Distribution	61 127	10 597 803	4 159 461	244 176	830 713	15 893 280
Other segments and other operations	16 860	91 140	118 399	17 238	3 364	247 001

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For the 9-month period ended 30 September 2016 (unaudited)

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	119 536	19 928 399	16 910 428	804 020	2 599 980	40 362 363
Direct purchase	-	-	62	44	2 251 178	2 251 284
Borrowing costs	-	-	-	-	69 218	69 218
Transfer of assets under construction	777	1 117 411	966 562	41 753	(2 126 503)	-
Sale	(214)	(2 823)	(10 698)	(14 761)	(48)	(28 544)
Liquidation	-	(38 220)	(72 116)	(9 056)	-	(119 392)
Received free of charge	-	9 399	409	-	-	9 808
Transfers to/from assets held for sale	(43)	(294)	60	4	(13)	(286)
Overhaul expenses	-	-	-	-	25 695	25 695
Items generated internally	-	-	-	-	30 928	30 928
Acquisition of ZCP Brzeszcze	1 544	165 401	22 429	1 637	14 405	205 416
Other movements	(120)	8 048	(5 352)	(427)	(1 005)	1 144
Foreign exchange differences from translation of foreign entities	-	-	2	4	-	6
Closing balance	121 480	21 187 321	17 811 786	823 218	2 863 835	42 807 640
ACCUMULATED DEPRECIATION						
Opening balance	(466)	(6 692 656)	(8 304 965)	(467 731)	(13 728)	(15 479 546)
Depreciation for the period	-	(602 933)	(527 841)	(58 456)	-	(1 189 230)
Increase of impairment	-	(452 604)	(895 337)	(1 564)	(17 361)	(1 366 866)
Decrease of impairment	47	168 127	560 495	586	67	729 322
Sale	-	985	9 102	14 040	-	24 127
Liquidation	-	33 142	69 676	8 768	-	111 586
Transfers to/from assets held for sale	16	(42)	(13)	(4)	-	(43)
Other movements	-	(759)	782	107	-	130
Foreign exchange differences from translation of foreign entities	-	-	(2)	(1)	-	(3)
Closing balance	(403)	(7 546 740)	(9 088 103)	(504 255)	(31 022)	(17 170 523)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	119 070	13 235 743	8 605 463	336 289	2 586 252	24 882 817
NET CARRYING AMOUNT AT THE END OF THE PERIOD	121 077	13 640 581	8 723 683	318 963	2 832 813	25 637 117
<i>of which operating segments:</i>						
Mining	2 743	745 374	605 626	14 801	233 217	1 601 761
Generation	41 466	2 528 799	3 961 999	38 982	1 811 861	8 383 107
Distribution	60 039	10 268 647	4 028 008	247 552	783 265	15 387 511
Other segments and other operations	16 829	97 761	128 050	17 628	4 470	264 738

In the 9-month period ended 30 September 2017, the Group acquired property, plant and equipment of PLN 2 080 054 thousand, including capitalized costs of external financing. The major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	9-month period ended 30 September 2017 (unaudited)	9-month period ended 30 September 2016 (unaudited)
Distribution	942 922	1 122 065
Generation	1 044 957	1 052 336
Mining	79 192	131 865

Impairment tests

Considering the fact that the Company's market cap has been lower than its carrying amount for a long time, changes in global commodity prices and in the local power coal market following the consolidation in the mining sector, the decrease in prices of certificates of electricity generated using renewable sources, proposed amendments to the Act on Renewable Energy Sources and the auction system, the development of functional solutions in the capacity market, and the announcement of planned solutions included in the "winter package" which are disadvantageous for the conventional power industry, an analysis of the impact of the market developments was conducted in the third quarter of 2017.

The analysis did not identify any market factors in that period whose negative effect would justify revision of long-term forecasts versus the information available as at 30 June 2017. Therefore, it was assumed that the most recent results of impairment tests focusing on property, plant and equipment, the carrying amount of goodwill and other intangible assets, which were performed as at 30 June 2017, were up-to-date.

In the 9-month period ended 30 September 2017, the Group recognized and reversed impairment losses on property, plant and equipment as a result of impairment tests performed as at 30 June 2017.

As at 30 June 2017, impairment tests were performed for property, plant and equipment based on the following indications:

- the market value of the Company's net assets remaining below their carrying amount for a long period;
- changes in global commodity prices and in the local power coal market following the consolidation in the mining sector;
- a drop in the prices of certificates for energy produced from renewable sources; amendments to the Act on Renewable Energy Sources and introduction of the auction system;
- analysis of functional solutions related to the capacity market, as discussed in the capacity market bill;
- the continued unfavorable market conditions in the conventional power industry;
- the announcement of planned solutions included in the "winter package" which are disadvantageous for the conventional power industry;
- an increase in the risk-free rate.

The tests performed as at 30 June 2017 required the estimation of the value in use of cash generating units, based on their future cash flows discounted to their present value.

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

- TAURON Wytwarzanie S.A. – where cash generating units ("CGU") were identified based on the cost nature and analysis of the applied methods of contracting and allocating generation from particular generation units. Consequently, the test was performed for CGU understood as generation units or groups of generation units;
- TAURON Ekoenergia Sp. z o.o. – where hydroelectric power stations and windfarms were individually tested for impairment;
- TAURON Ciepło Sp. z o.o. – where generation of heat and electricity was separated from transmission and distribution of heat (former thermal energy companies). Additional tests were carried out for individual generation units.

Key assumptions made for purposes of tests performed as at 30 June 2017:

- The adopted price path for power coal, other coal sizes and gaseous fuels. It is assumed that the price of power coal will increase by 11% in real terms by 2027, from 2027 to 2040 a 3% decrease is anticipated, and after 2040 the (fixed) prices of that year have been assumed;
- The adopted electricity wholesale price path for the years 2018-2027 with the perspective by 2040, 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. An increase of ca. 5% is assumed by 2020, with a 9% growth rate by 2027 (vs. 2020), an increase of 10% between 2027 and 2040 and 2040 year prices thereafter (fixed);
- Planned changes in the Polish market model aimed to introduce the capacity market have been taken into account;
- Emission limits for generating electricity specified in the regulation of the Council of Ministers, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- The adopted greenhouse gas emission allowance price path for the years 2018-2027 with the perspective by 2040. It is assumed that the market price will increase by ca. 134% by 2027, followed by a rise of ca. 15% between 2027 and 2040, with 2040 year price level thereafter (fixed);
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity of more than 5 MW do not qualify for support;

- Support for CHP in line with the regulations which are currently in force. It is assumed that property rights exist for red, yellow and purple energy and that they will have to be surrendered by 2018. No support for CHP has been assumed thereafter;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- Sales volumes taking into account GDP growth and increased market competition;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Maintenance of the production capacity of the existing non-current assets as a result of replacement investments;
- The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 6.96% to 10.20% in nominal terms before tax.

As at 30 June 2017, the impairment test revealed that an additional impairment loss of PLN 388 358 thousand should be recognized on a portion of the Generation segment assets. At the same time, impairment losses of PLN 356 695 thousand were reversed in the Generation segment.

The recoverable amount of that asset group is equal to its value in use. The impairment losses were charged to the cost of sales.

The impairment loss and its reversal resulting from the tests performed as at 30 June 2017 are related to the following cash generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:		Recoverable amount As at 30 June 2017 (unaudited)	Impairment loss recognized 9-month period ended 30 September 2017 (unaudited)	Impairment loss derecognized
		30 June 2017 (unaudited)	31 June 2016 (unaudited)			
Elektrownia Jaworzno II				157 932	71 447	-
Elektrownia Jaworzno III				842 433	136 307	-
Elektrownia Łaziska				410 478	-	107 124
Elektrownia Łagisza	TAURON	8.20%	7.49%	1 457 081	-	178 213
Elektrownia Siersza	Wytwarzanie S.A.			129 928	31 644	-
Elektrownia Stalowa Wola				(40 247)	18	-
Capital projects in progress				-	211	-
ZW Bielsko Biala	TAURON	7.42%	7.17%	561 784	-	27 543
ZW Tychy	Ciepło Sp. z o.o.			453 757	37 309	-
Hydropower plants		8.55%	8.25%	633 442	-	40 638
FW Lipniki	TAURON	7.67%	6.34%	16 161	53 077	-
FW Zagórze	Ekoenergia Sp. z o.o.	9.08%	8.92%	26 102	6 120	-
FW Wicko		8.52%	6.48%	62 394	-	3 177
FW Marszewo		8.41%	6.49%	213 370	52 074	-
Total CGU					388 207	356 695
Common assets	TAURON Wytwarzanie S.A.	8.20%	7.49%	(23 031)	151	-
Total impairment losses					388 358	356 695

The impairment loss was recognized for the following reasons:

- a drop in the prices of certificates for energy produced from renewable sources, amendments to the Act on Renewable Energy Sources and introduction of the auction system;
- an increase in the risk-free rate and WACC for wind farms.

The impairment could be reversed for the following reasons:

- analysis of functional solutions related to the capacity market discussed in the capacity market bill, with relation to better understanding of the future of the market;
- longer life of generating units and higher production volumes generated resulting from increased modernization and replacement expenditure.

The sensitivity analyses for each CGU revealed that taking account of the capacity market as well as changes in the prices of electricity and hard coal are the key factors having the most significant effect on the value in use of the tested assets. The impact of changes in the prices of greenhouse gas emission allowances and in the weighted

average cost of capital on measurement is less considerable. Presented below are estimated changes in the impairment loss on the Generation segment assets taking account of the effect of its reversal as at 30 June 2017 as a result of changes to key assumptions.

If the capacity market mechanism was not taken into account in the assumptions for estimating the value in use of items of property, plant and equipment, the additional net impairment loss that would be recognized in the Group's profit or loss would be PLN 3 215 million, provided that other market conditions remained unchanged.

Parameter	Change	Net impact on impairment loss (i.e. reduced by derecognized amounts, in PLN million)	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	-	214
	-1%	273	-
Change of coal prices in the forecast period	+1%	111	-
	-1%	-	96
Change of CO2 emission allowances prices in the forecast period	+1%	46	-
	-1%	-	44
Change of WACC (net)	+0.1 p.p.	43	-
	-0.1 p.p.	-	35
Lack of recognition of payments relating to the Capacity Market		3 215	-

The impairment tests also covered loans granted to a joint venture – Elektrociepłownia Stalowa Wola S.A., which were discussed in detail in Note 21 to these condensed interim consolidated financial statements. The tests were based on assumptions consistent with those used for purposes of testing other assets for impairment. The test results indicated that no impairment losses needed to be recognized.

17. Goodwill

Goodwill in segment	As at	As at
	30 September 2017 (unaudited)	31 December 2016
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	581	581
Total	40 156	40 156

Impairment tests

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

The test was performed based on the present value of projected cash flows from operations. The calculations were based on detailed projections for the period from 2017 to 2026 and the estimated residual value. For the Mining segment detailed projections by the date of depletion of the available coal resources were used. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

The values determined reflect the past experience and are consistent with information from external sources.

The discount rate used for calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (3.81%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

The key assumptions affecting the estimated value in use and the discount rates applied to individual segments are as follows:

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Goodwill in the segment	Key assumptions	Discount rate (before tax) assumed in tests as at:	
		30 June 2017 (unaudited)	30 June 2016 (unaudited)
Mining	<ul style="list-style-type: none"> • The adopted price path of power coal and other coal sizes. The actual increase in the price of power coal assumed by 2027 11%, in 2027-2040 is assumed a decrease by 3% and after 2040, the price level of that year has been maintained (fixed prices); • The adopted retail price path of electricity based on the wholesale price of black energy including excise costs, cost of energy certificates surrender and a relevant markup; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments. 	10.20%	9.57%-9.63%
Distribution	<ul style="list-style-type: none"> • Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments. 	7.60%	7.50%

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

The impairment test performed as at 30 June 2017 did not reveal impairment of the carrying amount of goodwill in the segments.

A sensitivity analysis performed for each CGU revealed that changes in the key factors, such as electricity prices, hard coal prices, the prices of greenhouse gas emission allowances as well as the weighted average cost of capital would have to be material to change the value in use of the tested assets to the extent necessary to recognize impairment losses on goodwill.

18. Energy certificates and gas emission allowances

18.1. Long-term energy certificates and gas emission allowances

For the 9-month period ended 30 September 2017 (unaudited)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	110 430	15 830	126 260
Direct purchase	31 636	-	31 636
Reclassification	(98 725)	(15 830)	(114 555)
Closing balance	43 341	-	43 341

For the 9-month period ended 30 September 2016 (unaudited)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	232 973	277 867	510 840
Direct purchase	87 364	-	87 364
Reclassification	(232 973)	(245 729)	(478 702)
Closing balance	87 364	32 138	119 502

18.2. Short-term energy certificates and gas emission allowances

For the 9-month period ended 30 September 2017 (*unaudited*)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	556 501	423 847	980 348
Direct purchase	248 328	-	248 328
Generated internally	35 548	-	35 548
Cancellation	(653 561)	(209 652)	(863 213)
Reclassification	97 654	15 830	113 484
Closing balance	284 470	230 025	514 495

For the 9-month period ended 30 September 2016 (*unaudited*)

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	652 305	153 083	805 388
Direct purchase	235 579	-	235 579
Generated internally	82 427	-	82 427
Cancellation	(707 361)	(174 957)	(882 318)
Reclassification	227 607	245 729	473 336
Closing balance	490 557	223 855	714 412

19. Other intangible assets

For the 9-month period ended 30 September 2017 (*unaudited*)

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	5 434	786 283	610 578	211 873	93 060	1 707 228
Direct purchase	-	-	11	-	50 776	50 787
Transfer of intangible assets not made available for use	-	136	22 678	8 544	(31 358)	-
Sale/ Liquidation	-	(1 271)	(1 194)	(101)	-	(2 566)
Transfers to/from assets held for sale	-	(12 949)	-	-	-	(12 949)
Other movements	15	(11)	(6 050)	6 795	-	749
Foreign exchange differences from translation of foreign entities	-	-	13	-	-	13
Closing balance	5 449	772 188	626 036	227 111	112 478	1 743 262
ACCUMULATED AMORTIZATION						
Opening balance	(5 120)	(25 617)	(387 075)	(64 982)	(7)	(482 801)
Amortization for the period	(62)	-	(47 195)	(12 769)	-	(60 026)
Increase of impairment	(17)	(9 859)	(329)	(20)	-	(10 225)
Decrease of impairment	73	307	11	32	-	423
Sale/ Liquidation	-	-	1 170	39	-	1 209
Transfers to/from assets held for sale	-	9 859	-	-	-	9 859
Other movements	(15)	-	2 153	(2 114)	-	24
Foreign exchange differences from translation of foreign entities	-	-	(15)	-	-	(15)
Closing balance	(5 141)	(25 310)	(431 280)	(79 814)	(7)	(541 552)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	314	760 666	223 503	146 891	93 053	1 224 427
NET CARRYING AMOUNT AT THE END OF THE PERIOD	308	746 878	194 756	147 297	112 471	1 201 710

For the 9-month period ended 30 September 2016 (unaudited)

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	5 690	786 504	550 892	188 004	51 885	1 582 975
Direct purchase	-	-	38	-	72 654	72 692
Transfer of intangible assets not made available for use	-	125	20 085	17 279	(37 489)	-
Sale/ Liquidation	(256)	(2 067)	(1 968)	(69)	(55)	(4 415)
Acquisition of ZCP Brzeszcze	-	10 266	95	147	-	10 508
Other movements	-	1 374	86	1 002	1 064	3 526
Foreign exchange differences from translation of foreign entities	-	-	13	-	-	13
Closing balance	5 434	796 202	569 241	206 363	88 059	1 665 299
ACCUMULATED AMORTIZATION						
Opening balance	(4 893)	(13 064)	(332 862)	(49 391)	-	(400 210)
Amortization for the period	(119)	-	(44 297)	(11 605)	-	(56 021)
Increase of impairment	(72)	(25)	(1 538)	(102)	(7)	(1 744)
Decrease of impairment	51	811	1 626	4	-	2 492
Liquidation	256	-	1 968	65	-	2 289
Other movements	-	-	-	2	-	2
Foreign exchange differences from translation of foreign entities	-	-	(8)	-	-	(8)
Closing balance	(4 777)	(12 278)	(375 111)	(61 027)	(7)	(453 200)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	797	773 440	218 030	138 613	51 885	1 182 765
NET CARRYING AMOUNT AT THE END OF THE PERIOD	657	783 924	194 130	145 336	88 052	1 212 099

20. Shares in joint ventures

Investments in joint-ventures measured using the equity method as at 30 September 2017 and for the 9-month period ended 30 September 2017 have been presented in the table below:

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 30 September 2017 or for the 9-month period ended 30 September 2017 (unaudited)
Non-current assets	1 205 302	1 611 323	2 816 625
Current assets, including:	144 615	478 830	623 445
<i>cash and cash equivalents</i>	143 691	196 007	339 698
Non-current liabilities (-) including:	(532 772)	(656 998)	(1 189 770)
<i>debt</i>	(484 614)	(562 712)	(1 047 326)
Current liabilities (-) including:	(853 842)	(351 949)	(1 205 791)
<i>debt</i>	(647 071)	(49 904)	(696 975)
Total net assets	(36 697)	1 081 206	1 044 509
Share in net assets	(18 349)	540 603	522 254
Investment in joint ventures	-	499 690	499 690
Share in revenue of joint ventures	9	470 603	470 612
Share in profit/(loss) of joint ventures	-	69 435	69 435
Share in other comprehensive income of joint ventures	-	46	46

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

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Investments in joint ventures measured using the equity method as at 31 December 2016 and for the 9-month period ended 30 September 2016 have been presented in the table below:

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o. in liquidation	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2016 or for the 9-month period ended 30 September 2016 <i>(unaudited)</i>
Non-current assets	1 126 668	-	1 479 845	2 606 513
Current assets, <i>including:</i>	5 739	37 056	501 547	544 342
<i>cash and cash equivalents</i>	3 809	37 009	196 442	237 260
Non-current liabilities (-) <i>including:</i>	(1 028 954)	-	(664 603)	(1 693 557)
<i>debt</i>	(980 977)	-	(536 585)	(1 517 562)
Current liabilities (-) <i>including:</i>	(132 395)	(97)	(349 101)	(481 593)
<i>debt</i>	(65 752)	-	(1 647)	(67 399)
Total net assets	(28 942)	36 959	967 688	975 705
Share in net assets	(14 471)	18 479	483 844	487 852
Investment in joint ventures	-	18 479	442 869	461 348
Share in revenue of joint ventures	6 658	348	427 124	434 130
Share in profit/(loss) of joint ventures	-	4	78 334	78 338
Share in other comprehensive income of joint ventures	-	-	75	75

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

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A. The entity was registered to carry out an investment project, i.e. construction of a gas and steam unit fueled with natural gas in Stalowa Wola with the gross maximum electrical capacity of 400 MWe and the net thermal capacity of 240 MWt.

On 27 October 2016, a conditional agreement was made among the Company, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. to set out the key boundary conditions for project restructuring along with a conditional annex to the electricity sales contract. Furthermore, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. executed a conditional annex to the gaseous fuel supply contract.

The conditions precedent were satisfied on 31 March 2017, which was followed by the entry into force of the aforesaid agreement and annexes. The issue has been discussed in more detail in Note 31.3 to these condensed interim consolidated financial statements.

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

Additionally, the Company has receivables arising from loans disbursed to Elektrociepłownia Stalowa Wola S.A. with the carrying amount of PLN 562 134 thousand, which has been discussed in more detail in Note 21 to these condensed interim consolidated financial statements.

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014, the TAURON Group entered into an agreement with the ArcelorMittal Group. The shareholders agreement states that TAMEH HOLDING Sp. z o.o. will carry out investment and operational projects related to the industrial power sector. The agreement was concluded for a term of 15 years, which may be further extended. Following the transactions concluded in 2014, each capital group holds 50% of shares in TAMEH HOLDING Sp. z o.o.

TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH POLSKA Sp. z o.o. composed of: Zakład Wytwarzania Nowa and Elektrownia Blachownia contributed in kind by the TAURON Group and Elektrociepłownia in Kraków contributed in kind by the ArcelorMittal Group. Moreover, TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH Czech s.r.o.

On 29 June 2017, the General Shareholders' Meeting of TAMEH HOLDING Sp. z o.o. decided to allocate PLN 31 000 thousand to pay dividends to the shareholders. The Group's interest in the joint venture TAMEH HOLDING Sp. z o.o. was reduced by the value of the dividend payable to the Group in the amount of PLN 15 500 thousand.

Elektrownia Blachownia Nowa Sp. z o.o. in liquidation

On 5 September 2012, TAURON Wytwarzanie S.A., a subsidiary, and KGHM Polska Miedź S.A. established a special purpose vehicle named Elektrownia Blachownia Nowa Sp. z o.o. with the registered address in Kędzierzyn Koźle. The company was set up to perform a comprehensive investment project including preparation, construction and operation of a combined cycle gas and steam unit with the capacity of ca. 850 MWe on the site of TAURON Wytwarzanie S.A. – Oddział Elektrownia Blachownia.

TAURON Polska Energia S.A. holds 50% indirect interest in the issued capital of this company and in its governing body through TAURON Wytwarzanie S.A.

On 28 July 2016, TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. signed an agreement pursuant to which they unanimously decided to discontinue the construction of the gas and steam unit in Elektrownia Blachownia Nowa Sp. z o.o. and terminate the shareholders agreement concluded by KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A., which denotes expiration of all contractual obligations and discontinuation of all works specified in the agreement. KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. unanimously decided to commence the winding up of the company, which will follow its articles of association and common law provisions. On 11 October 2016, the Extraordinary General Shareholders' Meeting dissolved Elektrownia Blachownia Nowa Sp. z o.o. and placed it into liquidation, in addition to appointing a receiver. The measures employed in connection with the liquidation included completion of sales of the company's assets by the end of the reporting period, document archiving and termination of the contracts which the company was a party to.

On 7 July 2017, the proceeds from distribution of the assets of Elektrownia Blachownia Nowa Sp. z o.o. in liquidation, amounting to PLN 18 542 thousand, were transferred to the bank account of TAURON Wytwarzanie S.A.

21. Loans granted to joint ventures

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 30 September 2017 and 31 December 2016 have been presented below.

	Agreement date	Contractual loan amount	As at		Maturity date	Purpose
			30 September 2017			
			Principal	Interest		
Subordinated loan	20.06.2012	177 000	177 000	33 194	31.12.2032	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14.12.2015	15 850	15 850	1 201	31.12.2027	Repayment of the principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
	15.12.2016	15 300	11 000	375		
Arrangements to consolidate the borrower's debt	30.06.2017	150 000	150 000	1 630	31.10.2017	Payment of total liabilities under loan agreements entered into by the borrower with the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. and financing of current operations
	30.06.2017	170 058	170 058	1 826		
Total loans			523 908	38 226		
Non-current			203 850	34 770		
Current			320 058	3 456		

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	Agreement date	Contractual loan amount	As at		Maturity date	Purpose
			31 December 2016	Principal		
Subordinated loan	20.06.2012	177 000	177 000	36 381	31.12.2032	Project performance: the borrower to obtain external funding
Loan for repayment of debt	14.12.2015	15 850	15 850	699	31.12.2027	Repayment of the principal instalment with interest with regard to loans granted to the borrower by European Investment Bank, European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A.
	15.12.2016	15 300	11 000	21		
	25.11.2015	2 600	2 600	117		
Other loans	22.01.2016	5 500	5 500	214	30.06.2017	Financing of current operations
	22.04.2016	1 200	600	17		
	27.05.2016	3 100	3 100	65		
	31.08.2016	3 800	2 875	28		
Total loans			218 525	37 542		
Non-current			203 850	37 101		
Current			14 675	441		

Loans granted by the Company to Elektrociepłownia Stalowa Wola S.A. under agreements dated 30 March 2017 for purposes of debt repayment totaled PLN 290 742 thousand. The said loans were granted for purposes of the debtor's early payment of liabilities under loan agreements entered into in relation to the construction of a heat and power unit in Stalowa Wola, which has been discussed in more detail in Note 31.3 to these condensed interim consolidated financial statements.

Under agreements concluded on 16 February 2017 and 28 April 2017, the Company granted other loans totaling PLN 5 250 thousand to Elektrociepłownia Stalowa Wola S.A. to finance the current operations of the borrower.

On 30 June 2017, the Company concluded two agreements with Elektrociepłownia Stalowa Wola S.A. consolidating debt under loan agreements entered into for the purpose of refinancing debt totaling PLN 290 742 thousand and other loans for the total amount of PLN 19 925 thousand. Under the debt consolidation agreements, principal amounts and interest accrued by 30 June 2017 were consolidated and comprised:

- The total outstanding principal amount of PLN 145 991 thousand under the refinancing loan agreement dated 30 March 2017 and a portion of the principal amount of PLN 4 009 thousand under the refinancing loan agreement dated 30 March 2017 for PLN 73 518 thousand were included in the debt consolidation agreement of 30 June 2017 for the total amount of PLN 150 000 thousand.
- The debt consolidation agreement dated 30 June 2017 for PLN 170 058 thousand covered:
 - the remaining portion of the principal amount of PLN 69 509 thousand under the refinancing loan agreement dated 30 March 2017 for PLN 73 518 thousand;
 - the total principal amount under the refinancing loan agreement dated 30 March 2017 of PLN 71 233 thousand;
 - the total principal amount under other loan agreements concluded to finance current business operations of the borrower totaling PLN 19 925 thousand;
 - interest accrued on loans granted and included in debt consolidation agreements, calculated for the period from the loan agreement date to 30 June 2017 totaling PLN 3 841 thousand;
 - an additional loan granted to the borrower by the Company under the debt consolidation agreement of PLN 5 550 thousand. The purpose of the loan was in particular to finance current business operations of the borrower.

After the end of the reporting period, on 31 October 2017, the Company and Elektrociepłownia Stalowa Wola S.A. signed:

- a new consolidation arrangement totalling PLN 175 157 thousand, effective as of 1 November 2017, whereby the debt of Elektrociepłownia Stalowa Wola S.A. under the consolidation arrangement concluded on 30 June 2017 totalling PLN 170 058 thousand with interest accrued by 31 October 2017 totalling PLN 2 449 thousand was extended until 28 February 2018 and Elektrociepłownia Stalowa Wola S.A. was provided with another loan totalling PLN 2 650 thousand to pay for the current operations of the borrower.
- An annex to the consolidation arrangement of 30 June 2017 totalling PLN 150 000 thousand whereby the maturity of the loans under the arrangement was extended until 28 February 2018.

22. Other financial assets

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
Shares	132 179	131 698
Deposits	40 418	38 472
Derivative instruments	53 890	56 417
Investment fund units	78 578	27 761
Loans granted	8 082	50
Bid bonds, deposits and collateral transferred	62 230	41 818
Initial margins	39 389	-
Other	7 495	10 561
Total	422 261	306 777
Non-current	221 353	227 140
Current	200 908	79 637

The shares held by the Group are mainly shares in the following entities:

- SCE Jaworzno III Sp. z o.o., in the amount of PLN 36 283 thousand;
- Przedsiębiorstwo Energetyki Ciepłej Tychy Sp. z o.o., in the amount of PLN 32 113 thousand;
- PGE EJ 1 Sp. z o.o., in the amount of PLN 26 546 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 15 063 thousand.

In the 9-month period ended 30 September 2017, the Parent acquired units in investment funds in the total amount of PLN 50 000 thousand.

The financial assets of the Mine Decommissioning Fund comprise deposits and term deposits.

23. Other non-financial assets

23.1. Other non-current non-financial assets

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
Prepayments for assets under construction and intangible assets <i>including:</i>	192 539	274 301
<i>related to project realization: Construction of 910 MW Power Unit in Jaworzno III Power Plant</i>	189 282	271 667
Costs of preparing production in hard coal mines	135 018	132 862
Other prepayments	22 118	15 237
Total	349 675	422 400

23.2. Other current non-financial assets

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
Costs settled over time, including:	98 256	78 457
Costs of preparing production in hard coal mines	55 992	36 175
Property and tort insurance	7 122	10 922
IT, telecom and postal services	8 897	17 994
Other prepayments	26 245	13 366
Other current non-financial assets, including:	31 871	106 551
Advance payments for deliveries	4 505	103 601
Surplus of Social Benefit Fund assets over its liabilities	2 490	338
Transfers made to the Social Benefit Fund	13 827	-
Other current assets	11 049	2 612
Total	130 127	185 008

24. Inventories

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
Gross value		
Coal, of which:	201 206	320 201
<i>Raw materials</i>	60 400	98 759
<i>Semi-finished goods and work-in-progress</i>	139 896	216 831
Energy certificates	-	783
Emission allowances	14 672	45 912
Other inventories	121 832	115 591
Total	337 710	482 487
Measurement to net realisable value / fair value		
Emission allowances	5 681	13 226
Other inventories	(8 714)	(9 593)
Total	(3 033)	3 633
Net realisable value / Fair value		
Coal, of which:	201 206	320 201
<i>Raw materials</i>	60 400	98 759
<i>Semi-finished goods and work-in-progress</i>	139 896	216 831
Energy certificates	-	783
Emission allowances	20 353	59 138
Other inventories	113 118	105 998
Total	334 677	486 120

Inventories are measured at net realizable value, except for the inventory of emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices, which is measured at fair value as at the end of the reporting period.

The Company recognized a gain on measurement of PLN 5 681 thousand as at 30 September 2017 following an increase in the prices of emission allowances.

25. Receivables from buyers

Current receivables from buyers as at 30 September 2017 and 31 December 2016 have been presented in the table below.

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
Value of items before allowance/write-down		
Receivables from clients	1 394 756	1 527 921
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	446 334	425 705
Receivables claimed at court	151 285	146 086
Total	1 992 375	2 099 712
Allowance/write-down		
Receivables from clients	(82 892)	(84 036)
Receivables claimed at court	(126 609)	(121 611)
Total	(209 501)	(205 647)
Value of item net of allowance (carrying amount)		
Receivables from clients	1 311 864	1 443 885
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	446 334	425 705
Receivables claimed at court	24 676	24 475
Total	1 782 874	1 894 065

26. Receivables due to taxes and charges

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
Corporate Income Tax receivables	965	83 468
VAT receivables	229 186	154 181
Excise duty receivables	16 123	24 205
Other	945	2 000
Total	247 219	263 854

27. Cash and cash equivalents

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
Cash at bank and in hand	829 803	368 274
Short-term deposits (up to 3 months)	1 311 689	16 450
Other	284	157
Total cash and cash equivalents presented in the statement of financial position, of which:	2 141 776	384 881
restricted cash	140 488	144 404
Bank overdraft	(1 518)	(15 156)
Cash pool	(2 400)	(16 095)
Foreign exchange	(31)	1 103
Total cash and cash equivalents presented in the statement of cash flows	2 137 827	354 733

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

As at 30 September 2017, the balance of restricted cash included mainly cash on the accounts for bid bonds of PLN 81 523 thousand and cash on the accounts used for settling electricity trading and emission allowances on the Polish Power Exchange, i.e. Towarowa Gielda Energii S.A., of PLN 56 168 thousand.

28. Equity

28.1. Issued capital

Issued capital as at 30 September 2017 (unaudited)

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

As at 30 September 2017, the value of the issued capital, the number of shares and the nominal value of shares did not change as compared to 31 December 2016.

Shareholding structure as at 30 September 2017 (unaudited, to the best of the Company's knowledge)

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

To the best of the Company's knowledge, the shareholding structure as at 30 September 2017 did not change as compared to 31 December 2016.

28.2. Revaluation reserve from valuation of hedging instruments

	9-month period ended 30 September 2017 (unaudited)	9-month period ended 30 September 2016 (unaudited)
Opening balance	29 660	(73 414)
Remeasurement of hedging instruments	(8 708)	67 753
Remeasurement of hedging instruments charged to profit or loss	381	16 185
Deferred income tax	1 582	(15 948)
Closing balance	22 915	(5 424)

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued bonds, which has been discussed in more detail in Note 41.2 to these condensed interim consolidated financial statements.

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

As at 30 September 2017, the Company recognized PLN 22 915 thousand in the revaluation reserve from valuation of hedging instruments. It represents an asset arising from valuation of interest rate swaps as at the end of the reporting period, totaling PLN 28 291 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 1 141 thousand, with PLN 760 thousand of the amount received in respect of hedges used in relation to closed interest periods and PLN 381 thousand resulting from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. In the statement of comprehensive income, the expense related to a change in measurement of instruments concerning interest accrued on bonds increased finance costs arising from such interest.

28.3. Retained earnings and dividend limitation

In the current period, changes in retained earnings (uncovered losses) included:

- net profit for the period attributable to the shareholders of the Parent of PLN 1 192 197 thousand;
- actuarial gains on provisions for post-employment benefits, recognized in other comprehensive income, of PLN 7 869 thousand;
- coverage of the Company's net loss for the 2016 financial year in the amount of PLN 166 253 thousand using the reserve capital (a resolution of the General Shareholders' Meeting of 29 May 2017);
- other transactions with non-controlling interest that increase retained earnings by PLN 95 thousand.

29. Debt

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
Loans and borrowings	1 162 276	1 263 553
Bonds issued	9 784 107	7 681 128
Finance lease	24 878	34 848
Total	10 971 261	8 979 529
Non-current	10 641 045	8 759 789
Current	330 216	219 740

29.1. Loans and borrowings

Loans and borrowings taken out as at 30 September 2017 *(unaudited)*

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within <i>(after the balance sheet date)</i> :					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	46 697	46 697	12 293	4 439	7 341	7 341	13 858	1 425
	fixed	1 107 426	1 107 426	20 446	141 795	162 240	162 240	324 483	296 222
Total PLN		1 154 123	1 154 123	32 739	146 234	169 581	169 581	338 341	297 647
USD	floating	416	1 518	1 518	-	-	-	-	-
		416	1 518	1 518	-	-	-	-	-
Total USD				34 257	146 234	169 581	169 581	338 341	297 647
Total			1 155 641	34 257	146 234	169 581	169 581	338 341	297 647
Interest increasing carrying amount			6 635						
Total loans and borrowings			1 162 276						

Loans and borrowings taken out as at 31 December 2016

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within <i>(after the balance sheet date)</i> :					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	57 918	57 918	17 791	5 894	7 491	7 341	14 575	4 826
	fixed	1 183 418	1 183 418	20 445	127 044	162 227	162 227	324 455	387 020
Total PLN		1 241 336	1 241 336	38 236	132 938	169 718	169 568	339 030	391 846
EUR	floating	3 032	13 415	13 415	-	-	-	-	-
Total EUR		3 032	13 415	13 415	-	-	-	-	-
USD	floating	410	1 716	1 716	-	-	-	-	-
Total USD		410	1 716	1 716	-	-	-	-	-
Total			1 256 467	53 367	132 938	169 718	169 568	339 030	391 846
Interest increasing carrying amount			7 086						
Total loans and borrowings			1 263 553						

Changes in the balance of loans and borrowings, excluding interest that increases their carrying amount, in the 9-month period ended 30 September 2017 and in the comparative period have been presented below.

	9-month period ended 30 September 2017 <i>(unaudited)</i>	9-month period ended 30 September 2016 <i>(unaudited)</i>
Opening balance	1 256 467	1 403 618
Movement in bank overdrafts and cash pool loans received	(16 673)	89 984
Movement in loans (excluding bank overdrafts and cash pool loans):	(84 153)	(65 600)
Repaid	(81 959)	(66 959)
Taken	-	916
Change in valuation	(2 194)	443
Closing balance	1 155 641	1 428 002

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

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 30 September 2017 (unaudited)	As at 31 December 2016
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	105 606	105 039
		Construction and start-up of a co-generation unit at EC Bielsko Biala	Fixed	15.12.2021	150 870	150 056
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	290 493	307 362
			Fixed – agreed until 15 March 2018	15.09.2024	127 428	147 091
			Fixed – agreed until 15 March 2018	15.09.2024	159 276	183 783
Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	280 375	297 170		
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	21 000	24 000
		Construction of biomass infed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	14 556	16 561
Other loans and borrowings					12 672	32 491
Total					1 162 276	1 263 553

29.2. Bonds issued

Bonds issued as at 30 September 2017 (unaudited)

Issuer	Tranche/ Bank	Redemption date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (after the balance sheet date):		
					Interest accrued	Principal at amortised cost	up to 2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	20.12.2019	PLN	100 000	920	99 888	-	99 888	-
		20.12.2020	PLN	100 000	920	99 861	-	99 861	-
		20.12.2021	PLN	100 000	920	99 841	-	99 841	-
		20.12.2022	PLN	100 000	920	99 826	-	-	99 826
		20.12.2023	PLN	100 000	920	99 814	-	-	99 814
		20.12.2024	PLN	100 000	920	99 806	-	-	99 806
		20.12.2025	PLN	100 000	920	99 798	-	-	99 798
		20.12.2026	PLN	100 000	920	99 791	-	-	99 791
		20.12.2027	PLN	100 000	920	99 786	-	-	99 786
		20.12.2028	PLN	100 000	920	99 783	-	-	99 783
		20.12.2020	PLN	70 000	634	69 985	-	69 985	-
		20.12.2021	PLN	70 000	634	69 983	-	69 983	-
		20.12.2022	PLN	70 000	634	69 982	-	-	69 982
		20.12.2023	PLN	70 000	634	69 981	-	-	69 981
		20.12.2024	PLN	70 000	634	69 980	-	-	69 980
		20.12.2025	PLN	70 000	634	69 980	-	-	69 980
		20.12.2026	PLN	70 000	634	69 979	-	-	69 979
		20.12.2027	PLN	70 000	634	69 979	-	-	69 979
		20.12.2028	PLN	70 000	634	69 979	-	-	69 979
		20.12.2029	PLN	70 000	634	69 978	-	-	69 978
	Bond Issue Scheme of 24.11.2015	29.12.2020	PLN	2 250 000	17 152	2 245 730	-	2 245 730	-
		9.12.2020	PLN	300 000	2 773	299 418	-	299 418	-
	TPEA1119	4.11.2019	PLN	1 750 000	19 678	1 749 246	-	1 749 246	-
	European Investment Bank	16.12.2034	EUR	190 000	29 794	817 564	-	-	817 564
	Eurobonds EURBD050727	5.07.2027	EUR	500 000	12 337	2 137 830	-	-	2 137 830
TAURON Sweden Energy AB (publ)		3.12.2029	EUR	168 000	20 964	718 081	-	-	718 081
Total debentures					118 238	9 665 869	-	4 733 952	4 931 917

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Bonds issued as at 31 December 2016

Issuer	Tranche/ Bank	Redemption date	Currency	Principal at nominal value in currency	As at balance sheet date		of which maturing within (after the balance sheet date):		
					Interest accrued	Principal at amortised cost	up to 2 years	2-5 years	Over 5 years
		20.12.2019	PLN	100 000	107	99 805	-	99 805	-
		20.12.2020	PLN	100 000	107	99 786	-	99 786	-
		20.12.2021	PLN	100 000	107	99 773	-	99 773	-
		20.12.2022	PLN	100 000	107	99 763	-	-	99 763
		20.12.2023	PLN	100 000	107	99 754	-	-	99 754
		20.12.2024	PLN	100 000	107	99 749	-	-	99 749
		20.12.2025	PLN	100 000	107	99 744	-	-	99 744
		20.12.2026	PLN	100 000	107	99 738	-	-	99 738
		20.12.2027	PLN	100 000	107	99 734	-	-	99 734
	Bank	20.12.2028	PLN	100 000	107	99 733	-	-	99 733
	Gospodarstwa	20.12.2020	PLN	70 000	74	69 976	-	69 976	-
	Krajowego	20.12.2021	PLN	70 000	74	69 976	-	69 976	-
TAURON Polska Energia S.A.		20.12.2022	PLN	70 000	74	69 976	-	-	69 976
		20.12.2023	PLN	70 000	74	69 976	-	-	69 976
		20.12.2024	PLN	70 000	74	69 975	-	-	69 975
		20.12.2025	PLN	70 000	74	69 975	-	-	69 975
		20.12.2026	PLN	70 000	74	69 975	-	-	69 975
		20.12.2027	PLN	70 000	74	69 975	-	-	69 975
		20.12.2028	PLN	70 000	74	69 975	-	-	69 975
		20.12.2029	PLN	70 000	74	69 975	-	-	69 975
	Bond Issue Scheme of	29.12.2020	PLN	2 250 000	549	2 244 801	-	2 244 801	-
	24.11.2015	25.03.2020	PLN	100 000	790	99 771	-	99 771	-
		9.12.2020	PLN	300 000	560	298 761	-	298 761	-
	TPEA1119	4.11.2019	PLN	1 750 000	7 578	1 749 155	-	1 749 155	-
	European Investment Bank	16.12.2034	EUR	190 000	1 693	839 330	-	-	839 330
TAURON Sweden Energy AB (publ)		3.12.2029	EUR	168 000	2 067	736 930	-	-	736 930
Total debentures					15 047	7 666 081	-	4 831 804	2 834 277

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

On 5 July 2017 the Company issued eurobonds with the total par value of EUR 500 000 thousand and the issue price of 99.438 percent of the par value. They are 10-year bonds with fixed interest paid on an annual basis. The bonds have been admitted to trading on the London Stock Exchange. They were rated "BBB" by the Fitch rating agency.

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

On 20 June 2017 the Company signed annexes to the agency and depositary agreement and the guarantee agreement of 24 November 2015 whereby the scheme was extended:

- by one year, i.e. until 31 December 2021 ("1st Extension Period"). During the 1st Extension Period, the scheme's maximum value will be PLN 5 320 000 thousand, and the extension will include the following banks: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland, Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and mBank S.A.

- by two years, i.e. until 31 December 2022 ("2nd Extension Period"). During the 2nd Extension Period, the scheme's maximum value will be PLN 2 450 000 thousand, and the extension will include the following banks: MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A.

By 31 December 2020 the Scheme's value will not change and will not exceed PLN 6 270 000 thousand. Due to the extension, the financing margin in the Scheme did not change.

Bonds issued by TAURON Sweden Energy AB (publ), a subsidiary, are fixed-rate securities with interest payable annually. The euro is the issue currency and the repayment currency. As at 30 September 2017, the carrying amount of the bonds with interest in the bond currency was EUR 171 508 thousand (versus EUR 167 043 thousand as at 31 December 2016). The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ) to secure the bonds in question. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand.

Change in the balance of bonds, excluding interest increasing their carrying amount, in the 9-month period ended 30 September 2017 and in the comparative period.

	9-month period ended 30 September 2017	9-month period ended 30 September 2016
	<i>(unaudited)</i>	<i>(unaudited)</i>
Opening balance	7 666 081	6 665 528
Issue*	2 707 005	2 852 461
Redemption	(700 000)	(2 550 000)
Change in valuation	(7 217)	11 727
Closing balance	9 665 869	6 979 716

*Costs of issue have been included.

In the 9-month period ended 30 September 2017, the Company issued four tranches of bonds with the total par value of PLN 600 000 thousand under the bond issue scheme of 24 November 2015:

- a tranche of PLN 100 000 thousand with the maturity date on 30 January 2020;
- a tranche of PLN 100 000 thousand with the maturity date on 1 March 2020;
- a tranche of PLN 300 000 thousand with the maturity date on 30 June 2017;
- a tranche of PLN 100 000 thousand with the maturity date on 31 July 2017.

In the 9-month period ended 30 September 2017, the Company redeemed tranches with the total par value of PLN 700 000 thousand under the bond issue scheme of 24 November 2015:

- PLN 100 000 thousand with the maturity date on 30 January 2020, earlier redemption on 31 July 2017;
- PLN 100 000 thousand with the maturity date on 1 March 2020, earlier redemption on 1 September 2017;
- PLN 100 000 thousand with the maturity date on 25 March 2020, earlier redemption on 25 September 2017;
- PLN 300 000 thousand with the maturity date on 30 June 2017, redeemed on that day;
- PLN 100 000 thousand with the maturity date on 31 July 2017, redeemed on that day.

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 41.2 to these condensed interim consolidated financial statements.

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. As at 30 September 2017, none of these covenants were breached and the contractual provisions were complied with.

30. Provisions for employee benefits

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
Provision for post-employment benefits and jubilee bonuses	1 462 046	1 480 391
Provision for employment termination benefits	33 670	51 222
Total	1 495 716	1 531 613
Non-current	1 371 769	1 373 385
Current	123 947	158 228

30.1. Provisions for post-employment benefits and jubilee bonuses

For the 9-month period ended 30 September 2017 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	307 281	532 184	112 469	2 248	526 209	1 480 391
Current service costs	11 046	8 701	1 763	-	21 146	42 656
Actuarial gains and losses	(9 167)	-	(500)	-	(365)	(10 032)
Benefits paid	(17 241)	(9 777)	(2 763)	-	(42 490)	(72 271)
Past service costs	(1 560)	(533)	(64)	-	(7 109)	(9 266)
Interest expense	6 121	11 500	2 429	-	10 518	30 568
Closing balance	296 480	542 075	113 334	2 248	507 909	1 462 046
Non-current	269 619	525 636	108 944	-	455 805	1 360 004
Current	26 861	16 439	4 390	2 248	52 104	102 042

For the 9-month period ended 30 September 2016 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	341 124	722 734	131 110	2 242	653 165	1 850 375
Current service costs	10 331	12 141	1 416	-	27 112	51 000
Actuarial gains and losses	269	-	(4)	-	(18)	247
Benefits paid	(17 891)	(11 137)	(2 748)	(2 242)	(58 999)	(93 017)
Interest expense	6 956	14 873	2 678	-	12 994	37 501
Acquisition of ZCP Brzeszcze	9 436	-	-	-	17 026	26 462
Closing balance	350 225	738 611	132 452	-	651 280	1 872 568
Non-current	327 412	714 717	128 123	-	596 100	1 766 352
Current	22 813	23 894	4 329	-	55 180	106 216

Measurement of provisions for employee benefits

Provisions for post-employment benefits and jubilee bonuses have been estimated using actuarial methods.

The provisions for employee benefits were measured as at 30 September 2017 based on actuarial projections. Actuarial assumptions made in preparing the projections for 2017 were the same as those used for measuring the provisions as at 31 December 2016. Key actuarial assumptions made as at 31 December 2016 for the purpose of calculation of the liability:

	31 December 2016
Discount rate (%)	3.00%
Estimated inflation rate (%)	2.50%
Employee rotation rate (%)	0.04% - 7.95%
Estimated salary increase rate (%)	1.00% - 3.50%
Estimated electricity price increase rate (%)	3.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%
Remaining average employment period	9.27 – 25.00

30.2. Provisions for employment termination benefits

For the 9-month period ended 30 September 2017 (*unaudited*)

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	17 599	17 062	16 561	51 222
Recognition	11 328	-	-	11 328
Reversal	-	(4 982)	-	(4 982)
Utilization	(5 659)	(8 701)	(9 538)	(23 898)
Closing balance	23 268	3 379	7 023	33 670
Non-current	11 765	-	-	11 765
Current	11 503	3 379	7 023	21 905

For the 9-month period ended 30 September 2016 (*unaudited*)

	Voluntary redundancy schemes			Total
	Segment Generation	Segment Distribution	Other	
Opening balance	23 460	25 432	8 444	57 336
Recognition	5 165	-	-	5 165
Reversal	-	-	(2 468)	(2 468)
Utilization	(8 180)	(9 299)	(2 081)	(19 560)
Closing balance	20 445	16 133	3 895	40 473
Non-current	12 959	-	-	12 959
Current	7 486	16 133	3 895	27 514

In the 9-month period ended 30 September 2017, a company from the Generation segment launched further voluntary redundancy schemes. A provision of PLN 10 974 thousand was recognized for the expected costs of the schemes. The Group companies also continued their prior years schemes. The amount recognized includes PLN 354 thousand related to the unwinding of discount.

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

For the 9-month period ended 30 September 2017 (*unaudited*)

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity and provision for costs	Provisions, total
Opening balance	146 885	115 302	198 844	461 031
Interest cost (discounting)	3 856	2 598	2 330	8 784
Recognition/(reversal), net	91	211	(201 174)	(200 872)
Closing balance	150 832	118 111	-	268 943
Non-current	150 832	101 112	-	251 944
Current	-	16 999	-	16 999
Other provisions, long-term portion				46 669
Total				298 613

For the 9-month period ended 30 September 2016 (*unaudited*)

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity and provision for costs	Provisions, total
Opening balance	111 675	101 244	182 877	395 796
Interest cost (discounting)	3 679	2 070	10 935	16 684
Recognition/(reversal), net	126	-	2 176	2 302
Acquisition of ZCP Brzeszcze	65 992	-	-	65 992
Closing balance	181 472	103 314	195 988	480 774
Non-current	181 472	102 409	156 594	440 475
Current	-	905	39 394	40 299
Other provisions, long-term portion				1 824
Total				442 299

31.1. Provision for mine decommissioning costs

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

As at 30 September 2017, the balance of the provision was PLN 150 832 thousand, and the change concerned mainly the unwinding of discount – PLN 3 856 thousand.

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

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

- provision for ash pile reclamation costs, which totaled PLN 40 374 thousand as at 30 September 2017 (versus PLN 39 415 thousand as at 31 December 2016);
- provision for windfarm dismantling costs, which totaled PLN 52 428 thousand as at 30 September 2017 (versus PLN 51 088 thousand as at 31 December 2016);
- provision for costs of liquidation of fixed assets – a chimney in Elektrownia Jaworzno as well as cooling towers and a unit in Elektrownia Łągisza, which totaled PLN 25 309 thousand as at 30 September 2017 (versus PLN 24 799 thousand as at 31 December 2016).

31.3. Provisions for onerous contracts with a joint venture and for costs

Changes in provisions in the 9-month period ended 30 September 2017 have been presented in the table below.

	Provision for electricity contract	Provision for "take or pay" clause in gas contract	Provision for costs	Provision for onerous contracts with a jointly-controlled entity and provision for costs, total
Opening balance	133 327	54 837	10 680	198 844
Unwinding of discount	1 626	475	229	2 330
Recognition	-	-	2 250	2 250
Reversal	(134 953)	(55 312)	(13 159)	(203 424)
Closing balance	-	-	-	-

As the schedule had not been met and the material technical terms of the contract signed with the general contractor on the gas and steam unit construction project in Stalowa Wola, determining the safety and failure-free operation as well as the future efficiency and costs of operation of the unit, had been breached, Elektrociepłownia Stalowa Wola S.A. terminated the contract with the general contractor on 29 January 2016 and officially took over the construction site on 22 February 2016. The inventory of works performed by the general contractor was completed. The inventory of the facility was completed. The facility's machines and equipment are maintained on an ongoing basis so as to prevent their deterioration and works in order to start auxiliary equipment are underway. It has been proposed to complete the project under an EPCM (Engineering, Procurement, Construction Management) scheme with a contract-award procedure. The EPCM selection proceedings have been completed with the consortium of Energoprojekt Katowice and Energopomiar Gliwice as the winner.

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

In the 9-month period ended 30 September 2017, the Company revalued the provisions for onerous contracts with a joint venture due to the unwinding of discount as at the end of the reporting period, which increased the provisions by PLN 2 330 thousand. It also recognized an additional provision for costs of operation of PLN 2 250 thousand and reversed in whole the following provisions:

- a provision resulting from the fact that under a multi-annual electricity sales contract among Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company was obliged to purchase half of the volume

of electricity generated by Elektrociepłownia Stalowa Wola S.A. at a price determined in the “cost plus” formula, which covers the production costs and the financing costs;

- a provision resulting from the fact that the Company was obliged to cover losses which 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.

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

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

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

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

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

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

For the 9-month period ended 30 September 2017 (unaudited)

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	209 736	755 085	964 821
Recognition	238 331	498 806	737 137
Reversal	(84)	(10 471)	(10 555)
Utilisation	(209 652)	(761 171)	(970 823)
Closing balance	238 331	482 249	720 580

For the 9-month period ended 30 September 2016 (unaudited)

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	153 083	865 051	1 018 134
Recognition	237 244	572 352	809 596
Reversal	(63)	(3 877)	(3 940)
Utilisation	(174 957)	(858 192)	(1 033 149)
Closing balance	215 307	575 334	790 641

32.1. Provision for gas emission liabilities

According to the accounting policy adopted by the Group, the provision for liabilities arising from emission of gas included in the allowance distribution plan is charged to operating expenses if the actual emission level exceeds the volume of emission allowances received free of charge, including allocation of free-of-charge emission allowances to individual facilities of the Generation segment companies, i.e. TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. The provision for costs of covering the deficit is recognized in the amount of allowances acquired or contracted for that purpose and at market prices at the end of the reporting period for the unsecured allowance deficit (if any).

As at 30 September 2017, the provision for gas emission liabilities amounted to PLN 238 331 thousand and concerned the obligation to surrender emission allowances for the 9-month period ended 30 September 2017. Provisions were recognized for current period emission allowances in the amount of:

- TAURON Wytwarzanie S.A. PLN 212 408 thousand,
- TAURON Ciepło Sp. z o.o. PLN 25 923 thousand.

A change in the balance of the provision in the 9-month period ended 30 September 2017 arises from:

- revaluation of the provision for the obligation to surrender allowances for 2016 – reversal of PLN 84 thousand;
- recognition of the provision for the obligation to surrender allowances for the 9-month period ended 30 September 2017 – recognition of PLN 238 331 thousand;
- use of the provision in relation to the fulfilment of the remaining obligation for 2016 by TAURON Wytwarzanie S.A. and surrender of emission allowances of PLN 169 335 thousand (the obligation to surrender allowances for 2016 had already been fulfilled in part by that company in December 2016) and use of the provision in connection with the fulfilment of the obligation for 2016 by TAURON Ciepło Sp. z o.o. in the amount of PLN 40 317 thousand.

32.2. Provision for the obligation to surrender energy certificates

As at 30 September 2017, the short-term provision for the obligation to surrender energy certificates for the 9-month period of 2017 was estimated at PLN 482 249 thousand, including PLN 230 217 thousand covered by the certificates held as at the end of the reporting period, PLN 191 253 thousand planned to be covered by the payment of the substitution fee and PLN 60 779 thousand by the purchase of property rights.

In the 9-month period ended 30 September 2017, the Group fulfilled the obligation to surrender certificates for electricity generated from renewable sources, in cogeneration and energy efficiency certificates for 2016. Therefore, a provision of PLN 761 171 thousand was used.

33. Other provisions

For the 9-month period ended 30 September 2017 (unaudited)

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	92 143	262 592	354 735
Interest cost (discounting)	-	1 525	1 525
Recognition/(reversal), net	2 015	22 005	24 020
Utilisation	(348)	(13 093)	(13 441)
Other changes	(723)	720	(3)
Closing balance	93 087	273 749	366 836
Non-current	-	46 669	46 669
Current	93 087	227 080	320 167
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			16 999
Total current other provisions			337 166

For the 9-month period ended 30 September 2016 (unaudited)

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	91 909	67 711	159 620
Recognition/(reversal), net	1 632	6 726	8 358
Utilisation	(500)	(4 827)	(5 327)
Other changes	(25)	20	(5)
Closing balance	93 016	69 630	162 646
Non-current	-	1 824	1 824
Current	93 016	67 806	160 822
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			40 299
Total current other provisions			201 121

Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 30 September 2017, the relevant provision amounted to PLN 93 087 thousand and was related to the following segments:

- Generation – PLN 50 943 thousand;
- Distribution – PLN 42 144 thousand.

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

Provisions for counterparty claims, court disputes and other provisions

Material provisions recognized as other provisions have been discussed below:

Item	Operating segment	Description	As at 30 September 2017 (unaudited)	As at 31 December 2016
Provisions for penalties fixed by the contracts	Generation	Considering the risk that the two projects listed below will not be continued (their continuity is required under the subsidy contracts): <ul style="list-style-type: none"> • Construction of a biomass boiler in Elektrownia Jaworzno III – Elektrownia II; • Construction of a system of power generation from renewable sources in Stalowa Wola, in 2016 a provision has been recognised for the costs of returning the subsidy totalling PLN 52 297 thousand. The revalued provision as at 30 September 2017 amounted to PLN 53 777 thousand. 		
		Considering the risk that Polski Fundusz Rozwoju S.A. may terminate the agreement, as a result of TAURON Wytwarzanie S.A. withdrawal from the construction of a gas and steam unit in Elektrownia Łagisza in Będzin and the risk of accruing liquidated damages, in 2016 a provision totalling PLN 11 250 thousand was recognised. In the 9-month period ended 30 September 2017 as a result of a received invoice the provision was utilised in the amount of PLN 5 625 thousand. The remaining balance of the provision was derecognised.	53 777	63 547
Provision for a fine to the Energy Regulatory Office	Distribution	The provision concerning the risks of the violation of the Energy Law of 10 April 1997 by providing misleading information to the President of the Energy Regulatory Office.	20 436	20 436
Provision for increased transmission easement charges	Distribution	The provision concerns a risk of increased periodic charges for transmission easement related to energy infrastructure located within the Forestry Commission areas overseen by the Regional State Forest Directorate in Wrocław, following a change in the nature of the land from forestry to business.	21 700	21 700
Provision for real estate tax	Mining	Provisions for proceedings related to real estate tax on underground mining excavations.	21 532	23 008
	Generation	Provision related to determination of the tax base on property tax for wind farms.	12 313	-
Provision for VAT	Sales	The provision was recognized in connection with pending inspection proceedings instituted by the Director of the Tax Inspection Office in Warsaw in relation to the value added tax. The duration of the proceedings was extended by the Director of the Tax Inspection Office a number of times. Currently, the new deadline for the completion of the inspection proceedings has been set for 28 December 2017. As at 30 September 2017, the provision was PLN 67 635 thousand. An increase in the provision by PLN 3 141 thousand, which was charged to finance costs, is attributable to interest accrued for the 9-month period ended 30 September 2017.	67 635	64 494

34. Accruals, deferred income and government grants

34.1. Deferred income and government grants

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	As at 30 September 2017 (<i>unaudited</i>)	As at 31 December 2016
Deferred income, of which:	267 564	293 284
Donations, subsidies received for the purchase or fixed assets received free-of-charge	64 792	71 849
Connection fees	201 268	218 075
Other	1 504	3 360
Government grants, of which:	307 001	317 505
Subsidies obtained from EU funds	207 840	211 981
Forgiven loans from environmental funds	26 787	28 068
Measurement of preferential loans	36 633	37 777
Other	35 741	39 679
Total	574 565	610 789
Non-current	524 100	553 874
Current	50 465	56 915

34.2. Accrued expenses

	As at 30 September 2017 (<i>unaudited</i>)	As at 31 December 2016
Unused holidays	37 533	48 640
Bonuses	201 050	140 930
Environmental protection charges	19 599	3 806
Other	15 046	17 790
Total	273 228	211 166
Non-current	-	419
Current	273 228	210 747

35. Liabilities to suppliers

Current liabilities to suppliers as at 30 September 2017 and 31 December 2016 are presented in the table below:

Liabilities to suppliers in operating segments	As at 30 September 2017 (<i>unaudited</i>)	As at 31 December 2016
Distribution	301 550	294 573
<i>including Polskie Sieci Elektroenergetyczne S.A.</i>	<i>227 676</i>	<i>200 732</i>
Sales	227 959	247 487
Mining	137 906	144 722
Generation	103 695	100 857
Other	37 644	42 090
Total	808 754	829 729

36. Capital commitments

Short-term capital commitments as at 30 September 2017 and 31 December 2016 are presented in the table below:

Capital commitments in operating segments	As at 30 September 2017 (<i>unaudited</i>)	As at 31 December 2016
Generation	152 982	511 403
Distribution	144 678	336 624
Mining	24 954	159 138
Sales and other	6 178	26 639
Total	328 792	1 033 804

A drop in capital commitments in the Generation segment concerned mainly a decrease related to the construction of unit no. 910 in Jaworzno in the amount of PLN 322 162 thousand, which totaled PLN 136 322 thousand as at 30 September 2017. As at 31 December 2016, capital commitments totaled PLN 458 484 thousand.

A drop in capital commitments in the Mining segment concerned mainly a decrease related to development of a longwall system in Zakład Górniczy Brzeszcze in the amount of PLN 89 080 thousand, which had been paid in whole as at 30 September 2017.

Long-term capital commitments have been presented in the condensed interim consolidated statement of financial position within other financial liabilities. As at 30 September 2017 and 31 December 2016, the related commitments totaled PLN 210 thousand (Distribution) and PLN 299 thousand (Distribution), respectively.

Commitments to incur capital expenditure

As at 30 September 2017 and 31 December 2016, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 889 786 thousand and PLN 4 368 685 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 30 September 2017 (unaudited)	As at 31 December 2016
Generation	Constructin new capacity in Jaworzno III Power Plant (910 MW)	2 174 498	2 835 269
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	10 000	10 000
Distribution	Construction of new electrical connections	620 284	622 415
	Modernization and reconstruction of existing networks	464 400	497 926
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	237 763	16 484
	Construction of the 800 m drift at Janina Mining Plant	23 285	19 578
	Investment Program in Brzeszcze Mining Plant	29 617	32 731

37. Liabilities due to taxes and charges

	As at 30 September 2017 (unaudited)	As at 31 December 2016
Corporate Income Tax	99 728	2 371
Personal Income Tax	36 545	51 084
Excise	38 226	41 549
VAT	161 224	98 114
Social security	112 744	170 039
Environmental charges	14 074	40 964
Other	8 480	6 822
Total	471 021	410 943

As at 30 September 2017 the Group had the following income tax receivables and payables:

- income tax liability of PLN 99 728 thousand, where PLN 98 688 thousand relates to the Tax Capital Group ("TCG"),
- income tax receivables of PLN 965 thousand not related to the TCG.

Tax Capital Group

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

The major companies constituting the Tax Capital Group as from 1 January 2015 are TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

As at 30 September 2017 the Tax Capital Group had PLN 98 688 thousand of income tax liabilities including PLN 98 483 for the nine months ended 30 September 2017 and is the surplus of the Tax Capital Group's tax expense of PLN 255 463 thousand over fixed, monthly income tax advances paid by the Group for the first eight months of 2017 totalling PLN 156 980 thousand.

Regulations concerning VAT, corporate income tax and social insurance charges are frequently amended. The applicable regulations may 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 bear interest.

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

As of 15 July 2016, changes were introduced to the Tax Ordinance to incorporate the general anti-avoidance rule (GAAR), which is aimed to prevent the creation and use of artificial legal structures with a view to avoiding the payment of taxes in Poland. GAAR defines tax avoidance as an activity which is primarily intended to derive a tax benefit that is, in specific circumstances, in conflict with the scope and the objectives of the applicable tax law. Such an activity does not result in the receipt of a tax benefit if the related conduct was artificial. Any instance of (i) unreasonable operation sharing; (ii) engagement of agents if it is not reasonable in the economic or business context; (iii) eliminating or offsetting items; and (iv) other actions that are similar to the ones mentioned above may be treated as an indication of artificial structures which are subject to GAAR. The new regulations will require considerably more judgment in the assessment of the tax consequences of transactions.

GAAR should be applied to transactions made following its entry into force as well as transactions made prior to its implementation for which benefits continued or continue to be derived following the date of GAAR introduction.

38. Other financial liabilities

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
Wages, salaries and related charges	122 814	174 212
Bid bonds, deposits and collateral received	82 457	79 415
Insurance contracts	6 363	12 560
Derivative instruments	22 054	560
Margin deposits	91 895	13 106
Other	42 926	48 816
Total	368 509	328 669
Non-current	75 515	72 374
Current	292 994	256 295

39. Other current non-financial liabilities

	As at 30 September 2017 <i>(unaudited)</i>	As at 31 December 2016
Payments from customers relating to future periods, of which:	311 781	298 606
Prepayments for connection fees	17 139	21 369
Amounts overpaid by customers	255 268	245 544
Other	39 374	31 693
Other current non-financial liabilities	3 490	2 573
Total	315 271	301 179

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

40. Significant items of the consolidated statement of cash flows

40.1. Cash flows from operating activities

Changes in working capital

	9-month period ended 30 September 2017 <i>(unaudited)</i>	9-month period ended 30 September 2016 <i>(unaudited restated figures)</i>
Change in receivables:	51 655	117 608
Change in receivables from clients in statement of financial position	111 191	204 117
Change in other financial receivables	(56 735)	(84 804)
Change in receivables from disposal of property, plant and equipment and financial assets	(2 917)	(1 705)
Other adjustments	116	-
Change in inventories:	149 295	6 017
Change in inventories in statement of financial position	151 443	7 824
Adjustment related to transfer of inventories to/from property, plant and equipment	(2 148)	(3 156)
Other adjustments	-	1 349
Change in payables excluding loans and borrowings:	(147 670)	(414 986)
Change in liabilities to suppliers in statement of financial position	(20 975)	(175 506)
Change in payroll, social security and other financial liabilities	18 435	(120 961)
Change in non-financial liabilities in statement of financial position	14 092	14 384
Change in liabilities due to taxes excluding income tax	(37 279)	(72 020)
Adjustment of VAT change related to capital commitments	(126 410)	(51 839)
Adjustment to the acquisition of ZCP Brzeszcze	-	(11 906)
Other adjustments	4 467	2 862
Change in other non-current and current assets:	529 302	774 407
Change in other current and non-current non-financial assets in statement of financial position	127 606	182 805
Change in receivables due to taxes excluding income tax	(65 868)	166 860
Change in non-current and current emission allowances	209 652	174 957
Change in non-current and current energy certificates	339 120	307 357
Change in advance payments for property, plant and equipment and intangible assets	(81 430)	(51 207)
Other adjustments	222	(6 365)
Change in deferred income, government grants and accruals:	14 417	19 724
Change in deferred income, government grants and accruals in statement of financial position	25 838	57 965
Adjustment related to property, plant and equipment and intangible assets received free of charge	(5 998)	(10 767)
Adjustment related to subsidies received	(5 423)	(23 271)
Adjustment related to acquisition of organized part of the enterprise (ZCP Brzeszcze)	-	(4 203)
Change in provisions:	(451 247)	(227 364)
Change of short term and long term provisions in statement of financial position	(460 125)	(134 159)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	9 667	(265)
Adjustment related to acquisition of organized part of the enterprise (ZCP Brzeszcze)	-	(92 454)
Other adjustments	(789)	(486)
Total	145 752	275 406

Income tax paid

Income tax paid in the amount of PLN 82 599 thousand results mainly from:

- the Tax Capital Group's payment of advance income tax of PLN 156 980 thousand in the 9-month period ended 30 September 2017;
- a refund of the excess of advance payments made for 2016 in the amount of PLN 79 024 thousand.

40.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	9-month period ended 30 September 2017	9-month period ended 30 September 2016
	<i>(unaudited)</i>	<i>(unaudited)</i>
Purchase of property, plant and equipment	(2 076 187)	(2 320 502)
Purchase of intangible assets	(50 787)	(72 692)
Change in the balance of VAT-adjusted capital commitments	(578 691)	(230 601)
Change in the balance of advance payments	81 430	51 207
Costs of overhaul and internal manufacturing	(86 520)	(56 623)
Other	1 333	(12)
Total	(2 709 422)	(2 629 223)

Loans granted

Payments to grant loans result from the loans disbursed to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 301 542 thousand, which has been discussed in more detail in Note 21 to these condensed interim consolidated financial statements.

Dividends received

Proceeds from dividends received in the amount of PLN 24 509 thousand concern mainly the dividends received by the Company from a jointly-controlled entity, TAMEH HOLDING Sp. z o.o., in the amount of PLN 15 500 thousand.

40.3. Cash flows from financing activities

Repurchase of debt securities

Payments on the redemption of debt securities in the 9-month period ended 30 September 2017 resulted from the Parent's redemption of a tranche of bonds with the par value of PLN 700 000 thousand under a bond issue scheme of November 2015.

Loans and borrowings repaid

Payments to repay loans and borrowings, as presented in the consolidated statement of cash flows in the amount of PLN 81 959 thousand, arise mainly from the Parent's repayment of loan instalments to the European Investment Bank, totaling PLN 76 114 thousand, during the 9-month period ended 30 September 2017.

Interest paid

	9-month period ended 30 September 2017	9-month period ended 30 September 2016
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest paid in relation to debt securities	(19 658)	(72 628)
Interest paid in relation to loans and borrowings	(32 578)	(41 068)
Interest paid in relation to the finance lease	(574)	(723)
Total	(52 810)	(114 419)

The Group's consolidated statement of cash flows presents incurred borrowing costs which were capitalized in the current period in the value of assets as payments to acquire property, plant and equipment and intangible assets in cash flows from investing activities. In the 9-month period ended 30 September 2017, interest constituting borrowing costs that have been capitalized in the value of property, plant and equipment and intangible assets amounted to PLN 76 405 thousand.

Issue of debt securities

Proceeds from the issue of debt securities in the 9-month period ended 30 September 2017 are related to:

- the issue of tranches of bonds with the total par value of PLN 600 000 thousand under a bond issue scheme of November 2015, which has been discussed in more detail in Note 29.2 to these condensed interim consolidated financial statements;
- the issue of eurobonds totaling PLN 2 107 462 thousand, which has been described in more detail in note 29.2 to these condensed interim consolidated financial statements.

OTHER INFORMATION

41. Financial instruments

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

Categories and classes of financial assets	Note	As at 30 September 2017 (unaudited)		As at 31 December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss, held for trading		101 038		45 092	
Derivative instruments	41.2	25 195	25 195	19 776	19 776
Investment fund units	22	75 843	75 843	25 316	25 316
2 Financial assets available for sale		134 914		134 143	
Shares (non-current)	22	127 846		127 594	
Shares (current)	22	4 333		4 104	
Investment fund units	22	2 735	2 735	2 445	2 445
3 Loans and receivables		2 502 622		2 241 033	
Receivables from clients	25	1 782 874	1 782 874	1 894 065	1 894 065
Deposits	22	40 418	40 418	38 472	38 472
Loans granted		570 216	570 216	256 117	256 117
Other financial receivables		109 114	109 114	52 379	56 379
4 Financial assets excluded from the scope of IAS 39		499 690		461 348	
Investments in joint ventures	20	499 690		461 348	
5 Derivative hedging instruments	41.2	28 695	28 695	36 641	36 641
6 Cash and cash equivalents	27	2 141 776	2 141 776	384 881	384 881
Total financial assets, of which in the statement of financial position:		5 408 735		3 303 138	
Non-current assets		959 663		929 439	
Investments in joint ventures		499 690		461 348	
Loans granted to joint ventures		238 620		240 951	
Other financial assets		221 353		227 140	
Current assets		4 449 072		2 373 699	
Receivables from clients		1 782 874		1 894 065	
Loans granted to joint ventures		323 514		15 116	
Other financial assets		200 908		79 637	
Cash and cash equivalents		2 141 776		384 881	

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Categories and classes of financial liabilities	Note	As at 30 September 2017 (<i>unaudited</i>)		As at 31 December 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss, held for trading		22 054		560	
Derivative instruments	41.2	22 054	22 054	560	560
2 Financial liabilities measured at amortized cost		12 430 384		11 136 323	
Preferential loans	29.1	36 228	36 228	41 748	41 748
Arm's length loans	29.1	1 124 530	1 122 120	1 206 649	1 209 558
Bank overdrafts	29.1	1 518	1 518	15 156	15 156
Bonds issued	29.2	9 784 107	9 832 314	7 681 128	7 719 015
Liabilities to suppliers	35	808 754	808 754	829 729	829 729
Other financial liabilities		232 246	232 246	158 383	158 383
Capital commitments	36	329 002	329 002	1 034 103	1 034 103
Salaries and wages		107 636	107 636	156 867	156 867
Insurance contracts	38	6 363	6 363	12 560	12 560
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		24 878		34 848	
Obligations under finance leases		24 878	24 878	34 848	34 848
Total financial liabilities, of which in the statement of financial position:		12 477 316		11 171 731	
Non-current liabilities		10 716 560		8 832 163	
Debt		10 641 045		8 759 789	
Other financial liabilities		75 515		72 374	
Current liabilities		1 760 756		2 339 568	
Debt		330 216		219 740	
Liabilities to suppliers		808 754		829 729	
Capital commitments		328 792		1 033 804	
Other financial liabilities		292 994		256 295	

Derivative financial instruments classified as assets and liabilities measured at fair value through profit or loss and designated as hedging instruments, which are measured at fair value as at the end of the reporting period, were measured in line with the method described in Note 41.2 to these condensed interim consolidated financial statements. Fair value hierarchy disclosures are also provided in Note 41.2. Measurement of investment fund units has been classified to Level 1 in the fair value hierarchy.

Financial instruments classified to other categories of financial instruments:

- As at 30 September 2017, fixed-rate financial instruments, which included loans obtained from the European Investment Bank, subordinated bonds, eurobonds and bonds issued by a subsidiary, were measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable currently to a given bond or loan, i.e. by applying market interest rates. The measurement resulted in Level 2 classification in the fair value hierarchy.
- The fair value of other financial instruments (except shares classified as financial assets available for sale and excluded from the scope of IAS 39 *Financial Instruments: Measurement and Recognition*, as described below) as at 30 September 2017 and 31 December 2016 did not significantly differ from their values presented in the financial statements for the respective periods, due to the following reasons:
 - the potential discounting effect relating to short-term instruments is not significant;
 - the instruments are related to arm's length transactions.

Consequently, the fair value of the instruments in question has been disclosed in the tables above at the carrying amount.

- The Group does not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Group is unable to reliably estimate the fair value of shares held in companies which are not quoted on active markets. They are measured at cost less impairment losses as at the end of the reporting period. Similarly, interest in joint ventures – financial assets excluded from the scope of IAS 39 *Financial Instruments: Recognition and Measurement* – are measured using the equity method in line with the accounting policies adopted by the Group.

41.2. Derivative instruments

	As at 30 September 2017 (unaudited)				As at 31 December 2016			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
IRS	404	28 291	28 695	-	23	36 618	36 641	-
Commodity forwards/futures	4 500	-	25 195	(20 695)	15 999	-	16 559	(560)
Currency forwards	(1 359)	-	-	(1 359)	3 217	-	3 217	-
Total derivative instruments, including:			53 890	(22 054)			56 417	(560)
Non-current			27 610	(45)			35 814	-
Current			26 280	(22 009)			20 603	(560)

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

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

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

	As at 30 September 2017 (unaudited)		As at 31 December 2016	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity-related derivatives	25 195	-	16 559	-
Derivative instruments - IRS	-	28 695	-	36 641
Derivative instruments - currency	-	-	-	3 217
Liabilities				
Commodity-related derivatives	20 695	-	560	-
Currency derivatives	-	1 359	-	-

Hedging derivative instruments (subject to hedge accounting) – IRS

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

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

As at 30 September 2017, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

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

42. Principles and objectives of financial risk management

The objectives and principles of financial risk management have not changed since 31 December 2016.

As at 30 September 2017, the Parent was a party to hedging transactions covered by the policy for specific risk management in the area of finance, entered into with a view to hedging interest cash flows from issued bonds. The Parent applies hedge accounting to the aforementioned transactions. The accounting treatment of the aforementioned hedging transactions has been discussed in detail in Note 41.2 to these condensed interim consolidated financial statements.

43. Finance and capital management

During the period covered by these condensed interim consolidated financial statements, there were no significant changes in finance and capital management objectives, principles or procedures.

44. Contingent liabilities

Item	Description
Use of real estate without contract	Companies in the Group do not hold legal titles to all land crossed by distribution networks or the land on which heat installations and related devices are sited. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential, not submitted claims of owners of land with unregulated legal status, since there are no detailed records of such land. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.
Amount	As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 93 087 thousand (Note 33).
Claims filed by Huta Łaziska S.A.	<p>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.</p> <p>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.</p> <p>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.</p> <p>In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the judgement of the Regional Court and remanded the case for re-examination by the latter. The case has been heard before the first instance court since 27 November 2012. In May 2015, an expert witness prepared an opinion on the correctness of settlements between the parties to the dispute. On 30 June 2015, TAURON Polska Energia S.A. lodged complaints against the opinion. Complaints against the opinion were also filed by Huta and the State Treasury. In a decision dated 16 September 2015 the Court admitted an additional expert witness's opinion concerning charges levelled by the parties as evidence. After the decision was issued, the Company repeatedly tried to change the form of evidence proceedings adopted by the Court stating that admitting expert witness evidence is unacceptable. Finally, the Court ordered the expert witness to prepare a supplementary opinion. On 5 September 2016, the Company received the supplementary opinion of the expert witness and filed charges against the opinion on 12 and 19 September 2016. Charges against the opinion were also filed by Huta and the State Treasury. Another hearing was held on 24 March 2017 but the expert witness appointed by the court did not appear. The hearing was adjourned for an unspecified period. On 20 June 2017 the Court served on the Company's legal representative a copy of the Court's decision of 5 June 2017 (issued during a closed meeting) to admit expert witness evidence on energy matters (excluding the expert witness appointed so far) for the purposes of issuing an opinion.</p> <p>Next the Court turned to several expert witness and the Institute of Power Engineering asking whether they could draft opinions in the matter. Moreover, in a decision of 19 April 2017, the Court revoked Huta's exemption from court fees. In a decision of 16 October 2017 issued during a closed meeting the Court revoked the earlier decision to admit expert witness evidence and decided to request that the Regional Court in Katowice and the Regional Court in Gliwice send copies of final rulings in other disputes between GZE (later: TAURON Polska Energia S.A.) and Huta. The Court set the date of the hearing concerning Huta Łaziska S.A. at 23 February 2018.</p> <p>Based on a legal analysis of claims the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.</p>
Amount	Claim regarding payment of damages of PLN 182 060 thousand.

Item	Description
Litigation related to termination of long-term contracts	<p>Claims relating to termination of long-term contracts against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.</p> <p>On 18 March 2015 the subsidiary in liquidation terminated long-term contracts concluded in the years 2009-2010 to purchase electricity and property rights from wind farms owned by the companies in the in.ventus group, Polenergia and Wind Invest. The reason for the termination of the contracts by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was that the counterparties had breached the contractual provisions by refusing to negotiate in good faith the terms and conditions of the contracts. A case was brought against the Company for the statements made in the notice of termination be declared void. In the case brought by Dobieslaw Wind Invest Sp. z o.o. in 2016 the Regional Court in Warsaw dismissed the claim for declaring the termination of the contracts void. The claimant appealed against the ruling.</p> <p>In 2016 the claims against the Company were changed to include claims for compensation for termination of the contracts totalling approx. PLN 40 000 thousand.</p> <p>In October 2017 Dobieslaw Wind Invest Sp. z o.o. filed a new lawsuit against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. for payment of PLN 42 095 thousand of compensation and liquidated damages.</p> <p>Since the court proceedings regarding the above issues are pending, the final amount of possible financial effects on the Company and the Group cannot be reliably estimated. 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 does not exceed 50%. Therefore, no provision for the related costs has been recognized.</p> <p>Claim relating to termination of long-term contracts against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A.</p> <p>In November 2014 an action was brought against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A. by Dobieslaw Wind Invest Sp. z o.o. to prevent an imminent danger of loss. It was claimed that the Company should revoke the liquidation of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. A subsidiary claim was that TAURON Polska Energia S.A. should be obliged to provide security in the amount of PLN 183 391 thousand as a court deposit.</p> <p>On 8 March 2017, pursuant to a decision of the Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. the liquidation of the company was revoked. Therefore, in accordance with the order of the Regional Court in Krakow issued on 15 March 2017, the parties to the dispute exchanged pleadings to respond to the change in the company in which the claimant upheld their demands.</p> <p>On 2 August 2017 the Company's representative in the case received pleadings from Dobieslaw Wind Invest Sp. z o.o. which changed the claims. The claimant withdrew the initial claim against subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and changed the claim against the Company from a claim for prevention of an imminent danger of loss to a claim for compensation. Dobieslaw Wind Invest Sp. z o.o. demands payment of approx. PLN 34 700 thousand with statutory interest as of the date of the claim to the date of payment.</p> <p>Moreover, the claimant seeks a ruling that the Company is liable for future damages of Dobieslaw Wind Invest Sp. z o.o., which the latter estimates at approx. PLN 254 000 thousand, (resulting from the Company's alleged torts) and a security of approx. PLN 254 000 thousand in case the court does not establish the Company's liability for future losses. The factual basis of the claim, in accordance with the claimant, is the termination of the long-term contracts to sell electricity and property rights by subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.</p> <p>An analysis of the justification of the statements of the claim shows that they are wholly groundless. At a hearing on 4 October 2017, upon request of TAURON Polska Energia S.A., the Court decided that the new statement of claim against TAURON Polska Energia S.A. would be examined separately. As far as the initial claims against TAURON Polska Energia S.A. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (demand that the liquidation be revoked), the Court referred the case to be examined at a closed-door hearing and dismissed.</p> <p>As the court will have to examine extensive evidence and conduct an analysis of a legal issue which has not been resolved before, it is too early to anticipate the outcome of the proceedings but it is very likely that the decision of the court will be favourable for the defendants.</p> <p>Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.</p> <p>On 20 July 2017 the Company was served with a summons dated 29 June 2017 of Gorzyca Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 39 700 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at approx. PLN 465 900 thousand. The case will be heard by a Regional Court in Katowice.</p> <p>Another summons, dated 29 June 2017, of Pękanino Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 28 500 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 201 600 thousand was delivered on 21 August 2017.</p> <p>After the end of the reporting period, on 16 October 2017 the Company was served a summons dated 29 June 2017 of Nowy Jaroslaw Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. for damages of approx. PLN 27 000 thousand and assessment of liability for future damages resulting from torts, including unfair competition, estimated by the claimant at PLN 197 800 thousand.</p> <p>The factual basis of all the claims, in accordance with the claimants, is the termination of the long-term contracts to purchase electricity and property rights resulting from energy certificates by subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and the total amount of the future loss incurred by all members of the Wind Invest group estimated by the claimant will be PLN 1 212 900 thousand.</p> <p>An analysis of the justification of the statements of the claim shows that they are wholly groundless. The Company responded to the summons in the case brought by Gorzyca Wind Invest and Pękanino Wind Invest within the dates specified by the courts.</p> <p>Termination of long-term contracts to purchase property rights by TAURON Sprzedaż Sp. z o.o.</p> <p>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.</p> <p>There are no pending court disputes in connection with the termination of the contracts by TAURON Sprzedaż Sp. z o.o. Based on an analysis of the legal circumstances, supported by an analysis performed by independent legal firms, the Group does not see any reason to recognize provisions in connection with the termination of the contracts by TAURON Sprzedaż Sp. z o.o.</p>

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Item	Description
	<p>The claim filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A. with the Regional Court in Katowice regards the payment of PLN 17 086 thousand with statutory interest calculated from 31 March 2015 until the payment date for unjust enrichment of the Company arising from settlement of balances on the Balancing Market performed with Polskie Sieci Elektroenergetyczne S.A. in the period from January to December 2012. The claim was delivered to the Company on 11 January 2016. As stated by ENEA, the improper settlement was caused by inconsistency in measurement data collected by ENEA Operator Sp. z o.o. (as the Distribution System Operator, DSO) and made available to the Balancing Market participants (PSE S.A., ENEA S.A. and the Company) for the settlement purposes. The error resulted in PSE S.A. assigning to ENEA S.A. (as the official seller in the distribution area of ENEA Operator Sp. z o.o.) the amount of consumed power that should have been assigned to the Company (as the entity in charge of trade balances of power sellers operating in the distribution area of ENEA Operator Sp. z o.o.).</p> <p>The dispute concerns the fact that pursuant to the Power Transmission Grid Traffic and Operation Instruction (IRIESP) binding all participants of the Balancing Market, settlements regarding trade balances for a given period may be adjusted within 2 months, 4 months and 15 months after the settlement period. According to IRIESP, after 15 months the settlements become final. ENEA Operator Sp. z o.o. informed TAURON Polska Energia S.A. about the necessity to adjust measurement data and the entire settlement after the permitted adjustment period. Therefore, settlements between PSE S.A. and ENEA S.A. and between PSE S.A. and the Company have not been adjusted.</p>
Claim filed by ENEA S.A.	<p>TAURON Polska Energia S.A. responded to the claim with a series of charges. The court obliged ENEA to respond to the claim, which was done on 5 April 2016. On 20 June 2016, TAURON Polska Energia S.A. filed a petition for inviting ENEA Operator Sp. z o.o. to take part in the litigation. The Court also admitted evidence from the witnesses' testimonies. On 4 July 2016, TAURON Polska Energia S.A. filed a process document with the court. Six witnesses were questioned in the course of the proceedings. The last hearing was held on 6 March 2017. During the hearing, at the request of ENEA S.A. (made in its pleading of 8 December 2016), under Article 194.1 of the Code of Civil Procedure, 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. The sellers included two subsidiaries of TAURON Polska Energia S.A., i.e.: 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. In April 2017 both companies: TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. responded to the claim by requesting that it be dismissed in its entirety. The case was adjourned to the date set by the Court so that the sellers may respond to the claim (all of them responded). Next, on 15 September 2017 ENEA S.A. submitted pleadings concerning the responses.</p> <p>The case is pending. By the date of approval of these condensed interim consolidated financial statements for issue, the Court had not set the date of the next hearing. The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. No provisions were recognized by the Company's subsidiaries which estimated the risk of an unfavourable ruling at less than 50%.</p>
Amount	Claim for the payment of PLN 17 086 thousand by the Company. In case the claim against the Company is dismissed, claim for the payment of the total of PLN 8 414 thousand by the Group companies.
	<p>On 15 May 2015 TAURON Polska Energia S.A. established a financial pledge and registered pledges of 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o., with the unit face value of PLN 100 and the total face value of PLN 329 340 thousand, accounting for approx. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG.</p> <p>The Company established a first lien registered pledge of shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge of shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges of new shares acquired or taken up. Moreover, the Company assigned the rights to dividend and other payments.</p> <p>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.</p> <p>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.</p>
Amount	As at 30 September 2017, the carrying amount of the investment in a joint venture measured using the equity method in the TAMEH HOLDING Sp. z o.o. Capital Group was PLN 499 690 thousand.
	<p>Following the entry into agreements setting out the terms of further implementation of the gas and steam unit construction project in Elektrociepłownia Stalowa Wola S.A. on 27 October 2016, and with a view to enforcing the standstill agreement entered into by the Company, Elektrociepłownia Stalowa Wola S.A., PGNiG S.A., the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. aimed to ensure that the financing institutions will refrain from accelerating the loans granted to the company and satisfying their claims through the use of the related collateral, at the request of the Company The Bank of Tokyo-Mitsubishi UFJ, Ltd. issued three bank guarantees for:</p> <p>the European Investment Bank — in the amount of PLN 156 000 thousand;</p> <p>the European Bank for Reconstruction and Development — in the amount of PLN 83 494 thousand;</p> <p>Bank Polska Kasa Opieki S.A. — in the amount of PLN 74 992 thousand.</p> <p>All these bank guarantees were valid until 14 April 2017. The Agreements is secured with a notarized declaration of voluntary submission to enforcement.</p> <p>On 31 March 2017, Elektrociepłownia Stalowa Wola S.A. paid all its liabilities to the financing banks. The guarantees expired on 14 April 2017.</p>
Amount	The total value of issued guarantees is PLN 314 486 thousand.

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Item	Description
	<p>The President of UOKiK instigated the following procedures against a Sales segment company:</p> <ul style="list-style-type: none"> - Proceedings instigated on 17 September 2013 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 and therefore constitutes a breach of the Act on competition and consumer protection of 16 February 2007 (Journal of Laws of 2007 No. 50, item 331 as amended; "Act on competition and consumer protection"). The company undertook to discontinue practices that violate the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. On 22 December 2014 the company received a decision of UOKiK closing the evidentiary proceedings. On 14 December 2015 the President of UOKiK demanded that the Company answer whether the practices had been discontinued. The Company responded in February 2016 informing that the practices had been discontinued and requested that the fine be waived. By the date of these financial statements there had been no decision in this respect.
Administrative and Explanatory proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	<p>-On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydroelectric power stations constitute a breach of the Act on competition and consumer protection. The actions in question include enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement. With a decision of 15 October 2015 the President of UOKiK instigated anti-trust proceedings. On 1 February 2016 UOKiK accepted the company's statement regarding presentation of a specific commitment. On 24 August 2016 the President of UOKiK issued a decision obliging the company to take appropriate measures aimed at preventing the alleged breaches within two months of the date on which the decision of the President of UOKiK becomes final. On 29 September 2016 the Company appealed against the decision to the Court of Competition and Consumer Protection. On 2 December 2016 the President of the Office for Competition and Consumer Protection issued a decision whereby it changed the rationale of the previous decisions. The decision became final on 2 February 2017. A report on its implementation was prepared and sent to UOKiK on 31 March 2017.</p> <p>The Company does not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Board the risk of adverse rulings and fines is low.</p> <p>Companies in the Sales segment are also subject to explanatory proceedings instigated by UOKiK in order to determine whether the activities taken by the companies breached the provisions of the Act on competition and consumer protection. The companies provide requested documents and explanations and respond to the statements included in the letters of UOKiK. The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavourable outcome of the cases is low; hence no provision has been recognized for these events.</p>
	<p>In a notice of 5 April 2016, the President of the Energy Regulatory Office informed TAURON Dystrybucja S.A. of the instigation of administrative proceedings to impose a fine for a failure to maintain facilities, installations and equipment in a proper technical condition and for non-compliance with the terms of the electricity distribution licence. In a notice of 30 March 2017, the President of the Energy Regulatory Office informed the Company that the matter would be looked into on 30 April 2017. In subsequent letters of 8 May and 1 June 2017 the President of the Energy Regulatory Office extended the proceedings unit 31 May and 30 June 2017, respectively. On 10 July 2017 the Company received a decision of the President of the Energy Regulatory Office to impose an administrative fine totalling PLN 350 thousand. In July the Company recognized a provision of PLN 351 thousand and on 24 July appealed to the Court of Competition and Consumer Protection through the President of the Energy Regulatory Office.</p>
Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)	<p>The companies in the Sales segment have been subject to the following proceedings:</p> <ul style="list-style-type: none"> - proceedings instigated on 7 April 2017 regarding a fine to be imposed for failure to submit data to the Agency for Cooperation of Energy Regulators within the set deadlines, in line with Article 8.1. of the Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency; - proceedings instigated on 19 April 2017 regarding a fine to be imposed for failure to submit data to the Agency for Cooperation of Energy Regulators within the set deadlines, in line with Article 8.1. of the Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency; In line with the final decision of the President of the Energy Regulatory Office of 27 July 2017 and 31 July 2017 the companies were not imposed fines; - proceedings instigated on 11 May 2017 regarding the breach of the obligation to secure energy performance certificates and present them for cancellation to the President of the Energy Regulatory Office in 2013 year; - proceedings instigated on 30 May 2017, 28 June 2017 and 20 September 2017 regarding a fine for unjustified suspension of energy deliveries to the end users. <p>The Companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Board the risk of adverse rulings and fines is low.</p>
Real estate tax	<p>There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities and underground excavation equipment. Since the tax is imposed by local authorities, there is no unified approach of taxation authorities and in several cases the method of calculation of the tax basis has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation facilities and excavations may change in future.</p> <p>Following the changes introduced in 2017 to the definition of construction facilities in the Investment Act, there is no consistent approach to defining structures at present. This entails the risk of potential disputes with local authorities (municipalities) over the determination of the tax base for real estate tax on wind farms.</p>
Amount	<p>The potential disputed tax on wind farms is approx. PLN 16 000 thousand.</p> <p>As at 30 September 2017 the provisions for real-estate-tax disputes and related business risk totalled PLN 45 845 thousand, including PLN 12 313 thousand for wind farms).</p>

45. Collateral against liabilities

The Group uses various forms of collateral against its liabilities. Those most frequently used include mortgages, registered pledges, liens on real property and other items of property, plant and equipment and frozen cash in bank accounts.

The carrying amounts of assets pledged as collateral for the payment of liabilities at the end of each reporting period have been presented in the table below.

Carrying amounts of assets pledged as collateral against liabilities of the Group

	As at 30 September 2017 (unaudited)	As at 31 December 2016
Real estate	69 408	81 363
Plant and machinery	-	14 059
Cash	9	13 740
Total	69 417	109 162

Other forms of collateral

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 30 September 2017 regard the following contracts concluded by the Parent:

Agreement	Collateral form	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	up to PLN 6 900 000 thousand, valid until 31 December 2018
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Bond Issue Scheme dated 24 November 2015	declaration of submission to enforcement	up to PLN 7 524 000 thousand, valid until 31 December 2023
Bank guarantee agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd.	declaration of submission to enforcement	up to PLN 377 383 thousand, valid until 27 October 2018
Framework bank guarantee agreement concluded with CaixaBank S.A. The Company and TAURON Group companies can use the limit for guarantees to secure transactions (the maximum guarantee limit amount was determined at PLN 100 000 thousand).	authorization to debit the bank account maintained by CaixaBank S.A.	up to PLN 100 000 thousand
	declaration of submission to enforcement	up to PLN 120 000 thousand valid until 11 July 2021
Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Gield Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 45 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 193 910 thousand (EUR 45 000 thousand)
	declaration of submission to enforcement	up to PLN 318 873 thousand (EUR 74 000 thousand) valid until 31 December 2019
Overdraft agreement with mBank (in USD, up to USD 2 000 thousand)	declaration of submission to enforcement	up to PLN 10 956 thousand (USD 3 000 thousand) valid until 31 March 2019

Other forms of collateral against liabilities of the Group

As at 30 September 2017, other material forms of collateral regarding liabilities of the TAURON Capital Group included:

- Blank bills of exchange

Agreement/transaction secured by blank promissory notes	Capital Group company that has issued a blank promissory note	As at 30 September 2017 (unaudited)
Agreements concerning loans granted to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000
Performance bonds to include co-funding of engagements carried out.	TAURON Dystrybucja S.A.	242 090
Performance bonds under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management and reimbursement and performance bond under the co-funding agreements concluded with the Regional Fund for Environmental Protection and Water Management.	TAURON Ciepło Sp. z o.o.	228 606
Agreements for connecting to the industrial network, agreements for power transmission services and agreements for partial loan cancelling concluded with the National Fund for Environmental Protection and Water Management.	TAURON Wytwarzanie S.A.	66 844

- Collateral under finance lease agreements

Finance lease agreement	Lessee	Carrying amount of the leased asset as at 30 September 2017 (unaudited)	Collateral
Leaseback agreement concerning real estate, plant and machinery	TAURON Ciepło Sp. z o.o.	-	Blank promissory note for PLN 92 215 thousand. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate, plant and machinery and authorization to debit bank accounts. As at the end of the reporting period the lease liability had been paid in full.
Finance lease agreement concerning real estate in Katowice	TAURON Polska Energia S.A.	22 606	The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

- The Company issued a corporate guarantee to secure the bonds issued by TAURON Sweden Energy AB (publ). The guarantee remains valid until 3 December 2029, i.e. until the date of redemption of bonds, and amounts to EUR 168 000 thousand. The beneficiaries of the guarantee are the bondholders.
- Under the bank guarantee agreement made with Bank Zachodni WBK S.A., the bank issued guarantees to secure stock exchange transactions resulting from the membership in the Commodity Clearing House. As at 30 September 2017, the guarantees issued by the bank totaled PLN 70 000 thousand and were valid until October 2017.
- Under the bank guarantee agreement made with CaixaBank S.A. (Spółka Akcyjna) Branch in Poland ("CaixaBank S.A."), at the request of the Company the bank issued bank guarantees to secure liabilities and transactions of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 13 847 thousand and to secure the transactions performed by the Company:
 - for GAZ-SYSTEM S.A. — up to PLN 3 664 thousand, valid until 30 November 2017;
 - for Polskie Sieci Elektroenergetyczne S.A. – up to PLN 8 666 thousand, valid until 11 February 2018.

Mining companies from the Capital Group have established a Mine Decommissioning Fund to ensure funds for covering future decommissioning costs.

46. Related-party disclosures

46.1. Transactions with joint ventures

The Group has interest in the following joint ventures: Elektrociepłownia Stalowa Wola S.A. and the TAMEH HOLDING Sp. z o.o. Capital Group, which has been discussed in more detail in Note 20 to these condensed interim consolidated financial statements.

The total amount of transactions with jointly-controlled entities has been presented in the following table.

	9-month period ended 30 September 2017	9-month period ended 30 September 2016
	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	41 547	71 921
Costs	(25 987)	(32 975)

The key income item arises from transactions with the TAMEH HOLDING Sp. z o.o. Capital Group, a joint venture. In the 9-month period ended 30 September 2017 and 30 September 2016, transactions with the joint venture amounted to PLN 25 602 thousand and PLN 63 966 thousand, respectively.

The key item of receivables from and liabilities to jointly-controlled entities is a loan granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 21 to these condensed interim consolidated financial statements.

The Company has also pledged collateral for the benefit of joint ventures, in the form of a pledge on the shares in TAMEH HOLDING Sp. z o.o., which has been discussed in more detail in Note 44 to these condensed interim consolidated financial statements.

In relation to agreements entered into with the joint venture Elektrociepłownia Stalowa Wola S.A., the Company recognized provisions for onerous contracts and for costs. In the 9-month period ended 30 September 2017 the Company released all related provisions, which has been described in more detail in Note 31.3 to these condensed interim consolidated financial statements.

46.2. Transactions with State Treasury companies

As the State Treasury of the Republic of Poland is the Company's major shareholder, State Treasury companies are treated as related parties.

The total value of transactions with State Treasury companies has been presented in the table below.

Revenue and expenses

	9-month period ended 30 September 2017	9-month period ended 30 September 2016
	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	1 337 681	1 765 939
Costs	(2 208 987)	(1 883 924)

Receivables and liabilities

	As at 30 September 2017	As at 31 December 2016
	<i>(unaudited)</i>	
Receivables	240 704	356 595
Payables	344 068	298 786

As at 30 September 2017, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 9 759 thousand. As at 31 December 2016, receivables presented in the table above comprised advance payments of PLN 109 364 thousand, including advance payments for deliveries of coal of PLN 99 607 thousand and advance payments for purchases of fixed assets of PLN 9 757 thousand.

In the 9-month period ended 30 September 2017, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Polska Grupa Górnicza Sp. z o.o. and Energa-Obrót S.A. were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. The total sales to these counterparties accounted

for 87% of revenue generated on transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Polska Grupa Górnicza Sp. z o.o. Purchases from these counterparties accounted for 89% of the value of purchases from State Treasury companies during the 9-month period ended 30 September 2017.

In the 9-month period ended 30 September 2016, KGHM Polska Miedź S.A., PSE S.A., Jastrzębska Spółka Węglowa S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. incorporated on 1 May 2016 were the major customers of the TAURON Polska Energia S.A. Capital Group out of the State Treasury companies. Total sales to these contracting parties accounted for 86% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A., Kompania Węglowa S.A. and Polska Grupa Górnicza Sp. z o.o. Purchases from these counterparties accounted for 86% of the value of purchases from State Treasury companies during the 9-month period ended 30 September 2016.

Additionally, in the year ended 31 December 2016, the Polish National Foundation was established by 17 founders being key State Treasury companies. The Company is among the founders. As a result of its declaration to make contributions to the initial capital of the Polish National Foundation and the commitment to make annual contributions to be used for purposes of its statutory activities for a period of 10 years, the Company recognized a liability of PLN 32 500 thousand as at 30 September 2017. After the end of the reporting period, on 5 October 2017, the Company paid a portion of the liability towards the Polish National Foundation totaling PLN 10 000 thousand.

The Capital Group 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 Group does not classify purchase and sale transactions made through this entity as related-party transactions.

Transactions with State Treasury companies are mainly related to the operating activities of the Group and they are concluded on arm's length terms.

46.3. Executive compensation

The amount of compensation and other benefits granted or due to the Management Boards, Supervisory Boards and other key executives of the Parent and subsidiaries in the 9-month period ended 30 September 2017 and in the comparative period has been presented in the table below.

	9-month period ended 30 September 2017 (unaudited)		9-month period ended 30 September 2016 (unaudited)	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	5 633	16 901	9 276	17 133
Short-term benefits (with surcharges)	3 759	13 826	4 318	12 851
Post-employment benefits	-	-	-	158
Employment termination benefits	1 624	2 684	4 632	3 741
Other	250	391	326	383
Supervisory Board	559	501	898	425
Short-term employee benefits (salaries and surcharges)	559	498	898	411
Other	-	3	-	14
Other key management personnel	10 852	31 172	10 711	29 962
Short-term employee benefits (salaries and surcharges)	9 411	29 578	8 215	28 984
Jubilee bonuses	-	979	-	309
Post-employment benefits	-	-	-	16
Employment termination benefits	756	340	1 876	492
Other	685	275	620	161
Total	17 044	48 574	20 885	47 520

In accordance with the adopted accounting policy, the Group recognizes provisions for termination benefits for members of the Management Board and other key executives, which may be paid or due in future reporting periods.

As regards employment termination benefits for members of the Management Board, presented in the table above, the amount of PLN 905 thousand was accounted for as the use of a provision recognized as at 31 December 2016 by the Parent and the amount of PLN 1 471 thousand as the use of provisions recognized as at 31 December 2016 by the subsidiaries.

Additionally, in the 9-month period ended 30 September 2017, the Group companies recognized provisions for employment termination benefits for members of the Management Board, in the amount of PLN 2 002 thousand.

The aforesaid benefits have not become due yet. The table does not present the aforesaid costs of recognition of provisions which have not been paid.

47. Events after the end of the reporting period

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

On 16 October 2017 a summons of 29 June 2017 of Nowy Jarosław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. was served. This has been described in more detail in Note 44 to these condensed interim consolidated financial statements.

Summons of Dobiesław Wind Invest Sp. z o.o. against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

In October 2017 Dobiesław Wind Invest Sp. z o.o. filed a new lawsuit against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. for compensation and liquidated damages, further described in note 44 to these condensed interim consolidated financial statements.

Consolidation arrangement and annex regarding the loans to Elektrociepłownia Stalowa Wola S.A.

On 31 October 2017 the Company and Elektrociepłownia Stalowa Wola S.A. signed a new arrangement to consolidate the debts of the borrower totalling PLN 175 157 thousand and an annex to the consolidation arrangement of 30 June 2017 totalling PLN 150 000 thousand, which has been further described in note 21 to these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 9-month period ended 30 September 2017 in accordance with International Accounting Standard 34 have been presented on 69 consecutive pages.

Katowice, 3 November 2017

Filip Grzegorzczak – President of the Management Board

Marek Wadowski – Vice-President of the Management Board

Oliwia Tokarczyk – Executive Director in Charge of Taxes and Accounting